

# Chapter 4

## Business Environment for Development of Enterprises in the Republic of Moldova

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### ABSTRACT

*Moldova is a relatively small, landlocked country with few natural resources apart from its agricultural land. In last years, the contribution of small and medium enterprises (SMEs) was a little bit lower than 30% of the national GDP. This modest contribution corroborated the relative weight of SMEs in turnover and employment, which has decreased since 2010. Moldova's business environment remains sensible to the volatile macroeconomic environment, structural challenges in the financial sector, crisis in the banking sector, internal political instability, and regional geopolitical instability. The aim of this chapter is to analyze the business environment in Moldova in terms of the existing regulatory framework, identifying barriers and constraints, and analysis of programs and policies to strengthen it, along with synthesizing and developing recommendations to enable the business environment. Technology business incubators and their role in the Moldova's economy are analyzed in the final section. Analytical findings of the author are illustrated through several interactive figures.*

### INTRODUCTION

The Republic of Moldova (hereafter, Moldova) is a relatively small, landlocked country with few natural resources apart from its agricultural land. The macroeconomic environment in Moldova is volatile and vulnerable to internal and external shocks, including structural challenges in the financial sector and regional geopolitical instability. Moldova is the poorest economy in Europe with a GNI per capita of USD 2 550 in 2014 (World Bank, 2015a). Exports of basic agricultural products contribute 25% of the total export product basket, making the country particularly vulnerable to variations in food prices in key export markets, (25% of GDP in 2013; World Bank 2015a), particularly from Russia, which represented 9% of Moldova's GDP in 2012 alone (World Bank, 2015b).

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Despite the high economic growth rates since 2000 and till 2013, it did not result in job creation and the employment total population decreased by 17%. The main reason for this decrease is the outflow of active population to other countries, looking for better jobs and greater incomes.

The contribution of small and medium enterprises (SMEs) that represent in Moldova approx. 99% of total number of enterprises, accounts for less than 30% of the country's GDP. The relative weight of SMEs in turnover and employment has actually decreased since 2010. Nevertheless, the country has made considerable progress in developing a comprehensive institutional framework for the SME sector (OECD, 2015).

Business is one of the basic pillars for the development and advancement of a country in various aspects. Its analysis is paramount for the development and well-being of the companies that are the driving force of prosperity and growth. For Moldova, enabling business environment is a national priority, and analysis, as well as ways to develop and improve the business climate plays a vital role in changing the current situation, and overcoming barriers to entrepreneurial activity<sup>1</sup>.

The Association Agreement (AA), including Deep and Comprehensive Free Trade Area (DCFTA), signed in June 2014, represents for Moldova an ambitious roadmap for policy reform, including in the area of SME development. However, entrepreneurship development policies in Moldova still face important challenges. Small internal market and heavy dependence on remittances and exports (although the latter to a lesser extent) makes Moldova vulnerable to macroeconomic developments in the wider region. Furthermore, due to the instability in the financial sector, access to finance by SMEs is challenged (OECD, 2015).

The aim of this chapter is to analyze the business environment in Moldova in terms of the existing regulatory framework, identifying barriers and constraints, and analysis of programs and policies to strengthen it, along with synthesizing and developing recommendations to stimulate the business environment. The author will also focus on technology business incubators in the final section.

## **REGULATORY FRAMEWORK OF THE BUSINESS ENVIRONMENT IN MOLDOVA**

### **Policies, Strategies, and Programs for Development of Entrepreneurship**

A well developed and strongly innovative business environment is the basic premise for advancing the economy and prosperity of a society. The more productive economic activities are the more assured is the population and the greater is its welfare. Thus, all the regulations imposed at the state level on entrepreneurship carry both a burden, as well as protection in their essence. On the one hand, existing regulations are designed to monitor and direct economic activity to ensure safety and fairness in society, yet, the former are burdensome for entrepreneurs. In this respect, these regulations ought to be adapted, in order to make them more intelligent and qualitative by establishing certain standards that would allow opening opportunities for business, while not discouraging entrepreneurs. Knowledge of the legal framework, rules and regulations that determine the development of entrepreneurship and business is essential for starting a business, and ensuring successful outcomes. Table 1 summarizes the most important laws and normative acts that provide all the framework conditions and principles of entrepreneurial activity regulation in the Republic of Moldova.

The existing legal framework governs, practically, all aspects of basic principles for regulating entrepreneurial activity, starting with launching a business, organizing it under different legal forms,

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