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investment policy review

REPUBLIC OF MOLDOVA

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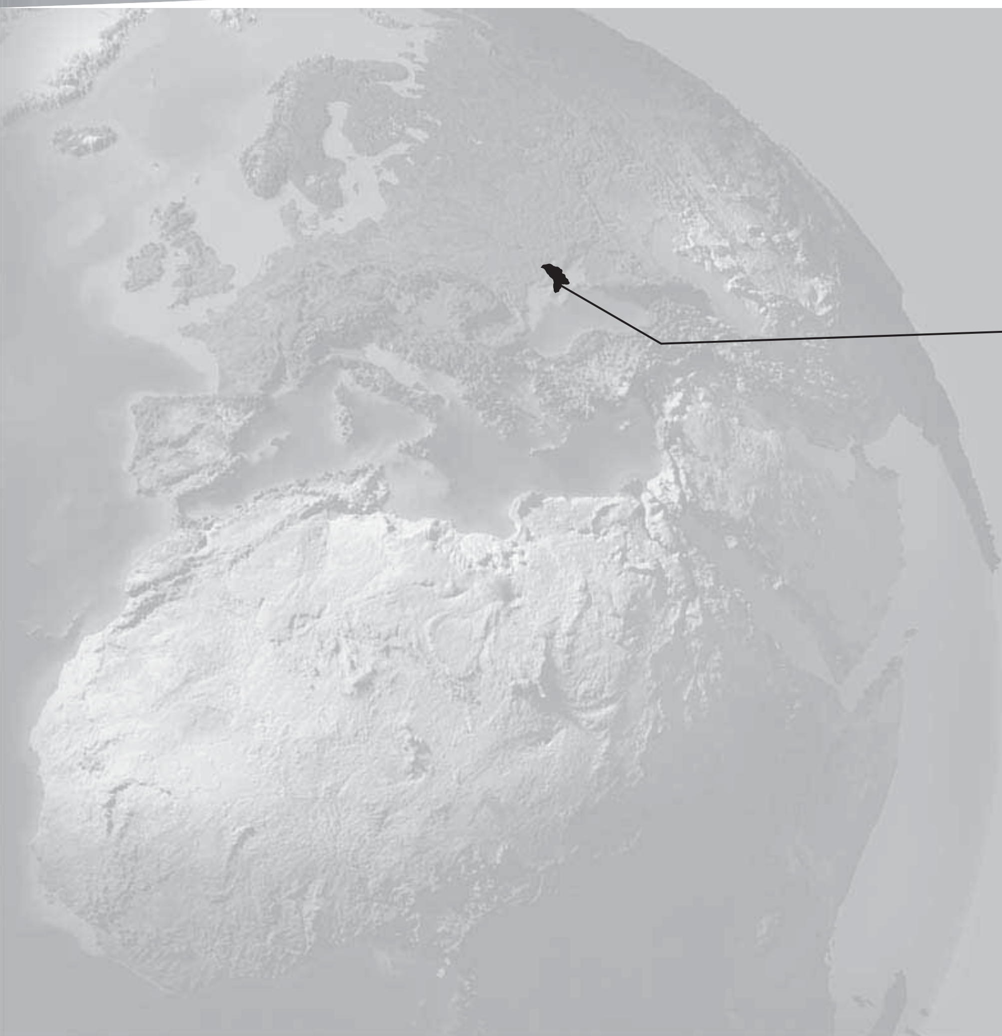

REPUBLIC OF MOLDOVA

UNITED NATIONS
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- **A blank** in a table indicates that the item is not applicable.
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Preface

The UNCTAD Investment Policy Reviews (IPRs) are intended to help countries improve their investment policies and to familiarize governments and the international private sector with an individual country's investment environment. The reviews are considered by the UNCTAD Commission on Investment, Enterprise and Development. The recommendations of the IPR are then implemented with the technical assistance of UNCTAD. The support to beneficiary countries is delivered through a series of activities which can span over several years.

The Investment Policy Review of the Republic of Moldova, initiated at the request of the Government of the Republic of Moldova, was carried out through a fact-finding mission in December 2011, and is based on information made available to UNCTAD until March 2013. The mission received the full cooperation of the relevant ministries and agencies, in particular the Prime Minister's Office. The mission also had the benefit of the views of the private sector, foreign and domestic, and the resident international community, particularly bilateral donors and development agencies. A preliminary version of the recommendations was discussed with stakeholders during a seminar in Chişinău in June 2012. The final report reflects comments from various stakeholders in the Republic of Moldova, including Government ministries and agencies. The report also benefited from discussions with the UNDP Office in the Republic of Moldova and the Delegation of the European Union to the Republic of Moldova.

The analysis is based on the 11 core principles of the Investment Policy Framework for Sustainable Development (IPFSD) developed by UNCTAD and released in the *World Investment Report 2012* (http://ipfsd.unctad.org). For the Republic of Moldova, key among them are the following two: (1) policy coherence, predictability and stability of rules; and (2) good governance in the implementation of the rules and administration of business, including transparency about providing information by authorities of a host country that is relevant to making informed business decisions. It follows to a large extent the national investment policy guidelines of the IPFSD, which deal not only with concrete measures to formulate investment policies and regulations but also on ensuring their effectiveness, especially in terms of grounding investment policy in development strategy and ensuring implementation and institutional mechanisms for policy effectiveness.

Building on an analysis of the economy of the Republic of Moldova and a critical assessment of the investment framework, this Review proposes strategic directions for the improvement of FDI attraction and promotion. Chapter I presents the main national development objectives, including in respect to FDI, before analyzing the key economic and social determinants for FDI and assessing recent FDI performance and its impact on the economy. Chapter II evaluates the legal and regulatory framework for FDI and domestic investment. Chapter III outlines an FDI strategy, based on the analysis of the previous chapters. It suggests making FDI a policy priority for the sake of national development, eliminating the main bottlenecks to FDI attraction, attaining excellence in regulating and administering investment, and upgrading the country's investment promotion efforts to levels that are compatible with the high priority attached to FDI attraction.

This report was prepared by the Investment Policy Reviews Section under the supervision of Chantal Dupasquier, Chief of the Section. Joerg Weber, Head of the Investment Policies Branch in DIAE, and James Zhan, Director of DIAE, provided overall guidance. The report was written by Kalman Kalotay, Alexandra Mincu, Irina Stanyukova and Zbigniew Zimny. Substantive contributions from Hamed El-Kady and Massimo Meloni are also acknowledged. The report benefited from comments and suggestions from UNCTAD colleagues, including Kiyoshi Adachi, Richard Bolwijn, Masataka Fujita, Joachim Karl, Elisabeth Tuerk and Paul Wessendorp, under a peer review process. Cletus Dordunoo provided editorial support. Philipp Großkurth provided research assistance. This report was funded by the Government of Sweden.

Geneva, July 2013

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Abbreviations

AG	Aktiengesellschaft (Corporation limited by shares, Germany)
AGEPI	State Agency on Intellectual Property of the Republic of Moldova
AmCham	The American Chamber of Commerce
ANRE	National Agency for Energy Regulation
ANRCETI	National Regulatory Agency for Electronic Communications and Information Technology
APC	Agreement of Partnership and Cooperation
ASYCUDA	Automated System for Customs Data
BIT	bilateral investment treaty
BIZTAR	Business Regulatory and Tax Administration Reform Project
BPO	business process outsourcing
BSEC	Black Sea Economic Cooperation
C&M	Cut & Make
CCEC	Centre for Combating Economic Crimes and Corruption
CMT	Cut, Make & Trim
CEFTA	Central European Free Trade Agreement
CIS	Commonwealth of Independent States
CISR	Centre for Strategic Studies and Reforms
CIT	corporate income tax
CNFA	Citizen’s Network for Foreign Affairs
CPI	consumer price index
DC FTA	Deep and Comprehensive Free Trade Agreement
DMFAS	Debt Management and Financial Analysis System
DTT	double taxation treaty
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECS	Energy Charter Secretariat
EEAS	European Union External Action
ENP	European Neighbourhood Policy
ERP	enterprise resource planning
EU	European Union
EUBAM	European Union Border Assistance Mission
ETF	European Training Foundation
FAO	Food and Agriculture Organization
FDI	foreign direct investment
FEZ	free economic zone
FIA	Foreign Investors Association
FIAS	Foreign Investment Advisory Service – World Bank
FTA	free trade agreement
FTTx	Fibre to the x, fibre optic broadband network architecture
GATS	General Agreement on Trade in Services
GDP	gross domestic product
GFCF	gross fixed capital formation
GOST	gosudarstvennyy standart (“State standard”)
GRES	gosudarstvennaya raionnaya elektrostantsiya (“State district power station”)
GRM	Government of the Republic of Moldova
HACCP	Hazard analysis and critical control points
HEI	higher education institution
IEFS	Institute of Economy, Finance and Statistics
ICT	information and communication technologies
ICSID	International Centre for Settlement of Investments Disputes
IDA	International Development Association

IMF	International Monetary Fund
IOM	International Organization for Migration
IP	intellectual property
IPA	investment promotion agency
IPTV	Internet Protocol television
IPFSD	UNCTAD's Investment Policy Framework for Sustainable Development
ISDS	Investor–State Dispute Settlement
ISO	International Organization for Standardization
ISP	internet service provider
IT	information technology
ITU	International Telecommunication Union
ITRS	International Transactions Reporting System
JSC	Joint Stock Company
MBA	master of business administration
MDL	Moldovan leu
MFN	most-favoured nation
MIGA	Multilateral Investment Guarantee Agency
MIEPO	Moldovan Investment and Export Promotion Organization
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
ODIMM	Organization for the Development of the SME Sector
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Cooperation in Europe
PARE 1+1	Pilot Programme on Attracting Remittances into the Economy 1+1
PM	Prime Minister
PNAET	National Programme for the Economic Empowerment of the Youth
PPP	public–private partnership
PTA	preferential trade agreement
R&D	research and development
SAFE	Framework of Standards to Secure and Facilitate Global Trade
SCR	State Chamber of Registration
SGS	Société Générale de Surveillance
SITC	Standard International Trade Classification
SME	small and medium-sized enterprise
TIR	Transports Internationaux Routiers Convention
TNC	transnational corporation
TRIMs	Agreement on Trade Related Investment Measures
TRIPS	trade-related aspects of intellectual property rights
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development
VAT	value-added tax
VoIP	voice over Internet Protocol
VPN	virtual private network
WEF	World Economic Forum
WTO	World Trade Organization

Executive summary

Following independence in 1991, the Republic of Moldova experienced one of the largest and longest-lasting losses of productive capacity among transition economies. The crisis, associated with a severe decline in manufacturing and agricultural activities, lasted throughout the 1990s and spurred an exodus of the working age population. An economic recovery started in the early 2000s and continued throughout the decade, largely fuelled by migrants' remittances and services. The economy also proved resilient to the recent global crisis, though output remains below its pre-independence level.

As part of its development agenda, the Government wants to steer the economy towards export-oriented production activities and better exploit the country's potential as a natural transit point between the East and West. For this to happen, a large injection of investment in the country's infrastructure, skills and economic tissue is required, which goes beyond the financing capacity of the local public or private sector. To this end, the Republic of Moldova is keen to enhance the country's attractiveness for foreign direct investment (FDI). To date, however, beyond privatization-related deals, only few small- and medium-sized FDI projects have materialized. In this regard, the experience of other countries in the region shows that more investment of the desired type can be attracted following comprehensive reform programmes and far-reaching investment promotion campaigns.

FDI can be instrumental in achieving the economic paradigm shift towards productive investments and exports articulated in the *Moldova 2020* strategy. It can contribute to the required competitiveness boost by developing skills and infrastructure, as well as opening new markets for Moldovan goods and services. However, the country needs to overcome various bottlenecks. One of them is human capital, which is underdeveloped as reflected in the Human Development Index of the Republic of Moldova, one of the lowest among European countries. Many reasons are put forward to explain this situation including a deterioration of higher education over time, in spite of relatively high spending, and concerns about the quality of vocational training. Furthermore, the fact that many Moldovans leave the country in search of better work opportunities also adds to the problem.

FDI can be instrumental in achieving the economic paradigm shift towards productive investments and exports

Infrastructure in the Republic of Moldova is of a much differentiated quality. While telecommunications infrastructure is relatively well developed, important investment are required for road transport as well as in the energy sector. The Government invests in infrastructure but cannot afford to meet all the needs related with its development objectives, particularly that of becoming an export platform. The challenge is to create conditions suitable for the participation of private capital in infrastructure development and to attract foreign investors to participate, through notably public–private partnerships (PPPs), in infrastructure development. In this area, progress has been achieved through new enacted laws and regulations, especially the 2008 Law on PPPs, but more action is necessary.

Over the years, the Moldovan investment climate has considerably improved and the regulatory framework for FDI generally follows international practice. Most laws comply with European Union (EU) standards, while the institutions required for regulating and administering business in a modern market economy have been set up. Regulations and governmental decisions related to business activity are now consolidated in a special business registry and many unnecessary laws and regulations have been guillotined. The Government has also improved the dialogue with the private sector and started applying a Regulatory Impact Assessment to all draft laws concerning business, and publishing draft laws for public comment. In spite of progress made, however, the country does not yet distance itself from its competitors with regard to ease of doing business, administration and regulations.

Despite major efforts, the Republic of Moldova still lacks a workable FDI promotion system. The improving economic performance of the country has not yet caught the attention of international media and it is little known among investors or the general public that the Republic of Moldova has become an increasingly attractive place to do business. In addition to putting the country at a disadvantage vis-à-vis its competitors, weaknesses in the investment promotion mechanism reduce the chances of developing the export-oriented goods and services sector through FDI. Furthermore, deriving more benefits from FDI projects will require better support to small and medium-sized enterprises (SMEs) towards the establishment of suppler linkages. Finally, investment promotion could be boosted by transforming the FEZs into multi-facility zones.

The Investment Policy Review of the Republic of Moldova proposes the key elements of a strategy to attract more FDI and extract more development gains from it

Against this background, the *Investment Policy Review of the Republic of Moldova*, which was carried out at the request of the Government through the Permanent Mission to the United Nations in Geneva, proposes the key elements of a strategy to attract more FDI and extract more development gains from it. The overall approach is guided by the Investment Policy Framework for Sustainable Development (IPFSD) developed by UNCTAD and released in the World Investment Report 2012 (http://ipfsd.unctad.org). Building on the 11 core principles of the IPFSD, this IPR proposes a number of general and specific measures aimed at improving the investment environment. To ensure an efficient implementation of this overall approach, the IPR also suggests some actions to be taken to strengthen the institutions which have a key role to play for investment, and FDI in particular. The main elements of the proposed strategy include:

1. Making FDI a policy priority for sustainable development;
2. Enhancing human resources and physical infrastructure through and for better FDI;
3. Achieving excellence in regulating and administering investment for sustainable development;
4. Increasing the effectiveness of investment promotion for increased FDI benefits; and
5. Tapping into the country's FDI potential in selected areas.

The main recommendations of the IPR, together with a suggested timeline for their implementation, are summarized in table III.1 at the end of chapter III. Detailed discussion of the five elements is provided below.

1. Making FDI a policy priority for sustainable development

To catalyze the paradigm shift towards productive investments and exports, FDI promotion and attraction should be embedded in the general development vision of the country and be made a policy priority. The Government should also ensure a broad political consensus about national development priorities and FDI promotion efforts for maximum impact.

The proposed FDI strategy should recognize the imperative to enter and compete on the international markets. Such a strategy should also contain clearer implementation plans, including monitoring tools, a feature that has been a weaker side of previous FDI programmes in the Republic of Moldova. To successfully measure the impact of the FDI strategy, the Government will need access to reliable information. To this end, statistical reporting on FDI and the activities of foreign firms need to be improved, especially through cooperation between institutions involved in data collection and reporting.

2. Enhancing human resources and infrastructure through and for better FDI

Recognizing that human capital is an important factor in determining the types of FDI a country can attract, the IPR recommends concrete measures to materialize the vision of *Moldova 2020* regarding the strengthening of education through FDI. These measures include:

- permitting and attracting FDI into higher education;
- encouraging collaborative arrangements with foreign higher educational institutions (HEIs); and
- enhancing cooperation between vocational schools, universities and the private sector.

For these measures to bring about their full impact, the Government should also introduce a quality assurance system at all levels of education. To complement the efforts done within the education sector, the country could also benefit from a policy to attract foreigners through the facilitation of the entry of expatriates possessing skills in short supply on a temporary basis.

The IPR suggests ways to capitalize further on the existing Moldovan Diaspora by adopting measures to transform remittances into investment in productive sectors and to attract skills back to the country. The Moldovan Diaspora, which represents about one quarter of the country's active population, has played a very important role in supporting, through remittances, the economic recovery since 2000. The experience of other countries with resourceful diaspora communities, such as India, shows that creative measures can be taken to stimulate investment from the Diaspora. In this regard, the Pilot Programme on Attracting Remittances to the Economy launched in November 2010 should be encouraged and its results closely monitored. Furthermore, the Government could envisage additional measures such as investment and trade fair to attract entrepreneurs in the Diaspora and adopt a number of instruments to facilitate financial transfers and develop saving instruments for migrants.

In infrastructure, a combination of public and private investment to provide the capital needed to achieve meaningful results could be a solution. Building on the progress achieved in PPP legislation, the Government could encourage more private investment in, and enhance the competitiveness of, infrastructure. It is thus suggested to develop a pilot approach to deal with PPPs and prepare a pipeline of infrastructure projects where private investors could play a role. Such an approach would allow the new PPP agency to acquire the relevant experience in the complex legal and commercial issues involved, before launching a more ambitious PPP programme. Other sector-specific measures include a review of the telecommunications policy to ensure equal, non-discriminatory access to the network, and facilitate the interconnection with foreign internet service providers; the full implementation of the Renewable Energy Law of 2007 through the adoption of feed-in tariffs and ensuring that the energy regulator is independent.

The IPR suggests adopting measures to transform remittances into investment in productive sectors and to attract skills back to the country

3. Achieving excellence in regulating and administering investment for sustainable development

The Republic of Moldova should make regulatory excellence an objective of its development and FDI strategy. As pointed out in the IPR and acknowledged by the Government, given the relatively small size of the internal market and the availability of limited natural resources, the country needs to rely on its strategic geographical position, international market access and improved competitiveness in its strategy to move up the value chain. The Republic of Moldova can compete with several countries in the region, which have embarked on ambitious programmes of reforms to attract more FDI.

In this regard, more effort is required to close the few remaining regulatory gaps and ensure an effective implementation of the laws by competent public servants.

The IPR identifies a number of areas where progress could be made to support a more effective use of the existing regulatory framework

Complete regulatory reforms in access to land, construction permits and taxation

Considered as significant sectors for national development, the expansion and attraction of FDI into agriculture and agribusiness require removing the ambiguity surrounding the regime of the land lease. If the Republic of Moldova wishes to exploit its considerable FDI potential in agribusiness, the Government should provide the appropriate legal framework for long-term lease of land by investors, domestic and foreign, following international practice.

Furthermore, the Ministry of Constructions and Regional Development should take the lead towards completing the legislative process on construction, and adopting a second construction law (covering inspections and final approvals of completed construction) and new regulations replacing the outdated technical norms in constructions with modern standards. Another example where the Government need to take actions is the review of the draft procedural Tax Code of 2008, which was never ratified.

Ensure the effective implementation of the legislation

Many countries around the world face enormous challenges in implementing the laws and regulations they put in place and the Republic of Moldova is no exception. While the country has good laws and regulations as stated above, the public administration meets serious difficulties to make them operational.

In this regard, the IPR identifies a number of areas where progress could be made to support a more effective use of the existing regulatory framework. The actions recommended include capacity building of public servants, enhanced cooperation among public agencies and ministries as well as establishment of guidelines and compliance requirements to ensure consistency and uniformity in the application of regulations. For example, more attention should be paid to training judges to defend fair competition and to enforce decisions related to intellectual property rights. There is also a need to organize communication campaigns for public servants and the investors in order to raise awareness about the legal and regulatory framework for investment. Altogether, these measures should contribute to improve governance and reduce the scope for discretionary and non-transparent administrative decisions in various areas. Furthermore, in several cases, the financial and human resources allocated to an agency or a ministry to deliver on its mandate may have to be reviewed. This is the case for instance of the competition agency.

4. Improving the effectiveness of investment promotion for increased FDI benefits

Promoting investment requires significant efforts and necessitates an effective and full-fledged investment promotion system. In the Republic of Moldova, the current institutional setting involves two teams to carry out this task, which implies coordination challenges. At the Moldovan Investment and Export Promotion Organization (MIEPO), 15 professionals deal with combined export and investment promotion (but none with investment promotion only). MIEPO's activities include investor targeting, sector-specific promotion and identification of investment site locations, as well as the organization of export and investment promotion events and information services. Recently, the institution broadened its activities based on examples of other investment promotion agencies around the world. At the same time, a donor-funded Investment Attraction Team (involving six persons) in the Prime Minister's Office promotes the Republic of Moldova to investors which deals with image building, investment generation, aftercare and policy advocacy.

To deal with the coordination challenges posed by the existence of the two teams, the IPR recommends considering a number of options, including their merger. To foster coordination and consensus on investment-related issues, a country-wide committee consisting of representatives of all relevant agencies and the private sector usually proves useful. In this regard, the Moldovan authorities should consider devolving this role to the Investment Attraction and Moldovan Export Promotion Activities Coordination Council. Its membership already includes representatives of the public and private sectors. Its mandate, which is to provide guidance on export and investment promotion to the MIEPO could be expanded to include a coordination role.

To deal with the coordination challenges posed by the existence of two investment promotion teams, the IPR recommends considering a number of options, including their merger

5. Tapping into the country's FDI potential in selected areas

Unleashing FDI potential through addressing sectoral issues

To further increase the effectiveness of investment promotion efforts, the IPR also recommends the adoption of an investment promotion strategy. In this strategy, the priority sectors identified by the Government should have a prominent role and specific activities should be outlined to promote foreign investment in export-oriented services (information technology (IT) services and business process outsourcing (BPO)), export-oriented manufacturing and in the agriculture and agribusiness sectors. MIEPO is developing sector-oriented expertise in agribusiness, light industry, IT, as well as other export-oriented sectors. The Investment Attraction Team has also started developing expertise in these areas by hiring sectoral experts. The investment promotion efforts of the country have to generate targeted propositions and put the emphasis on the segment of the sectors that offer the most viable opportunities. In the case of agribusiness for instance, this could be through the development of agribusiness FDI sector research and investor intelligence, resulting in branch- or product-specific feasibility studies. Furthermore, to increase benefits from international market access, the Republic of Moldova should develop a systematic approach to obtaining international certifications for its agricultural products and those affected by health-related regulations, including through efforts aimed at obtaining EU and Commonwealth of Independent States (CIS) accreditations for Moldovan laboratories. At the same time, foreign certifications should be recognized automatically when they meet Moldovan standards, in order to avoid unnecessary duplication.

Strengthen domestic small and medium-sized enterprises and encourage linkages

A strong SME sector is needed to allow the Republic of Moldova to maximize value retained in the country from existing and future FDI

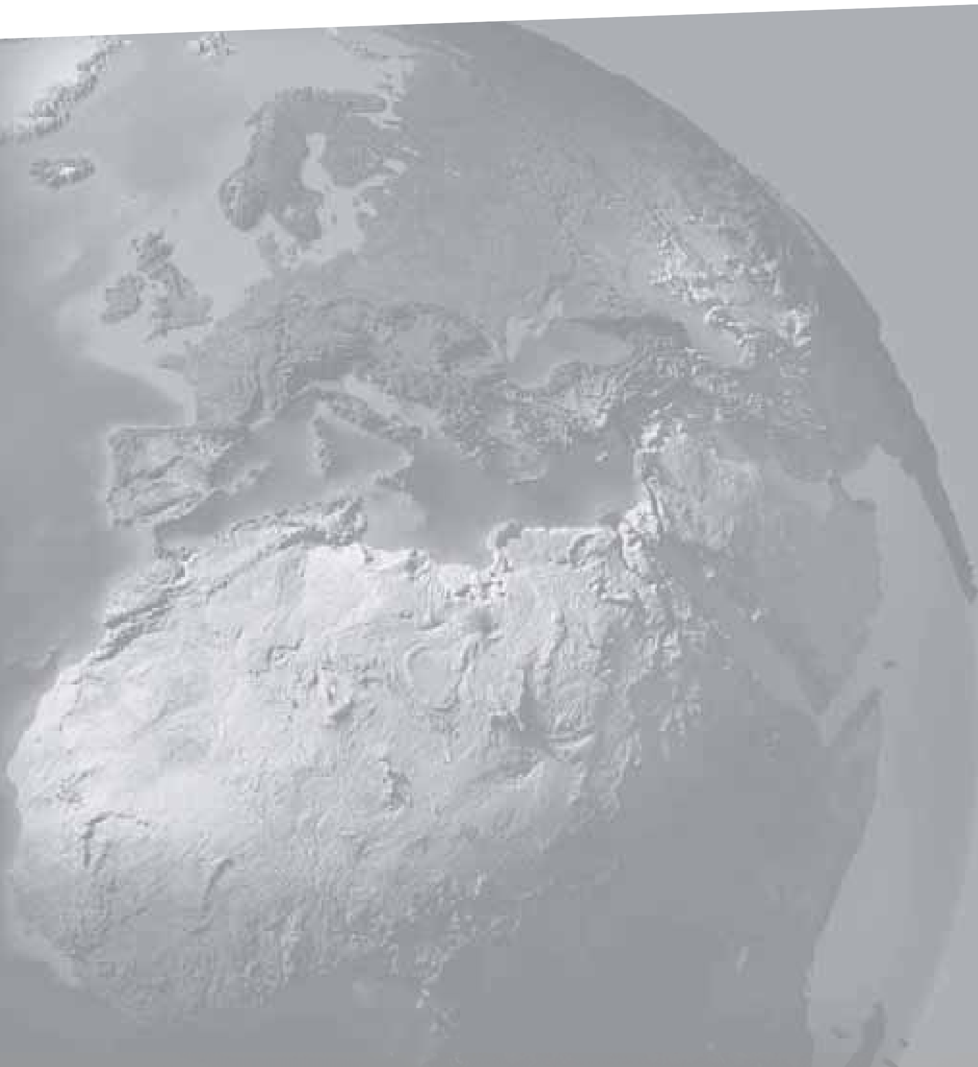
To increase the benefits of FDI for the local economy, a linkages programme aimed at improving the capabilities of Moldovan SMEs to become suppliers to foreign affiliates could be launched. A strong SME sector is needed to allow the Republic of Moldova to maximize value retained in the country from existing and future FDI. Currently SMEs are underdeveloped. Access to finance has for long been one of the key constraints. Also, industry clusters are weak or non-existent.

Move towards multi-facility zones

The IPR recommends to gradually transform FEZs into multi-facility zones, following international practices, and aligning them to the cluster development strategy and linkages policy. To stimulate investments and exports, the Republic of Moldova has established over the years six free economic zones (FEZs), as well as an international free port and airport, which operate under the FEZ regime. While the zones have, to some extent, contributed to stimulating investment, employment and exports, overall, their success has remained rather limited. Furthermore, as they are operating largely as enclaves, the zones have so far played only a minor role in the industrial development of the country, although they have accounted for an important part of FDI inflows (20–30 per cent according to Government estimates). The transformation of FEZs into multi-facility zones would create a convergence with industrial parks, which are also under development. Indeed, the Government may wish to prioritize contracting world-class specialist zone operators that will be able to assist the FEZs and the industrial parks alike to achieve "investment-ready" status and to bring them as close as possible to the concept of multi-facility zones.

CHAPTER 1

FDI determinants and potential



In its transition towards a market economy, the Republic of Moldova has opened up to foreign direct investment (FDI), but has so far attracted a rather limited amount of it. More FDI would be beneficial to the country by contributing to the expansion of the economic base and to growth that relies less on remittances. A more diversified economy would contribute to a broader tax base, which would help to finance the country's needs in different areas of social and economic life.

Following a brief discussion of the Government's overall development objectives and the role of investment therein, this chapter provides an overview of key determinants of FDI in the Republic of Moldova, including market size and access to international markets, the quality of infrastructure and governance, the availability of skills and cost of human resources and domestic enterprise development. This analysis, together with an examination of the country's recent FDI performance and impact on the local economy, will provide the background to assess the potential for attracting more FDI. It will also serve as a basis for suggestions on how to address deficiencies in skills, infrastructure and governance with a view to attracting more FDI and reaping more benefits from it.

A. National development objectives and the role of FDI

The current framework for national development is provided by the National Development Strategy of the Republic of Moldova for 2012–2020, also known as *Moldova 2020*.[1] The Strategy reflects an up-to-date and realistic view of the country's main strengths and weaknesses. It also envisages a paradigm shift in economic development, from "a growth model based on consumption fuelled by remittances" (box I.1), to "a dynamic model based on local and foreign investments and development of industries exporting goods and services" (Government of the Republic of Moldova, 2012a, p. 4). In order to stimulate such a paradigm shift, some of the specific objectives of the programme aim at:

- upgrading the education system to better match the labour market needs;
- improving the business environment, including through increased quality and efficiency of the judiciary;
- boosting public investment, in particular for road infrastructure; and
- increasing energy efficiency.

The Government Strategy has yet to be complemented by a detailed programme of actions on how to achieve these objectives.

If these objectives are achieved, they will facilitate the exploitation of the country's FDI potential. Particularly relevant are the goals related to infrastructure and skills development, as well as to the business environment, including justice (chapter II). The Government Programme acknowledges also the role of FDI: "since local investors' resources are limited, foreign investment could be a major factor in changing the country's development paradigm" (ibid, pp. 289–290). In most cases, issues related to FDI are embedded in recommendations for all businesses. This is not surprising as improvements in the general investment climate and determinants will favour both domestic and foreign investment. There are nevertheless exceptions. For example, the Government's document directly links road construction to increased levels of FDI and tourism.

In addition to *Moldova 2020*, the Government has also issued a more detailed action plan entitled *Activity Program of the Government of the Republic of Moldova 2011–2014* (Government of the Republic of Moldova, 2011). The action plan lists specific areas where attracting FDI is an explicit objective, such as:

- the privatization of State assets;
- domestic media and related areas;
- information and communication technologies (ICT); and
- developing partnerships between national and foreign education institutions.

Once *Moldova 2020* is adopted, this action plan should be revised to better fit the specific objectives of the country's overall development programme and focus attention on FDI-attraction.

Another official programme, entitled *Strategy to Attract Investment and Promote Exports 2006–2015* was updated in 2008. While the programme contains the main elements of a FDI vision and strategy, including the focus on priority sectors and initiatives to be undertaken to create an attractive environment for FDI, its implementation has remained to date uneven.

Box I.1. The role of remittances in the economy of the Republic of Moldova

Remittances from Moldovans working abroad have been a key element of economic and social life. An estimated 600,000 Moldovans — compared to a total population of 3.6 million — work abroad.[a] The main destinations of Moldovan migrants are the Russian Federation (61 per cent) and the European Union (29 per cent). It is estimated that one third of Moldovan households receive remittances from abroad. For half of those, money transfers from abroad account for more than 50 per cent of their total income. In 2010, these transfers amounted to $1.3 billion (or 24 per cent of the GDP), down from the pre-crisis level of $1.9 billion (or 31 per cent of GDP) in 2008. The same source indicates that remittances have fuelled mostly household consumption and construction expenditures. A survey of the National Bureau of Statistics (NBS) has shown that only 6.5 per cent of the money transferred ended up in savings, 1.3 per cent was spent on agricultural investments, and even less on non-agricultural business.

The recent economic crisis has once again raised questions about the need to ease dependence on remittances. Growing unemployment and reducing demand for migrant workers in host countries, coupled with wage cuts, made the situation of Moldovan workers abroad particularly precarious, forcing some of them to return home. Their reinsertion to national economic life proves to be difficult. In the recipient countries, the overwhelming majority of Moldovan migrants are employed in labour-intensive industries such as construction, domestic service, commerce, restaurants and catering, agriculture and in entertainment, in which the potential for upgrading professional knowledge and skills is rather limited.

Source: UNCTAD, based on NBS (2008), World Bank (2011a) and the website of the International Organization for Migration (IOM) Mission to Moldova.

Note: [a] As estimated by the IOM Mission to Moldova. According to the data of the NBS, about 318,000 Moldovans worked or looked for work abroad in 2008. The data discrepancy between the two sources is partly due to the fact that the NBS counts mainly Moldovans who left their families in the country, i.e. temporary migrants, whereas the IOM also includes in their estimates the population who moved abroad with their families.

In sum, if the Republic of Moldova wishes to attract more FDI and benefit more from it, it needs to ensure a strong link between investment promotion efforts and its overall development strategy. In this regard, the challenge will be to develop an FDI strategy that is consistent with the objectives of the Government which focus on the development of export-oriented production of goods and services based on modernization and privatization of the economy, an improved education system and better infrastructures to fully tap the benefits of the country's geographical location.

B. Key determinants of FDI attraction

This section provides an overview of key factors that determine the FDI potential of the Republic of Moldova as well as the scope of benefits from FDI. Some of the determinants, such as the size and growth of the market and access to international markets, affect the volume and type of FDI that a country has received or will receive, while others, such as human resources and the strength of domestic enterprises matter more for benefits derived from FDI (UNCTAD, 1998). Wherever appropriate, the Republic of Moldova is benchmarked against a group of transition economies which have embraced market reforms and show cultural, historical, geographical or other similarities. The group is composed of Armenia, Azerbaijan, Bulgaria, Georgia, Latvia, Lithuania, Romania, Serbia and the former Yugoslav Republic of Macedonia. The comparisons are based on most recent available data from the period 2009–2011.

A cross-cutting issue affecting the economic life of the Republic of Moldova is the problem of the Transnistrian region, which represents more than 10 per cent of the country's territory on the East bank of the Nistru River. The unresolved status of the Transnistrian region is an obstacle to national development including the attraction of foreign investment.[2]

1. Size and structure of the economy

The Republic of Moldova has a population of 3.6 million and the lowest gross domestic product (GDP) per capita in Europe. The country is not endowed with significant natural resources, with the exception of fertile land, a climate favourable for agriculture and some raw materials for the construction industry. Following independence in 1991, it suffered from one of the largest and longest-lasting losses of productive capacity among transition economies.

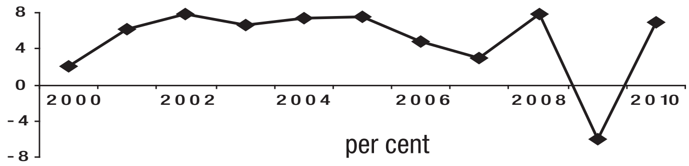
The manufacturing sector was particularly affected as the capacities inherited from pre-independence times were wiped out. The crisis lasted throughout the 1990s and resulted in an exodus of the working age population. Since 2000, the economy has grown, with the exception of the crisis year of 2009, and 2012. In 2000–2010, the average growth rate was 5.3 per cent (table I.1). Despite that, the country's GDP in 2010 amounted to $5.8 billion or 68 per cent of its 1991 level. According to preliminary data, by 2012, the GDP grew to $7.3 billion or 73.6 per cent of its 1991 level.

Recent growth has been based only partly on the recovery of some of the lost manufacturing capacities.[3] The share of manufacturing is low (less than 13 per cent) with food, beverages and tobacco production accounting for almost half of the total manufacturing output. Manufacturing of non-metallic mineral products (glass and construction materials) is the second largest activity, followed by textiles, apparel and leather. Construction — the other main component of the secondary sector — accounts for 4 per cent of GDP while the primary sector (almost exclusively agriculture) is at 14 per cent. Indeed, the bulk of GDP (67 per cent in 2010) is derived from services. Remittances (box I.1) are a primary engine of growth, contributing to the flourishing of certain services provided locally and imports. The most important services are trade and repair, transport, real estate, renting and business services, which include information technology (IT) services.

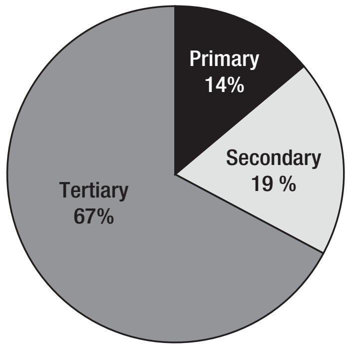
Table I.1. Basic macroeconomic indicators of the Republic of Moldova, 2010

Population	
Total (millions)	3.6
Major city: Chişinău (millions)	0.8
Urban (% of total)	41.4
GDP	
At current prices (billion $)	5.8
Per capita, PPP (current international $)	3'085
Annual average growth (%, 2000-2010)	5.3

GDP growth rate
(% over previous year)



GDP by sectors



Trade	
Exports and imports (billion current $)	6.9
Exports of goods and services (% of GDP)	39.4
Imports of goods and services (% of GDP)	78.8

Top economic activities
(% of GDP)

Agriculture	14.0
Manufacturing	12.7
Construction	4.0
Wholesale and retail trade	15.4
Transport, storage and communications	13.5

Macroeconomic environment	
Central Government debt (% of GDP)	24.2
Tax revenue (% of GDP)	32.3
Inflation (CPI, annual %, avg. 2000-2010)	11.6
Real interest rate (%, avg. 2000-2010)	8.9
Gross savings (% of GDP)	15.8
Migrants' remittances, inflows (% of GDP)	23.6
Natural resources	
Land (millions of hectares) *	3.4
Agricultural land (% of land area) *	59.3

Main mineral resources

Granite	Clay
Limestone	Sandstone

Sources: UNCTAD, based on NBS, NBM and UNECE.
Notes: * including the Transnistrian region; PPP = purchasing power parity;
In this table, the secondary sector includes manufacturing, electricity, gas and water supply, and construction.

The Republic of Moldova has an open economy, with imports of goods and services accounting for a high share of GDP and exceeding exports at a ratio of 2:1 (table I.1). The country's macroeconomic situation is relatively stable. In particular, the debt to GDP ratio is low, which is an advantage in the ongoing economic crisis. However, inflation, fuelled by remittances and consumption, has been high. Real interest rates are also high and the savings ratio is very low, holding back domestic investment.

2. Trade and international trade agreements

The total volume of trade in goods amounted to more than $5 billion in 2010 (table I.2). Since 2001, imports have grown 4.3 times and exports 2.8 times leading to a widening trade deficit. The product structure of imports is more diversified than that of exports, reflecting the key patterns of GDP outside services. Products of agribusiness still dominate exports. The main products include wine and other beverages, edible and processed fruits, vegetables and nuts, oil seeds and oleaginous fruits, cereals, sugar and honey as well as tobacco. However, the share of agricultural and other food products in exports has declined significantly over the past decade, from 62 to 47 per cent. In exports of manufactured goods, electrical machinery and equipment have complemented traditional outputs of textile industry since 2008. This new export component may be partly attributed to FDI in automotive industry in recent years, which augurs well for future FDI projects in this sector.

Table I.2. Trade in goods by major partners and product groups, 2010 (Millions of dollars and percentages)

Exports (million $)	1541.5	Imports (million $)	3855.3
By product groups (% of total export)		*By product groups (% of total import)*	
Primary commodities	51.4	Primary commodities	37.6
Manufactured goods	48.6	Manufactured goods	62.4
By products (% of total export)		*By products (% of total import)*	
Articles of apparel and clothing accessories	15.1	Petroleum and petroleum products	11.1
Vegetables and fruit	14.8	Gas, natural and manufactured	8.8
Beverages	11.5	Textile yarn, fabrics, made-up articles	5.3
Electrical machinery, apparatus and appliances, and electrical parts thereof	6.7	Electrical machinery, apparatus and appliances, and electrical parts thereof	5.5
Cereals and cereal preparations	5.1	Road vehicles	4.6
Oil-seeds and oleaginous fruits	5.8	Medicinal and pharmaceutical products	4.7
Other	41	Other	60
By trade partner (% of total export)		*By trade partner (% of total import)*	
CIS	**40.5**	**CIS**	
of which:		of which:	
Russian Federation	26.2	Russian Federation	15.2
Ukraine	5.9	Ukraine	13.7
Belarus	5.2	Belarus	3.1
European Union (EU-27)	**47.3**	**European Union (EU-27)**	**44.2**
of which:		of which:	
Romania	16.0	Romania	10.0
Italy	9.6	Germany	7.7
Germany	4.9	Italy	7.0
Poland	3.0	Poland	2.7
Other countries	**12.2**	**Other countries**	**23.2**
of which:		of which:	
Turkey	4.4	China	8.3
United States	1.4	Turkey	5.3

Source: UNCTAD, based on NBS.
Note: According to chapters of SITC, Rev.4.

The import structure reflects the lack of natural resources, as well as the transition-related decline of manufacturing, which contrasts with the country's industrial tradition. The Republic of Moldova is highly dependent on imports of mineral fuels and products thereof. In 2010, the country imported 86 per cent of its energy resources. Various kinds of machinery and transport equipment, appliances, chemical and other manufacturing products continue to be important items on the list of imports. The prominence of textile yarn in imports and garments in exports is an indication of the country's specialization in the textile and garment value chain.

The EU and the Commonwealth of Independent States (CIS) are the two groups that dominate foreign trade, accounting for about 90 per cent of the country's exports and more than three fourths of its imports. Within each grouping, the list of main trading partners is limited and stable: the Russian Federation, Ukraine and Belarus within the CIS, and Romania, Germany and Italy in the EU. In 2001, the CIS group was in leading position for exports and the EU was second. By 2010, the positions were reversed. In imports, the EU has kept its leadership, but both the CIS and EU partners have gradually lost their shares to emerging economies such as China and Turkey. The extensive trade with the EU and the CIS partners can be explained not only by geographical proximity and historical links, but also by preferential agreements signed with both groups of countries.

Businesses located in the Republic of Moldova can export duty free to the West (EU), East (CIS) and South-East (Balkans). Since 1995, the country also has a preferential access to the United States and Japanese markets under the Generalized System of Preferences. These have created an additional opportunity for the country that has not been fully realized, due to weaknesses in productive capacities. The country is negotiating new trade agreements with other major trading partners such as Turkey.

Economic links with the EU are governed by the Eastern Partnership Programme, within the framework of the European Neighbourhood Policy (ENP).[4] Starting in March 2008, the EU granted the Republic of Moldova autonomous (unilateral) trade preferences, among which a duty-free access of most Moldovan products to EU markets. It established quotas only on a handful of Moldovan products such as barley, maize, wheat and wine, as well as certain animal products such as meat, meat products, eggs and dairy products (MIEPO, 2010, p. 3). The two parties have agreed to negotiate a Deep and Comprehensive Free Trade Agreement (DC FTA).[5] The main implications of the DC FTA will be threefold. Firstly, it will strengthen the access of Moldovan goods to EU markets (for instance through the adoption of EU standards). Secondly, it will lead to more tariff liberalization by the Republic of Moldova (to be determined by the negotiations). Thirdly, it will lead to additional reforms and harmonization with EU rules in areas such as services, intellectual property, customs, energy policy and competition law. A key question is the treatment of the territory of the Transnistrian region in the DC FTA.

The Republic of Moldova's bilateral trade agreements with eight CIS members and Georgia provide for free trade, although with some exceptions, which vary from country to country. On goods excluded from the agreements, the Republic of Moldova and its CIS trade partners apply the most-favoured-nation (MFN) and not the statutory tariff rate (CEFTA, 2010). CIS trade partners also aim at the consolidation of the results of trade liberalization achieved in bilateral treaties into a single trade zone. The most recent plurilateral CIS agreement setting a timetable and rules of application for free trade was signed in 2011 by eight countries (Armenia, Belarus, Kazakhstan, Kyrgyzstan, the Republic of Moldova, the Russian Federation, Tajikistan, and Ukraine).

The Republic of Moldova joined the Central European Free Trade Agreement (CEFTA) in 2007.[6] Most of the goods traded between CEFTA partners enjoy duty- and quota-free access, with the exception of trade in wine with the former Yugoslav Republic of Macedonia. Unlike trade agreements with the CIS partners or the EU, currently CEFTA plays a marginal role in Moldovan foreign trade (less than 1 per cent).

3. Human capital and social development

The Republic of Moldova has achieved a mid-level of *human development* in the world, but underperforms within Europe. In particular, in line with its low GDP per capita and incomplete post-transition recovery, the country's Human Development Index is the lowest of the European continent. More than one-fifth of the population lives under the poverty line, which is more than twice as high as in the best comparator country (table I.3). Inequality is also relatively high.

In *education*, even though the overall indicators such as government expenditure, literacy rate or enrolment ratios are relatively good (with the exception of tertiary education, in which the enrolment ratio is much lower than in neighbouring countries), they do not necessarily reflect

Table I.3. Social development, education and labour, 2010

Indicator		Republic of Moldova	Group average	Best available in group
Social development				
Human Development Index (0=low to 100=high)**		64.9	74.6	81.0
Poverty headcount at national poverty line (% of population)		21.9	..	9.2
Gini index (0 - 100 = highest inequality)		33.0	..	27.8
Education and training				
Public spending on education (% of GDP)*		9.6	5.0	9.6
Literacy rate, adult total (% of people ages 15 and above)*		98.5	98.8	99.8
School enrolment (% of gross):	- secondary	88.0	90.6	98.0
	- tertiary	38.1	49.9	77.4
Quality of (1=low to 7=high)** :	- the higher education system	3.2	3.3	3.8
	- math and science education	4.0	4.0	5.0
	- management schools	3.3	3.6	4.2
Firms offering formal training (% of firms)*		33.1	28.9	46
Extent of staff training (1=low to 7=high)**		3.3	3.6	4.0
Labour				
Labour participation rate (% of total population ages 15+)*		41.7	57.0	66.3
Employment in (% of total)* :	- agriculture	28.2	24.7	
	- industry	19.3	24.1	
	- services	52.5	52.8	
Unemployment, total (% of total labour force)		7.4	12.2	5.6
Unemployment, youth total (% of total labour force ages 15-24)*		15.4	28.4	14.5

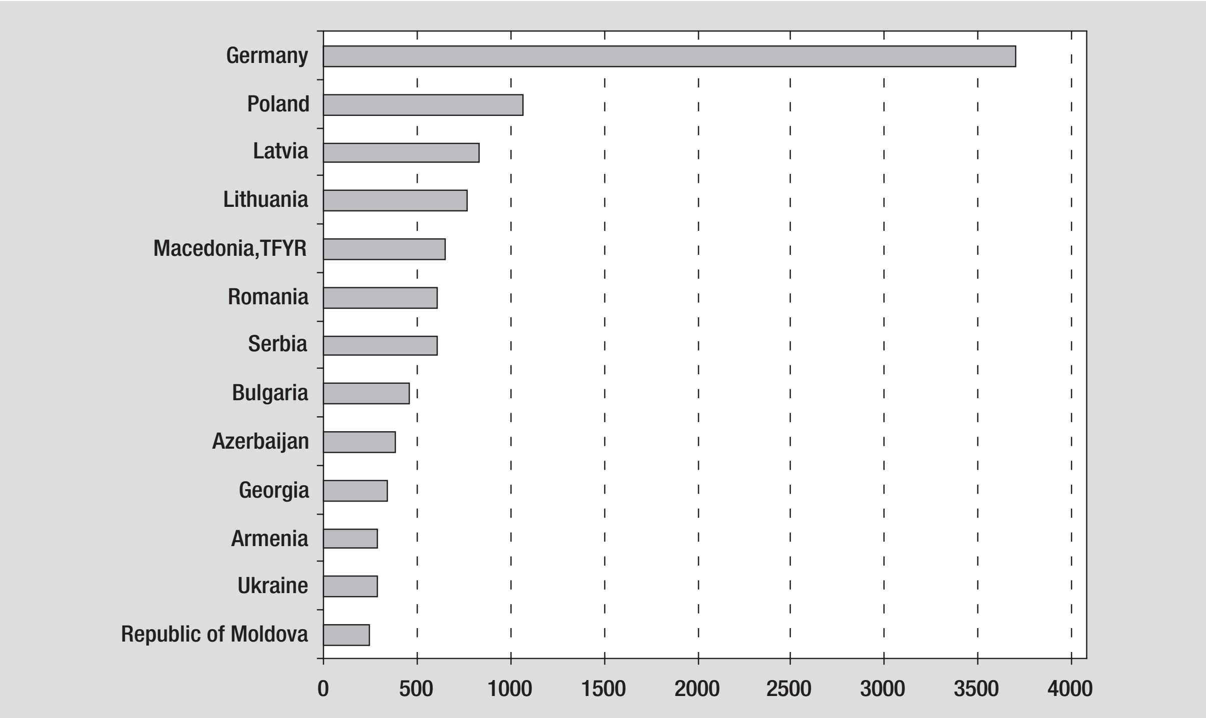
Source: UNCTAD, based on World Bank, WEF (2011), UNDP, UNECE, NBS.
Notes: * data for 2009, ** data for 2011. The comparator group consists of Armenia, Azerbaijan, Bulgaria, Georgia, Latvia, Lithuania, Romania, Serbia and the former Yugoslav Republic of Macedonia (cf. the first paragraph of section B). In tables I.3, I.4, if the group average cannot be calculated because of the scarcity of recent data for most comparators, only the best available value is provided.

the quality and efficiency of the education system. Curricula are too theoretical, the qualification system is weak, the training of teaching staff is insufficient and the material base of education is poor (Government of the Republic of Moldova, 2012a). These handicaps in education in general, and in vocational training in particular, make the attainment of the Government's objective of matching the quantity and quality of skills and knowledge of people with the requirements of the job market very challenging. Imbalances of the labour market are the result of the lack of workers with the type of vocational training employers are looking for (especially outside the capital city), and sometimes the lack of job opportunities for a large number of educated people (especially in the capital city). All businesses interviewed for this report commented on low and inadequate level of skills. At the same time, all have said that they carried out extensive training programmes to adapt workers' skills to their needs. Some sent employees to study abroad and paid for their education.

In this context, private companies tend to point out that although labour in the Republic of Moldova may be cheaper than in neighbouring countries, the cost to invest in the country is augmented by expenses related to training in various industries ranging from components manufacturing to the dairy industry. Two types of skills are nevertheless considered to be in high offer in the Republic of Moldova: language skills (the majority of the population is bilingual in Romanian and Russian) and IT-related ones. Shortages are found in manufacturing and engineering skills and are expected to further increase as shown by a recent study. In addition, the Republic of Moldova is facing a shrinking labour force, which will be reduced by 11 per cent during the next decade due to low birth rate and ageing population.

Labour force, employment, unemployment: The formal unemployment rate is relatively low (7.4 per cent), but it has to be evaluated together with a low (41.7 per cent) labour participation rate (per cent of the population in active age who are effectively employed or looking for a job in the country) because emigration substantially decreases the number of job seekers at home. Youth unemployment is twice the national average (15.4 per cent). About 22 per

Figure I.1. Gross average monthly wages in selected countries, 2010 (Dollars)



Source: UNECE.
Note: Data for Germany refer to 2009.

cent of young people found a job less than three months after graduation, while close to 18 per cent left the country. At the same time, a quarter of young workers left the first job because of low wages (Government of the Republic of Moldova 2012a, p. 11). Currently, the majority of workers (53 per cent) are employed in services. Agriculture still employs 28 per cent, which is twice as high as its share in GDP. Industry (quarrying, manufacturing, construction and utilities) represents less than one-fifths of all jobs.

Measured in terms of gross average monthly wages, the Republic of Moldova enjoys cost advantages vis-à-vis all the nine comparator countries selected as well as compared to other European economies (figure I.1). Thus, wages are 17 per cent higher in neighbouring Ukraine and more than four and fifteen times higher in Poland and Germany. While these differences are not sustainable in the longer run, in the short run they can be a powerful cost advantage for the Republic of Moldova.

4. Infrastructure

Most of infrastructure is in need of modernization. In areas such as roads, water and heat supply, and the port on the Danube River, poor infrastructure constitutes a bottleneck to economic expansion (table I.4) and to the achievement of the country's economic and social development objectives.

The uneven development of transportation can be explained by the relatively low investment in the sector. In the Republic of Moldova, investment in transport with private participation accounted for 3.1 per cent of gross fixed private capital formation in 2010. This is one of the lowest levels in the group of comparator countries (the highest level observed being 20.6 per cent in the former Yugoslav Republic of Macedonia). *Roads* are most problematic with the inability of the current network to serve the needs of the population and the growing economy. They are among the worst in Europe and in the region. Over 90 per cent of the road network is in need of rehabilitation. Estimations show that the poor state of roads implies additional costs for users amounting to approximately Moldovan leu (MDL) 2.5 billion ($213 million)[7] annually (Government of the Republic of Moldova, 2012a, p. 15). A partial reversal of road degradation started in 2010–2011, with the help of increased contributions to the road fund and donor support from the EU.[8] These efforts will need to continue in the future to restore the entire road network.

Table I.4. Transport, energy, telecommunications and sanitation, 2010

Indicator	Republic of Moldova	Group average	Best available in group
Transportation			
Roads, paved (% of total)*	85.8	..	93.6
Road density (km of road per 100 sq. km of land area)*	38.0	66.7	125.0
Quality of (1=low to 7=high)** : - roads	1.3	3.3	5.2
- railroad infrastructure	2.6	3.1	4.4
Energy *			
Total energy resources (ton of oil equivalent per capita)	0.7	1.4	2.5
Energy import, net (% of energy use)†	95.3	46.3	17.8
Electric power consumption (thou. kWh per capita)	1.1	2.6	4.4
Power outages in firms in a typical month (number)	1.7	2.1	0.7
GDP per unit of electricity consumed (PPP $ per 1 kWh)	2.9	3.8	5.8
Telecommunications			
Fixed telephone lines per 100 inhabitants	32.5	23.8	40.5
Mobile telephone subscriptions per 100 inhabitants	88.6	112.5	147.0
Price of local mobile call (off-net, prepaid, $ per minute)	0.19	0.19	0.08
Standard mobile subscriptions with use of data communications at broadband speeds per 100 inhabitants	3.3	..	33.9
Fixed (wired) broadband Internet subscriptions per 100 inhabitants	7.5	11.0	20.6
Percentage of individuals using the Internet	40.0	44.9	68.4
Sanitation			
Improved water source (% of population with access)	96.0	95.1	100.0
Improved sanitation facilities (% of population with access)	85.0	86.9	100.0

Source: UNCTAD, based on World Bank, WEF (2011), ITU, UNECE, NBS.
Notes: * data for 2009, ** data for 2011, † excluding Azerbaijan from the group of comparators.
PPP: purchasing power parity.

The *logistics* infrastructure is also currently underdeveloped and fragmented, and its strategic location (at East-West and North-South crossroads) remains underexploited. The longest Pan-European Corridor — IX: Helsinki (Finland), St. Petersburg (Russian Federation), Gomel (Belarus), Kiev (Ukraine), Chişinău, Bucharest (Romania), Dimitrovgrad (Bulgaria), Alexandroupoli (Greece) — crosses the country from North to South, linking it to key trade partners. Giurgiuleşti International Free Port – the country's only port that has indirect access to the sea through the Danube River – is also linked to Corridor VII (the Danube from Passau (Germany) to the Black Sea). Statistical data indicate that cargo transportation by transport enterprises (excluding pipelines) amounted to only 10.1 million tons in 2010, which is less than one-tenth of the pre-transition level (122.3 million tons in 1991). One of the current obstacles to more competitive logistical services is the fragmentation of customs terminals in the capital city (over five different locations). Other obstacles are the general underdevelopment of logistics services and the relatively high cost of road transport. The World Bank's Logistics Performance Index of 2012 confirms these findings. The overall index of the Republic of Moldova is low compared to neighbouring countries and main trading partners (with the exception of Armenia). The low rating is explained by the poor quality of the trade- and transport-related infrastructure. However, in terms of the ease of arranging competitively priced shipments, ability to track and trace consignments, and timeliness of shipments, it compares favourably with many other countries of the former Soviet Union.

In *air transport*, there are three certified international airports (Bălți, Chişinău and Mărculeşti). Modernized in the 1990s with the help of the European Bank for Reconstruction and Development (EBRD), Chişinău International Airport is now the country's leading airport, and the hub of the State-owned Air Moldova. Bălți and Mărculeşti airports are hosts to charter and cargo flights. In general, airports play a more prominent role in passenger traffic than in cargo transport. In terms of aviation policy, the Republic of Moldova has joined the Common European Aviation Space, which provides an opportunity to increase international passenger traffic, including low-cost flights, and better link the country to international airports of the EU.

While existing railway lines are in acceptable shape, the network needs to be further developed. It is 1,157 kilometres long, single track and not electrified. The broad gauge system is not compatible with the EU railway network (except for the links of Giurgiuleşti to the Romanian border; see below). Moreover, a direct railway link to Ukraine bypassing the Transnistrian region is missing.

In *port* infrastructure, the only indirect outlet of the Republic of Moldova is the shallow port of Giurgiuleşti on the Danube River. It consists of an oil product terminal, a grain terminal, a general cargo and container terminal, and a free zone, providing a customs treatment similar to the country's Free Economic Zones (FEZs). It offers logistics, land lease, office lease and consulting services to clients. It also has a 14-kilometer railway link to Romania. Some of the facilities are owned by the Government, which has unsuccessfully attempted to establish passenger transport services (from the Republic of Moldova to Istanbul via the Black Sea). The road links to the capital city are in bad shape.

Currently, private investment in *energy* is relatively low, 2.2 per cent of gross fixed private capital formation (2010), as compared with 3.1 per cent on average of the group of comparator countries (and reaching 4.9 per cent in Romania). Energy security is also an issue. More than 95 per cent of electricity is derived from natural gas, which is entirely imported from the Russian Federation. The country plans to diversify its gas supplies through the construction of a pipeline from Ungheni, Republic of Moldova, to Iaşi, Romania, opening up links to the EU network. Its construction is expected to start in June 2013. Also, most of the electricity supply (about 75 per cent) originates from the Moldovan Power Station (Moldavskaya GRES), built before independence and located in the Transnistrian region.[9] The transmission capacity is sufficient to serve the current, more than modest, electric power demand (3.5 billion kWh in 2010). Energy consumption is limited because the post-transition recovery has been based on services and remittances, and not on industries that would consume high amounts of energy. Low electricity consumption, however, results in inefficient use of the energy infrastructure. As the energy system was designed to transmit a higher amount of the electric energy, the relative share of losses compared to energy supplied is high. The fact that more investment is needed to maintain and upgrade the system represents a business opportunity for investors.[10]

Telecommunications services are well developed and affordable. Investment in telecommunications with private participation reached 9.1 per cent in 2010, which is higher than the average of comparator countries (6.2 per cent). The physical infrastructure is technically sound and evenly distributed throughout the country. Fixed telephony penetration is deeper than in the majority of the comparator countries. Fibre-optic networks, linking the Republic of Moldova both to the West and the East, cover the most important parts of the territory. Apart from traditional telecommunications services, existing companies provide access to a wide range of cutting-edge technologies.[11] Tariffs on telecommunications services have decreased over time and are now lower than in other countries in the region. For example, the average monthly price for an unlimited 100Mbit plan for individual subscribers is MDL 250 ($21.3). Also, installation and monthly subscription fees, both for a fixed phone and wired broadband internet, are in the lower end among transition economies. The costs relative to per capita income in some cases are, however, higher than in other transition economies. The legal framework for telecommunications has improved over time, although issues remain with respect to the policies of the incumbent Moldtelecom (see chapter II).

Limited financing and underinvestment over the past 15 years have led to a significant deterioration of the *water supply and sewerage* infrastructure, although both water and sewerage facilities are underutilized by around 25–30 per cent. At the same time, water losses are significant because of the worn-out equipment and poor maintenance of the supply network. Many parts of the country do not have sewerage facilities. Tariffs do not reflect the cost and, as a result, service providers are indebted (Government of the Republic of Moldova, 2010, p. B24).

5. Governance and institutions

Governance is among the issues that foreign investors find problematic, as confirmed by interviews during the UNCTAD fact-finding mission, despite ongoing reforms in the regulatory and administrative environment since the 1990s (table I.5). Progress, though significant, has been slower than in other countries, including those within the group of economies in transition (e.g. Armenia, Georgia, the former Yugoslav Republic of Macedonia). In terms of the ease of doing business, the country ranks 83rd globally (World

Table I.5. Regulatory environment, corruption and security, 2011 and 2012			
Indicator	**Republic of Moldova**	**Group average**	**Best available in group**
Regulatory environment			
Ease of doing business index (rank out of 183 countries)	83		9
Effectiveness of anti-monopoly policy (1=low to 7=high)	3.2	3.4	4.1
Judicial independence (1=low to 7=high)	2.2	3.0	3.8
Strength of investor protection (0=low to 10=high)	5.3	5.9	7.0
Corruption and security			
Organized crime (1=worst to 7=best)	5.1	5.0	5.7
Corruption perceptions index (0=worst to 10=best)	3.6	4.7	5.4

Sources: World Bank, WEF (2011), Transparency International.

Bank, 2012). This is reflecting some of the major problems inherited from Soviet times that are not yet fully resolved. For instance, there are still too many administrative barriers and controls (by some 60 different inspectorates), and some of the public services provided to business lack transparency and are not user-friendly (see chapter II).

In spite of efforts to combat it, corruption remains widespread, as confirmed by the low ranking in Transparency International's Corruption Perceptions Index (table I.5). Its root causes include the underpayment of civil servants, which translates into rent-seeking behaviour. The ongoing internal political problems are one of the reasons for slow progress. Disagreements within the current Government coalition have resulted in the fragmentation of public administration, with ministries being controlled by different parties, and insufficiently cooperating and coordinating with each other. The problem is compounded by a lack of cooperation and coordination of actions, including on FDI promotion matters (see chapter III). As a result, business representatives complain about the instability of the situation, and difficulties to interact with the Government.

6. Domestic enterprise development

The domestic private sector is at an early stage of development (table I.6). The gross fixed private capital formation rate is relatively low (although slightly higher than the average of comparator countries), mostly due to the limited size of GDP and low savings. National statistics indicate that the large majority of firms are in the formal sector. Other sources, however, indicate that the informal sector is still large: close to 10 per cent of GDP (UNECE, 2008). Domestic credit is underdeveloped compared with peer countries in transition, and a large number of financial services required for business development are mostly unaffordable. Certification of local enterprises by the International Organization for Standardization (ISO) advances too slowly, cluster development is weak, and the quality and quantity of local suppliers compares poorly within the chosen sample of countries.

The majority of firms in the country, as in other countries, are small- and medium-size enterprises (SMEs).[12] They account for 97.7 per cent of the total number of firms, 58.8 per cent of the jobs offered, but only 36.8 per cent of the total enterprise turnover. SMEs have expanded more in services which generally have low entry barriers. Thus, in 2010, 41 per cent of them operated in trade, 16 per cent in real estate, renting and other business services, while capital- and/or labour-intensive manufacturing and agriculture accounted only for 10.9 per cent and 5.1 per cent respectively, with the dominance of medium-sized enterprises.

The level of development and competitiveness of SMEs is also low in international comparison. Nevertheless, the SME sector performed relatively well during the past five years (OECD, 2011). Their profitability, measured by total profits in real terms, grew five times between 2005 and 2008, and employment losses in medium-sized firms were compensated by increases in small and micro businesses. The 2009 crisis halted these positive developments, but already in 2010 SMEs started recovering on most indicators.

Domestic firms encounter major obstacles to growth, beginning with the availability of finance. Capital is expensive and available mostly for short-term purposes. The capital market is underdeveloped making it difficult for local firms to finance growth through the stock market. The Government attempts to develop the enterprise sector through various measures, including special programmes for SMEs (a Pilot

Table I.6. Formal private sector, finance and quality of domestic firms, 2010

Indicator	Republic of Moldova	Group average	Best available in group
Size of formal private sector			
Gross fixed private capital formation (% of GDP)	21.9	17.2	28.2
Firms formally registered when operations started (% of firms)*	97.9	96.6	99.6
Finance			
Domestic credit to private sector (% of GDP)	33.3	49.8	103.7
Domestic credit provided by banking sector (% of GDP)	37.2	50.6	89.6
Firms using banks to finance investment (% of firms)*	30.8	36.6	47.4
Affordability of financial services (1=low to 7=high)**	3.2	3.8	4.2
Characteristics of private sector development			
ISO certification ownership (% of firms)*	9.1	19.3	26.9
State of cluster development (1=low to 7=high)**	2.4	2.9	3.3
Local supplier quantity (1=low to 7=high)**	4.0	4.4	5.0
Local supplier quality (1=low to 7=high)**	3.8	4.2	4.9

Sources: World Bank, WEF (2011).
Notes: * data for 2009, ** data for 2011.

Box I.2. Special economic zones in the Republic of Moldova

Free Economic Zones are open to businesses that cater to both the export and the local markets and benefit from a preferential customs and tax regime (see below and box II.4). Activities in the zones are limited to industrial production (except alcohol), packaging, trade, transportation, logistics and utilities, with priority given to manufacturing. There are seven FEZs, spread between the capital city (Expo-Business-Chişinău), the South (Tvardița, Taraclia and Vulcăneşti), the North (Otaci-Business, Bălți) and the West (Ungheni-Business) of the country. Giurgiuleşti International Free Port and Free International Airport Mărculeşti also benefit from certain elements of customs-free treatment, although they are not FEZs per se.

At the end of 2011, the total number of companies registered in FEZs reached 153, out of which 103 were in operation, including both local and foreign firms. Companies within the FEZs can benefit from a 50 per cent reduction of corporate income tax and VAT exemption (goods sold to the domestic market are subject to VAT). By law, all FEZs have been established for a limited time period, with expiry dates ranging from 2023 for three zones and 2030 for the free port zone.

At the end of October 2011, the total number of persons employed in these zones reached 5,951. The value of export from the FEZs for the first nine months of 2011 was $133 million. During the same period, the turnover of companies amounted to about $180 million. The FEZs have hosted various major export-oriented FDI projects such as Lear (Ungheni Business) and Dräxlmaier (Bălți). These companies typically produce intermediate products, which they ship to affiliates in their group, located in other countries, for further assembly.

Industrial parks are delimited territories in which industrial production, services provision, applied scientific research and/or technological development are carried out under special treatment (such as free access to land, preferential access to services; box II.4). The Government has so far established three industrial parks: Bioenergagro (North), Tracom (Centre) and Cimishlia (South). Thus, the parks are also supposed to contribute to regional development. There are eight additional feasibility studies for industrial parks under consideration, covering different legal forms (public, public–private and private administrator enterprises). Industrial parks can potentially become the centre of investment attraction and the place for different industrial and IT projects.

Source: UNCTAD, based on information provided by the Ministry of Economy.

Programme on Attracting Remittances into the Economy 1+1 (PARE 1+1, box III.2), a National Programme for the Economic Empowerment of the Youth (PNAET) and the establishment of industrial parks and free economic zones (box I.2). The relevant law on industrial parks was adopted in 2007 and updated in 2010. The law on FEZs was adopted in 2001. In principle, zones and parks are equally open to domestic and foreign firms alike, although FEZs may be easier to access for foreign investors given their potentially larger resources.

C. FDI trends and impacts

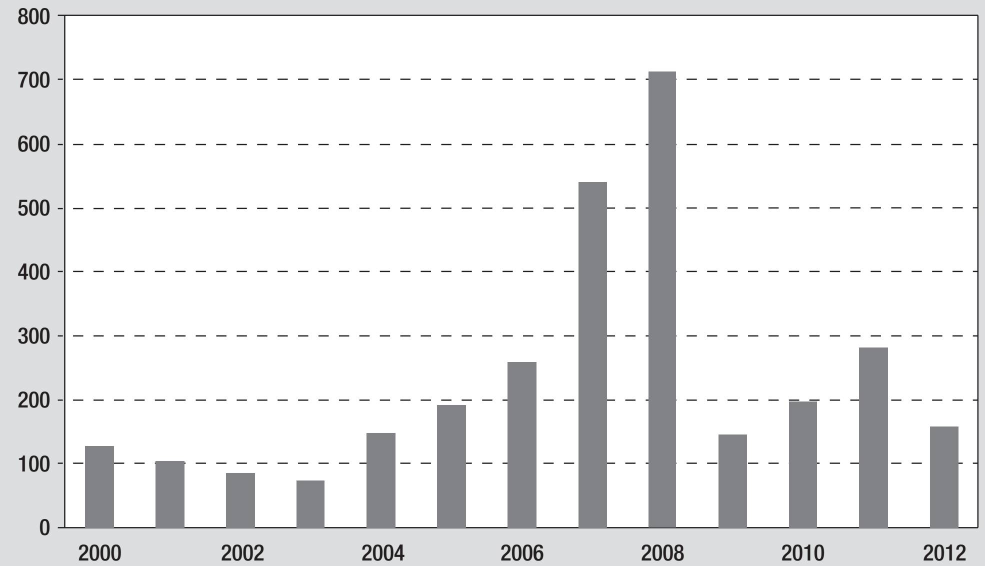
1. Recent performance

FDI inflows have historically been low. National data (box I.3) indicate that since 1994, they have never exceeded $1 billion and in some years remained under $100 million. However, an upward trend started in the early 2000s (figure I.2), associated with higher economic growth, a reduction in the administrative and fiscal burden on business (described in chapter II) and the privatization process. The latter, in particular, played a significant role in FDI attraction (box I.4). For example, inward FDI exceeded $100 million for the first time in 2000, when, as part of the privatization process, Unión Fenosa (Spain) acquired various electricity grid companies. A year later, Gazprom (Russian Federation) bought a 50 per cent stake in Moldovagaz and Lafarge (France) acquired a large cement plant. Similarly, the period 2004–2008 accounted for 60 per cent of the total cumulative FDI inflows ($3 billion), which coincided with the privatization of important banks such as Eximbank (sold to Italian Veneto Banca in 2006) and Mobiasbancă (sold to Société Générale of France in 2007).

Beyond privatization deals, several smaller-sized greenfield projects materialized, such as, for example, TeliaSonera's mobile operations, which started in 2000. During the FDI boom 2004–2008, key greenfield projects included Easeur Holding's (Netherlands) investment in Giurgiuleşti International Free Port (started in 2006), ProCredit's (Netherlands) banking project (started in 2007 and continued into 2008), as well as some investment in the FEZs (e.g. Dräxlmeier's (Germany) project in the Bălți FEZ started in 2007 and continued into 2008).

In 2009, the global economic crisis hit FDI inflows into the Republic of Moldova hard. While a partial recovery took place in 2010 and 2011, FDI inflows remain far below their pre-crisis levels. Nevertheless, new investment projects now outweigh privatization-related ones.

Figure I.2. FDI flows to the Republic of Moldova, 2000–2012 (Millions of dollars)



Source: NBM.

There still are various indications that the Republic of Moldova is underperforming in terms of FDI attraction (table I.7). In absolute terms, its FDI stock was one of the lowest among transition economies in 2012. Similarly, over the period 1996–2012, FDI inflows both in absolute and per capita terms were lower than in other countries in the selected group of comparators (with the exception of Azerbaijan). While the economy of the Republic of Moldova is characterized by its small size and very limited natural resources, the majority of similar countries within the comparative group have done better in terms of FDI attraction. For example, the FDI stock of the Republic of Moldova increased seven times between 2000–2012, whereas it grew 10 times in Armenia, 14 times in Georgia and 25 times in Serbia. Also, based on UNCTAD's FDI potential and attraction indices (UNCTAD, 2012, p. 32), the Republic of Moldova was among the transition economies that did not perform beyond expectations in 2011. Of the nine countries selected for more detailed comparison, five (Armenia, Bulgaria, Georgia, Romania and Serbia) performed better than the Republic of Moldova.

The geographical composition of inward FDI (figure I.3) reflects the location of the Republic of Moldova as a bridge between East and West. Six of the ten most important sources of FDI are EU countries, although the top position is occupied by the Russian Federation. Switzerland, Turkey and the United States are also among the major sources of inward FDI. A caveat to these data is that they register the nationality of the immediate investor, and not of the final owner of assets. This situation may explain the presence of Cyprus and the Netherlands on the top 10 list. Both countries have favourable double taxation treaties with the Republic of Moldova (chapter II) and hence offer financial advantages to firms investing in the Republic of Moldova through them. Romania, a basis for "transhipped" FDI, i.e. FDI carried out by an affiliate in Romania with knowledge of the Moldovan market, instead of the parent company directly, ranks 4th among the top main sources of FDI. Examples include Dräxlmaier, Mobiasbancă/Société Générale, McDonald's, Bosch, Raiffeisen Leasing, etc.

Box I.3. Sources of FDI data in the Republic of Moldova

The National Bank of Moldova (NBM) compiles data on FDI flows, stocks and investment income broken down by equity capital, reinvested earnings and other capital, following recommendations of the 5th edition of the IMF Balance of Payments Manual. This is done in collaboration with the National Bureau of Statistics (NBS) which collects direct reports on foreign investment from economic agents as well as information on financial activity of legal persons. NBS provides the National Bank with its raw data on a quarterly basis for further processing. Financial statements of enterprises are used to estimate reinvested earnings, whereas the reports on foreign investment serve as the basis for statistics on FDI flows and stocks. Additional sources of final FDI data compilation include the Customs Declarations Database (for investment in kind), the National Financial Market Commission (information on transactions with securities with non-residents) and reports of commercial banks and their shareholders (for statistics on FDI in banking sector). All this information is complemented by, and cross-checked against, international data sources, such as the International Transactions Reporting System (ITRS) and Debt Management and Financial Analysis System (DMFAS).

Communication and cooperation between NBM and NBS, two principal institutions involved in the collection of FDI statistics, could be improved. It seems that NBM does not participate in the NBS survey, and, in turn, the latter is not well informed about the adjustments that the former makes to the data. Finally, the processing and release of data could better reflect international standards. In most of the reporting of the Republic of Moldova, the category of "foreign-invested companies" includes both foreign affiliates and companies in which portfolio investors have less than 10 per cent of interest.

While data on FDI flows and their composition are readily available, comprehensive data are mostly missing for the full evaluation of the contribution of foreign affiliates to economic development. Only numbers on employment and wages are published. Statistics of the contribution of foreign affiliates to value added, exports, tax revenue, research and development and capital expenditures are not compiled or not published, making the task of policymakers in evaluating the impact of FDI more challenging.

Source: UNCTAD, based on material provided by NBM, interviews and Prohnițchi *et al*. (2010).

Box I.4. Past experience with privatization in the Republic of Moldova

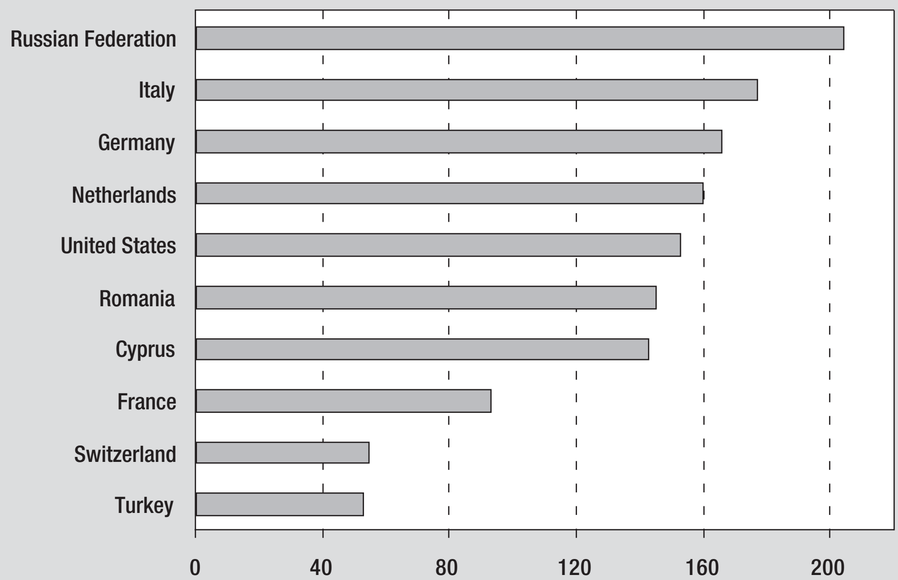
The privatization process started in the early 1990s. The first law on privatization dated July 1991 opened up access to State property in principle to both citizens of the country and foreign legal and natural persons. The privatization law was followed by two privatization programmes in 1995–1996 and 1997–1998. By June 1995, the private sector accounted for 48 per cent of industrial production, 81 per cent of major construction projects, 55 per cent of passenger transportation and 41 per cent of retail and trade sector. According to a study on the GDP in 2008 (Sheehan, 2010), 51 per cent of GDP originated from the local private sector, 15 per cent from companies with foreign participation, and 5 per cent from mixed public-private economic units.

The first assets to be privatized were residential buildings and land, followed by State-owned companies. Similar to other transition economies, insider forms of privatization prevailed (management and employee buyouts), complemented by the outsider method of vouchers (called National Patrimonial Bonds). In turn, the sales of assets to outsiders (cash privatizations) played only a marginal role in the 1990s, limiting (although not fully excluding) the possibilities of foreign investors to buy State-owned assets. The privatization of State-owned companies has indeed been a slow process and public ownership is still large.

At the early stages of privatization, the participation of foreigners was limited to a small number of cash privatizations. For example, the German corporation Südzucker AG acquired sugar production assets in 1998, using them to successfully modernize the sugar industry (box I.6). Since then, foreign participation in privatization has fluctuated. After 2000, more opportunities were opened but at the same time the Government cancelled several privatizations involving foreign investors on various grounds. The current Government aims to revive the privatization process based on a new privatization law adopted in 2007 (chapter II, section C.10).

Source: UNCTAD.

Figure I.3. Top 10 sources of the inward FDI stock of the Republic of Moldova, 2012 (Millions of dollars)



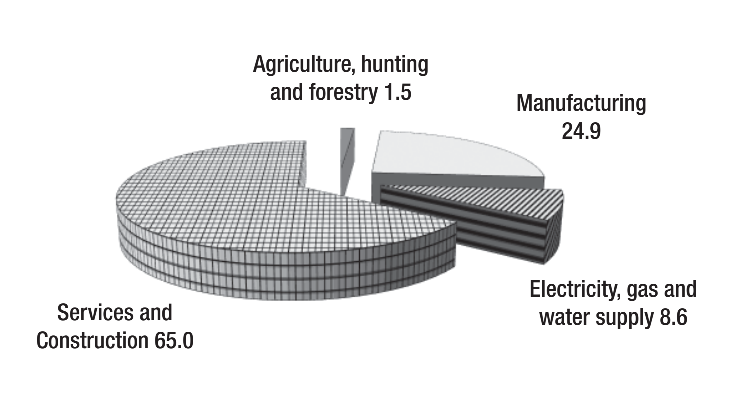
Source: UNCTAD, based on data provided by NBM.
Note: Equity capital only. Investment by immediate investor.

Table I.7. Comparative FDI flows to, and stock of, selected countries, 1996–2012

Country	Absolute performance				Relative performance										
	Average annual FDI inflows			FDI Stock	Average annual FDI inflows									FDI Stock	
	Millions of dollars				Per capita (Dollars)			Per $ 1000 GDP			As % of GFCF			Per capita ($)	% GDP
	2001-2005	2006-2010	2011-2012	2012	2001-2005	2006-2010	2011-2012	2001-2005	2006-2010	2011-2012	2001-2005	2006-2010	2011-2012	2012	2012
Moldova, Republic of	**120**	**363**	**220**	**3'339**	**28.3**	**86.8**	**62.3**	**55.5**	**73.5**	**30.9**	**29.1**	**24.2**	**13.4**	**948.7**	**45.5**
Armenia	158	688	507	5'063	52.0	230.1	163.4	48.2	75.9	50.6	21.0	21.4	18.5	1'628.4	51.1
Azerbaijan	2'028	-856	1'736	11'118	243.5	-100.9	185.2	250.2	-30.0	26.5	54.0	-12.9	12.8	1'180.1	16.5
Bulgaria	2'228	7'114	1'863	49'871	285.9	937.2	251.1	97.4	166.7	35.7	47.1	59.1	17.1	6'741.2	97.9
Georgia	310	1'138	957	10'615	68.3	260.1	221.7	66.4	110.7	63.9	24.7	51.8	28.6	2'466.2	67.2
Latvia	407	1'138	1'227	13'254	175.1	498.8	547.7	32.1	44.0	43.1	12.0	14.4	19.5	5'931.4	46.7
Lithuania	631	1'336	1'142	15'796	182.8	393.1	345.7	34.3	35.4	26.8	16.1	14.5	15.4	4'797.5	37.5
Romania	3'483	8'724	2'383	74'171	159.8	405.8	111.3	48.1	54.3	13.0	21.9	19.7	5.2	3'467.9	42.1
Serbia	934	2'787	1'531	25'451	125.1	378.4	155.4	45.2	75.8	32.7	27.9	33.6	16.0	2'584.8	61.4
The former Yugoslav Republic of Macedonia	217	441	301	4'959	107.3	216.1	146.0	51.8	52.6	30.2	32.5	27.4	11.8	2'399.4	52.7
CIS and Georgia	17'064	71'829	86'118	765'069	61.3	260.4	308.1	25.4	40.6	34.2	13.0	18.5	15.6	2'735.5	29.3
Transition economies	20'471	81'216	91'836	847'854	67.6	270.7	302.7	27.5	42.6	34.4	13.6	18.9	15.6	2'792.8	30.7
Southeast Europe	3'407	9'387	5'718	82'785	141.6	388.5	239.2	44.1	66.1	38.0	19.2	23.7	16.9	3'463.1	56.0
BSEC	24'456	92'179	87'241	985'073	74.8	282.7	260.0	19.3	34.0	24.7	9.8	16.0	11.9	2'933.6	27.5

Source: UNCTAD FDI/TNC database, World Bank.
Notes: CIS (Commonwealth of Independent States): Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, the Republic of Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.
Southeast Europe: Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia, the former Yugoslav Republic of Macedonia.
Transition economies: Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia, the former Yugoslav Republic of Macedonia, Georgia and the CIS.
BSEC (Black Sea Economic Cooperation): Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Republic of Moldova, Romania, Russian Federation, Serbia, Turkey, Ukraine.

Figure I.4. Sectoral composition of the cumulative FDI inflows of the Republic of Moldova, 1992–2012 (Per cent)



Source: NBM.
Note: Equity capital only.

In the inward FDI stock, services dominate, accounting for about two-thirds of the national total (figure I.4). Among services, with 25 per cent of all FDI, financial intermediation is the most prominent (mainly banking). It is followed by trade (17 per cent) with an important number of market-seeking foreign affiliates operating in import, storage and sales of petroleum products or consumer goods. The third position is occupied by real estate and business services (13 per cent). The share of manufacturing is one-fourth and includes investment in various industries, such as production of glass, plastic, construction materials, automotive components, garments and footwear. It also comprises food, tobacco and beverages, including wine production, which, following international statistical standards, are registered here, and not under agriculture. Agriculture itself accounts for 1.5 per cent only of inward FDI. The share of construction is less than 5 per cent.

2. FDI impact

The bulk of FDI was attracted fairly recently (between 2004 and 2008) and it is still relatively early to fully assess the long-term impact. The analysis of impact following UNCTAD's FDI contribution index (UNCTAD, 2012) is further hindered by the fact that data on various aspects of foreign affiliate activities are missing (box I.3). Nevertheless, it can be deducted from partial information that, despite being recent and limited in volume, FDI inflows have had a sizeable impact on GDP growth and in individual economic activities and locations. FDI inflows have also started to contribute to the Government objectives of developing skills, modernizing the economy and developing export-oriented activities. This section provides an overview of the most important impacts. As there are very few in-depth studies in this area and data are scarce, this section will combine general discussion on FDI impact with case studies on two firms: Unión Fenosa and Südzucker.[13]

In terms of the impact on *growth*, FDI plays a significant role. Estimations show that the share of foreign affiliates in the generation of GDP rose from 1 per cent in 1995 to 19 per cent in 2008 (Prohnițchi *et al.*, 2010, p. 51). The ratio of FDI stock to GDP reached 45 per cent in 2012 (table I.7), which is well above the average of the CIS and Georgia, but not close yet to the average of South-East Europe. UNCTAD data on gross fixed capital formation (GFCF) indicate that the contribution of foreign investors to capital formation has been equally substantial: between 1996 and 2010, FDI inflows as a per cent of GFCF fluctuated around 25 per cent (and even above it in 2001–2005). These ratios exceed the averages of both the CIS and Georgia, and of South-East Europe.

Although in selected cases of privatization job shedding at the initial phase of investment was inevitable, on balance, employment in firms with foreign capital has increased over time. In 2010, firms with foreign capital employed 65,691 persons (or 12.5 per cent of total employment), up from 57,619 (or 10 per cent of total employment) in 2006.[14]

Regarding the impact of FDI on *local firms*, crowding in effects have prevailed and in most activities, the growth observed in the number of foreign affiliates was accompanied by an increase in the number of local companies and of their sales. This is logical, as in the Republic of Moldova there are very few saturated markets, in which the arrival of new, and strong, competitors would crowd out local firms. Notable exceptions to this trend have been the wood, paper and fruit and vegetable processing industries. Vertical effects of FDI are sizable in various activities, including the apparel and beverages clusters or in the food industry, where large transnational corporations (TNCs) such as Lactalis and Südzucker rely on a large number of local suppliers (box I.5). In contrast, the local linkages of export-oriented manufacturing in the FEZs are, based on the information gathered during the UNCTAD interviews of the fact-finding mission, relatively limited. To increase these linkages, the Government could put in place a pro-active programme to develop the capacity of local firms to become suppliers of TNCs (Chapter III, section F2).

Data on the overall contribution of foreign affiliates to exports are missing. However, in at least some economic activities, the entry of foreign affiliates has resulted in large increases of export, such as in automotives, plastic goods, IT services and metallic items.[15]

Support to modernization has taken various forms. Foreign affiliates have created certain entirely new activities, such as mobile telecommunications (with Orange and Moldcell/TeliaSonera being among the market leaders), export-oriented production (e.g. automotive spare parts with Lear and Dräxlmeier), and the new Giurgiuleşti International Free Port. In other cases, such as that of Unión Fenosa (box I.6), foreign investors have contributed to the development and modernization of the assets they have acquired. In the case of Südzucker (box I.5), the whole value chain of sugar production has been modernized.

Box I.5. Südzucker Moldova SA supports its local suppliers

The German–Moldovan joint venture Südzucker Moldova is responsible for more than 70 per cent of domestic sugar production and a large part of sugar exports to the Russian Federation and the EU. It currently owns three plants — two of them manufacture sugar, and a third one is a logistics and packaging centre. Investment in the modernization of the two sugar factories (€30 million) resulted in considerable reduction of electricity costs and improved quality of sugar. In 2008, the company was certified under the ISO 9001:2000 and HACCP international standards. To further cut down electricity costs and become more independent of energy suppliers, Südzucker Moldova is planning to build, a new plant for biogas production in 2012, based on the German parent company's technologies. While the modernization of production led to job losses, working conditions improved and salaries increased.

Over its 14 years of operations the company has helped local producers adopt up-to-date technologies of beet cultivation and processing. It has also developed strategic partnerships with farmers, including acting as a guarantor for Moldovan farmers wishing to purchase equipment directly from German suppliers. As a result, farmers were able to acquire about 30 combines. In addition, Südzucker Moldova provides local farmers with technical credits for the production of sugar beet. The total amount of credits varies between MDL 100–150 million ($8.5–12.8 million) annually. Local producers can also lease a major part of the sugar beet fields owned by the company.

The company has pioneered the technology of deep-soil loosening for sugar beet cultivation. By improving soil moisture conservation, this approach enhances yields even in drought periods. It has also introduced advanced methods of beet harvesting and its delivery to sugar plants. At the beginning of the spring sowing campaign, Südzucker Moldova organizes workshops for local sugar beet producers on practical problems, such as weed control, choice of sugar beet varieties, sugar beet rot, etc. Over the first three months of 2012, more than 100 farmers from 11 regions took part in these training workshops.

The company's advisory and financial support to farmers contributed to improving results with the average crop of sugar beet increasing from 17.9 tons per hectare in 2003 to 42.0 tons per hectare in 2008. At the same time, the average profitability of sugar beet cultivation reached 40 per cent.

Sources: UNCTAD, based on the company website http://suedzucker.md, and Business Class (2010).

Box I.6. Modernizing the electricity grid through FDI

Many countries around the world face severe challenges in providing energy through an efficient and effective electricity network. Several of them have used FDI to improve their electricity infrastructure. In its best practices series, UNCTAD reviewed the reform experiences in Chile and New Zealand with a view to providing instructive insights for selecting FDI-related policies that can help to promote sustainable development objectives. In the Republic of Moldova, a similar approach was tested with the Spanish company Gas Natural Fenosa.

The Spanish company Gas Natural Fenosa is one of the largest foreign investors in the Republic of Moldova that entered the country through privatization.[a] In 2000, it bought three out of five existing electricity distribution companies for about $25.8 million. In addition, it assumed about $12 million in debt from the three enterprises and committed to investing more than $56 million in electric power distribution networks over the subsequent five years. Red Unión Fenosa, the company's local affiliate, covers the central and southern regions of the country, including the capital Chişinău.[b] The company manages 33,800 kilometres of the national grid, about 8000 transformers and serves approximately two-thirds of the country's electricity consumers.

By 2010, Unión Fenosa had invested a cumulative amount of approximately $200 million (eight times the price paid for the three companies in 2000) in: developing electric power distribution networks; modernizing substations; purchasing and renovating electrical equipment and systems of automated control; improving company management; and providing qualitative services to customers. By 2010, the company had also contributed to the State budget a cumulative amount of about MDL 1.2 billion (about $100 million) in taxes and fees.

Red Unión Fenosa is the first company in the energy sector and public services that has obtained ISO 9001:2002 certificate of conformity for its quality management system; it is also certified according to ISO 14001:2004 (environmental management) and ISO 9001:2008 standards. Since 2000, Red Unión Fenosa had trained about 1,200 Moldovan staff. On average, an employee is given 100 hours of professional training per year.

The company's plans for the future include a new structure for the distribution grid by 2015 for an estimated value of more than $25 million. The new architecture is expected to increase supply security and, in case of an accident, to better limit the damages through the segmentation of lines. The network upgrade has to put an emphasis on environment protection, safety of operation and energy saving.

Source: UNCTAD (2009d) and UNCTAD based on Business Class (2010).
Notes: [a] Gas Natural Fenosa is a company that came into existence in 2009 from the merger of Unión Fenosa and Gas Natural.
[b] In the Republic of Moldova, the company Red Unión Fenosa came into existence on 1 January 2008 through the merger of the three Moldovan companies managed by Unión Fenosa (Spain).

In the area of *skills development* and education UNCTAD's corporate interviews have confirmed that the introduction of new skills is a relatively widespread practice of foreign affiliates. One of the documented cases is Red Unión Fenosa, which offers on average 100 hours of training per year to each employee. Other foreign affiliates, such as Südzucker, provide skills development to their suppliers (box I.5). Skills development in various cases results in the introduction of international standards, and better trained employees, who in turn earn higher wages. In 2010, for instance, the average gross monthly wage amounted to $240 in the economy as a whole, $365 in the wholly foreign-owned firms and $372 in the Moldovan-foreign joint ventures.[16]

D. The FDI potential of the Republic of Moldova

The Republic of Moldova has potential to attract more FDI (cf. section C.1), and to increase its value added. Some sectors have already attracted some FDI, which could grow in the future (e.g. in certain segments of agribusiness); in other sectors, local firms are strong and could become suppliers to TNCs through non-equity forms of production (e.g. in IT services); finally in yet other sectors, the country's competitive advantages have been only partially exploited (e.g. in automotive spare parts). Chapter III will elaborate on how this potential could be best tapped, and also what role FDI should play in the given value chain (e.g. should the country attract FDI in agricultural production or to related activities such as warehousing, packaging, processing).

1. Agribusiness

Agribusiness — defined here as agricultural production plus processing of agricultural products — is the sector of the economy where the untapped potential for FDI is the most evident. Given the small size of the local consumption market, a large part of this potential lies in export-oriented activities. In terms of export performance, wine as well as fresh and processed fruits and vegetables are the current lead products (MIEPO, 2010; USAID and CNFA, 2009).

Wine is the largest agricultural export, accounting for 12 per cent of the total. The industry underwent a major crisis in 2006, after the Russian Federation introduced a ban on wine imports from the Republic of Moldova. Thus, in 2007 exports of wine fell to $134 million from $315 million in 2005.[17] The ban prompted the industry to undergo restructuring aimed at developing new products suitable for markets in Western Europe and elsewhere. Exports started growing slowly after the lift of the ban later in 2007, including to the Russian Federation, reaching $178 million in 2010. The Russian Federation is still the largest importer of Moldovan alcoholic beverages, although its share decreased to 29 per cent in 2012 from 75 per cent in 2005.

Exports of *fresh fruits and vegetables*, including apples, plums, grapes and tomatoes, have grown consistently, from $49 million in 1997 to $158 million in 2010. The geographical composition of these exports remained relatively stable between 2001 and 2010, with 80 per cent being equally distributed between the EU and the main CIS trade partners, and the balance going to other countries.

Processed fruits and vegetables are also mostly exported (90 per cent). The main processed products are tomatoes and apples (about 70 per cent). After reaching a peak of $80 million in 2007, exports of these products stabilized at around $50 million annually during 2008–2010, with two-thirds of them going to the CIS trade partners (down from more than three quarters in 2001) and the balance to the EU. New investment could revive these activities. It could focus on drying and freezing operations. Recently, several fruit drying and flash freezing facilities have been developed, showing the way for the rest of the industry segment.

The Republic of Moldova is the second largest European and the world's sixth largest exporter of *shelled walnuts*, with capacity of close to 10,000 tons annually, for a value of $47 million. In addition, several producing countries, such as France, the United States, Spain and Ukraine, send their production (some 6,000 tons) to the Republic for processing (cracking).

Tobacco and honey are other products with a good raw material base and significant processing and export capacities, which can be expanded with additional investment. The Republic of Moldova is a leading producer of raw tobacco in Central and Eastern Europe and the leading supplier of tobacco to the Russian Federation. Exports of the tobacco industry were over $27 million in 2010 and those of sugar and confectionery close to $30 million. The cultivation of semi-oriental tobacco, a basic ingredient of American cigarettes, is well established. Half of honey production in the range 2,000 to 2,500 tons annually is exported to the EU and to the CIS trade partners. Tobacco and honey production could follow the example of the sugar industry, which has attracted a major foreign investor, Südzucker, which has transformed and modernized a good part of production.

Meat, dairy products and poultry are currently produced for local demand. However, in the past, the Republic of Moldova was a significant exporter of meat ($67 million in 1997). Since then, it has become a large net importer of animal products. The main obstacle to a revival of exports, especially to the EU, is food safety compliance, which FDI could help overcome.

For some of these activities, the Government offers specific incentives, in addition to those available to all investors. For example, investors in walnut orchards can expect the reimbursement of 50 per cent of the investment cost during the initial five years of their operations. There is also a subsidy to develop vineyards, amounting to €2,000 per hectare (chapter II), which represents between a quarter to a third of the cost (FAO, 2009, p. 25).

In the future, the Republic of Moldova would also be well positioned to benefit from a rapidly growing demand for *organic food* and biological products in Europe and elsewhere. Organic and biological agriculture requires considerable manual work, which is easily available in the Republic of Moldova. It is also based on the absence of chemicals in cultivation, a condition suitable for the local agriculture. However, the quality and origin of organic and biological products require certification and strict monitoring. The Government has adopted the Law on Organic Agriculture, harmonized with the EU legislation and has developed a system for Certification of Organic Agricultural Products in collaboration with Société Générale de Surveillance (SGS), based in Geneva. Subsequently, some products, notably wine grapes, apples and honey are produced under organic agriculture principles, although not yet in large quantities. There is also a significant raw material base (wheat, maize, sugar beet pulp, etc.) for the production of biofuel and ethanol. In fact, one of the big sugar producers has a facility for the annual production of 2,500 tons of ethyl alcohol.

The most important obstacle to more FDI in agribusiness is the limited supply capacity of the country. This limited supply capacity is related to the current production structure of the country (fragmented parcels) and uncertainties about land titles (chapter II). The share of agribusiness in GDP has been on a long-term decline, although it is still a major sector of the Moldovan economy, accounting in 2010 for nearly one fifth of GDP. Moldovan agribusiness faces also enormous challenges in terms of adjusting to the requirements of the international market in labelling, packaging, traceability and following sanitary and phytosanitary standards. Lactalis-Alba, a French-owned firm, for instance, cannot export its dairy products to neighbouring Romania because its supplies are not traceable (see more in chapter III).

2. Export-oriented services

Unlike other countries in the region, the Republic of Moldova has not yet attracted large inflows of FDI in export-oriented services, such as IT services, business process outsourcing and logistics. Nevertheless the Government sees it as an opportunity for catching up and growth, despite strong global competition for such projects. In the first two cases, the involvement of TNCs can take a variety of forms, including direct investment, outsourcing of activities, licensing and franchising agreements. The latter, non-equity forms, in particular, could provide additional business opportunities for local firms. In turn, in logistics most of TNC involvement is expected to take place in the form of equity FDI, given the capital-intensive nature of those activities.

The potential for attracting TNCs is promising in *IT services.* There are more than 500 companies in the industry (compared to 376 in 2003), most of them SMEs. Employment in IT services has been growing fast (at more than 60 per cent since mid-2000s) and wages in the industry are among the highest, at par with those in the financial sector.[18] Another proof of the dynamism of Moldovan IT is the fast growth of the exports of computer and information services. Between 2000 and 2010, the average annual growth rate of Moldovan exports reached 60 per cent, surpassed only by Azerbaijan (67 per cent) and Georgia (123 per cent) in the comparator group.[19] The expertise of Moldovan software companies is in areas such as e-government, business process integration and enterprise resource planning (ERP) solutions for the financial sector. Recently, foreign investors have set up IT offshoring facilities, typically larger companies employing more than 100 people.[20] Nevertheless, the IT sector's contribution to GDP currently remains at 2 per cent and the future supply of skills is a major challenge for the national education system.

The Republic of Moldova also has potential to attract TNCs in business process outsourcing (*BPO*), including call and contact centres as well as other corporate services. It is already host to some of those types of centres (e.g. Global Phoning's (France) contact centre). The main attractions, again, are the relatively well-educated workforce, which can learn new skills on-the-job and has motivation as well as language skills (fluency in Romanian and Russian), competitive labour costs, good telecommunications infrastructure in international comparison (section B.4) and the strategic location between East and West. The main challenges in BPO are also in the area of skills development and stability of workforce.

Official development objectives include also the expansion of logistics (both in terms of building hard infrastructure and developing services), which is in line with the country's vision to become a bridge between East and West. The example of the Giurgiuleşti International Free Port shows that the development of such services is possible and profitable. However, Giurgiuleşti is so far poorly linked with the capital city (e.g. connecting roads are in bad shape). If its feasibility is confirmed by appropriate analysis, the development of a full-fledged cluster would require a logistics policy and strategy which defines the sector's future directions, ensures its international competitiveness, and links it to the country's trade policy. In this regard, such policy could also address the concerns of local stakeholders who suffer, as gathered during UNCTAD's interviews during the fact-finding mission for this report, from relatively high transportation costs. Therefore, in addition to generating a full range of logistics services, the initiative could also play an important role in boosting the country's capacity to better integrate in the international trade market.

3. Export-oriented manufacturing

FDI attraction potential also exists in manufacturing activities, including:

The garment industry: Within the past decade, textiles and garment have become one of the largest export items, growing in value from almost $60 million in 1997 to $268 million in 2010. The industry has benefitted from the proximity and access to the European markets, and the worldwide tendency for the continuous search of competitive locations. Within Europe, this has fostered the relocation of selected industry's operations to cheaper locations in transition economies, including the Republic of Moldova,[21] where orders from the EU clients can be met within shorter deadlines.[22] However, the industry has suffered a downturn during the current crisis, caused by declining orders from European clients and the appreciation of the local currency vis-à-vis the Euro by 20 per cent. Moreover, a remaining challenge is to increase local value addition, as over 90 per cent of Moldovan apparel companies have been involved in Cut & Make (C&M) or Cut, Make & Trim (CMT) operations at the low end of the industry's value chain (USAID, 2010, p. A-3).

The footwear industry, though still relatively small compared to garment, is one of fastest growing branches of the manufacturing sector. It is an industry in which local firms are strong enough to become suppliers to TNCs through non-equity forms of production. Its production volume was more than five times higher in 2008 than in 2000. It weathered the crisis relatively well, with the production declining only in one year, 2009. All raw materials are imported; as are most designs and patterns, in particular by small companies. Consequently, the benefit to the country consists mainly in creation of semi-skilled jobs. Prior to the crisis the largest companies allocated over 90 per cent of their capacity to CMT operations. With few exceptions, concerning the production for the Russian market, there is almost no exporting of footwear under own branding (USAID, 2010, p. B-7).

In 2010, *automotive spare parts production* accounted for a mere 0.04 per cent of GDP. Nevertheless, it has a major potential for becoming a magnet for future export-oriented FDI, especially in the FEZs. The country has various ingredients that can lead to success. Before independence, the country had large manufacturing capacities, which produced intermediate goods, just like automotive spare parts. It also has the right type of locations for such activity, mostly in the form of FEZs. It has a semi-skilled labour force as well access to international markets. The main obstacle to the development of spare parts is international competition by a large number of locations with similar endowments (for example the former Yugoslav Republic of Macedonia). Through adequate investment promotion, the Republic of Moldova could argue that it has a unique comparative advantage as a base for production and exports to either EU countries or CIS countries, or both. And this is already happening, though not yet on a big scale.[23]

FDI potential also exists in the *electronics industry*, considering that the skills required for electronics production are interlinked with skills required for the IT sector and automotive spare parts production. Therefore, better education benefitting the latter two activities would have a positive spillover effect on electronics production. The geographical spread of electronics production could also play in favour of the Republic of Moldova: in the world of transition, the industry started taking its roots in the Czech Republic, Hungary and Poland. As capacity requirements increased, and cost-efficiency became an issue, they started moving East, especially to Romania. The Republic of Moldova would be a next logical target, especially if it can offer better access to consumer markets (e.g. via the DC FTA to the EU). Again, professional investment promotion would be essential.

E. Conclusion

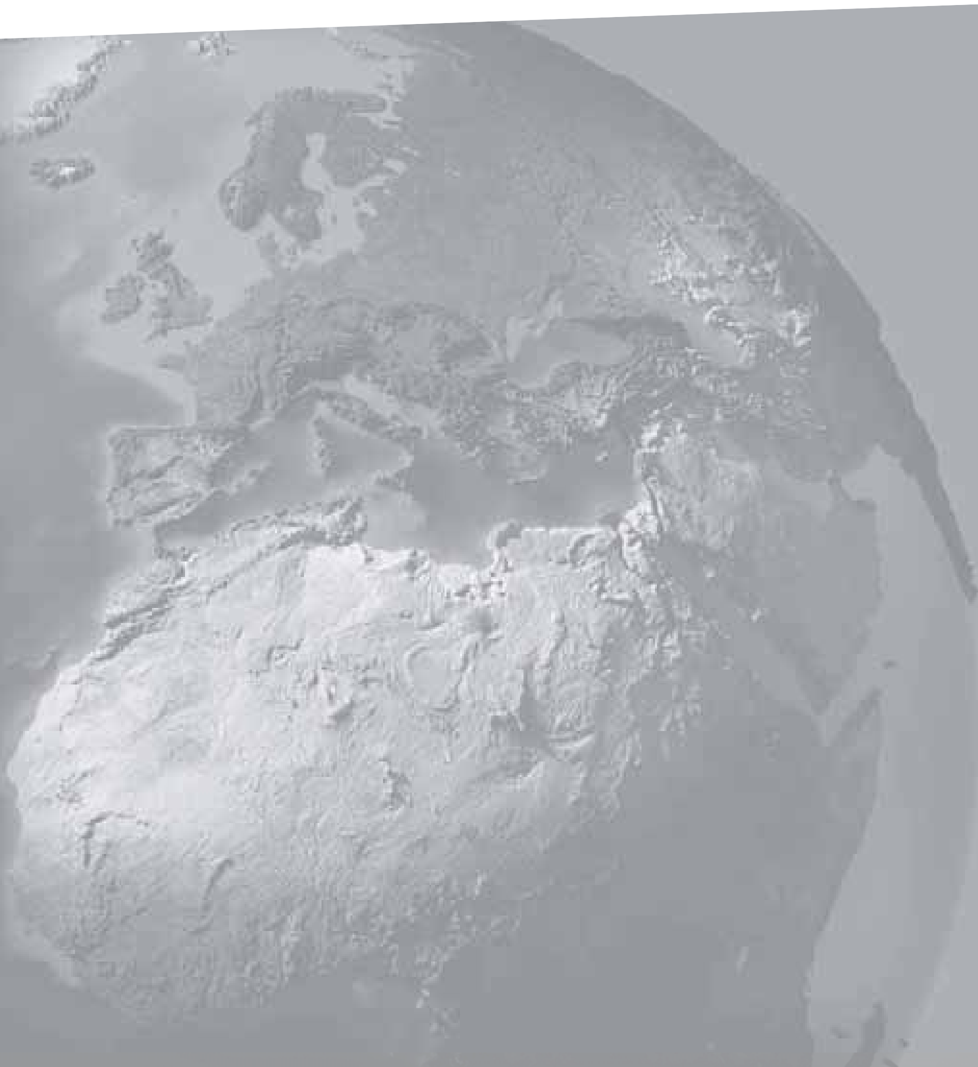
The Government of the Republic of Moldova has expressed, through its national development plans and programmes, its wish to move the economy towards export-oriented production activities and to better exploit the country's potential as a natural transit point between the East and West. The Government is also aware of the important role that FDI could play in the realization of these objectives and is keen to increase the country's FDI attractiveness.

Nonetheless, the analysis presented in the chapter has highlighted that limited natural resources and the small size of the internal market can partly explain the low level of FDI inflows the country has attracted so far. Infrastructure deficiencies (especially roads), labour skills shortages, weak private sector development and governance issues are also responsible for low FDI inflows. Encouragingly, in recent years foreign investors have taken an interest in a range of different economic activities and the impact of FDI on economic growth has increased. However, the comparison with other countries in the region showed that more investment of the desired type can be attracted following comprehensive reform programmes and far-reaching investment promotion campaigns. This would help to realize the significant, though untapped, investment opportunities in different sectors of the economy ranging from agribusiness to ICT.

Against this background, this report considers that FDI could play an increased role in pursuing the country's development objectives. It therefore proposes, in chapter III, an overall strategy that would, through fostering the country's competitiveness, be consistent with such objectives. Providing better conditions to complete the privatization and modernization of the economy and, at the same time, stimulating the development of the domestic private sector will not only contribute to attracting more FDI but also to deriving more benefits from it. To this end, the Government will have to carefully address the shortage of skills and improve infrastructure. In addition, while this report recognizes the significant progress made in recent years with respect to the regulatory framework (chapter II), further efforts are required. To fully realize its FDI potential, the country will also need to accompany its reform process with more professional and targeted investment promotion activities.

CHAPTER 2

The investment framework



A. Introduction

Given its location, the Republic of Moldova aims to become a bridge for trade between East and West. To exploit its geographical advantage, the country has adopted an open trade and investment regime, by introducing a liberal investment code and negotiating an extensive network of international trade (chapter I) and investment treaties. It has also started a process of legal harmonization with EU standards and launched a reform programme aimed at reducing administrative barriers and making regulations as well as their implementation more business friendly.

Recent reforms have focused on streamlining various aspects of company establishment and operations, including starting a business and obtaining licences, filing taxes and registering property. The reforms have also reviewed the legislation with a view to modernizing it and eliminating irrelevant elements. As highlighted in chapter I, these efforts have led to some improvement in the country's investment climate. However, the scope for further reform is ample, including in the areas of labour market regulations, construction permits, fight against corruption and judiciary reform.

This report, nonetheless, concludes that with sustained effort, the Republic of Moldova could aim at achieving regulatory excellence in the region within five years. For a country with a small internal market and limited natural resources reaching this goal would serve several purposes. Other than facilitating local private sector development, it would be instrumental to meet the official objectives of altering the economic paradigm, become an export and transit platform and, finally, it would represent a powerful foreign investment attraction asset. This regulatory excellence should be based on the core principles of UNCTAD's IPFSD (see box III.1), making sure that the benefits of FDI are maximized and its risks minimized for the sake of ensuring sustainable economic and social development. This chapter focuses on those policy areas that are identified as crucial in the IPFSD such as the entry and treatment of investors, taxation, customs, intellectual property, competition, labour, land access and anti-corruption efforts. The main findings of this chapter are summed up in table II.1. The detailed policy recommendations emanating from this analysis are presented in chapter III.

B. Specific FDI-related policies

The legal framework for foreign investment is open and transparent. It is based on the civil law, with the *Constitution* (1994) being the foundation for all regulations. The Constitution protects investments regardless of whether they are domestic or foreign (Article 126, alinea h). The basic principles of the Constitution regarding business are further elaborated in the Law on Investments in *Entrepreneurial Activity* (2004), the key legislation regulating investment activities.

Table II.1. Summary of key findings on the legal and regulatory framework

Regulatory area	Laws	Implementation	Institutions
Specific FDI measures	***	***	n.a.
International framework for FDI	***	**	n.a.
Registration	***	**	**
Licences, permits and inspections	**	**	**
Taxation	***	**	**
Customs administration	n.a.	**	**
Labour	**	**	**
Employment of non-residents	**	**	**
Land	**	**	***
Competition policy	***	**	**
Privatization	**	**	**
Transparency and commercial justice	**	*	*
Intellectual property	**	**	**

Source: UNCTAD.
Notes: * = weak/requiring urgent attention ** = incomplete/to be improved *** = good/strong n.a. = not applicable

1. FDI entry and establishment

Under Article 5 of the Law on Investments in Entrepreneurial Activity, all activities are open to foreign investors, "provided interests of national security are not affected, provisions of antitrust legislation, norms of environment protection, people's health, and public order are not violated". The only exception identified by the authors of this report is the *Law on Gambling* (1999), which states, under article 10, that a foreign investor organizing gambling activities in the Republic of Moldova can only hold 49 per cent of the shares of the gambling company.

Limitations to private sector participation have largely been lifted, in a privatization process that started in 1994. Only few public monopolies remain in areas such as energy transmission, fixed telecommunications, postal services and transport services, including railways, which is common in many other countries around the world. There are many State-owned enterprises across different sectors of the economy which the Government has put up for privatization.

2. Treatment and protection of investors

Following the principles set in the Constitution, Article 6 (1) of the Law on Investments in Entrepreneurial Activity states that "Investments in the Republic of Moldova shall not be discriminated based on citizenship of investor, place of residence, place of registration or business activity, country of origin of investor or investment, or any other reasons". The article enshrines both the principle of national treatment (no discrimination between Moldovans and foreigners) and the most-favoured-nation (MFN) treatment (no discrimination between foreign investors of different origin) as legally binding norms. The Law on Investments in Entrepreneurial Activity also grants all investors guarantees of full and constant security and protection, a clause which is typically found in bilateral investment treaties (BIT). In addition, according to Article 2(2), "If provisions of international agreements, to which the Republic of Moldova makes part, differ from provisions of this law, provisions of international agreements shall be applied".

Unlike domestic investors, foreign investors cannot own agricultural or forest land (Article 22 of the Law on Investments in Entrepreneurial Activity), but they can acquire lease titles.[24] No other exceptions to national treatment were identified or reported by investors. All public institutions are obliged, de *jure*, to provide the same public services to all investors and treat them in the same way, regardless of their origin. According to the *Law on Public Procurement* of 2007, foreign suppliers can participate in public procurement without discrimination, in line with the country's current obligations in CEFTA (section B.4), and potential future commitments of the DC FTA with the EU (chapter I, section B.2), which will have a chapter devoted to public procurement,[25] and of the WTO Plurilateral Agreement on Government Procurement to which the country is negotiating its accession.[26]

No specific administrative burden on entry to foreign investors applies in the Republic of Moldova. All companies, irrespective of their ownership, undergo the same registration process (section C.2).

2.1. Expropriation

The Law on Investments in Entrepreneurial Activity explicitly forbids expropriation or measures with similar effect, unless they are undertaken in a non-discriminatory manner, against prompt, fair and just compensation and for a public purpose. The rules governing the process of expropriation are further developed in the Law on Expropriation for Public Purpose (1999), according to which expropriation can be based on a Law or on an administrative act. If there is agreement between the parties on the fact of expropriation, as well as the price to be paid and the deadlines, the process stops there. The compensation, paid in advance, must include all damages caused to the owner during the expropriation process. If the expropriated party disagrees on any of these, the case is settled through a judiciary procedure or litigation. In case of litigation a commission including a representative of the expropriator and a representative of the expropriated is set up to establish the fair value of the asset, taking into account its market value.

2.2. Transfer of funds

In 1995, the Republic of Moldova accepted Article VIII of the IMF Charter, which provides the conditions for the liberalization of current foreign exchange operations and the right of temporary restrictions in case of balance-of-payment crisis. Generally, there are no limitations associated with operations in foreign currency, and opening a foreign currency account in a local bank is permitted. Free repatriation of both investment capital and profits is provided by Article 21 of the Law on Investments in Entrepreneurial Activity. The *Law on the Regulation of Foreign Currency* (2008) elaborates on the rules concerning the transfer of funds for residents and non-residents. After the payment of their taxes, foreign investors are free to repatriate dividends and interest, or repay loans. They can also transfer abroad claims from litigation as well as wages paid to foreign workers and amounts received following the expropriation procedures. Companies are not obliged to sell their hard currency earnings to the Government.

2.3. Dispute settlement

Foreign companies have equal access to domestic courts for dispute settlements (on details of the judiciary and domestic commercial disputes, see section C.11.2). In the area of *investor–State disputes*, the Law on Investments in Entrepreneurial Activity allows recourse to arbitration with the agreement of the parties under a range of international rules.[27] If there is no mutual consent on the forum of arbitration, the dispute should be referred to the International Centre for Settlement of Investments Disputes (ICSID). The Republic of Moldova signed the ICSID convention in 1992 and ratified it in May 2011 (ICSID, 2012).[28] Investors covered by a bilateral treaty ratified by the Republic of Moldova, can also refer the case to dispute settlement without the consent of the other party. In the past, a number of investor-State disputes stemmed from the privatization process (section C.10).[29] In certain cases, these disputes were referred to the European Court of Human Rights, as a violation of Article 1 of Protocol No. 1 of the European Convention on Human Rights (violation of property rights, leading to compensation by the State).[30] Since the entry into force of the ICSID Convention, there has been only one case initiated against the Republic of Moldova, which is still under consideration.[31]

3. Bilateral, regional and international agreements

The country has ratified a fairly extensive network of bilateral treaties with most of its key trading and investment partners. By March 2012, it had 38 BITs in force with 39 countries (a joint treaty with Belgium and Luxembourg explains the difference) and one additional BIT — with the Islamic Republic of Iran — signed but not yet ratified (table II.2). In March 2012, BIT talks were under way with the Republic of Korea, South Africa and Tunisia, and preparations were made to start negotiations with Canada. It has also signed 46 double taxation treaties (DTTs).

Most BITs have similar provisions. The Parties agree to apply to each other's investors national treatment and the fair and equitable treatment of national investments as well as, through an MFN clause, any more favourable regime agreed with any other third State. The treaties further include guarantees concerning the transfer or payments which shall be made in a freely convertible currency without restriction or delays. In respect to the expropriation of investments, BITs provide guarantees beyond those offered by the national law on expropriation. Compensation must represent the genuine value of the investments affected together with the interest at a normal commercial rate until the date of payment. Furthermore, the compensation must be paid and made transferable without delay and in the currency designated by the claimants. While the BIT network is quite extensive with a content that follows international standards, the Republic of Moldova could consider, following the example of a growing number of countries, to review the content of these treaties in the light of their development objectives. This could be especially useful in the case of treaties that are close to expire and for eventual extensions. Such an exercise could use the UNCTAD's IPFSD guidelines to guide the process.

The Republic of Moldova is a member of the World Trade Organization (WTO) and has an extensive network of preferential trade agreements/free trade agreements (PTAs/FTAs) with the EU, CIS member countries and South-East Europe (chapter I). While the main purpose of these treaties is to stimulate trade flows, some of them also include investment-related provisions. The main ones are as follows:

- As a member of the WTO since 2001, the Republic of Moldova is a signatory to the General Agreement on Trade in Services (GATS), the Agreement on Trade Related Investment Measures (TRIMs) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). These agreements contain major investment-related provisions, such as opening to the establishment of service providers on the basis of country offers (commercial presence; GATS), prohibition of local-content, trade-balancing and domestic-sales requirements (TRIMs), and protection of intellectual property of investors (TRIPS).
- The CEFTA also has an investment chapter where national treatment is applied to the pre-establishment phase of investment. It includes procedures for dispute settlement and facilitates the transfer of funds.
- The Republic of Moldova ratified the Energy Charter Treaty in 1996. Although this applies to energy-related investment only, the Treaty contains high-

standard provisions on the protection and non-discrimination of foreign investment (based on national treatment and MFN principles), including investor-State dispute settlement. The country has also joined the EU's Third Energy Package on the opening up of the internal gas and electricity markets of signatory countries. It is expected to enter into force in 2015.

- The Partnership and Cooperation Agreement between the EU and the Republic of Moldova signed on 28 November 1994 covers a broad set of issues ranging from political dialogue, trade in goods, business and investment, cross-border supply of services, intellectual property protection and cultural cooperation. Title IV, Chapter II of the agreement includes investment-related provisions affecting the establishment and operation of companies. It grants EU and Moldovan companies, with regard to their establishment and operation, treatment no less favourable than that accorded to companies of any third country in their respective territories (MFN), and treatment no less favourable than that accorded to their own companies (national treatment). The agreement also includes flexibility mechanisms allowing the parties to take prudential measures to ensure the integrity and stability of the financial system. In addition, Title V on current payments and capital ensures the free movement of capital and profits relating to direct investments. The agreement also provides that no new foreign

Table II.2. BITs and DTTs of the Republic of Moldova as of March 2012

Economy	BITs Year of signature (year of entry into force)	DTTs Year of signature	Economy	BITs Year of signature (year of entry into force)	DTTs Year of signature
Albania	2004 (2004)	2002	Kazakhstan	–	1999
Armenia	–	2002	Kuwait	2002 (2004)	2010
Austria	2001 (2002)	2004	Kyrgyzstan	2002 (2004)	2004
Azerbaijan	1997 (1999)	1997	Latvia	1999 (2000)	1998
Belarus	1999 (1999)	1994	Lithuania	1999 (2003)	1998
Belgium	1996 (2002)[a]	2008	Luxembourg	1996 (2002)[a]	2007
Bosnia and Herzegovina	2003 (2008)	2003	The former Yugoslav Republic of Macedonia	–	2006
Bulgaria	1996 (1997)	1998	Montenegro	–	2005
Canada	–	2002	Netherlands	1995 (1997)	2000
China	1992 (1995)	2000	Oman	–	2007
Croatia	2001 (2007)	2005	Poland	1994 (1995)	1994
Cyprus	2007 (2008)	2008	Portugal	–	2009
Czech Republic	1999 (2000)[b]	1999	Romania	1992 (1997)	1995
Estonia	2010 (2011)	1998	Russian Federation	1998 (2001)	1996
Finland	1995 (1997)	2008	Serbia	–	2005
France	1997 (1999)	2006	Slovakia	2008 (2009)	2003
Georgia	1997 (1999)	–	Slovenia	2003 (2004)	2006
Germany	1994 (2006)	1981	Spain	2006 (2007)	2007
Greece	1998 (2000)	2004	Switzerland	1995 (1996)	1999
Hungary	1995 (1996)	1995	Tajikistan	2002 (2003)	2002
Iran, Islamic Republic of	1995 (–)	–	Turkey	1994 (1997)	1998
Ireland	–	2009	Ukraine	1995 (1996)	1995
Israel	1997 (1999)	2006	United Kingdom	1996 (1998)	2007
Italy	1997 (2001)	2002	United States	1993 (1994)	–
Japan	–	1986	Uzbekistan	1995 (1997)	1995

Source: UNCTAD, Investment Instruments Online, and national sources.
Notes: [a] Agreement signed jointly with Belgium and Luxembourg.
[b] An additional protocol on the Czech-Moldovan BIT was signed in 2008 and came into force in 2011.

exchange restrictions on the movement of capital shall be introduced. The parties may, however, take measures restricting the movement of capital in exceptional circumstances and in cases of serious difficulties for the operation of exchange rate policy or monetary policy for a period not exceeding six months. In Title VI, the agreement includes provisions encouraging the parties to conclude BITs and DTTs and to exchange information on investment opportunities.

4. Assessment of specific FDI policies

The regime on foreign investment is generally open, transparent and non-discriminatory, with few exceptions regarding access to land. While progress has been made in terms of privatization, several large enterprises remain under the control of the State (see section C.10). Since 2004, national treatment has been extended to all investors regardless of their origin and other treatment and protection provisions follow modern international practice. The country also signed and ratified an extensive number of bilateral and regional cooperation agreements, committing itself to the treatment and protection of foreign investment according to prevailing international standards. While the content of these treaties, in particular the BITs, is generally in line with international standards, the Republic of Moldova could consider reviewing it as other countries do if they are to be renewed or extended. With the exception of the land issue, the specific national FDI policies of the country are generally in line with the core principles of IPFSD. In the area of international agreements, future treaties should be put under the scrutiny of balanced rights and obligations of the parties involved, in line with IPFSD's recommendations.

C. General regulations for the business environment

1. Legal forms for business operation

The *Law on Entrepreneurship and Enterprises* (1992), amended various times (the first time in 1994; the last one in 2011 with entry into force on 1 January 2012), established the formal requirements for companies to operate. The most common legal forms of incorporation are available, including sole ownership, limited partnership, limited liability company and joint-stock company. Companies are usually registered as limited liability companies or joint-stock companies. Administrative practices governing the establishment of foreign investors are the same as the ones governing local investors.

2. Registration

As provided by the Law on Investments in Entrepreneurial Activity, the procedures for company registration, operation, and closure are identical for domestic and foreign investors (Art. 18.1). During the recent years, the rules on registration have been greatly simplified. The Parliament adopted a series of amendments to the relevant legislation leading to the establishment of a one-stop shop at the State Chamber of Registration (SCR) for the registration of new companies. Before the introduction of the one-stop-shop, a newly created company was under the obligation to register individually with all the relevant agencies (including the State Tax Service, the Social Security Agency, the National Bureau of Statistics and the Labour Agency), and obtain a registration number from each. Today it is no longer the company itself but the SCR that informs other authorities about the creation of a new entity and obtains electronically a registration number for the company from each of these agencies. In practice, however, companies still often seek certificates with registration numbers from the relevant agencies (State Tax Service, Social Security Agency, National Bureau of Statistics, Labour Agency) in order to avoid problems in case of inspections and audits by State inspectors, who continue to require such certifications on paper (see below).

The documents required for registration have also been reduced. For instance, an individual can establish a company by using his identity card only. Also, company incorporation no longer requires a proof of deposit of the social capital at the moment of registration. Companies from the Transnistrian region can register at the Chişinău office of the SCR, and open an account in Moldovan banks. This way they can enjoy access to international markets resulting from the trade agreements of the Republic of Moldova. As of 1 February 2012, 1,096 Transnistrian firms were registered at the SCR (out of a total of 160,948).

3. Licences, permits and inspections

Major progress was also achieved to simplify the controls and permits regimes inherited from pre-independence times. There remains, however, scope to reduce the administrative burden on business with respect to licensing, construction permits and inspections.

3.1. Licensing

Licensing still remains a concern. After two Guillotine exercises (a third one was underway at the time of preparation of this report), there are still 44 activities requiring a licence.[32] Licences are generally issued for five years. In the cases of electric power and natural gas, the licence is issued for 25 years. Licences are valid only one year for gambling, and the imports and wholesale of alcohol and of tobacco.

The majority of company licences (32 out of the total of 44) are issued by the Chamber of Licensing, which aims at becoming a one-stop-shop for licensing (USAID, 2010 and 2012). The *Law on Licensing of Entrepreneurial Activities* (2001) also authorizes the following institutions to issue licences: the National Bank of Moldova (for financial institutions), the Commission for Financial Markets (for brokers, dealers, evaluators, investment funds, investment consulting companies, providers of depositary services), the Agency for Energy Regulation (for operators on the oil, natural gas and electricity markets), the National Agency of Regulation in Telecommunications and Information Technologies (for providers of infrastructure of electronic communications and providers of public services of electronic communications), and the National Audio-Visual Council (for providers of radio and television services).

Additionally, there is also a large number of individuals who must apply for a special licence called *patenta* for certain professions or commercial activities which, due to their small turnover, are exempted by law from the typical registration process and also from certain tax obligations. The *Law on Licence / "Patenta"* (1998) provides that such individual licences can be granted to all citizens of the Republic of Moldova, foreigners or stateless persons who are qualified for such activities according to the law. It is a personal licence and cannot be transferred to another person. The individual licence can be applied for at the local branch of the State Tax Service.

While in some areas licensing is essential and follows international best practice (such as banking and utilities), in other areas keeping licensing requirements seems to be excessive, insofar as the activities targeted by the licences do not pose particular public interest, health or safety protection concerns that cannot be addressed by means of regular ex-post controls (among the most obvious ones are jewellery, accounting and auditing, software, design work).

3.2. Construction permits

Until recently, it was more difficult and costly to obtain a construction permit in the Republic of Moldova than in most other countries in the world. The Government started streamlining construction permits procedures with the adoption of the new *Law on Authorization of the Execution of Construction Works* of 2010. The new law covers the initial stage of the construction process, that is, permits and approvals needed to undertake a construction, leaving out inspections of the completed construction and approvals needed to start using it, which would be covered by a second law (USAID, 2010, and 2012, pp. 8-11).[34]

The law requires two basic documents needed to start construction — an urban planning certificate for design purposes (permitting the elaboration of design documentation) and a construction permit (authorizing the start of new construction or an improvement to an existing construction), both issued by local authorities.[35] The new law makes the regulatory environment more transparent and efficient by removing a number of unnecessary procedures and by reducing required documentation. It also shifts the burden of obtaining documentation from the applicants to the certifying bodies. This limits the time for issuing certificates and permits and reduces costs. For example, documentation required for an urban planning certificate has been limited to basic documents proving applicants' identity, the lack of disputes with real estate's co-owners and a document from the cadastral office confirming the property rights. The law stipulates that no other documents (as well as fees) can be required from applicants. Such documents (or pre-approvals from utility companies, private or public, and other public agencies under the old system), the number of which has also been reduced, have to be collected and coordinated by authorities, turning them into de facto one-stop-shops. The deadline for issuing the certificate has been set at 20 working days (30 days in special cases).

The urban planning certificate makes it possible to elaborate the design documentation, for which additional documents are necessary, including conclusion on the connection to utility networks, plan of network laying (both with legally set time limits) and topographic and geotechnical surveys. Once a design is ready, an application can be submitted for a construction permit, requiring the urban planning certificate and proof of identity. It also needs to extract from the real estate registry two additional documents — the findings on the project verification and a field supervision contract between the applicant and the designer. The construction permit has to be issued within 10 working days from the day of application. If it is not issued, the permit is considered to be automatically granted by tacit approval, and construction can start after notifying appropriate bodies.

Overall, the 2010 law is expected to result in noticeable improvements. For instance, the law reduces the number of procedures for obtaining an urban planning certificate and a construction permit from 17 to 10. The number of days necessary to complete procedures is also reduced by at least 71 days, from 292 to 221 days.[36] The cost of a new construction permit declined from over 120 per cent of GDP per capita in 2008 to around 79 per cent in 2012 (USAID, 2012, p. 10).[37] However, the implementation of the law has so far been uneven.

The new law shifted responsibilities for collecting and coordinating many documents from applicants to local authorities, without equipping the latter with adequate resources. Lower fees for permits may have resulted in reduced stream of revenues to local bodies and resistance to increased paper-based workload, as electronic solutions have not yet been adopted. In an exception rather than a rule, the municipality of Chişinău is seeking to build an electronic database to which agencies participating in the process of issuing various permits can have access to. The lack of general and urban planning regulations makes it hard for municipalities to check applications for construction permits against a master plan of the community. In this situation, the future of the second construction law, dealing with inspections and final approvals, is uncertain. A possibility of integrating the two laws into one "Construction Code" is raised occasionally but would take more time to be completed.

The situation is further complicated by the fact that, similarly to other countries in the region, construction norms are based on an old, outdated "building code", i.e., a set of various normative acts and standards known as the Soviet GOSTs (State standards in constructions), dating to the 1980s. These norms are only partially translated into Romanian and are not always publicly accessible which creates problems for builders and developers, and now under the new system for municipalities, which are responsible to collect and coordinate additional documentation. This problem may, however, ease in the future, as the Ministry of Construction and Regional Development is in the process of adopting EU standards and regulations in construction. This means that the outdated Soviet standards GOSTs will be replaced by the new EU standards and regulations, which will be more transparent and more accessible to all participants of the construction process. Hopefully this will further reduce the number of documents needed for a building permit.

3.3. Inspections

UNCTAD's interviews with business representatives have highlighted that excessive inspections are among the main concerns of enterprises in the country, domestic and foreign alike. Inspections cover a broad range of areas, such as environment, labour, tax, social security and work safety, to mention the most important ones. While the principle of controls in most of these areas is fully legitimate, the inspection system itself is too complex, coordination between inspections is weak and modern techniques (such as targeting high-risk cases rather than all enterprises) are practically non-existent, increasing the risk of corruption and arbitrary decisions. One of the issues is, for example, the request of inspectors for original certificates by government agencies (Tax Authority, social security etc.), which annuls the advantages of one-stop-shop and electronic registration. These findings are corroborated by other studies. According to the Institute of Economy, Finance and Statistics (IEFS, 2010), the majority of businesses are of the view that State controls are a major hurdle to their activities.

Despite the fact that the Government decision No. 395 of 2003 states that an economic operator can be controlled only once in every two years by the same inspection agency, a study shows that a company was visited on average 7.9 times a year, with two visits from the same controlling institution, and with an average of 15 days spent per control (World Bank, 2009). The study also points to the overlapping mandates of several institutions such as State Tax Service, Customs, Court of Accounts, Competition Council, National Agency for Social Security and others.

Encouragingly, the Government is undertaking major efforts to improve the controls and inspection regime. In 2012, a new *Law on Permissive Acts* came into force. "Permissive Acts" are all legislative instruments which attribute to public authorities the power to inspect and control businesses. The Law constitutes a major advance in streamlining controls and inspections, thereby reducing the number of permissive acts from 450 to 250. In addition, public officers operating on the basis of a repealed "permissive act" can be referred to the Centre for Combating Economic Crimes and Corruption (CCEC, see section C.11.1). Some resistance to the full implementation of the law is reported, and business people are often reticent to file complaints with the CCEC.

4. Taxation

The tax system is competitive, even after the recent elimination of zero tax rate on corporate income (applied between 2008 and 2011). The reintroduction of a corporate tax rate (see below) at a level comparable with that of competitors in the region — 12 per cent — has been accompanied by new tax incentives and a reduction of the withholding tax (see below). Overly bureaucratic and inefficient tax administration, however, remains an outstanding problem, as highlighted both in international rankings and in business interviews conducted by UNCTAD. The most important taxes affecting the operations of foreign affiliates are summarized below.

4.1. Corporate taxes

Resident legal persons — both foreign affiliates and locally owned firms — pay a *corporate income tax* (CIT) based on their profits from all activities carried out in the country and abroad. Foreigners who have already paid taxes abroad on their activities located there can use those tax payments as credits against their tax obligations in the Republic of Moldova (subject to country-by-country limitation). Non-resident companies carrying out activities through a "permanent establishment" in the country are subject to similar taxation. Profits are determined on the basis of the accrual method.[38]

Companies can deduct their ordinary and necessary expenses from the tax base. Certain expenses are subject to ceilings, which include business trips, representation costs, charity and sponsoring (up to 0.1 per cent of the company's monthly gross income). It also comprises repair expenses in lease agreements (up to 15 per cent of the rent amount), audit risk insurance (for auditing companies, up to 15 per cent of the gross annual income), and entrance and membership fees of trade unions (up to 0.15 per cent of the total amount of salaries). Expenses not supported by documents may be deducted up to 0.1 per cent of taxable income. The list of non-deductible expenses includes, *inter alia*, dividends, land acquisition, acquisition of fixed assets, deductions to reserve funds, penalties and fines etc. Losses may be carried forward for three successive years and set off against taxable profits, but only in equal parts.[39] Capital losses may be set off only against capital gains.

Between 2008 and 2011, a zero per cent CIT applied with the purpose to attract foreign investments as well as to encourage companies in the informal sector to normalize their activities. Companies still had to submit their income tax declarations and faced penalties in case of non-declaration. In the short run, the zero tax had a positive impact on inward FDI, as evidenced by the record inflows of 2008 (figure I.2). With the onset of the financial crisis, however, they fell back to their pre-2007 level. Reinvested earnings suffered most severely during the crisis (Prohnițchi *et al.*, 2010, p. 13). UNCTAD's interviews have also indicated that over time, the zero CIT has had a larger impact on consumption than on investment. This, coupled with the evident losses of fiscal revenue, has prompted the Government to reintroduce a 12 per cent CIT since 1 January 2012.[40]

There are two types of wealth taxes: one of them is a local tax on immovable property at a rate of 0.1 per cent on the balance sheet value of the immovable property, deductible from the CIT. Another one is a land tax at a variable rate. The land tax rate is calculated annually by the local authorities not exceeding the limits set by the law (Annex 1 of the *Law on Application of Title VI of the Tax Code of 2000*). As an example, the maximum ceiling tax rate on agricultural land excluding pastures and grazing land is MDL 1.5 ($0.13) per grade/hectare (if the cadastre value is determined) and MDL 110 ($9.4) per hectare (if the cadastre value is not determined). There is no land or property tax on assets located abroad.

A withholding tax is levied on dividends (paid by resident companies to resident and non-resident companies and individuals), interests, royalties, management fees, fees for technical services and rental income etc. paid to non-residents, unless a DTT provides otherwise. On 1 January 2012, the rate of the final withholding tax was reduced from 15 to 6 per cent, in part to compensate businesses for the rise in CIT. The rate has remained 15 per cent on dividends paid out of profits gained during the period 2008–2011, when the CIT was 0 rated.[41] DTTs stipulate withholding taxes different from the local rate (ranging from 0 to 15 per cent). However it has to be noted that with the reintroduction of the CIT and the concomitant reduction of the domestic withholding tax to 6 per cent on 1 January 2012, the DTT tax rates with various countries have been reduced.

4.2. Indirect taxes

The value-added tax (VAT) applies to both the sales and imports of goods and services. In the latter case, the taxable amount includes the customs value, the customs duties and fees, and the excise tax. If the goods and services are exported, the producer can file for VAT reimbursement.

The standard VAT rate is 20 per cent (in line with the EU average). There are a few exceptions: 8 per cent for certain goods such as sugar, bread, dairy products, horticulture products, Moldovan livestock, and medicine, and 6 per cent for gas. A zero rate is applied to electricity for households, exports, international cargo and passenger transportation services.

VAT is not applicable to goods imported into the customs territory of the country if they are placed under a transit regime, processed under customs supervision or in a customs warehouse. Nor is it applicable to goods placed under a temporary admission regime, to goods and services imported from abroad into the Giurgiuleşti International Free Port and exported outside the Free Port, and supplies of goods and services inside the Free Port and inside the Free International Airport Mărculeşti. Supplies of goods and services by the residents of the Free Port/Airport and the residents of the FEZs, and supplies of goods and services within an FEZ are also VAT exempt.

The slow reimbursement of VAT is an issue the Government is still struggling to solve. Despite new amendments that reduce legal deadlines for reimbursement, companies complain that it may take several months for the VAT to be reimbursed, including on exports. The VAT on goods and services supplied by non-residents is collected through the reverse charge mechanism. The current mechanisms of VAT reimbursement do not allow for the compensation of credit VAT with other tax liabilities (e.g. custom duties). Efficient and business-friendly VAT reimbursement would be a prerequisite for achieving the official objective of turning the country into an export platform. These changes would require amendments to VAT-related legislation.

Other indirect taxes include capital duties (0.1 to 0.5 per cent), stamp duties (State fees on services provided by public authorities), customs duties, which range from 0 to 30 per cent depending on the goods, and excise duties (on coffee, caviar, spirits and liqueurs, beer, wine and tobacco products, fuels and lubricants, perfumes, vehicles, electronic devices, and jewellery locally produced or imported).[42] The rate varies from good to good. Excise duties are included in the tax base for the calculation of VAT.

4.3. Incentives and special regimes

Various incentives are available to investors. A 50 per cent tax exemption on the CIT applies to companies with a registered capital of $250,000 or more for five years, if the calculated (but unpaid) CIT is reinvested in own production. The tax exemption can be increased to 100 per cent, for a period of three or four years, for companies that exceed larger thresholds ($2, 5, 10, 20 and 50 million, respectively), and reinvest a certain portion of the calculated (but unpaid) CIT in own production (that ratio is degressive as the amount invested increases). CIT exemption for a three-year period is also granted to various types of entities, such as SMEs with less than 20 employees and revenues not exceeding MDL 3 million (about $255,500), farming firms, certain agricultural cooperatives, and residents of scientific and technological parks and innovation incubators. Once their three-year income tax exemption expired, these firms can benefit from a 35 per cent tax reduction for the subsequent two years. Commercial banks and micro-finance organizations are also entitled to full CIT exemption for income derived from loans granted for a period exceeding three years. There is a 50 per cent tax exemption on income derived from loans granted for a period from two to three years, on condition that these loans are financing specific investments, such as acquisition of fixed assets by the borrowing company, development, mastering and implementation of new technologies etc.

Firms involved in science and innovation technologies are entitled to a full CIT exemption, on condition that the income saved is used exclusively in the field of science and innovation.[43] Agricultural producers of all legal forms are also entitled to a five-year CIT exemption from their core (agricultural) activity. Residents of the Free Economic Zones (FEZs) described in chapter I (box I.2) and of the Giurgiuleşti International Free Port benefit from specific incentives (box II.1). These incentives represent a major part of inducements provided to foreign investors (although these zones are not necessarily reserved to foreigners).

4.4. Tax administration

Although in recent years tax filings and payments have become more business friendly, complying with tax administration is still relatively onerous. This situation is reflected in the World Bank's *Doing Business* report (World Bank, 2012). The Republic of Moldova ranks 109th globally in terms of competitiveness of the total tax rate, 94th in terms of time to comply with the tax filing requirements, and 164th in terms of total number of payments (48 a year). While it currently takes a company on average a total of 220 hours a year for preparing and filing taxes, below the regional average of 274 hours, the number of tax payments is high despite the fact that the CIT is to be declared and paid on an annual basis.[44] The main reason for this is that

Box II.1. Advantages of the Free Economic Zones and similar zones

The Law on Free Economic Zones opens the FEZs to both domestic and foreign investors. Residents of the FEZs are usually engaged in manufacturing for exports, with the exception of alcohol and alcohol-based products, sorting, packaging and marking of products that are transiting the Republic of Moldova, other types of external commercial activity, commercial transportation, as well as ancillary services such as construction, utilities, warehouse services and food services as support for the commercial activities previously mentioned. With regard to the production of alcohol and alcohol-based products, it was excluded from the FEZs in 2010. However, those residents which were already active in such production before the amendments entered in force are allowed to continue their activity according to the contract signed with the administration of the FEZ.

The law provides that FEZ can be created for a period of at least 20 years. If during this period legislative amendments are adopted that worsen the rights of the residents, the law provides for a guarantee against such amendments for 10 years. If the investment in the FEZ is above $200 million, the guarantee is extended for the entire time during which the investor operates in the FEZ but not more than 20 years.

According to the Tax Code, the taxation of the residents of the FEZs has the following peculiarities:

(a) exporters pay 50 per cent of the statutory CIT rate of the country;

(b) non-exporters pay 75 per cent of the statutory CIT rate of the country;

(c) those exporters who invested at least $1 million in fixed assets and/or in the development of the infrastructure of the FEZ pay 0 per cent of the statutory CIT rate for a period of three years; and

(d) those exporters who invested at least $5 million in fixed assets and/or in the development of the infrastructure of the FEZ pay zero per cent of the statutory CIT rate for a period of five years.

Firms residing in the Industrial Free Zone of the Giurgiuleşti International Free Port can benefit from a tax exemption of five years if they have made an initial capital investment of at least $5 million. Companies engaged in supplementary capital investment of at least $5 million are entitled to an additional exemption of two more years.

For investors in these zones, key advantages go beyond tax reductions/exemptions. They benefit from duty-free imports of inputs, on condition that they re-export their final product. This way, they do not need to file for a refund. A similar advantage is derived in terms of VAT: the VAT is not applicable to the supply of goods and services by the residents of the FEZs, Giurgiuleşti International Free Port, or the Free International Airport Mărculeşti (the latter enjoys a regime similar to FEZs, although does not fall into that category (chapter I). In addition, a 0 per cent VAT applies to goods and services imported into these zones from abroad, from the customs territory of the Republic of Moldova, and from other zones. These provisions save efforts and money for residents of these zones vis-à-vis firms outside. However, all output sold outside the zones (but not exported) is usually subject to import duties and VAT.

Incentives related to industrial parks are more limited than the ones provided to FEZs. They can nevertheless be attractive for small investors. Their advantages include a waiver of land destination changes, a free-of-charge transfer of State-owned land to the management of the industrial park, a 30 per cent discount on the rent of State-owned land, State contribution to infrastructure and technology development, and reduced and controlled State inspections. Firms in the industrial parks have access to ready-to-use production facilities and offices. Firms are given legal and consulting support in obtaining licenses, permits and approvals. Consulting services are also available for project development, marketing, personnel recruitment, knowledge management and audit and accounting. It is envisaged that in the future parks will also host banks, post offices and health care services (although the date has not yet been specified).

Source: UNCTAD.

there are three taxes (social, health and VAT) that are paid monthly and according to different filing schedules.

In addition, there is a lack of unified procedures in tax administration, which could limit the room for arbitrary application. There are a large number of instructions, decisions, orders, circulars and letters applied to taxation. In some cases, the contents of these documents are ambiguous, or seem to contradict the letter of the Tax Code. Moreover, these decisions are not always published and, therefore, are not necessarily available for the public. This can increase uncertainties for business as in principle non-compliance with those documents may lead to fiscal penalties, legal disputes, litigations similar to the ones applied in case of non-compliance with the Tax Code itself.

In order to reduce the cost of filing taxes for business, a system of electronic filing has been recently set up by the State Tax Service, with the assistance of donors. Beginning January 2012, it is mandatory for certain VAT payers to use the electronic system. According to the State Tax Service site, this solution is mandatory for big tax payers in the entire country, as well as all tax payers in Bălți, Chişinău and Comrat. The system is based on electronic signatures which were provided to companies free of charge. Invoices shall be subject to mandatory registration by companies in the Tax Register. The system is extended to smaller taxpayers at a later stage.

Introduced in 2010, an alternative way of simplified tax declaration is the *Declarația Rapidă* ("quick filing"), which consists of a system of automated preparation and processing of tax returns. It allows for a free-of-charge online filing of taxes, and replaces large paper filings and physical visits to tax offices by the printing of a one-page document. Unlike e-taxes, Declarația Rapidă does not require an electronic signature. By the end of 2011, nearly 30,000 users, including 30 per cent of all VAT-paying businesses were reported (USAID, 2012).

To improve tax administration, the Government has also simplified the procedure for the acceptance of amended tax returns, waiving companies wishing to correct their tax declarations after the deadlines to subject themselves to a tax audit. The Ministry of Finance is also working on a risk-based tax audit system (through the identification of those taxpayers that are the most likely to be non-compliant) that would help the Fiscal Administration better manage controls and inspections and address issues related to transparency and corruption.

5. Customs administration

While efforts towards the modernization and simplification of customs services were initiated in the mid-2000, they were not systematically followed through, and further action to rationalize and streamline the customs regime should be a priority. The modernization of customs is essential as the Republic of Moldova aims to become a transit country with logistics services for trade between the EU and CIS. It also aims at becoming a platform for the production of intermediate goods and services to both markets, which requires a smooth functioning of customs administration.

The Republic of Moldova was the first country to implement the UNCTAD ASYCUDAWorld System (Automated System for Customs Data). The system has been fully operational since 2006. As a result, all customs declarations are processed through ASYCUDAWorld in electronic format. However, infrastructure deficiencies, administrative barriers and a relatively high level of corruption (chapter I) persist, which affect the efficiency of operations. In this regard and according to the *Doing Business* report (World Bank, 2012), the Republic of Moldova has not progressed in terms of indicators capturing trade across borders in recent years. It still takes 32 days to export and 35 to import with the most number of days used to prepare the necessary documentation. Compared to countries in the region similar in size, the Republic of Moldova ranks the slowest, with Montenegro, the former Yugoslav Republic of Macedonia and Albania requiring from 12 to 19 days to export and 11 to 18 days to import.

A rationalization of customs points, especially in the capital city, is required to better serve the needs of transportation. As highlighted in chapter I, currently the capital city has various customs points, making customs clearance time-consuming and costly. It is also acknowledged that there are some factors outside the control of the Customs Administration hindering the achievement of the goal of better customs services, especially the monitoring of the border zone of the Transnistrian region (box II.2).

Plans for the further improvement of customs services have been made in connection with the E-governance agenda of the Government (section C.10). According to the Development Strategy of the Customs Service for the years 2012–2016, priority is given to the full implementation of modern electronic solutions, of which electronic signature is of key importance due to its usefulness for the fight against false documents. The Strategy is developed according to

Box II.2. The European Union Border Assistance Mission to Moldova and Ukraine

The European Union Border Assistance Mission (EUBAM) was launched in 2005 upon a joint request of the Republic of Moldova and Ukraine for the international monitoring of their joint border with the zone controlled by the unrecognized separatist administration in the Transnistrian region. Its purpose is to address issues related to the unrecognized "internal boundary" between the Transnistrian region and other regions of the Republic of Moldova as well as Ukraine.

EUBAM aims at fighting illicit activity, such as smuggling, other illegal trade and human trafficking, at the boundary. In addition to controls, its actions include assistance to strengthen management and customs capacities of the Republic of Moldova and Ukraine. Joint operations have resulted in seizures of smuggled items and customs fraud at a large scale (€3.2 million in 2011). EUBAM provides special training courses on key customs and control issues such as risk analysis and anti-smuggling techniques, and organizes study tours to peer agencies in the EU. It also supports initiatives aimed at fighting corruption in customs, engaging in these initiatives the Moldovan and Ukrainian civil societies and communicating with border communities of the two countries.

The mandate of EUBAM, originally approved for two years, was extended several times with the current one expiring in November 2015. EUBAM is fully funded by the EU through the European Neighbourhood and Partnership Instrument, and implemented jointly by the EU and the UNDP. Over the period 2011–2013, EUBAM has a budget of €21 million and employs a staff of about 220, of which 120 are nationals of the Republic of Moldova and Ukraine, and 100 are citizens of EU member States.

To enhance the impact of EUBAM, the Republic of Moldova and Ukraine began implementing in March 2006 a customs agreement, under which Transnistrian companies seeking to engage in cross-border trade are allowed to do so if they register with the State Chamber of Registration office in Chişinău (section C.2).

Source: UNCTAD, based on interviews and on www.eubam.org/en.

the World Customs Organization's SAFE Framework of Standards to Secure and Facilitate Global Trade adopted in 2006, as well as the EU decision No. 70/2008/EC of 15 January 2008 on a paperless environment for customs and trade.[45] The implementation of a single-window approach when dealing with customs related documents is also underway. The impact of technical improvements will largely depend on how effectively customs officers and customs brokers will be trained in the utilization of these new electronic instruments. They also need to be accompanied by measures streamlining the organization of formalities on the border, such as separation of traffic by types, giving preference (a so-called fast track) to vehicles carrying internationally recognized documents such as the TIR carnet, live animals or perishable goods, and creating off-lane control areas for random checks.[46]

6. Labour

While labour costs are lower than in neighbouring countries, investors often complain that there are two main limitations related to the labour market: a deficit of skills (chapters I and III) and rigidities in the employment regime. Over time, legislation has slowly adapted to the principles of the market economy. Now, the task for the Government is to complete transition in labour-related legislation without dismantling the protection of workers.

Labour relationships are regulated by the Labour Code, Collective Labour Conventions at national and company level and other special laws such as the *Law on Wages (2002)* or the *Law on Trade Unions (2000)*. In particular, the Labour Code (2003) regulates the rights and obligations of employers and employees as well as the role of unions and associations of employers in the working relationships. In recent years, the country has undertaken efforts to implement the eight International Labour Organization's core conventions and to harmonize its labour code to the EU rules and regulations. As a result, most of the national laws on labour conditions follow international standards. For instance, according to the Labour Code, the work week is a standard 40 hours and the work day is eight hours per day, but there are exceptions from this system where the nature of activities justifies alternative arrangements. The right to strike is recognized in the law, after the procedure of conciliation proved ineffective and on condition that the employer is notified about the strike 48 hours before it takes place.

However, in some areas, rules could be revised. While part-time labour and short-term contracts are permitted by the Labour Law, they are difficult to apply in practice. The procedure of hiring and firing could also be made simpler without jeopardizing the protection of workers. For example, rules say that the employer has to re-employ the employee who had submitted a resignation request, if within two weeks after submission the employee rethinks the decision and no other person is hired in place (article 85 (4)). Litigations are also holding back labour flexibility as rulings have to be enforced even before the final judgment is delivered. In case of dismissal, there is no upper limit to the compensation for the workers laid off due to business liquidation: for each year completed an average weekly salary is due (some upper limit could be set). Finally the rules on maternity and child care leave are generous but may risk discouraging the employment of women in the private sector. Currently they can take up to three years paid leave and up to six years unpaid.

It is also the case that an employer who wants to fire an employee may need to either inform the trade union, or, in some cases, obtain the trade union's approval (article 16(4) of the Law on Trade Unions). Trade unions have other prerogatives that go beyond their usual mandate. For instance, they are represented in committees dealing with the protection of the environment, control over the application of the housing law within the company, and control over the privatization process.

7. Employment and residence of foreigners

While the legislation on employment of foreign workers is modern it remains problematic in practice to attract foreign workers with the skills needed for the Moldovan labour market.

The Law on the Regime for Foreigners in the Republic of Moldova was adopted in July 2010. Its main purpose is to harmonize the Moldovan legislation to the Schengen Agreement and the set of EU regulations relevant for the movement of persons. Its provisions apply to all types of migrants, including job seekers.

According to the Law on the Regime for Foreigners in the Republic of Moldova, a long-stay visa, valid 12 months, is needed by foreign entrepreneurs as well as foreign employees wishing to obtain a right of temporary residence for work on the territory of the Republic of Moldova. Residence and work permits are provided in the same document. Temporary residence can be granted for a period of up to five years and with the possibility to be extended. Until March 2013, the temporary residence rights were granted to immigrant workers within the single labour immigration quota annually determined by the Government. The quota was established by the Bureau for Migration and Asylum, in coordination with the Ministry of Labour, Social Protection and Family. In 2011, the quota for all labour migrants was set at 1,300. Law No. 303 of 26th December, 2012 abolished quotas with effect in March 2013. In addition, the requirement of approval of the National Employment Agency was abolished for foreigners invited by the Government or national authorities, foreigners carrying out investment projects and foreigners employed for a period not exceeding 90 days. The procedure was simplified as medical certificate, housing and criminal records are no longer required by the relevant bodies.

The process of verification if rules have been followed is done ex-post, based on a local labour market test for each post to be given to foreigners.[47] Labour migrants applying for residence and work permits have to meet the requirements of various Government regulations. In principle, the maximum examination period for a request by the National Agency for Labour Force is set at 30 days, and an answer by the Migration Policy Department dealing directly with the request is to be expected within 60 days. In practice, however, the process can take longer, especially when authorities have the discretion on deciding which kind of documentation is considered to be acceptable. The fee to be paid is capped at $150.

When this Report was written, the Parliament was considering amendments to the *Law on the Regime for Foreigners in the Republic of Moldova*. The amendments would exempt foreigners carrying out investment projects and other foreign persons invited by the Government or other central authorities of the requirement of approval by the National Employment Agency. The procedures to apply for immigration would be simplified through the elimination of the requirements of medical certificates, and housing and criminal records.

8. Land

Acquiring property title to land is straightforward for all investors, other than in agriculture. Some issues remain regarding the clarity of the legal regime for leasehold. The Law on Investments in Entrepreneurial Activity of 2004 mentions explicitly that foreign investors can own land, in compliance with existing legislation and with the purpose to carry out business activity. There is an exception for agricultural land and forestry, the ownership of which is reserved for Moldovan nationals and legal entities without foreign capital as confirmed by the Government in 2006. [48] This follows the practice of many other countries, and in principle it should not be a major problem for foreign investors since the *Agricultural Lease Law* (2006)allows lease contracts and their transfers, based on private market transactions.

Some uncertainty remains concerning the lease terms as the law does not spell them out clearly enough. For instance, the length of the minimum/maximum leasehold period is not specified. Investors wishing to lease land for agricultural purposes also face land fragmentation issues: the existence of countless small plots of land, the owners of which are often difficult to find or identify because they emigrated. This is partly the result of the Land Reforms undertaken in 1991–1992 and in 1996. Fragmentation came about as a secondary effect of the main aim of the reform, i.e. the transfer of land from public ownership (cooperatives and the State) to private ownership by the allocation of plots to individuals. To address these fragmentation challenges, the Government put in place, with the support of the development community, a series of measures, including incentives, to foster the emergence of cooperatives.

Title security issues are being addressed by the National Cadastre Agency. Benefiting from international funding and assistance and an efficient system of self-financing, the Cadastre has managed to streamline the property registration process. It has also succeeded in registering properties and owners in almost 85 per cent of the country. The World Bank's Doing Business report (World Bank, 2012) shows the Republic of Moldova to be in the top 20 in the world in terms of registering property, with five procedures taking up five days and costing only 0.9 per cent of the value of the property. The Agency's main remaining challenge is to track down those land owners who left the country or inherited their title from a deceased person without registering their claim according to the law.

9. Competition policy and State aid

The Republic of Moldova has adopted the basic policy tools to adequately protect competition and has just reviewed its competition legislation to bring it in line with EU standards in the area. However, competition rules and regulations are relatively new to the Moldovan legal framework, and to Moldovan business and public at large. Thus, awareness about problems arising from dominant position, anti-competitive business practices and from unfair competition is low. It also happens relatively frequently that public institutions are distorting competition through different regulatory instruments, especially in regulated infrastructure industries. This is the case, for example, of telecommunications, in which the incumbent State-owned Moldtelecom is allowed to restrict access to basic fix network facilities. In such cases, the rationale of intervention should be clarified (especially in terms of efficiency gains for the society and the economy).

Competition policy is based on article 126 of the Constitution, which makes it the State's obligation to protect fair competition. A new competition law was adopted in 2012, replacing a first basic law of 1992, and its successor of 2000. This brings the country mostly in line with EU practice. It further develops the terms upon which the anti-competitive actions are qualified and sanctioned by the competition agency. They elaborate on the rules of evaluation and investigation of such practices, how the relevant market is identified and what are the main applicable exemptions. It provides for the following possible breaches of competition: restrictive agreements; abuse of dominant position in the market; unfair competition; and concentrations of undertakings. The provisions of the new law apply to enterprises registered in the Republic of Moldova or other States; natural persons; associations of undertakings; and central or local public authorities (PwC Moldova, 2012).

The Law No. 183 of 11th July 2012 and its application have become clearer than its predecessors but remained strict on infringers. In case of breach of the law's provisions, the Competition Council can order the termination of those practices, prescribe behavioural or structural remedies, and/or apply a fine. The amount of a fine depends on the total turnover of the enterprise sanctioned during the previous year. It can go up to 0.45 per cent of that turnover in case of an infringement of competition procedures, and up to 4 per cent of turnover for material infringements, in both cases depending on the seriousness of the offense. In case of non-compliance with the orders of the Competition Council, penalties can go up to 5 per cent of turnover for each day of delay. Council decisions and instructions can be challenged within 30 calendar days at administrative courts. However, a challenge against a decision or order of the Competition Council does not suspend its enforcement, unless a court decides otherwise or there is a first-level court judgment about it. If a decision is declared to be null in whole or in part, fines should be repaid within 45 days (PwC Moldova. 2012).

The law also reorganized the National Agency for the Protection of Competition, the national regulator on competition issues, into a Competition Council. It is not yet clear if the new Agency will be successful in surmounting the obstacle of lack of funds, which seriously hindered the establishment and operations of its predecessor. The Agency currently employs a total staff of 41. With a single office in Chişinău which has a national mandate, the Agency has been making efforts to handle all the tasks assigned to it, from advocacy to controls and litigation. Due to low wages, the staff turnover is high, as are the training related costs. Notwithstanding the above, in 2010 the Agency dealt with 60 claims of violations of fair competition out of which 20 were on abuses of dominant position, four cases of cartels, 17 cases of unfair competition, 14 cases of actions of public institutions and seven cases related to publicity issues. During the same year, it took a total of 18 legal actions of both civil and administrative nature.

In the area of *State* aid, a new Law is pending for adoption by Parliament, a first one of its kind for the Republic of Moldova. The draft law follows the provisions of the Partnership and Cooperation Agreement signed with the EU, article 48 of which makes it an obligation for the parties to refrain from granting State aid favouring certain undertakings or production of goods in so far as they would distort competition and would affect trade between the EU and the Republic of Moldova. However, no inventory exists on the activities affected by this law, making it difficult to implement.

10. Privatization

While the State's role in the production of goods and services is still important, the privatization process, which started two decades ago, has recently gained momentum (chapter I). The current legal framework for privatization is set by the *Law on Management and Privatization of Public Property* (2007). According to article 23 of this law, privatization can happen through different procedures, including issue of shares through the Stock Exchange, commercial and investment tenders, auctions with reduced price, auctions without initial price, free transfer of shares or transfer of shares to compensate for public debt.

A large number of State assets and enterprises are currently up for privatization. These appear in an official list, which was last updated in December 2011. The list comprises various important assets in the area of energy, water and sewage, agriculture and machinery, and transport infrastructure, including the Chişinău International Airport. There is also a list of 105 assets to be kept in public hands. Among them are hydro power plants, the State shareholding (35.33 per cent) in the joint Moldovan and Russian enterprise Moldovagas, the Railway and Bus Terminals, the Post, but also wine-making plants, the biggest manufacturer of bread and bakery products and an international exhibition centre. The list also includes hospitals, research institutes, and theatres.

For 2011, the Government expected proceeds of up to MDL 1 billion ($85.2 million) from privatization. However, only slightly over 10 per cent of the objective was reached and 20 per cent of the target was reached in 2010. Enterprises targeted for privatization have often proved to be difficult to sell. The fair value of such firms is difficult to determine and the book value indicated by the Government is not always considered reliable. Also, trading on the Moldovan Stock Exchange is low, making it challenging to attract potential investors. Finally, the Public Property Agency, with responsibility to organize and oversee the privatization process, has been given a wide range of functions. These include monitoring and supervising the execution of obligations by buyers, the implementation of actions for the enforcement of privatization-related obligations or contract termination, and the first-level settlement of disputes related to privatization. These are complex tasks that go beyond the current competences of the Agency.

11. Transparency

In the Republic of Moldova, the perception persists that the law is not equal to all, and the credibility of judgments remains low. Therefore, the fight against corruption in the entire public administration needs to be stepped up, by addressing the core reasons, and judicial reform is an absolute priority.

Public administration inherited from pre-independence times finds it difficult to adjust to the requirements of a market economy. Its adjustment is further hindered by very low wages and high staff turnover. Young professionals often start their career in a public office and the most talented ones quickly move to the private sector for better conditions, including salaries. In addition, low salaries often lead to rent-seeking behaviour. These are the main reasons explaining the country's ranking (in 2012, 94th among the 183 countries monitored) in Transparency International's Corruption Perceptions Index (see also chapter I).

Box II.3. Transparency in e-services in the Republic of Moldova

Taking into account international ICT best practices as well as the imperative to modernize the public administration that push Governments to introduce more electronic solutions in their daily activities, the Republic of Moldova has started an e-transformation process. The purpose of this effort is to bring in line the public administration with modern ICT application from digitalization of archives into electronic databases to on-line one stop shops for start-ups or licences. The Strategy for technological modernization of governance adopted in 2011 set the goal for the Government to become more transparent and more efficient with the help of a broad use of ICT solutions. The document also sets the target to draft an Open Government strategy and to digitalize most public services. It also plans to render all electronic public services compatible in order for the flow of documents between them to be made possible. For the purpose of implementing these measures the Centre for Electronic Governance was established in August 2010 and it is together with the State Chancellery the main implementing body for these reforms.

Source: UNCTAD, based on Government Decision No. 710 of 2011.

The CCEC is the main law enforcement body fighting economic, financial and fiscal offences and crimes. Its mandate is derived from the Constitution, the Criminal Code, a series of national laws focusing on economic crime and corruption and international treaties which the Republic of Moldova has ratified.[49] Among its wide responsibilities, CCEC is mandated to indentify cases of corruption in ministries, local governments, State-owned companies, banks, law firms etc., and refer them to the anti-corruption prosecutors as the CCEC does not have independent prosecution powers. In 2007–2009, more than 1,500 cases were notified to prosecutors, of which close to 1,000 resulted in a decisions to launch criminal prosecution (CCEC, 2009).

Initiatives to improve transparency within the public administration are also tested. These include e-services, which play an important role in promoting a better visibility of public actions (box II.3). As mentioned above, CCEC also has a role to play in combating small-scale corruption in public administration in the framework of the Law on Permissive Acts, helping to denounce rent-seeking excesses in the area of inspections and controls. The Republic of Moldova is also implementing the Strategy of Fighting Corruption 2011–2015, which covers, among other things, the reform of the prosecution system of the country, a review of all laws relevant for the fight against corruption, especially the legal framework on the integrity of public administration, and lobbying for laws on conflict of interest and declaration of income.

12. The judiciary and commercial disputes

As part of the preparation for the negotiations on the DC FTA with the EU, the Government has recently adopted a Strategy for reforming the judiciary for the years 2011 to 2016. The Strategy focuses on seven main areas: the court system, criminal justice, access to justice and enforcement, fighting corruption and enhancing ethics and integrity, the role of the judiciary in economic growth, observance of human rights and judicial management. Based on this Strategy, the Government adopted an Action Plan for the next couple of years that will target the seven priorities mentioned above. In an attempt to help the Government strengthen the judiciary, the EU is providing €52 million in direct budget support and €10 million in technical assistance.

Until recently the court system in the Republic of Moldova included a set of specialized commercial courts mandated to deal with commercial claims. As part of the judiciary reform, mainly with the aim to address allegations of corruption, the Parliament has recently adopted a law that dissolves progressively the commercial courts. According to an amending law adopted in July 2011 to modify the Law on the Organization of the Judiciary (1995), the commercial claims which were previously dealt with by the commercial courts are to be absorbed by civil law courts.[50] While this measure is seen as a palliative for corruption, it also raises the question if civil law judges are well enough trained in economic matters in order to be able to respond to the specificity of claims in bankruptcy, competition or other commercial disputes.

The legal framework for commercial dispute resolution consists of the Law on Arbitration (2008), the *Law on International Commercial Arbitration* (2008) and the *Law on Mediation* (2007). The law on arbitration provides that certain contracts are not subject to arbitration such as those concerning rental of housing space. The law also provides that the arbitration clause of the contract needs to be concluded in writing for it to be valid. If the claim on a contract which includes such a valid arbitration clause is presented to a court before having been submitted for arbitration, it is the duty of the judge to send it to the appropriate arbitration panel. The law also provides for the right of the parties to dispute the final arbitration decision in front of the courts, which means that even though arbitration could have been seen as an alternative to the judiciary, it can actually end up being just another path to it. The Chamber of Commerce and Industry of the Republic of Moldova, established in 1994, the International Commercial Arbitration Court for commercial arbitration, with the scope to settle disputes regarding foreign trade and investment.

In terms of enforcing contracts (World Bank, 2012), the Republic of Moldova globally ranks relatively positively (26th), although its relative position deteriorated from 2011, mostly due to unfinished business in judiciary reforms and fighting against corruption in courts. Indeed, while the legal framework for commercial justice is well developed, the quality of its application remains low due to corruption in the court system, which has become a major burden on the economic development of the country. One of the reasons for this corruption is the lack of sanctions against judges that are found guilty of having wrongfully applied the law.

13. Intellectual property

The intellectual property (IP) regime, although new to the Republic of Moldova, is developing fast. It reflects the needs of an important part of business in a country poorly endowed with natural resources and aiming to base part of its development on intangible assets (e.g. ICT). Intellectual property rights are protected by article 33 of the Constitution of the Republic of Moldova. Core principles are elaborated upon in the national legislation, which has emerged as a result of a series of legislative changes meant to harmonize Moldovan laws with the European rules and regulations. The most important normative acts are: the *Law on the Protection of Inventions* of 2008 (which replaces an older law on patents for invention dating back to 1995), the *Law on Protection of Industrial Design* of 2007, the *Law on the Protection of Trademarks* of 2008, and the most recent one, the Law on the Protection of Copyrights of 2010. The Republic of Moldova also has a plant variety protection law, which is designed to cover IP rights related to the development of new plant varieties.

The Republic of Moldova is signatory to the WTO TRIPS agreement, and has ratified all World International Property Organization treaties (box II.5). Further IP-related rules are stipulated in the Partnership and Cooperation Agreement with the European Union, according to which (article 49) "the Republic of Moldova shall continue to improve the protection of intellectual, industrial and commercial property rights in order to provide, by the end of the fifth year after the entry into force of the Agreement for a level of protection similar to that existing in the Community, including effective means of enforcing such rights".[51] The Republic of Moldova is also a signatory to regional IP treaties with CIS countries. However, in order to better harmonize its system with the EU it was obliged to leave the Eurasian Patent Convention.[52]

The institution charged with providing and implementing the legal framework concerning intellectual property rights is the State Agency on Intellectual Property of the Republic of Moldova. The Agency started working in 2005 and it currently has a total of 172 staff. It is a self-financed institution. The Agency deals with all IP-related matters, including patents, trademarks, industrial design, copyrights, etc. It reports to the National Commission on Intellectual Property, which is the main advisory body of the Government on IP issues, composed of the Ministers of Culture, Economy, Finance, Interior and Justice. The Agency has also various international cooperation programmes with EU partners (cooperation project with the European Patent Organization, twinning projects with Danish and Romanian counterparts).

The country's main challenge is to adopt and apply the IP regime that best suits its level of development and national interests, and to ensure that those laws on IP rights are enforced in practice. It is also important to train key legal personnel (e.g. judges) dealing with IP issues, and raising public awareness about them. The National Commission on Intellectual Property has working groups in all relevant areas: enforcement issues, trademarks and patents, copyright issues, and technology transfer. The Commission and the Agency are working with civil society, educational institutions, and business associations, of which the Business Software Alliance is the most relevant. There are also certain areas such as the development of geographical indications (GIs) or appellations of origin according to EU norms that could have, given the importance of agricultural production for the country, some potential for further development (chapter III, section F1.3). In this respect, an agreement between the EU and the Republic of Moldova on the protection of geographical indications of agricultural products and foodstuff entered into force in April 2013.

In order to ensure that the design of the national IP regime corresponds to the country's needs, it would seem important to develop a national strategy or policy on the use of IP as a development tool. Such a policy should define the role that IP plays in Moldova's development and indicate key areas of priority.

14. Assessment of general measures

The Republic of Moldova has undertaken major efforts towards the improvement of its general investment environment. Recent and ongoing reforms have focused on two main pillars: one was harmonization to EU rules and regulations, the other was the introduction of international best practices in support of private sector development. In this respect and based on the analysis of this chapter the country can achieve excellence in regulating investment within five years by closing the few remaining regulatory gaps and ensuring an effective implementation of the laws.

The land, construction, competition, intellectual property and labour regimes will require additional reforms or better implementation of laws, and alignment with international best practices as described in the IPFSD and other relevant documents (table II.1). There is a need to clarify the leasehold regime for agricultural land in particular — the predictability and stability of titles being essential (IPFSD, guideline 3.6.1), and to rationalize the permitting process in construction. In the area of competition, the Government should reflect the latest international practices in terms of the evaluation and investigation of anti-competitive practices with the aim of ensuring that benefits from all investments are maximized (IPFSD, guideline 3.4.1), while in the area of IP, a national strategy is needed to make use of it as a development tool in the service of innovation and investment in the economy (IPFSD, guideline 3.3.1).

As the experience of other countries shows, good laws do not automatically translate into a conducive investment climate. The quality of the public administration and its capacity to implement these laws have an important role to play. In this respect, additional efforts are required in the Republic of Moldova. In particular, there is need to streamline and modernize the public administration. Civil service should become highly professionalized and better remunerated. The reform of the public service will require better use of IT facilities, training and rationalization of resources. Parts of the proceeds from the incomplete privatization process could be allocated to this purpose. A strong focus should also be placed on improving governance. Finally, to achieve excellence, the reform of the judiciary should be completed.

The above-mentioned changes are all integral parts of the proposed overall FDI strategy for sustainable development which is exposed in the next chapter. Such strategy is necessary in order to increase the competitiveness of the Republic of Moldova, and help attract new types of FDI based on efficiency which would help achieve the official development objectives.

CHAPTER 3

Strategic perspectives on FDI attraction and promotion for sustainable development

A. Introduction

The Republic of Moldova is a country that wishes to and can attract more and higher-value FDI. With appropriate policies, more FDI would contribute to achieve the country's national development goals by contributing to job creation, technology transfer, export promotion, sustainable growth and poverty alleviation. It would also be a factor for infrastructure development, sectoral diversification, improvement of the education system, and deeper involvement of the Diaspora in national economic development.

As elaborated upon in Chapter I, potential to attract more FDI exists in sectors such as agribusiness, IT and logistics services as well as export-oriented manufacturing. Furthermore, Chapter II shows that the country has achieved great progress in terms of its regulatory framework since the mid-2000s and significantly improved the business environment. Nevertheless, to fully tap the country's FDI potential, more needs to be done and concerted actions are required on many fronts, beginning with embedding FDI in the country's development vision.

This chapter will examine key policies that are crucial to the present and future efforts of the Republic of Moldova to attract more and better quality FDI, thus enhancing its development gains. The analysis is based on the 11 core principles of UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD). In each area, it will be followed by policy recommendations. Together all these efforts and, in particular, recommendations will form a coherent FDI strategy. They will be divided into horizontal and vertical measures. Horizontal measures include policies and actions that are relevant for all types of investment. Improvements in these areas — human resources, infrastructure, regulation and administration — will also benefit FDI attraction across board. They are also important for increasing the quality of FDI. Vertical measures are more specific. They may be sector-specific or deal with specific issues of FDI attraction and enhancing benefits from FDI. The chapter will end with the examination of investment promotion issues. Finally, recommendations will be summarized into an action plan.

B. Making FDI a policy priority for sustainable development

The potential contribution of FDI stands out and should be fully integrated into the broader vision for the economic development of the Republic of Moldova. Such vision should rely on the country's improving competitiveness, its geographical position and international market access as well as its desire to move up the value chain.

As articulated in *Moldova 2020*, the country needs FDI to move from an economic development model largely fuelled by remittances and consumption to one relying more on investment, production, job creation and exports. So far, GDP growth has also often resulted in low or no job creation (chapter I).[53] By expanding and diversifying its economic base, the Republic of Moldova will thus reduce its exposure to external and internal shocks, and move towards a more sustainable growth model. The country will also be in a better position to increase the tax base, which in turn, will permit financing the large needs to improve the standard of living of its population and, with time, reducing the dependence on donors. As evidenced by the experience of other countries, FDI can play a significant role in this process.

The analysis of chapter I showed that outside privatizations FDI has mainly come to traditional industries with lower value addition and often weak linkages to the rest of the economy. Even in those sectors, the continuous growth of such FDI should not be taken for granted, as competition worldwide is high and also within the region. And this is even more the case for sectors with unexploited FDI potential. Overall, the Republic of Moldova underperformed, compared to its neighbours and competitors, in FDI attraction. That is why it is important for the Government to work on several tracks to attract more FDI and maximize its benefits in terms of new jobs, skills, export opportunities and ultimately sustainable development. In particular, the Republic of Moldova needs to create dynamic comparative advantages by upgrading its resources and capabilities (human capital, infrastructure, institutions, local enterprises, research institutions, to name a few) to cater better to the needs of foreign investors.

Embedding FDI in a development vision — linking investment promotion strategies with key areas of economic development

It is rare to find a country that has fully succeeded in making FDI an important factor in its development strategy; the same applies to the integration of the investment promotion strategy within the overall national development strategy. Successful examples include Costa Rica, Ireland, Singapore; to some extent Malaysia, Thailand; and more recently China. In these countries, it is recognized that a strategy of maximizing the benefits of FDI goes well beyond investment promotion, and encompasses elements such as the development of human resources, infrastructure development, and of the local private sector, to mention a few key areas. Other countries are less successful in making FDI an important factor in their development strategy for various reasons. One is that many of them simply do not have a development strategy or vision.[54] In those that have, the strategy often remains on paper or is not implemented consistently, often altering or being abandoned by changing governments. The same can be said about investment promotion strategy.

In this context, the various initiatives undertaken since the mid-2000s and the emphasis put on improving the Moldovan regulatory framework for investment are clear indications of the Government's desire to make FDI an important element of economic development. Moldova 2020 provides a basis for the important role FDI can play in addressing the country's challenges (chapter I). Its adoption will provide an excellent opportunity to adequately mainstream FDI in the economic policymaking process, update the investment promotion strategy, linking investment promotion with key areas of economic development, and ultimately ensure that the political discourse matches the actions taken.

The IPR recommends that the Republic of Moldova better combines investment promotion, industrial policies, and the development of human resources, infrastructure and of the local private sector into a single strategy. Ideally, the investment promotion strategy should follow from the Government's long-term vision and translate it into a concrete action plan reflecting where the country wishes to go and the role of FDI. The strategy should recognize that smaller economies such as the Republic of Moldova must integrate into, and compete on, the international market if they are to develop and benefit from global value chains. FDI and associated trade can offer new and better job opportunities, higher wages and enhanced training and human resource development for foreign affiliates' employees, suppliers and distributors. Moreover, foreign investors will need local partners. This requires increasing the country's competitiveness and building a vibrant market economy. In this regard, private investment will play a central role in providing a major stimulus for driving economic growth and increasing exports.

To meet these objectives, the investment promotion strategy of the Republic of Moldova will have to be broader and more forward looking than the existing one, which focuses essentially on the role of the investment promotion agency in attracting investment. The FDI vision of the Strategy to Attract Investment and Promote Exports 2006–2015 (updated the last time in 2008) reflects the realities of the pre-crisis world economy, and the priorities of the Republic of Moldova from the point of view of export promotion. Moreover, the new priorities set in Moldova 2020 (with the exception of privatization) are not sufficiently linked with investment promotion. In principle, the Government could opt for yet another update of the Strategy to Attract Investment and Promote Exports 2006–2015. However, given the extent of changes required it is more advisable to draft a new strategy, which adjusts the priorities of investment promotion to new realities in the Republic of Moldova and in the world economy and strengthens emphasis on FDI. The new strategy would also contain clearer provisions on the implementation of plans, which has been a particularly weak side of the old programme.

Preparing the investment strategy, monitoring and evaluating its impact, as well as making right policy decisions should be based on reliable statistical information. The Republic of Moldova has in general good FDI statistical data collection, but the activities of foreign firms are not yet covered adequately. In addition, available data are often underused in economic analysis by the Government or by independent researchers. Consequently, there is little research and knowledge on the activities of foreign firms in the country. Judgments about what foreign firms do, even among high-ranking Government officials, are based, at best, on educated guess, and, at worst, on speculation. This is not a good basis to make informed policy decisions and formulate programmes aimed at, for example, stimulating linkages between foreign and local firms, or upgrading affiliates' activities. Another issue is the lack of cooperation between agencies collecting statistical information (box I.3).

It is therefore recommended to improve statistical reporting on FDI and the activities of foreign firms, among others, through cooperation between institutions involved in data collection and reporting. To collect one coherent set of corporate data, the National Bank of Moldova and the National Bureau of Statistics should use a single joint survey of companies. Following standard definitions of portfolio investment and FDI, improved statistics should differentiate between "companies with foreign capital", in which the foreign partner owns less than 10 per cent of equity capital (portfolio investment), and those with a foreign equity capital stake of 10 per cent or more (FDI). UNCTAD could provide technical assistance in the area of FDI statistics through follow-up activities (box III.1).

Box III.1. UNCTAD's technical assistance in collecting and reporting statistics on FDI and activities of TNCs

Relevant, reliable and timely information on FDI and activities of TNCs is an essential prerequisite for effective national investment policies outlined in UNCTAD's IPFSD. The need for more detailed data to advise policymakers is further highlighted by the development of UNCTAD's FDI contribution index, which requires a series of indicators that are usually missing from the reporting of developing and transition economies.

To alleviate the problems related to the lack of such data, UNCTAD has developed a capacity-building programme for developing and transition economies, aimed at assisting the collection, improvement and international harmonization of FDI/TNC statistics. The programme builds on UNCTAD's expertise gained in establishing and running one of the world's largest FDI/TNC databases, covering information on more than 200 economies over a period of 40 years. It also benefits from UNCTAD's involvement in the preparation and improvement of international benchmarks such as the fourth edition of the OECD Benchmark Definition and the sixth edition of the IMF Balance of Payments' Manual. UNCTAD's expertise is reflected in a three-volume Training Manual on Statistics for FDI and the Operations of TNCs (UNCTAD, 2009c).

UNCTAD provides technical assistance mainly through organizing national or regional workshops, bringing together stakeholders (central banks, national statistical offices, company registries, investment promotion agencies, etc.) dealing with FDI/TNC statistics. Participants in the training workshops are encouraged, among others, to establish a unified, coherent and effective survey system to collect and disseminate data on FDI and activities of foreign affiliates. The ultimate objective is to enable policymakers in developing and transition economies to make appropriate decisions and formulate development-oriented policies in the area of FDI. Since the inception of this programme in 2004, UNCTAD has carried out around 40 workshops. Albania, Belarus and the former Yugoslav Republic of Macedonia are examples of transition economies that have benefited from the programme so far.

Source: UNCTAD.

Thus, the Republic of Moldova should develop a FDI strategy for two reasons. First, if FDI is to play a key role in the country's future development, the Government should seek to achieve a broad political consensus around national development and FDI promotion, keeping in mind that development and FDI promotion are long-term efforts (it took Costa Rica and Ireland some 8–10 years to prepare ground, and to convince large companies to invest in their countries). Second, the country should make FDI promotion and attraction a matter of national priority.

C. Enhancing human resources and infrastructure for better FDI

The cross-cutting issues, or horizontal measures, proposed in this section comprise policies and actions that are relevant for all types of FDI and also domestic investment. They include measures aimed at developing human resources, and enhancing physical infrastructure.

1. Developing human resources for better FDI

Building human capital is among the most important factors which will determine the economic future of the Republic of Moldova and its long-term development prospects. The availability and cost of semi-skilled and skilled labour will also determine what types of FDI the country will attract in the future and their contribution to the economy. Notwithstanding its high public spending on education, the Republic does not compare favourably with competitor countries in terms of the quantity and quality of its human resources (chapter I). Moreover, as the country's objective is to receive more FDI relying on skilled labour, it needs to undertake additional efforts to enhance the skills of its human resources. FDI can help in this process in various ways, but it will not substitute for the national education system in producing the necessary skills for the economy and FDI, which is the role of the Government.

As seen in chapter I, the majority of graduates from secondary schools in the Republic of Moldova enter the labour market as semi-skilled labour, and many of them leave the country in search of better work opportunities, notably in the Russian Federation. In contrast to the experience of other countries, including those in the region, where the majority of students continues education at the tertiary level, enrolment in tertiary education, at 38 per cent (measured by gross enrolment ratio),[55] is below the average of comparator countries (50 per cent, table I.3), and declining since 2006 (UNIS, 2011). One of the possible reasons put forward to explain this decline is the introduction of fee-based education in public universities. Furthermore, a comprehensive report assessed that the quality of higher education has not improved over time, for a number of reasons:

f) the proliferation of private higher education institutions (HEIs), which have often focused on quick profits at the expense of quality and curricular standards;

g) the low wages in public education, with associated rent-seeking behaviour;

h) curricula oriented towards memorization and outdated skills, and insufficient use of IT;

i) low admission requirements and the absence of criteria and mechanisms for objective assessment of students' performance;

j) teaching outdated specialties not demanded by the labour market; and

k) weak or non-existent university-industry links (ETF, 2009).

The quality of vocational education in the Republic of Moldova is also to be improved. It is affected by issues similar to those in higher education,such as outdated curricula or weak cooperation between the private sector and vocational schools. In addition, on-the-job training is very limited (ETF, 2009). In a company survey by the UNDP (cited by Government of the Republic of Moldova, 2012a, p. 13), 85 per cent of interviewees mentioned the lack of qualified labour as a key obstacle to growth.

Despite efforts to remedy the situation, there is a shortage and significant mismatch between the supply of skills produced by the education system and the needs of the labour market. In the past, different Governments have elaborated several strategies and plans, concerning both labour market and education,[56] but their implementation has been uneven and their impact limited. *Moldova 2020* also contains a chapter on education, recognizing the key issues, many of which are similar to those identified in the past, indicating slow progress. It does not, however, elaborate on the proposed solutions. Drawing on the experience of other countries, a number of measures are proposed below, which aim at benefiting from FDI and other forms of foreign involvement in education, as well as closing the skills gap. For the measures identified below to bring about their full impact, the Government should also consider introducing a quality assurance system at all levels of education.

1.1. Permit and attract FDI into higher education

The Republic of Moldova should consider first of all attracting a branch campus of a renowned university to establish operations on its territory. The number of such campuses, located mainly in developing countries, has grown rapidly world-wide, reaching 200 by the end of 2011, according to the Observatory of Borderless Higher Education. It is anticipated that 37 more campuses will be opened over the next two years. A branch campus is a key form of FDI in higher education. Western universities, for instance, are increasingly interested in establishing such campuses abroad, on their own or with the support of host and/or home governments. Rwanda, a country in Africa several times poorer than the Republic of Moldova, recognizing the importance of education of its people for its future, has recently attracted in a very bold move the Carnegie Mellon University from the United States. The University is expected to achieve the enrolment of 150 students and will offer master's degrees in information technology, and in electrical and computer engineering.

The Republic of Moldova should capitalize on this trend and should approach selected donor countries to offer intermediation and support in this endeavour. The campus does not have to be big initially. Campuses offer fee-based education and are typically more expensive than education offered within collaborative arrangements. But the market in the Republic of Moldova is already there. In 2010, the number of Moldovan students studying abroad was 12,482. In other countries, which attracted branch campuses, candidates for study abroad are, at least partly, candidates for study in branch campuses. Such campuses offer degrees identical to those at home campuses, but tuition fees are lower and foreign travel and accommodation costs are avoided. A campus in the Republic of Moldova would also attract students from neighbouring countries. At present, there are already 1,300 foreign students in the country.

Foreign universities establishing "greenfield" branch campuses abroad are typically non-profit organizations, public or private in their own countries. Recently, for-profit players have emerged as cross-border investors in higher education. For-profit investors typically enter host countries buying existing HEIs, together with their property, licenses and accreditations, and take over their staff and students. They inject capital, increase the capacity, boost marketing, overhaul administrative and management systems and introduce programmes and curriculums that can be shared across their affiliates in different countries (McBurnie and Ziguras, 2009, p. 98). It is difficult to say, if for-profit HEIs would be interested in investing in the Republic of Moldova. A market research study exploring the potential market, helping understand the drivers of FDI in education and identify institutions to be targeted, would be suitable for this purpose. Based on the results of the study, removing the regulatory barriers to FDI in the sector should be considered.

1.2. Encourage collaborative arrangements with foreign HEIs

The Republic of Moldova has started to use collaborative arrangements between Moldovan HEIs and foreign universities as a tool to strengthen the former; however, they are not yet widespread.[57] Yet such arrangements have become increasingly common in many countries, small and large, seeking to increase the quality of their education systems. They include various forms of collaboration ranging from franchising agreements, through programmes offering double or joint degree to twinning and validated programmes (Zimny, 2011, p. 47). They are typically fee-based, but this should not be a problem as much of the higher education in the Republic of Moldova is already fee-based. They are attractive to students through not only offering high-quality education but also through granting degrees of the mother institution in the home country, recognized internationally. The Republic of Moldova should seek such collaborations for its HEIs in the areas important for its development. One such area includes MBA programmes educating future managers of businesses. As is clear from the overview of industries in chapter I, Moldovan managers have acquired in a number of branches good manufacturing skills but do not have marketing and sales skills. This is a single most important constraint to forward integration of Moldovan companies, embracing activities with higher value added potential. Attracting MBA courses providing comprehensive business education would be a step towards easing or solving this problem. Lifting the current limits on tuition fees, imposed by the Government, would be one of the conditions to facilitate not only collaborative arrangements between foreign and local HEIs, but also FDI in education.

1.3. Encourage cooperation between vocational schools, universities and the private sector

An effective interface between educational institutions and the private sector is essential because it permits to address bottlenecks in the labour market and the education system. It allows the former to adapt programmes and curricula to the needs of the economy and facilitates the entry of students into the job market. In addition, in the case of universities, it may result in mutually beneficial partnerships in the area of R&D. It is quite common that in such partnerships businesses provide schools with modern equipment in exchange for teaching graduates according to their needs. A number of initiatives could be considered in this respect. The private sector could be consulted when revising curricula, in particular in technical schools. Private sector representatives could be invited as visiting teachers, and the Government could encourage companies to offer time-limited internships to students by creating a legal status for interns and perhaps exempting employers from social security contributions. Private entities could be motivated to offer practical courses within enterprises in cases where specific equipment is required but it is too expensive for schools to buy it. In addition, private sector representatives should participate in decisions regarding curricula, to bring their knowledge regarding the skills that businesses require. The opportunity to co-decide changes in schools might encourage the employers to support schools financially (ETF, 2009, p. 99).

1.4. Consider importing skills in short supply

Given the expected decline in its labour force, even if the Republic of Moldova is successful in aligning the education system to the requirements of the labour market, it will continue to suffer skill and labour shortages. Moreover, the current diaspora attraction programmes could be made more proactive, and the rules on employment of foreigners could better foster skills attraction (chapter II). While it is not recommended to open the job market to all migrants, it would be profitable for the Republic of Moldova to attract selected migrants in areas of skills shortages. A new approach is thus recommended that would facilitate the entry of expatriates on a temporary basis, to the extent that they possess skills that are in short supply. The new system could work along the lines similar to the H1-B visas system of the United States. Skills in short supply would have to be identified and defined, and a national quota of visas would be determined on an annual basis. Work permit would be linked to the employer and issued for a period of up to three years, under a simplified administrative procedure. To facilitate the entry of foreign professionals, the Republic of Moldova should also introduce a system recognizing qualifications and degrees acquired abroad. The quotas of working permits should be decided by the Government after consultations with the private sector.

1.5. Capitalize on the Moldovan Diaspora for skills and investment

The Republic of Moldova has a large and growing Diaspora in search of better economic prospects (chapter I). Several countries have policies aimed at exploiting the economic potential of migrants and return migrants. Migrants can support trade, be a source of foreign direct and financial investment or can participate in knowledge exchanges. Return migrants are a potentially important source of knowledge and skills of all types. Some countries have worked with migrants and foreign investors to build service outsourcing potential to capitalize on the migrants' language skills (World Bank, 2011a, p. 66). One quarter of the active population of the Republic of Moldova is estimated to be living abroad (chapter I). Data of the NBS confirms the Russian Federation as the major destination, accounting for 62 per cent of Moldovan migrants, followed by Italy (20 per cent). The great majority of emigrants have secondary education (88 per cent) and 11 per cent have a higher education degree.

The Moldovan Diaspora is quite well organized. There are Moldovan Diaspora's organizations or associations in several countries. Links with the home land are assured, among others, through Moldovan Diaspora Congresses. They are organized by the Bureau of Inter-ethnic Relations of the Republic of Moldova, which has, among others, the responsibility for the Government's diaspora policy. According to many migrants, however, the Bureau has insufficient capacity to deal adequately with their issues, which fall under several ministries such as the Ministry of Labour, Ministry of Education, Ministry of Foreign Affairs or Ministry of the Economy, to name a few, and should be coordinated by one agency. In this regard, the diaspora associations have forwarded proposals to reassign the responsibility for dealings with the Diaspora to a State agency, which would deal exclusively with diaspora issues. They also call for strengthening diplomatic protections of Moldovan migrants abroad, through deploying skilled diplomatic personnel to countries with large numbers of Moldovans, opening embassies or consulates where they do not exist (e.g., in Canada, Spain and Ireland) as well as encouraging other countries, in particular Italy, to open embassies in the Republic of Moldova.

The main challenge for the Government in the area of Diaspora is how to turn their remittances into investment and their skills into entrepreneurship. A Pilot Programme on Attracting Remittances into the Economy (PARE 1+1) was launched in November 2010 (box III.2), although no comprehensive policy exists yet in the area of diaspora investment. The IOM supports the programme through an

Box III.2. The PARE 1+1 programme

Understanding the role remittances play in the national economy (box I.1) and the role it could play in entrepreneurship development, the Ministry of Economy developed and has carried out the PARE 1+1 (2010–2012) programme.[a] The programme aimed at mobilizing the human and financial resources of migrant workers. It provides information, training, and financing to eligible migrants or beneficiaries of remittances who want to enhance entrepreneurial skills, establish or develop an SME in the Republic of Moldova. Business financing is based on a "1+1" rule (half of the costs covered by the candidate, the other half covered by the State). The maximum grant was set at MDL 200,000 (about $ 17,000). Except for a negative list (financial intermediation, gambling, real estate, trade, catering in Chişinău and Bălţi), the programme is open to all economic activities. It is expected that it will increase the volume of remittances invested in the national economy (at least MDL 100 million – about $8.5 million), create up to 2000 new businesses and 6,000 new jobs, out of which 70 per cent could be in rural areas. In 2011, 67 business projects received the grants at the total amount of MDL 31.7 million (about $2.7 million).

Source: UNCTAD, based on information from the Ministry of Economy.
Note: [a] The Government Decision N° 972/18.10.2010 on the pilot programme to attract remittances into the economy 'PARE 1+1' for 2010-2012 / / Official Gazette 211-212/1091, 29/10/2010.

information campaign but also small grants to migrants who demonstrate the feasibility of their businesses for the development of local communities. In addition to programmes aimed directly at investments by the Diaspora, the Government could consider increasing the availability of capital for investment, by encouraging the channelling of transfers through the banking system. This could take the form of reduced commission fees on transfers, consumer awareness campaigns (such as publishing information on costs and charges of alternative means of transfers, including daily rates and charges) and programmes placing financial literacy educators at selected bank branches across the country and within savings and credit associations. Encouraging the financial sector to promote new on-line saving instruments for migrants could also be considered (World Bank, 2011a).

The IOM has also proposed setting up a Homeland-Diaspora Development Fund as well as various incentives such as bonds for expatriates, tax breaks, special saving accounts, reduced transaction costs for remittances transfers and promoting changes in banking infrastructure as well as saving culture. The Government should organize investment and trade fairs bringing together Moldovan entrepreneurs from the Diaspora and the Republic of Moldova, as well as credit and financing agencies. It was proposed elsewhere that close cooperation between MIEPO and diaspora organizations would be beneficial and could result in increased investment by the Diaspora. Any effort in this respect is worthwhile. If it succeeds in only doubling the share of remittances spent for investment from the current modest level of 7 per cent to 14 per cent, it would translate into over $180 millions of investments, almost matching the size of FDI inflows, the Republic of Moldova has received during the past two years.

2. Enhancing the competitiveness of infrastructure through and for better FDI

Good and efficient infrastructure is a key determinant of FDI. It reinforces host country's locational advantages such as competitive human resources, and allows attracting of more and higher quality FDI. Needless to say, foreign and domestic firms with access to modern telecommunication services, reliable and competitive electricity supply, dependable water and sanitation services, as well as efficient transport links, are more competitive and their investment is more productive, which allows them to invest more.

As concluded in chapter I, the challenge is to create conditions suitable for the participation of private capital in infrastructure development and to attract foreign investors to undertake FDI and/or to participate in PPPs in infrastructure, in order to develop road infrastructure, which still requires major upgrading and energy and other utilities, which also need some investment. The latter are not yet a major constraint to business, but the situation may deteriorate if new investments are not undertaken, because parts of the infrastructure are wearing out.[58] Both government investment in infrastructure and donors support for infrastructure development cannot meet all needs. In this situation, a combination of public and private investment, to provide the capital needed to achieve meaningful results, could be the solution. Given limitations of domestic private capital, a part of private investment will have to come from abroad.

In meeting these challenges, the Republic of Moldova is not starting from scratch. Over the years it has been changing regulations for infrastructure development to ensure harmonization with EU standards. Laws have not only permitted private investment but also envisaged conditions to encourage it by, among others, deregulating the provision of services, allowing to set tariffs at cost recovery levels and setting up independent regulatory agencies to "police" competition in natural monopoly segments. Branches of infrastructure have been, however, covered unevenly by new regulations. In those that were, regulations have been generally adequate, but their inconsistent implementation has hindered the delivery of the expected results in terms of private investment (chapter I) and/or increased competitiveness. In some cases, an opaque market structure, characterized by the dual role of the Government as both the provider of services and the regulator, makes it difficult to effectively implement existing programmes.

Telecommunications, in which both adequate infrastructure and significant FDI in the mobile segment are available, poses a different challenge: the monopoly power of the incumbent State-operator reduces competition and limits, among others, the potential of the ICT sector to be fully exploited to the benefit of citizens, businesses and the country's competitiveness.

The telecommunications sector was liberalized in 2004 as part of the WTO requirements. A new law on electronic communications was adopted in 2008, but there are problems with its implementation due to the fact that the

State-controlled operator, Moldtelecom, remains a quasi-monopolist in the fixed telephony, and can block actions of the regulatory body, the National Regulatory Agency for Electronic Communications and Information Technology (ANRCETI). For example, interconnection with foreign Internet service providers (ISP) is only authorized through Moldtelecom channels, which allows the company to set high interconnection charges and bandwidth prices as well as high rates for international calls and block access to its facilities such as exchanges and local loops for independent operators. This allows Moldtelecom to cross-subsidize its retail tariffs on basic telecommunications services (e.g. local calls) and make them affordable for the poor. However, private telecommunication companies face a competitive disadvantage. In addition, high external call rates and low broadband access under State-owned telecommunications monopoly hamper Moldova's considerable potential for attracting outsourcing of services from Europe and the Russian Federation (IDA, 2011, p. 5).

In the *energy sector* — in particular electricity and gas — the Republic of Moldova has improved the legal and regulatory framework and established an independent regulator, the National Agency for Energy Regulation (ANRE). Generation, transmission and distribution were unbundled at the end of the 1990s, and in 2000, an important part of the distribution system was privatized to the Spanish company Unión Fenosa (box I.6). Administrative interference in tariff-setting has been reduced in 2010, when the regulator has become responsible for setting tariffs "at all stages, including production, transportation and distribution of electricity, gas and district heating" (ECS, 2011, p. 11). Consequently, end-user tariffs have been raised by the regulator, broadly in line with increased import prices (EBRD, 2010, pp. 35–36). Cost-recovery tariffs are important, because they provide a profitable perspective for investors. In addition, electricity sector debts have been transformed into State debts, and, as a result, most energy companies (except for the heat sector) have improved their financial situation (ECS, 2011, p. 11). Elimination of historical debt of State-owned enterprises increases the chances of private investors' interest in these companies (earlier attempts to privatize these companies failed to attract investors). As a result of the partial privatization in distribution, two-thirds of the distribution grid has been modernized (box I.6), energy losses in the private-owned distribution network declined[59] and the collection rates reached almost 100 per cent (chapter I). The transmission network, the remaining distribution and generation plants have remained State-owned, and unlike the private segment of the industry (box I.6) have lacked investment, especially in maintenance.[60] By becoming a full member of the Energy Community as of 1 May 2010, the Republic of Moldova has committed to further reforms, including the adoption and implementation of the *acquis communautaire* on, among others, energy, competition and renewables, and leading to further energy market liberalization.[61] This will require, among others, increasing the independence of the regulator: at present, its powers to implement sanctions in the case of breaking regulations by industry's players are limited. One of the regulator's dilemmas is how to deal with renewable energies. In low-income Republic of Moldova, consumers are very sensitive to energy prices. Therefore, renewable energy can be introduced on a larger scale[62] only when the cost of these technologies allows for an affordable price for local consumers, which is currently not the case, unless heavy subsidies are introduced.[63]

In *heating and water provision*, larger utilities are organized as semi-corporatized municipal enterprises, formally independent but, in fact, often still dependent on local administration. In smaller communities, services are organized as part of the local administration. Most municipally-owned utilities make losses, because of the excessive energy use. Heating and water meters have started to be introduced. The legal framework allows for setting tariffs reflecting costs, but this rarely happens in practice, as tariffs are cross-subsidized and political interference is common. As a sign of progress, the Parliament transferred the responsibility for heat tariff setting from municipalities to the energy regulator, ANRE. Consequently in 2010, ANRE adjusted the heating tariff in Chişinău to a cost-recovery level (EBRD, 2010, pp. 17-18; and ECS, 2011). In addition, after a tariff freeze lasting several years, in 2009, the municipality of Chişinău approved substantial increases of tariffs for water provision (as well as public transport). Both the municipality and the Government will support the expenses of low income households on gas and heating (EBRD, 2010, pp. 17–18).

In certain types of *transport* infrastructure, such as railways and airports, the regulation of natural monopolies is a key issue. In railways, tariffs are set by the Government, but operating and policy making functions are not separated and core functions (infrastructure development, passenger traffic and freight) are performed by the monopoly operator

Moldovan Railways. The company accumulated significant debts, and in 2008 the Government adopted a restructuring plan, envisaging unbundling of infrastructure and freight and passenger services. However, the implementation lags behind schedule and the sector remains inefficient (EBRD, 2010, pp. 35–36). In aviation, monopolists such as the International Airport of Chişinău and Moldaeroservice (including tariffs they charge) are regulated by the Civil Aviation Administration. After the country's adhesion to the Common European Aviation Space (chapter I), the biggest challenge is to adopt the regulatory framework to EU requirements: on the one hand a new framework brings about more competition and more competitive prices, but on the other hand it requires the Republic of Moldova to comply with EU norms on aircraft safety. This may hinder the use of aircraft inherited from pre-independence times and not accredited by the EU in cargo transport.

Issues with PPP

In order to stimulate private investment, including in infrastructure, a *Law on Public-Private Partnerships* was adopted in 2008, in addition to the *Concessions Law* of 1995. The new law provides a framework for the launching of PPP projects and the procedures for competitive selection of the private partner. Its core principles are equal treatment, non-discrimination, transparency, proportionality, equilibrium, fair competition, freedom of contracts and cooperation. The law provides for the creation of a National Council for Public-Private Partnership, which has a mandate to assess the State policy in the area and identify priorities and strategies for implementation of PPPs. Functional units have been established within the Ministry of the Economy and Public Property Agency to promote and implement PPPs. Under the PPP law, any local or foreign company or an individual may become a private partner in PPPs. PPPs are allowed in any sector or activity, provided that they do not violate the country's laws. The law provides for a stability clause protecting the private partner of a PPP from changes in legislation, with the exception of those introduced to protect underground resources, the environment or public health.

In general, the PPP law provides a well-defined legal basis to facilitate the successful implementation of projects (IMF, 2011, p. 52). Infrastructure projects are among the priority sectors identified by the Public Property Agency for PPPs. The list of priority areas includes the development of a diversified energy system, an efficient transportation network, modern health-care and education systems, an efficient water and sewage system, infrastructure in service of an effective agro-food processing system. However, PPPs have had a rather slow start and no pipeline of infrastructure projects candidate for PPPs exists, let alone the relevant pre-feasibility studies, which are required to attract investors' interest.[64] According to the Government, to date one PPP has been completed in the area of health, with the opening in 2012 of a computerized tomography centre at the Orhei District Hospital (Government of the Republic of Moldova, 2012b).

In order to encourage more private investment in, and enhance the competitiveness of, infrastructure, the following actions are recommended:

- To develop a ten-year, cross-sectoral National Infrastructure Plan (NIP), in consultation with local authorities, private sector parties and trade unions, with the Ministry of Finance as the lead ministry. The NIP must include rigorous and transparent funding and realistic but detailed affordability analysis; this will result in a more efficient identification and ranking of potential PPP projects. To ensure coherence, it could be incorporated in/lined to the *Moldova 2020* strategy and interconnected with regional development strategies in order to benefit, additionally, from existing funds.
- To accelerate the use of PPPs to stimulate investments, in particular in road infrastructure and utilities. As a first step, the Government should prepare a pipeline of infrastructure projects, to which it wishes to attract private investors as partners in PPPs. As promulgated by the PPP law, feasibility studies (subject to approval by the Public Property Agency) should be prepared so that proposed projects could be submitted to investors' attention and bidding. PPPs in the area of infrastructure involve complex legal and commercial issues that require a high level of expertise within Government. In this regard, it is recommended that a pilot approach be adopted, allowing the new PPP agency to acquire the relevant experience, before launching a more ambitious PPP programme. A number of pilot projects should be identified within the NIP as the first ones to market, after proper initial appraisal (including pre-feasibility studies) has been undertaken. Running such projects would be a great demonstration for the local public authorities of the Government's political will to support PPP implementation and a significant

example of cooperation/coordination. The NIP should be nationally and internationally promoted, to attract widespread interest.

- In the area of energy, the regulator should be made fully independent, empowered and equipped to monitor compliance with the Republic of Moldova's generally adequate regulations of the sector. At present, the regulator's powers to implement sanctions in the case of breaking these regulations by industry's players are limited. The Government should continue its efforts to reduce administrative interference in tariff-setting in utilities and ensure that tariffs are increasingly set at cost and investment recovery levels, reflecting an acceptable risk-to-return ratio within a reasonable period of time. At the same time, it should provide the required support to the poorest segments of the population, for which cost-recovery tariffs will not be affordable. Finally, the Renewable Energy Law of 2007, aimed at stimulating investments in renewable energy sources should be fully implemented. This requires, among others, the adoption of feed-in tariffs,[65] as promulgated by the Law.
- In telecommunications, it is recommended that interconnection with foreign ISP be liberalized. Moldtelecom's interconnection charges, bandwidth prices, and prices for international calls in fix-line telephony should be managed by the regulator and not by Moldtelecom itself. The regulator should ensure equal, non-discriminatory access to the network, as promulgated by the law. Should the Government decide to privatize Moldtelecom, this would represent a significant FDI opportunity and a serious addition to the cash-strapped budget of the Republic. It would also sever the link between the Government and the company, permitting better management of the latter, full liberalization of the fixed-line market, and, as a result, better and cheaper services.
- An extensive project-driven training and capacity-building programme focused on dealing with the main issues in PPP implementation would need to be developed. It is important that all stakeholders involved in the PPP process, including public officials, the banking sector, the business community and the public at large be fully aware of the PPP concept and its effective development.

D. Achieving excellence in regulating and administering investment for sustainable development

The Republic of Moldova does not have the economic attractions, such as a large domestic market or natural resources, which have been a magnet in attracting FDI to countries with investment climates often far from perfect. Its access to international markets, however, partly compensates for a small domestic market, and makes the country a potentially attractive location for export-oriented FDI in goods and tradable services: it is in this area where most of Moldova's unexploited FDI potential is to be found (chapter I). But it is also the type of FDI for which international competition is fierce: investors can typically choose among a number of countries with similar market access. Therefore, to tap its FDI attraction potential, the Republic of Moldova has to distinguish itself from its competitors. This is of course possible only on matters and in areas that are in the Republic of Moldova's hands. Achieving excellence in regulating and administering investment should be one of them. Improvements in some other areas determining the investment climate, such as infrastructure or education, also depend on the Moldovan authorities, but they require time and money, and can happen, at best, in the medium to long term. With political will, determination and leadership, gains in regulations and administration of business can come relatively quickly, and carry a promise of an attractive reward in terms of FDI attraction. To reach that stage, the country has to ensure that it matches international best practices in all key areas of investment-related policies, including customs procedures, tax policy, intellectual property, competition policy, labour, and access to land (UNCTAD, 2012).

Over the years, as indicated in chapter II, the Republic of Moldova has achieved significant progress in many areas of its investment climate. It has put in place a regulatory framework for FDI which is first-class and reflects high international standards. It has changed most of its laws, to bring them up to EU standards and did away with many unnecessary laws and regulations (through, i.e., the "Guillotine" processes). It has published regulations and governmental decisions related to business activity in a special business registry, known as the "Register of Regulations on Business Activity". It has been combating corruption and simplified many business procedures and administration as well as established institutions required for regulating and administering business in a modern market economy. The Government has also improved the dialogue with the private sector and started applying a Regulatory Impact Assessment to all draft laws concerning business, and publishing draft laws for public comment. Those business reforms, which accelerated in recent years, have not gone unnoticed: in the 2012 edition of World Bank's Doing Business Report, the Republic of Moldova ranked second among 12 countries which improved the most in the ease of doing business during the previous year (2011), advancing in the overall ranking by 18 positions (World Bank, 2011b, p. 13). In 2013, it further advanced three places, from 86th to 83rd (World Bank, 2012).[66]

In spite of this progress, the country does not yet distance itself from its competitors with regard to its business administration and regulations. At best, its investment climate is assessed below average. But typically it is assessed as remaining amongst the most challenging in the region or simply weak (EU Business, 2009; United States Embassy in Chişinău, 2011; Capusella and Fala, 2011, p. 125). The Government is aware of the remaining weaknesses in business regulations and administration[67] and is determined, as part of *Moldova 2020*, to create a business environment with "clear rules of the game", with the intention to advance the country's rankings in international classifications. Under normal circumstances, this would be a noble and right intention, but given the urgency of the Republic of Moldova's problems and the need to win competition for FDI, the threshold should be set higher: the Republic of Moldova should aim at achieving excellence in regulating and administering investment, based on key principles (box II.3).

Box III.3. Achieving regulatory and administrative excellence: key principles

Regulatory and administrative excellence requires following certain principles. These principles are in line with the framework used by UNCTAD, the IPFSD, to advise countries on regulatory and administrative reforms. For the Republic of Moldova, key among them are the followings:

Policy coherence, predictability and stability of rules. Investment policies should be grounded in a country's overall development strategy and dynamic policymaking is required to ensure the relevance of policies to the development dynamics. However, coherence also involves the elimination of unnecessary and conflicting laws and regulations, avoidance of frequent changes in a regulatory framework, simplification and clarity of the rules to prevent arbitrary interpretations. Regulatory impact assessments applied to all draft laws concerning business are a good tool to foster coherence.

Good governance in the implementation of the rules and administration of business, including transparency. To ensure a corruption free environment for business a number of principles apply: consistent and non-arbitrary implementation of laws and regulations; avoidance of burdensome and annoying permits, controls and inspections, not stipulated by the law; keeping promises and obligations of authorities, as stipulated by the laws (e.g., VAT reimbursement); and smooth handling of business procedures in all stages of business development. For example, as regards taxation, this would mean a maximum collection of taxes as envisaged by the laws, but at the same time a simple tax system, making tax filing and collection easier and helping companies predict their costs better and make more accurate financial projections without exposing companies to the risk of harassment by multiple tax bodies and providing a level playing field for tax payers. Rules on governance are complemented by principles related to transparency, i.e. providing information by authorities of a host country that is relevant to making informed business decisions. Such information (laws, regulations, judicial and administrative decisions, and international agreements) should be published in English or made available from the websites of respective institutions. Transparency also involves consultations of draft laws or regulations with stakeholders, including with foreign investors, as well as notification procedures on proposed regulatory or legal changes affecting investors.

Source: UNCTAD (2012).

Chapter II has identified areas where the Republic of Moldova has made greatest progress in reforming its regulatory framework and business administration, as summarized above, and areas which lag behind and require attention. As regards the latter, sets of actions needed for further improvement and for moving closer to excellence vary from area to area, but the types of actions are common across many areas. First, there is a need to amend certain laws pertaining to business. The laws for a review are not too many (three to five at most), as the Republic of Moldova has greatly improved its regulatory framework. Second, it is the implementation of good laws in force. Solving implementation problems may require strengthening institutions mandated to oversee the implementation, creating conditions conducive to implementation and/or overcoming the opposition of vested interests or the public to certain new laws. Third, there is a need to improve governance and reduce the scope for discretionary and non-transparent administrative decisions.

Specifically, the analysis in chapter II has led to the formulation of the following recommendations in individual areas:

Regulatory framework for FDI — As exposed in Chapter II, in the Republic of Moldova regulations specific to FDI both in the national laws follow modern international practice. The country is open to investment in most sectors and remaining restrictions apply equally to both domestic and foreign private investment. The country is also member of a large network of international treaties, both bilateral and regional, which offer further investors' protection and guarantees, such as in the area of expropriation. Additionally, new treaties with investment clauses are being negotiated. In this context, it will be important that the Republic of Moldova ensure that the outcome of these negotiations is consistent with the country's overall development objectives. In this respect, the UNCTAD's IPFSD can provide useful guidelines to negotiators.

Land — The development of, and attracting FDI into, agriculture and agri-business requires removing the ambiguity surrounding the land lease regime. If the Republic of Moldova wishes to exploit its considerable FDI potential in agri-business, the Government should provide the appropriate legal framework for long-term lease of land by investors, domestic and foreign, following international practice. The National Cadastre Agency should also complete the land property registration process.

Construction permits — The Ministry of Constructions and Regional Development should take the lead towards completing the legislative process on construction, and adopting a second construction law (covering inspections and final approvals of completed construction) and new regulations replacing the outdated technical norms in constructions with modern (EU-based) standards. At the same time, conditions need to be established to facilitate the implementation of the 2010 *Law on Authorization of the Execution of Construction Works* and other new construction laws in case of their adoption. This involves in particular the introduction of modern electronic solutions to construction permitting at the level of municipalities, including databases, online platforms and electronic connections with other agencies involved in the permitting process. To handle modern solutions, municipalities will need to upgrade their human resources. They also need to complete and/or update their Urban Plans. In the long term the Government should seek to match the time and procedures related to construction permits with at least the average of those in the EU or the OECD. It should also review procedures for getting connected to electricity, as they require unusually long time.

Inspections — While the new *Law on Permissive Acts* represents a major improvement in the area of controls and inspections, coordination among inspection agencies still requires attention. In general, it is necessary to increase the transparency and reduce arbitrariness of inspections by providing investors and the public with clear guidelines as to the objectives of inspections, compliance requirements, deadlines to adopt corrective measures and penalties for continued violation. A system of targeting high-risk cases should be developed, in order to better streamline inspections and avoid bothering businesses with unnecessary ones. State inspectors should abandon the practice of requesting the certificates with registration numbers from agencies such as the State Tax Service, the Social Security Agency, the National Bureau of Statistics and the Labour Agency on paper, instead of electronic registration numbers provided by the State Chamber of Registration.

Licensing — Progress in the area of licensing has been made through the creation of a one-stop-shop at the Chamber of Licensing. Further progress could be achieved through streamlining licensing requirements and removing licences which are not justified by the need to protect public interest, such as, for instance, software and design activities. This could be achieved through a Guillotine process. It is also suggested to consider extending the validity period of licences, especially in areas where it is less than the common five years.

Privatization — In order to increase the chances of success of the privatization process and reach the Government's objective of increasing the presence of the private sector in the economy, the authorities could consider several initiatives. Asset evaluation can be improved through due diligence and with the assistance of certified specialists following international standards. Privatization procedures and calls for interest to participate in privatizations should be more widely publicized, including through the Moldovan Embassies and the diplomatic community based in the country.

Taxation — The Republic of Moldova has room for the improvement of its tax administration, which would ease procedural burden and risks for companies, result in increased budgetary revenues and represent a betterment of the investment climate. In this regard, it could review, with the participation of the private sector, the draft procedural Tax Code of 2008, which was never ratified. It should also establish an on-line register of all decisions and clarifications by the tax authority to make sure that rules are applied consistently and uniformly. Other recommendations to be followed include allowing compensation of VAT credit against other company's tax liabilities such as custom duties, and removing the restriction that losses carried forward be distributed in equal parts during the three-year period allowed.

Customs administration — Customs offices need to be rationalized in the capital city to make sure they cater efficiently to an export platform. On the technical side, the implementation of the Development Strategy of the Customs Service should be a priority. For instance, modernization of the customs infrastructures should be accompanied by measures aimed at streamlining the organization of formalities on the border, such as separation of traffic by types, giving preference (a so-called fast track) to vehicles carrying internationally recognized documents such as the TIR carnet, live animals or perishable goods, and creating off-lane control areas for random checks. Training of customs officers and customs brokers would help maximize the effect of using electronic solutions, including e-signature.[68] These electronic solutions are becoming a useful tool for public administration. For example, the Customs Service would need to update its IT infrastructure to comply fully with the needs of electronic documents.

Labour — Labour regulations need to be made more flexible without jeopardizing basic labour rights. More flexibility could be introduced for example into the system of part-time work, short-term contracts, dismissals, and litigation. Part-time labour contracts would need to be introduced and encouraged, especially for women, students and retirees. In the area of separations of workers, rules should be simplified for terminating the employment of unproductive or disruptive employees, and the employee's option to withdraw the resignation would need to be abolished. In case of litigations, rulings have to be enforced only after courts have delivered their final rulings on the case. The unusual prerogatives of trade unions in the area of environmental protection, housing laws and privatization could be terminated.

Employment and residence of foreigners — The Republic of Moldova's objective of revitalizing its economy based on a modern industrial and export platform makes skills' availability a priority. In this respect, a more targeted, and more participatory approach to the entry of foreign skills could prove beneficial. The procedures related to working permits and visas should be made more efficient. The application documents should be available online and streamlined. In this area, the draft amendments to the *Law on the Regime for Foreigners in the Republic of Moldova*, once approved, will have a positive contribution. Fast-track procedures for the extension of working permits and visas for those foreign investors or foreign employees which have a good reputation should be made available.

Competition Policy and State Aid — The full application of the new law on competition should be ensured and the new law on State aid adopted. The resources of the competition agency should also be increased, in order to make sure that it efficiently performs all the tasks assigned to it. As part of an efficient implementation process, awareness about competition and State aid issues should be raised. For example, more attention should be paid to training judges in the spirit of defending and encouraging fair market competition. Taking into account the dissolution of commercial courts it is important to train judges in civil courts in basic economics to understand issues related to concepts such as anti-trust, dominant positions, cartels or State aid.

Intellectual property — The most important issue currently remains the legal enforcement of decisions related to IP rights, and, in particular, training judges and other stakeholders and raising their awareness on the importance of the protection of IP rights. Important guidelines for these activities could be developed under a national IP policy.

Transparency and the judiciary — On the fight against corruption, the action of CCEC needs to be strengthened. For example, awareness campaigns on the possibility for investors to resort to the CCEC in the context of the Law on Permissive Acts are required. In the field of judiciary reform, the role of judges in protecting and enforcing the rights and obligations of economic agents is crucial. Checks and balances are needed to further strengthen the independence and impartiality of judges. The need to train civil law judges on economic matters has already been raised (see above).

E. Improving the effectiveness of investment promotion for more FDI benefits

As highlighted in chapter I, the Republic of Moldova attracted increased amounts of FDI in the mid-2000s. This performance has, however, remained weaker than that of several of its competitors. A reason why the country has not been able to exploit its FDI potential better has been the relative underdevelopment of the FDI promotion system. The country's improving economic performance has not yet caught the attention of international media and, more importantly, of too many international investors. It is little known among investors or the general public that the Republic of Moldova has become an increasingly attractive place to invest. In services, as mentioned, the Republic of Moldova is below the radar screen of the international IT and BPO industry and the inflow of FDI into the industry has not yet reached a critical point. In agribusiness, the country is losing out to competitors.

The institutional setting for investment promotion consists of the Moldovan Investment and Export Promotion Organization (MIEPO), under the responsibility of the Deputy Prime Minister *cum* Minister of Economy,[69] whose 15-person staff deals with both export and investment promotion (but non with investment promotion only). It is also composed of a six-person team in the Prime Minister's (PM) Office (the Investment Attraction Team). MIEPO deals with investment promotion activities such as investor targeting, sector-specific promotion, identification of investment site locations, as well as the organization of export and investment promotion events. It also offers information services through a revamped MIEPO website. The Investment Attraction Team promotes investment through image building, investment generation, aftercare and policy advocacy. It is funded through medium-term extensions by the international donor community. The two teams have partly overlapping and complementary responsibilities for investment promotion, which poses coordination challenges and can create potential confusion in the international business community interested in investing in the Republic of Moldova.

MIEPO underwent a major reorganization in 2012, following the recommendations of its steering committee — the Investment Attraction and Moldovan Export Promotion Activities Coordination Council.[70] The resources allocated to MIEPO annually were doubled in comparison to 2010, reaching MDL 5.22 million ($445,000). Of this amount, about $325,000 were spent on investment and export promotion activities. The mandate of MIEPO was also expanded in 2012–2013 to carry out a broad range of investment promotion activities such as investor targeting, sector specific promotion, identification of investment site locations, image building and aftercare. However, given its limited human and financial resources and the fact that these are shared with export promotion, it is unclear, at the moment of closing this report, as to what degree the institution will be able to carry out all those additional tasks.

Simultaneously, the Investment Attraction Team has also extended its resources considerably. The number of staff was increased to six in 2012, and should reach about 15 by mid-2013. By then, the team will have specialists in image building, investment generation, aftercare and policy advocacy. It plans to hire local (regional) representatives within the Republic of Moldova and to pro-actively improve the country's image with the help of "Flying Teams". Future extensions of the Investment Attraction Team will aim at hiring sectoral experts to target investors for priority sectors.

In sum, the Republic of Moldova is gradually moving towards adopting the full range of investment promotion functions, but these are split among two teams. Given the limited resources of the country, and the coordination challenges that the actual setting implies, it would, in principle, be more advantageous to create a single investment promotion agency (IPA) by merging the functions and resources of the two teams. The following section discusses the characteristics of an IPA regarding the staffing and funding, and also the organization, mandate and functions as well as the cooperation with other government agencies. These characteristics can guide the Government's decision on how the current setting could be amended to ensure that the country has a successful and effective IPA.

1. Essential characteristics of a full-fledged IPA

The IPA should have a central role in the implementation of programmes associated with making FDI a policy priority, attracting greater inflows and setting the ground for better FDI. To fulfil a leading role, the Agency must have a strong mandate, and its status, capacities and capabilities have to be enhanced. To become a proactive, private sector-led and state-of-the art Agency, it should have the following characteristics:

- The creation of the state-of-the-art investment promotion agency requires *highly professional staff, including some with private-sector experience*. This may be achieved by secondment from the private sector or by hiring new staff from the private sector.
- For international best practice techniques and tools to be embraced, the Agency requires a *comprehensive training programme* across all promotion functions. International or bilateral donors should be invited to fund such a training programme, including study tours to other countries that have been successful in attracting FDI, upgrading it and in promoting linkages.
- To hire experienced professional from the private sector, the agency will need to offer a *competitive remuneration.* This is possible in the Republic of Moldova, as some of the Government agencies already offer more competitive remuneration. If FDI attraction is to become a Government's priority, the Agency should be given this opportunity.

The revamped IPA should operate as a separate state agency outside of the civil service structure. It should have a Board of Directors with a strong private sector representation. In this area, the establishment of the Steering Committee of MIEPO is already an important step forward, as it is composed of representatives of both the private and public sector such as ministries, business associations, the Foreign Investors Association, the Chamber of Commerce.

The agency *should be properly funded* to be able to perform key functions of an IPA, with extra funds for not only staff salaries but also for marketing and other promotional activities. The increased budget of MIEPO and the medium-term funding of the Investment Attraction Team indicate that the Government is aware of the potential gains from professional investment promotion.

Furthermore, the activities of the Agency should be guided by a business plan — *an FDI promotion strategy* — including a clearly defined mission, quantified objectives and a mechanism for monitoring and evaluation of its own performance and impact of its activities rather than inputs.[71] The strategy should include a system for investor identification, tracking and a follow-up. IPAs not having these have typically experienced a dismal record in attracting FDI.

2. Functions and mandate of the IPA

The typical functions of IPAs include: image building, investment generation, investment facilitation, business development, including the promotion of linkages between TNCs and local firms and policy advocacy. These functions are well known and their descriptions are available in publications and from websites of international organizations such UNCTAD, the World Bank, Multilateral Investment Guarantee Agency (MIGA) or OECD. The staff of the Agency has to familiarize itself with these functions as well as best practice techniques used within each function. There is no need to discuss them at length, but some comments related to their context in the Republic of Moldova are in order. Some of these functions already exist in initial or more advanced forms at MIEPO or the Investment Attraction Team; however, they need to be further developed and coordinated to form a coherent national system of investment promotion.

Each of these functions is important and each, well executed, carries with it the potential for increasing FDI in the Republic of Moldova and/or benefits associated with it. Whether an IPA will be able to perform all functions will depend on its size and endowment with financial resources and skills. Should there be a need to limit functions, then policy advocacy should perhaps be temporarily left out, as the first stage of policy advocacy, that is, identification of investors' grievances and obstacles to doing business is already relatively well developed through foreign investors' associations, general or regional, publishing of "White Books", containing the catalogues of problems and proposed remedies. The main problem is that follow-up is rather weak. Linkages development could be entrusted to the Organization for the Development of the SME Sector (ODIMM), through establishing a specialized unit there. The staff of the unit would have to be exposed to intensive training.

If investment promotion has limited resources, another decision to be taken is whether that promotion is to be *reactive* or *proactive*. Reactive promotion would mean that IPA waits for investors to contact it, handles their inquiries and, eventually, if they decide to invest, helps them through the process, until they invest. Handling all interested investors in the situation of limited resources is not feasible and choices need to be made. Some IPAs handle projects above certain size, while others focus on selected sectors. *Proactive* promotion means that IPA goes out and targets investors into selected sectors of preference to the Moldovan capabilities (section F1), or even individually selected firms. It is recommended that in the Moldovan context, the promotion should be active and should focus on projects above certain size in IT services and BPO, agribusiness and export-oriented manufacturing. Other sectors such as infrastructure or tourism can be left to respective agencies.

Changing and promoting the Republic of Moldova's image as an increasingly attractive place to do business should be a first urgent task of investment promotion, of course, in close cooperation with other relevant government agencies. This requires developing a single, coherent brand of the country and providing a strong and consistent message to the outside world to overcome misconceptions and deficiencies in knowledge and perceptions of the Republic of Moldova. A new image should lead to increased investors' interest and result in increased inquiries concerning economic data, potential FDI projects, business laws and regulations, utilities, procedures and costs to establish business, etc. A key tool for business information provision to foreign investors is the country's single investment promotion website. Good websites save time of IPA staff, permitting it to focus on other more rewarding functions. Currently, MIEPO has a website which is not far from meeting those requirements — it has started rejuvenating its website, aiming to create a user-friendly and interactive platform for users — while no website of the Investment Attraction Team exists. Once completed, the MIEPO site will cover many essential topics such as registration, licensing, visa regime, investment facilities, sector-specific studies and Investment Site Locations Database. In the medium and long term, the country would need to build a single site, which is user-friendly, comprehensive, up to date, and assists the image building and investor facilitation effort.

Finally, the Republic of Moldova will have to decide whether to continue with joint FDI and export promotion. It is true that combined export and investment promotion can help save money and exploit some synergies from the two activities. However, sometimes it is not a good combination as it typically leaves FDI promotion weak or insufficient.[72] An intermediate solution would be to create a specialized investment promotion department within the investment promotion agency (currently there is no separation of export and investment promotion functions and experts within MIEPO).

3. Coordinating role of the Agency within the Government structure

Successful investment promotion usually hinges on the institutional setting, the coordinating role of its agency among government agencies and its capacity to dialogue with all stakeholders, including in particular the private sector.

Making FDI a priority issue is a challenge in any country and raises a broader issue of the entire institutional investment promotion infrastructure. FDI involves many cross-cutting issues dealt with by many agencies. One, two or three agencies (customs, taxes, immigration, to name a few), even acting in good faith, and implementing existing rules as they are, can create formidable obstacles to FDI without realizing it. They can also act in bad faith, seeing nothing wrong in making foreign investors' life difficult in expectation of a reward for smoother actions. The Republic of Moldova is not an isolated case in this regard. To resolve this problem, some countries have introduced country-wide committees or councils, consisting of representatives of all relevant agencies and the private sector, chaired by highest political levels and supervising the implementation of an FDI strategy. The point is to make an FDI strategy, if one is adopted, and FDI promotion, a priority matter of the entire Government. The council, together with the team in the Prime Minister Office, the Minister of Economy, the IPA as well as relevant agencies, would form a national system of investment promotion.

F. Tapping into the country's FDI potential — specific issues

1. Unleashing FDI potential through addressing sectoral issues

Taking actions on cross-cutting issues aims at improving overall investment climate and unleashing FDI potential in all sectors. In addition, there is a need to address sector-specific issues which may hamper investment in individual sectors. This section raises some of the key issues that require attention.

1.1. Agribusiness

Unleashing the FDI potential in agriculture and agri-business will require addressing several sector-specific issues. There is no doubt that the Republic of Moldova has a key ingredient of the investment potential in agriculture and agri-business: a good raw material base, permitting to produce good quality products for immediate consumption and further processing (chapter I). At the same time, investment needs in both agriculture and food industry are enormous. They span throughout the entire value chain of individual products. In the primary production, they include orchards, vineyards, growing vegetables in open field and greenhouses. Apart from processing, investment is required in storage, packaging and long-distance transportation of fresh products as well as in drying, instant freezing and canning, and the production of ingredients and additives. Irrigation, packaging and processing equipment and agricultural machinery offer opportunities, as do the production of and trade in planting material and agribusiness leasing.

A good raw material base and huge investment needs do not, however, automatically translate into investment opportunities or actual investment. In agriculture, the unresolved land issue is holding FDI back. There is some FDI in food processing but it is far from the country's existing potential. From 2009 through January 2011, the Republic of Moldova has attracted four foreign investment projects in the category "Beverages, Food and Tobacco", out of 200 projects in the same category located in the East European region (O'Donovan, 2011, p. 12). To come to the Republic of Moldova in greater numbers, investors need to know where the opportunities are and how constraints facing them can be addressed.

For instance, two flagship products of the Republic of Moldova, apples and walnuts, face significant supply constraints due to long periods of no investment. The large majority of apple orchards is very old, well past their economic life and will soon cease to produce altogether. Land plots producing apples are very small, and owners are often absent because they emigrated. The quality of apples is deteriorating and most of the harvested apples qualify for processing only. With an uncertain supply base, it is unlikely that the Republic of Moldova will attract foreign investors into processing without allowing them backward integration in apple growing. The situation is similar in the walnut sector as regards supply constraints. The ownership of plantations is, however, public, which raises again the question of investment in orchards and associated investment opportunities (box III.4). As for the wine industry, it may prove difficult to attract additional investment without backward integration into grape growing. Wine producing requires grapes of identical type and of consistent quality, difficult to obtain in the present situation.

Thus, in order to turn potential and needs in agri-business into investment opportunities, the Republic of Moldova has to generate targeted propositions and stop advertising the entire agri-business sector across the board, including where opportunities are limited due to land title issues or industry structure. This should be done through the development of agribusiness FDI sector research and investor intelligence, resulting in branch- or product-specific feasibility studies, as also stressed in recent research (O'Donovan, 2011, p. 13). As indicated in chapter II, the lack of clarity and security in agricultural land titles needs to be addressed. Without it, it may not be possible to attract significant FDI into processing products characterized by a shaky and deteriorating supply base. In addition, the consolidation of small plots of land into larger pieces, which stimulates interest in much needed investments aimed at expanding the product base, should be further encouraged. Once investment opportunities are identified, agriculture and agri-business should be subject to intensive investment promotion, similar to that of the IT and BPO sectors. The rudimentary investment promotion operation currently in place does not have resources to cover agri-business and the Ministry of Agriculture, willing to cooperate on investment promotion, does not see investment promotion as its core activity.

Furthermore, to increase benefits from international market access, the Republic of Moldova should develop a systematic approach to obtaining international certifications for its agricultural products, and those with health-related regulations, including through efforts aimed at obtaining EU and CIS accreditations for Moldovan laboratories. In agribusiness, fewer producers hold internationally recognized quality certifications compared with the rest of the region (World Bank, 2011c, p. 48). Food safety issues pose a big problem limiting investment in this sector. They do not permit the implementation of food tracking, a necessary condition for exports. The adoption rate of the EU standards is low: only 2,666 out of about 20,000 have been adopted (Mincu, 2011, p. 110). At the same time, the Republic of Moldova unnecessarily duplicates many international certification efforts — and not only in agriculture and food, but also in medical technology and other products — often without the technology and resources to properly test the products it should certify. This not only increases the time and cost of foreign trade but creates a significant opportunity for corruption in imports. To remedy this, the Republic of Moldova should systematically accept recognized foreign certifications, especially when they meet Moldovan standards, as most of them do. Seeking to recognize not only the EU certifications but also those of the United States, Canada and the Russian Federation will maximize market access, ease trade with these countries (AmCham, 2009, p. 29) and, consequently, be a factor encouraging FDI.

1.2. Export-oriented services

Export-oriented services do not face constraints related to physical transportation or market access as goods do. Exploiting export-related FDI potential in IT services and BPO depends on the availability and cost competitiveness of human resources (section C1), IT infrastructure and office space. Success in this area will also depend on an active promotion of investment potential.

Box III.4. Are there investment opportunities in wine and walnuts?

The wine industry has been in turmoil for a couple of years, with most producers facing financial difficulties. One could think that this poses an investment opportunity and, perhaps an opportunity to upgrade the wine industry through FDI, which happened in other countries such as Chile. But even being short on cash and capital, wine producers are reluctant to accept foreign investment and give up control over their companies (USAID and PDBA, 2009, p. C-21). This leaves the possibility of greenfield investment in a vertically integrated activity of grape growing and wine processing, requiring access to land.[a] But foreigners cannot own land in the Republic of Moldova. According the Ministry of Agriculture, land ownership is not an issue, as land can be leased for 99 years or owned through a shell local company. But many investors may (not only in agriculture but also in other sectors) consider these possibilities too risky. If an investor decides to lease the land, then the question would arise whether the land is available in the areas qualified for grape growing. Who are the owners? Are they willing to lease the land? Are there enough of them for parcels to be consolidated?

In walnuts, another flagship export of the Republic of Moldova, listed by MIEPO as an investment opportunity, most of the current production originates in the state-owned wind break or roadside plantations. The lack of investment impedes plantations from fully realizing their potential and the country from increasing the production capacity, which is predicted to stay at the current level (USAID and PDBA, 2009, p. 5). Walnuts are exported via intermediaries, including both local and foreign companies. Exporters face many problems, among them, poor and sporadic supplies of raw materials, poor organization at the collection level as well as shrinking workforce. The question is where the investment opportunities are. Is the Government ready to sell plantations to foreign investors to improve their management and to start investing in increasing the capacity? Or the Government priority would be to encourage greenfield investment? This may not be feasible, as it takes 7–12 years for walnuts to reach fruit bearing stages. And there is a question of the land ownership raised in all studies on agricultural products. Or perhaps, there are investment opportunities in quite crowded field of exporting walnuts?[b] These are only a few basic questions, the answers to which should be clear as a precondition for any investment, not only foreign investment. Similar basic questions abound in the case of every individual product, which is unique in terms of value chain, ownership of land and companies, organization of production, marketing, etc.

Source: UNCTAD.
Notes: a There is a trend in the industry towards vertically integrated operations, making producers independent on the supply of grapes, which can be risky in terms of both quality and quantity.
b Foreign exporters operate in the walnut sector. Their presence has had a positive impact on the sector. They brought with them not only markets and access to distribution channels but they also introduced modern business practices in export and product quality management, which local companies were forced to emulate in order to compete (USAID and PDBA, 2009, p. 16).

As mentioned earlier, the Republic of Moldova has good physical infrastructure in telecommunications. Addressing regulatory issues surrounding the activities of the State-owned telecommunication incumbent and the independence and effectiveness of the regulator (section C2) should result in better and cheaper services and would enhance FDI potential in these services.

Another important input may become a problem as there is limited availability of equipped office space at competitive prices, to accommodate large teams. To remedy this, the Government intends, within the Industrial Parks programme, to dedicate one park to IT and Information Technology Enabled Services (Government of the Republic of Moldova, 2010). The necessary investment to create such parks in five locations is estimated at €73 million. Attracting FDI into commercial real estate, as many countries in the region did, could also ease the office space problem.

The potential in IT services and BPO should also be promoted to foreign investors. The Republic of Moldova is below the radar screen of the international IT and BPO industry and the FDI inflow into the industry has not yet reached a critical point.[73] The country should build on its initial success in attracting foreign firms and launch a pro-active country promotion campaign aimed at attracting IT and other services offshoring by international firms.

1.3. Export-oriented manufacturing: maximizing market access

The manufacturing industries do not face major sectoral constraints on the input side, apart from those pertaining to cross-cutting issues (such as the availability of skills or infrastructure). Most raw materials and capital goods are imported. But the availability of industrial space with good access to utilities (and office space for services) is an issue that should be addressed. The programme of industrial parks may be helpful in this respect, if properly implemented. Weakly developed clusters hamper development of several manufacturing industries and, in particular, local enterprise development. Multi-facility zones (section D3 below) could be instrumental in fostering clusters and linkages between TNCs and local companies, in particular if progress in infrastructure modernization for the entire country remains slow.

The Republic of Moldova has generally a good access to the EU market, but some of its products, in particular from the agriculture and food sectors, in which the country has a comparative advantage (chapter I), face quotas and duties.[74] It would be in the interest of the country to convince the EU to lift these restrictions in the upcoming negotiations on the DC FTA. How the rules of origin will be set in the new agreement is of equal importance. If they are set too high, this will encourage more local processing and may stimulate local SMEs, but may discourage export-oriented FDI, making the rules difficult to implement. Conversely, if they are set too low, they may facilitate FDI but will result in more limited gains for domestic enterprise development. This is basically an industry-specific issue, and settling it right requires good knowledge of each industry's conditions (chapter I, section B2).

Success in developing productive capacities in export-oriented goods also depends on the country's attractiveness to potential investors. As mentioned in this report, the Republic of Moldova needs to differentiate itself from its main competitors, and needs to build a strategy of targeting investors in the selected export-oriented manufacturing activities. Section E above provides ideas on actions to be taken to target and attract FDI in these sectors.

2. Strengthening the domestic SME sector and encouraging linkages

Although the SME sector as a whole has performed relatively well notwithstanding the economic and financial crisis (chapter I), sectoral differences are significant. In services, where entry barriers are generally low, the dynamic growth of the IT industry is attributable primarily to SMEs, many of them operating as unregistered independent operators. By contrast, many medium-sized firms operating in agribusiness and in manufacturing have run into liquidity problems during the crisis. Access to finance has for long been one of the key constraints to SME development in the country, due to high costs and high collateral requirements (OECD, 2011). Industry clusters are weak or non-existent and their limited marketing and innovation capacity, matched with low compliance with technical and quality standards, affect their capacity to export.

A strong SME sector is needed to allow the Republic of Moldova to maximize value retained in the country from existing and future FDI. If SMEs are able to become competitive and reliable suppliers of goods and services to foreign affiliates, this will reduce imports associated with affiliates' investment and operations, and thus increase local production, value and employment. Supplier linkages also facilitate spillover effects through the diffusion of information, technology, skills and management practices to local SMEs, and result in enhanced productivity and competitiveness. As mentioned in chapter I, supplier linkages with FDI in the food and beverages industry have already had a positive influence on local farmers and on the development of packaging companies, but they still constitute isolated success stories. It is therefore proposed that a linkages programme aimed at improving the capabilities of Moldovan SMEs to become suppliers to foreign affiliates be launched. The linkages programme would include the following activities:

- A regular dialogue with existing investors to explore how new business functions may be added and how links with local SMEs, universities and research institutions can be promoted.
- Supplier/buyer identification through market research and establishing the database on linkage opportunities, including purchases of inputs by foreign affiliates and potential for increased local supply.
- Matchmaking through organizing exhibitions and fairs. Expert workshops by TNCs on their procurement policies and procedures.
- The development of a selection mechanism to enable the identification of firms that are able to meet cost and quality standards as well to be able to supply sufficient volumes. The selection should be company to company, based on normal commercial criteria. Government agencies should act as instigators and facilitators of this process.
- Mechanisms supporting SMEs in their quest to meet standards and enhancing their absorptive capacity. These may include training, including by TNCs, skill development and sponsored research programmes undertaken by the firm itself or in collaboration with universities or its partner TNC. UNCTAD could assist the training of entrepreneurs through its Empretec programme, which is already established in Romania and the Russian Federation. As both Romanian and Russian are important languages for business in the Republic of Moldova, the experience and materials of these two Empretec centres could be particularly useful.
- Information sharing, including that concerning future orders and technical requirements.
- Investor targeting aimed at TNCs that have a strongly developed culture and capability for developing their suppliers in host countries. Recent cases of investment attraction such as Gebauer & Griller (Austria) and Terra Impex (Romania) are testimony that the Republic of Moldova already has some expertise in this area.

Best practice examples and advice on linkage programmes are available in a number of UNCTAD publications. Technical assistance may also be provided by UNCTAD which has extensive experience in the successful development of linkage programmes in emerging economies (box III.5). In general, the UNCTAD's Entrepreneurship Policy Framework and Implementation Guidance can help reformulate SME policies by way of providing a checklist of possible policy objectives, case studies, description of good practices, and a methodology for policy monitoring and evaluation, including a set of indicators to measure progress.[75]

Box III.5. UNCTAD's Business Linkages Programme

UNCTAD's Business Linkages Programme is aimed at facilitating the creation of new supplier links, and deepening existing relationships between foreign companies' affiliates and domestic SMEs, thereby making the operations of the latter more sustainable. The Programme improves the performance, productivity and efficiency of local suppliers through training, mentoring, information exchange, quality improvements, innovation and technology transfer. UNCTAD also assists developing countries' Governments and other stakeholders to build the enabling policy environment, and supports networks of business development and other service providers, based on the analysis of international experience and best practices. The Programme is operational in eight countries: Argentina, Brazil, the Dominican Republic, Mozambique, Peru, the United Republic of Tanzania, Uganda, and Zambia.

Source: UNCTAD.

3. Turning free economic zones into multi-facility zones

To stimulate investments and exports, the Republic of Moldova has established over the years FEZs as well as an international free port and airport, operating under FEZ regime (boxes I.2 and II.2). The zones have contributed to stimulating investment, employment and exports, but overall, their success has been uneven. Zones in the capital city and Bălți, for example, have performed well while some others performed less efficiently. The Government estimates that overall 20–30 per cent of the total FDI inflows into the Republic of Moldova can be attributed to FEZs. One indication of limited performance, however, is the fact that zones account for only 5.6 per cent of the total country's exports.[76] The Zones have also generated relatively limited linkages with the rest of the economy. In sum, operating largely as enclaves, the zones have so far contributed less than expected to the industrial development of the country.

The concept of multi-facility zones embraces the development of the best facilities and above average regulatory and administrative environment, making the zones "centres of excellence" for industrial development. International experience shows that the benefits of zones depend on the extent to which the zones are integrated with their host economies (box III.6). Benefits are multiplied when the zones "are accompanied by countrywide economic policy and structural reforms that enhance the competitiveness of domestic enterprises and facilitate the development of backward and forward linkages" (FIAS, 2008, p. 51). Therefore, the Government of the Republic of Moldova should align its cluster development strategy as well as linkage policy more closely to the multi-facility-zones model. For instance, domestic suppliers could be encouraged to settle in the zones alongside TNCs and large domestic companies when possible, in order to foster synergies between companies in related fields.

The transformation of existing FEZs into multi-facility zones can be done relatively quickly: the Government can plan their transformation by the time their mandate expires, and use the existing infrastructure and improve their management. Moreover, the existing and planned industrial parks (chapter I) provide additional opportunities for multi-facility zone development. In this regard, the Government may wish to prioritize contracting world-class specialist zone operators that will be able to assist the industrial parks to achieve "investment-ready" status and to bring them as close as possible to the concept of multi-facility zones. It is also important to adopt a gradual approach as the transformation of industrial parks requires important financial resources.

Box III.6. The multi-facility economic zone concept

In distinction from free economic zones or export-processing zones, which typically emphasize production for exports and offer tax incentives, multi-facility economic zones allow for the production of all types of goods and services, catering to both the domestic (without limitations) and international markets. They are open to both foreign and domestic firms. The multi-facility zones do not have to offer tax incentives, although export-oriented producers may enjoy tax incentives and exemptions from import duties, while domestic producers should be subjected to standard taxation and duties. Investment promotion in such zones relies not necessarily on tax incentives, but on enabling faster, smoother and more cost-efficient realization of projects than is possible elsewhere in the country.

Therefore, the zones, to be successful, have to operate as the centres for excellence, creating what could form an "ideal [or close to ideal] investment environment" (UNCTAD, 2009b, p. 5). This involves providing to residents of the zones state-of-the-art industrial sites with top-notch infrastructure and services. Infrastructure should include land that has been zoned and is ready for construction, security, reliable road access, uninterrupted electric power and water supply, telecommunications, waste disposal systems, and possibly executive housing and other facilities. In addition, residents benefit from regulatory advantages, best administrative practices (such as approvals, licences, tax procedures, customs clearance) and corruption-free environment. Every investor located within the multi-facility economic zone should receive its privileges and incentives in a written form. A country can host several multi-facility economic zones, located in different regions. While the pilot project of the multi-facility economic zone should ideally be a government effort or a joint effort with the private sector, additional zones can also be fully privately operated.

Source: UNCTAD.

G. Conclusions and action plan

This chapter has provided the outline of an ambitious but feasible programme of action for improving FDI attraction and promotion in the Republic of Moldova. While making FDI a policy priority, the Government could tap on the country's potential by strengthening human resources, enhancing infrastructure, fostering regulatory excellence, and targeting FDI to selected sectors of the economy. The transformation of the FEZs as well as the establishment of a full-fledged IPA could further contribute to this objective.

The recommendations focus on increasing the attractiveness of Republic of Moldova to FDI and the benefits for the country's development. Most of the suggested measures, nonetheless, would also benefit domestic businesses, notably through increased competitiveness and the creation of linkages between foreign and local investors.

Table III.1 summarizes the recommendations proposed in this Report. In addition to clearly identifying the intended actions, the table also suggests a timeline for their implementation. While some actions would require immediate attention, some other recommendations could be dealt with over a longer-term horizon. UNCTAD remains committed to continue supporting the reform process in the country together with the main development partners. It is hoped that the IPR will contribute to the country's legitimate aspirations to increase prosperity for the benefit of the whole population.

Table III.1. Key recommendations for a comprehensive FDI strategy in the Republic of Moldova

Issue/area	Recommendations and actions	Priority level	Time horizon	Lead agency(ies)
1. Making FDI a policy priority				
Political consensus	**1.1.** Achieve broad political consensus around linking national development and FDI promotion	★★★	S–MT	Government of the Republic of Moldova (GRM)/Prime Minister's Office
Implications for statistics	**1.2.** Improve statistics reporting on FDI/TNCs through better cooperation among the institutions involved	★	MT	National Bank/National Bureau of Statistics
2. Enhancing human resources and infrastructure through and for better FDI				
Education	**2.1.** Permit and attract FDI into higher education	★	S-MT	Ministry of Education
	2.2. Encourage collaborative arrangements with foreign higher education institutions	★	S-MT	Ministry of Education
Diaspora investment	**2.3.** Facilitate diaspora investment via financial mechanisms and targeted campaigns	★	S-MT	Ministry of Finance/Ministry of Foreign Affairs
PPPs	**2.4.** Prepare a pipeline of infrastructure projects for PPPs	★★	ST	GRM
	2.5. Prepare feasibility studies for PPPs and adopt a pilot approach	★	S-MT	GRM
Energy	**2.6.** Make the energy regulator fully independent	★★	ST	GRM
Telecommunications	**2.7.** Liberalize telecommunications interconnection with foreign internet service providers	★★	S-MT	Ministry of Information Technologies and Communications
3. Achieving excellence in regulating and administering investment				
Investment treaties	**3.1.** Continue reviewing and revising the provisions of BITs under renewal or being negotiated; consider using UNCTAD's IPFSD as guidelines for negotiators	★★	S-MT	GRM
Agricultural land/land	**3.2.** Review the regime of the land lease to provide title security	★★★	ST	GRM
	3.3. Complete the land property registration process	★★	S-MT	National Cadastre Agency

Table III.1. Key recommendations for a comprehensive FDI strategy in the Republic of Moldova *(continued)*

Issue/area	Recommendations and actions	Priority level	Time horizon	Lead agency(ies)
Licensing	**3.4.** Streamline the licensing requirements (Guillotine process)	★★	S-MT	GRM
	3.5. Consider extending the validity period of licences	★	S-MT	GRM
Construction permits	**3.6.** Adopt the second construction law	★★	S-MT	Ministry of Constructions and Regional Development
	3.7. Facilitate the implementation of construction laws through the introduction of electronic solutions	★★	S-MT	Ministry of Constructions and Regional Development
	3.8. Streamline the electricity connection permits	★	S-MT	GRM
Inspections	**3.9.** Increase transparency and reduce arbitrariness of inspections	★★	ST	GRM
	3.10. Adopt risk-based inspections	★★	ST	Inspectorates
	3.11. Raise awareness of investors about the possibility to resort to the CCEC in the context of the Law on Permissive Acts	★★★	ST	CCEC
Taxation	**3.12.** Update and adopt the draft procedural Tax Code of 2008	★★	S-MT	GRM/State Tax Service
	3.13. Establish an on-line register of all decisions and clarifications of the State Tax Service	★★	S-MT	State Tax Service
	3.14. Allow the compensation of VAT credit against other tax liabilities of the same firm; remove the restriction that losses carried forward be distributed in equal parts	★	S-MT	State Tax Service
Competition and State aid	**3.15.** Adopt the new law on State aid; apply effectively the new Law on Competition	★★	ST	GRM
Privatization	**3.16.** Adopt certified asset evaluation in privatization	★	S-MT	GRM/Public Property Agency
	3.17. Extend the outreach of privatization bids	★	S-MT	GRM/Ministry of Foreign Affairs

Table III.1. Key recommendations for a comprehensive FDI strategy in the Republic of Moldova *(continued)*

Issue/area	Recommendations and actions	Priority level	Time horizon	Lead agency(ies)
Labour	**3.18.** Facilitate the application of the legal provisions of part-time and short-term contracts	★	S-MT	GRM/Ministry of Labour, Family and Social Protection
Employment and residence of foreigners	**3.19.** Make application documents for work permits and visas available online and streamlined	★★	S-MT	Office of Migration and Asylum
	3.20. Extend fast-track channels to good-reputation investors	★★	S-MT	Office of Migration and Asylum
Intellectual property (IP)	**3.21.** Adopt a national IP policy	★	S-MT	GRM/AGEPI
	3.22. Improve the legal enforcement of decisions related to IP rights	★	S-MT	Judiciary
	3.23. Train judges and other stakeholders in IP issues	★	S-MT	AGEPI
Customs administration	**3.24.** Streamline customs operations in the capital city	★★	MT	Customs Services
	3.25. Update the IT infrastructure of Customs, and train customs officers and customs brokers in electronic solutions	★★	S-MT	Customs Services
	3.26. Streamline the organization of formalities on the border	★★	S-MT	Customs Services
Judiciary	**3.27.** Train judges in economic matters	★★	S-MT	Ministry of Justice
4. Improving the effectiveness of investment promotion				
Investment promotion strategy	**4.1.** Adopt an FDI strategy, following the Government's long-term vision (Moldova 2020)	★★★	ST	Prime Minister's Office/Ministry of Economy
	4.2. Translate the strategy into a detailed action plan (business plan) to guide the activities of the IPA	★★★	S–MT	Prime Minister's Office/Ministry of Economy/IPA
Investment promotion architecture	**4.3.** Strengthen and coordinate the institutional basis for investment promotion	★★★	ST	Prime Minister's Office/Ministry of Economy

Table III.1. Key recommendations for a comprehensive FDI strategy in the Republic of Moldova *(continued)*

Issue/area	Recommendations and actions	Priority level	Time horizon	Lead agency(ies)
Image building for the country and for the IPA	**4.4.** Build a single investment promotion website for the Republic of Moldova	★★★	ST	IPA
	4.5. Carry out image building campaigns	★★★	ST	GRM
5. Tapping into the country's FDI potential — specific issues				
Unleashing FDI potential through addressing sectoral issues	**5.1.** Launch proactive country promotion campaigns for priority sectors	★★	S-MT	Prime Minister's Office/IPA
	5.2. Develop sector research and investor intelligence in priority activities	★★	S-MT	GRM
	5.3. Build a strategy of targeting investors in priority activities	★★	S-MT	Prime Minister's Office/IPA
	5.4. Generate targeted propositions for FDI and other types of TNC involvement in priority activities	★★	S-MT	Prime Minister's Office/IPA
	5.5. Develop a strategy of obtaining international certifications for Moldovan products of priority sectors; recognize foreign certificates of good reputation automatically	★★	S-MT	GRM
SME development and linkages promotion	**5.6.** Establish a linkages programme aimed at improving the capabilities of Moldovan SMEs	★★	S-MT	IPA
	5.7. Develop mechanisms supporting SMEs in their quest to meet buyer standards	★★	S-MT	IPA
	5.8. Consider involving international technical assistance in linkages development	★★	S-MT	GRM/IPA
Free Economic Zones (FEZs) and similar zones	**5.9.** Transform the FEZs into multi-facility zones gradually	★	LT	GRM
	5.10. Contract world-class specialist zone operators to assist the FEZs and the industrial parks	★	S-MT	GRM

Notes: ★= medium level of priority, ★★= high priority, ★★★= very high priority; S-M-LT= Short-Medium-Long term.

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Notes

1. At the beginning of 2012, the Government was finalizing the document for approval by Parliament.
2. In this report, data do not cover the territory of Transnistria, unless otherwise stated explicitly.
3. Manufacturing partly recovered. In 2010, the production volume exceeded the level of 2000 by 43 per cent. On the other hand, industrial and agricultural outputs were 52 and 63 per cent of their 1991 levels, respectively.
4. The development of economic links with the EU has been facilitated by the special historical and cultural links that the Republic of Moldova maintains with Romania. The two countries signed a bilateral free trade agreement in 1994. This agreement was in force until 2007, when Romania became an EU member while the Republic of Moldova joined the Central European Free Trade Agreement (see next footnote), whose membership criteria include any European Union Association Agreement.
5. The DC FTA goes beyond a traditional free trade agreement in the sense of harmonizing trade-related policy areas, such as sanitary and phytosanitary measures, standards, competition, intellectual property, State aid to enterprises, public procurement etc. Parties can agree to include or exclude specific issues from this list.
6. The group comprises South-East European economies aiming at EU integration (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, the Republic of Moldova, Montenegro, Serbia and Kosovo (The United Nations considers Kosovo to be an internationally administered territory under the name of United Nations Interim Administration Mission in Kosovo (UNMIK), see Security Council resolution 1244 of 1999). Croatia is set to join the EU and leave CEFTA in 2013.
7. Unless otherwise specified, hereafter the annual average exchange rate for 2011 is used for currency conversion: $1 = MDL 11.74 (NBM).
8. These contributions increased from MDL 241 million in 2009 to MDL 788 million in 2011.
9. It is one of the largest power plants in Eastern Europe. The total installed capacity of its 12 units is 2520 MW.
10. One of the indicators of the energy system's efficiency is the share of transmission and distribution losses in electrical energy supply. In 2010, for the Republic of Moldova, this share was 15 per cent whereas the norm is usually seen as 5-10 per cent.
11. These include high-speed mobile Internet, FTTx, VoIP, IPTV, secure data transfer with VPN and Wi-Fi networks.
12. The definition of SMEs is: no more than 249 employees and less than MDL 50 million for assets and for sales revenue per annum.
13. One exception is the detailed study by Prohnițchi *et al.* (2010), which analyzes the period 2004-2008. This section draws extensively on the conclusions of this document.
14. Since some of these firms are not foreign affiliates (box I.3), they tend to inflate the numbers. A positive trend is nevertheless emerging.
15. Transnational corporations have also contributed to export growth through non-equity participation in textiles, shoes and furniture.
16. Data in MDL are available at the NBS website. The average annual exchange rate for 2010 was used for currency conversion: $1= MDL 12.37.
17. The ban was justified on sanitary grounds though some observers report that political disagreements have played a role.
18. The average income in the industry is close to $400 per month. In large companies, it may reach twice the average.
19. The growth rates have been calculated on the basis of UNCTADstat and IMF data. It is worth noting, however, that in 2011 the export of computer and information services from the Republic of Moldova was about $50 million which is ten times greater than from Georgia or Azerbaijan.
20. They include, for example, Endava (United Kingdom), Pentalog (France), Allied Testing, Tacit Knowledge and Alfa Soft (United States).
21. The list of foreign affiliates in garments includes Steaua Reds, Laboratorio Tessile Mol, Finessa and Tricon, which produce for upscale foreign brands such as Trussardi and Dolce & Gabbana. The largest Moldovan footwear company, Zorile, accounting for 70 per cent of the industry's capacity, was privatized in 2009 to an American Investment Fund, NCH (USAID, 2010, p. B-12). Other examples of foreign affiliates in footwear production include Martin Sor S.R.L. (owned by an Italian company) and Rotan (a partnership with an unidentified EU customer) (USAID, 2010, p. B-9).

22. It takes one to two weeks compared to one to two months from China (USAID, 2010, p. A-2).

23. The country has attracted quite recently two renowned companies, Dräxlmaier (Germany) and Lear Corporation (United States). The latter, encouraged by the success of its first factory in Bălți, started to build another one in Chişinău, and considers opening a third one in Bălți. A new, third, producer, Leoni (Germany), a cable and harnessing manufacturing firm is about to open shop in the Republic of Moldova.

24. Article 4 of the Law on Normative Price and Sale-Purchase of Land No. 1308-XIII of 25.07.1997 contains the same restriction. Article 6 of the same Law specifies that if foreign citizens or stateless persons inherit agricultural land or forest in the country, they can alienate them only to Moldovan citizens.

25. The Payment Services Directive and the Treaty on the Functioning of the European Union do not recognize the 15 per cent tolerance for national preference.

26. The Republic of Moldova has no commitment regarding public procurement in the framework of its GATS participation.

27. The Arbitration Rules of United Nations Commission on International Trade Law (UNCITRAL Rules); the Arbitration Rules International Chamber of Commerce of Paris, approved on 1 January 1988 (ICC Rules); the 1958 New York Convention on the Recognition and Enforcement of International Arbitration Awards; the European Convention on International Commercial Arbitration of 1961 Done at Geneva; and the 1962 Paris Agreement Relating to Application of the European Convention on International Commercial Arbitration or ICSID.

28. It took a long period to ratify the ICSID convention as the country thoroughly debated the pros and cons of automatic litigation.

29. See Iurii Bogdanov, Agurdino-Invest Ltd, Agurdino-Chimia JSC v. Moldova at the Stockholm Chamber of Commerce, judged in 2005 (UNCTAD ISDS database).

30. Cases decided in favour of the claimant included Dacia S.R.L. v. Moldova (application No. 3052/04) and Business şi Investiții Pentru Toți v. Moldova (application No. 39391/04). Baroul Partner-A v. Moldova (application No. 39815/07) ended up with an arrangement between the parties.

31. Mr. Franck Charles Arif v. Republic of Moldova (ICSID Case No. ARB/11/23).

32. In neighbouring Romania, licensing requirements were reduced to five areas (banking, insurance, financial market firms, securities companies, and firearms trade) in the mid-2000s (Enescu & Cuc Law Firm, 2005).

33. A draft of this law was one of the outcomes of the USAID/Moldova Business Regulatory & Tax Administration Reform (BIZTAR) Project, implemented during 2007–2011.

34. The original draft of the law covered all stages of construction from initial permissions to construction and final approval of a completed building. The Ministry of Construction and Regional Development decided to split the law into two. The Second Law has been shelved because of problems with the implementation of the First Law, stemming from "active and passive political resistance" (USAID, 2012, p. 10).

35. The law has also introduced an information urban planning certificate, issued for information purposes only, to familiarize those interested with the regimes of the real estate or land plot (Law Office of Alexei Ghertescu, 2010, p. 19).

36. While this is a significant improvement, it is still quite long compared to the OECD average of 166 days.

37. According to the initial regulatory impact analysis of the law, the average absolute cost of obtaining the construction permit was expected to fall even more, nearly five times, from $1 267 to $273 (USAID, 2010, p. 11).

38. The definition of "permanent establishment" denotes a fixed place of business through which the business of a non-resident is wholly or partly carried out in the country, either directly or through a dependent agent. Since the definition does not contain a list of exclusions similar to the one in the OECD Income and Capital Model, the question of whether a permanent establishment exists is to be answered on a case-by-case basis.

39. Loss carry-forward was reduced from five to three years on 1 January 2012.

40. Exceptions to the 12 per cent CIT are farms which pay a 7 per cent CIT and smaller businesses with a turnover between MDL 100,000 and 600,000 (about $8,500–51,100), which may opt for a unified tax of 3 per cent on their turnover (see below). While limited and general partnerships do not pay the CIT, their individual partners are subject to the personal income tax. Individuals and sole proprietors pay a progressive personal income tax of 7 and 18 per cent (the cut-off point between the two rates is MDL 25,200 (about $2,150) of their annual income.

41. Dividends paid to non-resident investors of the electric power station located in Ungheni region are exempt from the withholding tax until 31 December 2027. Another exemption, remaining in place till 31 December 2014 is interest on bank deposits made for a period of more than three years, interest on corporate bonds issued for a period of more than three years, and interest on State securities received by non-resident companies.

42. Stamp duties apply to insolvency proceedings, certification of sales contracts on real estate, vehicles, certification of contracts on pledge, and certification of other contracts.

43. A similar tax exemption applied to software development until 31 December 2011. In March 2012, it was replaced by new tax incentives, reducing the social insurance contributions of employers and the personal income tax of employees.

44. See the Tax Code, Chapter 14 article 83 (4) (available in Romanian).

45. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:023:0021:0026:en:PDF.

46. TIR stands for the "Transports Internationaux Routiers" Convention signed under United Nations auspices.

47. "In order to employ foreign citizens and stateless persons in the Republic of Moldova the employer shall register the job vacancies with the Regional Agency for Labor Force Employment (…) and place the announcement about the job vacancies in a national newspaper, indicating the exact qualifications required and the salary to be paid. (…) If in 15 days the Regional Employment Agency does not identify the Republic of Moldova citizens who may fill the vacancies announced by the employer, the latter shall address the National Employment Agency".

48. Some foreign investors are, however, reported to own agricultural land due to some ambiguity in the current legislation which does not either explicitly allow or prohibit the acquisition of agricultural land by secondary affiliates (local companies owned by foreign affiliates).

49. Such as the Agreement of Partnership and Cooperation (APC) with the EU, the United Nations Convention against Corruption of 03.10.2003, and the Council of Europe's Criminal Law Convention on Corruption of 27.01.1999 and its Addendum Protocol.

50. Law on Amendments and Additions to Certain Legislative Acts of July 2011 (available in Romanian).

51. The text of the Partnership and Cooperation Agreement is available at http://eur-lex.europe.eu.

52. See the Law for Denunciation of the Eurasian Patent Convention of 2011.

53. One of the results of such a model of growth has been slow growth of production capacities, much slower than what the economy needs. Consequently, in 2007 the output was only 52 per cent of the 1990 level (ETF, 2009, p. 11). In addition, a rapidly growing consumption confronted with insufficient production capacities has fuelled a rapidly growing trade deficit financed by remittances of migrants, donors' transfers, and to a lesser extend by FDI.

54. Some countries do, however, benchmark their competitiveness against other countries and have strategies to improve competitiveness. Many countries have programmes targeting factors that are key to development such as R&D, innovation, SME development, technology and/or human resources development.

55. The ratio indicates the percentage of the population actually enrolled in tertiary education in the age group qualifying for higher education.

56. For example, the Government adopted a plan on education, the National Strategy, "Education for All", published in Official Gazette 15 April, 2003. As regards the labour market, in 2006, the Republic of Moldova developed a National Employment Strategy for 2007–2015.

57. According to a 2006 country report on the implementation of the Bologna process, as of 2006 the national legislation did not provide for joint degrees in higher education, but HEIs were authorized to develop such programmes. At that time two joint degrees programmes existed: the Master Programme of the Moldova State University with a HEI from Bordeaux (France) and Navarra (Spain) on the law of wine and grapes, and another Master Programme in international business of the Moldova Academy of Economic Studies with the University of Grenoble (France) EHEA, 2006, p. 17). The legal framework for joint degrees was stipulated at that time by a draft of Law on higher education.

58. Moldovan companies do not complain too much about infrastructure constraints. It is perhaps so because 50 per cent of the companies operate in Chişinău and other urban centres where infrastructure is relatively better than the country's average (Bozu *et. al.*, 2010, p. 44).

59. Between 2002 and 2006, the energy losses in transportation and distribution were reduced from 33 per cent of obtained energy to below 20 per cent (Bozu *et. al.*, 2010, p. 42). By 2010, they were further reduced to 15 per cent (see footnote 9).

60. In power generation, 60 per cent of the equipment has been in use for more than 30 years, and 40 per cent for more than 40 years (Government of the Republic of Moldova, 2010, p. B25).

61. According to the electricity law, the full liberalization of the power market is to be introduced by 2015 (ECS, 2011).

62. At present, renewable energy represents 5-6 per cent of the total energy consumption (ECS, 2011, p. 55).

63. The Law on renewable energy, adopted in 2007, providing a framework for the promotion of renewable electricity, biofuel and energy efficiency, promulgates support measures for renewable energy, including preferential tariffs, financial incentives, a fund to support energy efficiency, mandatory purchase obligations and non-discriminatory access to the transmission and distribution network. It imposes an obligation on the regulator to approve tariffs for up to 15 years to stimulate investments. It also foresees feed-in tariffs, although these have not yet been approved by the Government (ECS, 2011, p. 55).

64. Although the website of *Moldova's news* reported in June 2012 after Moldpres, that the Government was about to publish such a list, including, among others, the Bălți International Airport and parts of the road M3 from Chişinău to the Giurgiuleşti International Free Port(Moldova's news, 2012).

65. The objective of feed-in tariffs is to stimulate investment in renewable energy projects through providing price certainty. They are based on the cost generation of each technology. For example, tidal and solar power technologies are typically more expensive than wind power technology, and thus require higher tariffs for cost recovery. Feed-in tariffs are usually part of long-term contracts. Contracts may include a "tariff degression" scheme envisaging the lowering of tariffs over time to encourage cost reductions.

66. The methodology of Doing Business has changed. As a result, country rankings for 2012 were revised; in the case of the Republic of Moldova, from 81st to 86th. Comparisons with periods prior to 2012 are no longer possible.

67. The document recognizes, among others, large number of procedures and high costs associated with starting business, and administrative costs and barriers in running it, such as State inspections, paying taxes, submitting mandatory reports and information or obtaining construction permits. As a result, financial and time costs at different stages of the business cycle are comparatively higher than average indicators in the region (The Government of the Republic of Moldova, 2012a, pp. 27–28).

68. The Law on Electronic Documents and Electronic Signature No. 264 was adopted in 2004. It remains to be fully implemented, especially in the area of electronic signature.

69. MIEPO's existence is based on a special legal act — Government Decision No. 105 of 02.02.1999.

70. Established in 2011, the Council consists of 11 members (six from the public sector and five from the private sector).

71. As noted elsewhere, too often IPAs seek to impress the environment with the number of meetings with investors, promotional events, or the amount of spent resources, which are inputs into, and not the outcomes of, their activities. Impacts and outcomes include the number of attracted projects, capital committed by investors or created jobs (O'Donovan, 2011, p. 10).

72. Out of 173 IPAs examined in a 2009 study by UNCTAD, 42 per cent of them had combined trade and investment promotion functions. The study provides pros and cons of both arrangements (UNCTAD, 2009a). For a full discussion on all the pros and cons of joint trade and investment promotion, see UNCTAD, 2013.

73. For instance, the Republic of Moldova is not included in the industry and location analyses by institutions such as Gartner or the EIU (EIU, 2011).

74. Products facing tariff quotas include products of animal origin (such as bovine meat, poultry, eggs, dairy products and sausages), wheat, barley, maize, white sugar and wine of fresh grapes. It has to be noted that the Republic of Moldova did not use some of these quotas (especially for products of animal origin) because it was unable to meet the EU's sanitary and phytosanitary requirements (Moody, 2011). But this may change in the future.

75. http://unctad.org/en/Pages/DIAE/Entrepreneurship/Entrepreneurship-Policy-Framework-and-Implementation-Guidance.aspx.

76. Based on statistics provided by the Free Economic Zones of the Republic of Moldova and National Bureau of Statistics.

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