

**REPUBLIC OF MOLDOVA**

**ProEra Grup**



**COST OF DOING BUSINESS SURVEY**

**FINAL REPORT**

**Chisinau, April 2004**

This report has been prepared by ProEra Grup S.R.L. and financed by the DAI-Bizpro/Moldova. The main objective of the report is to assist the Government of Moldova in improving the country's business climate. The findings, conclusions and recommendations are of the authors and surveyed managers.

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## EXECUTIVE SUMMARY

### Methodology

This survey was carried out in March-April 2004 and reflects the situation over the last three years. The data is compared with the results obtained during the two similar surveys conducted in January-February 2002 and January-February 2003.

The sample comprises 615 businesses in Chisinau, ten regions of Moldova and Administrative Territory Unit Gagauzia. The survey was representative by legal form and number of employees. About 80% of all interviewed companies have 50 employees or less. Limited liabilities companies and Joint-stock companies represent almost 80% from the total. Agricultural enterprises and monopolists fell outside the outlook of the poll. The sample represents the overall economic situation in Moldova.

The survey purpose was to identify costs associated with the state regulation. Indirect costs of doing business, like visa obtaining, exchange rate fluctuations were not evaluated.

The average indicators were calculated only for interviewers reporting data, i.e. the average unofficial cost represents the mean for the respondents that reported that paid unofficially.

### General time indicator

The average share of time spent by top managers in order to meet all mandatory requirements dropped down from 18.5% in 2002 to 17% in 2003, but increased in 2004 to 18.8%. The situation in Chisinau is worse than in the rest of the country, as this share increased during last years by 1.5-2% annually.

### Businesses' Registration

On average, businesses that had to **register** during the last three years (2001-2003) required 27.6 days to fulfill these statutory procedures, or by 1.7 days more than during 2000-2002. The average registration costs didn't changed during last year, remaining, practically, at the same level – \$151. Official payments and fees accounted for \$130 out of these costs.

The time spent for **registration documents amendment** slightly decreased from 25.2 days (during 2000-2002 years) to 24.4 days (during 2001-2003 years). The cost associated with this procedure amounted to \$136, including \$125 of official payments.

A very important activity, which was not subject of this survey, is the **exit** from the business. Although in the last year the Government operated some changes in order to make easy this process, in reality **this remains a barrier**, as according to the opinion of the polled companies **the minimum time for this is one year**. This barrier:

- limits the possibilities of the owners to liquidate their companies which do not make profits;
- do not allow immediately to start another business, because founders / owners cannot be the founders of a company that is not acting and was not liquidated according to the legislation in force or has debts to the national public budget.

## Premises

A polled business during 2001-2003 spent on average 170 days and \$716 on obtaining permits related to premises **construction**. The time spent remained invariable comparing to the previous period (2000-2002), but increased by 21 days comparing to 1999-2001. The costs decreased from \$1,082 (2000-2002) and reached the level of 1999-2001. These figures include the time and cost of obtaining initial permits and approvals to begin constructions (128 days and \$534) and permits for their use (46 days and \$202).

A similar trend could be remarked in procedures related to premises **renovation**. On average, polled businesses during 2001-2003 spent an average of 73 days and \$309 to receive preliminary permits to start the renovation (53 days and \$461 during 2000-2002; 33 days and \$175 during 1999-2001). In addition, having completed the renovation, businesses are obliged to obtain utilization permits at a cost of \$437, decreasing slightly during last years.

The overall average time and costs generated during 2001-2003 to obtain permits to re-equip the premises consisted 66 days and \$533 (71 days and \$534 in 2000-2002 and 47 days and \$298 in 1999-2001). When completed, the businesses are obliged to take out permits for utilization of premises at a cost of \$440 (\$516 during 2000-2002 and \$360 in 1999-2001).

More than one tenth of people who did not do anything with their premises during 2001-2003 were still obliged to obtain utilization permits. On average, they spent 25 days and \$203 for this process (16 days and \$206 in 2000-2002, 13 days and \$72 in 1999-2001).

## Licensing

Currently, 58 types of business activities are subject to licensing. A business in Moldova has on average 2.6 licenses (2.2 licenses in 2003 and 3 licenses in 2002). A license is valid in average for 3.1 years. Companies required on average 32 days and \$642 receiving one license.

A future barrier in the field of licensing will be the yearly amendments to the law on education operated (from December 2003), which gives the right to providing training services to private education institutions and **limits the activity of the private companies** (JSC, Ltd.) which have a license in providing of the training. The barriers are created by the **following requirements of the law**:

- reorganization of the private companies in private education institutions as non-commercial and non for profit organization;
- no dividends to be paid to the founders;
- the transfer of the entire statutory capital to the account of the institution, amounting minimum from 300,0 thousand lei (in the case of the schools and other similar education units) to 1,0 million lei (in the case of the universities);
- the private education institutions are not allowed to rent spaces and shall be the assets owner;
- the accreditation of the new created institution by the Ministry of Education;
- the education institution, which license was cancelled, can apply for a new license only three years after the day of the cancellation of the previous license.

## Import

About 32% of respondents in total have been involved in import transactions with different countries in the last three years (2001-2003). 70% from them were obliged to obtain **certificates**

confirming the compliance of imports with Moldovan standards, spending an average of 13 days on imports certification, which is 5 days less than during 2000-2002. The cost incurred by these operations was \$148, decreasing with \$47, comparing to the previous period (2000-2002).

It took the polled businesses an average of 3 days and \$552 to meet all **customs** requirements.

About 37% of all importers claimed that they were obliged to pass the **inspection before the shipping**, decreasing by 31% comparing to 2000-2002. On average, they spent 4.8 days and \$435 to receive a certificate. The costs and time changed insignificantly during last year.

### Export

A mere 17% of companies have exported to other countries over the last three years, with an average of 25 transactions per annum. An exporting company spent in 2001-2003 about 3.5 days and \$223 to meet all **customs** requirements for a single deal, or two times more than during the period 2000-2002.

About 73% of all exporters stated that the state must **reimburse** them the **VAT**. About 72% of them requested the amount officially. On average it takes 63 days for the state to pay back the VAT from the moment it received the request.

### Certification of equipment.

Over the last three years, 61% out of all polled businesses have purchased equipment. Usually the equipment is not the subject for certification. However, 10% from them were obliged to obtain **certificates** confirming the compliance of the purchased equipment to Moldovan standards. The procedure took an average of 23 days at a cost of \$278. The time and costs increased significantly comparing to 1999-2001 (14 days and \$135).

A total of 7% of respondents have been obliged to obtain additional equipment **permits** spending 15 days and \$91 to get them.

### Certification of Goods and Services.

About 46% from all polled businesses certified their goods and services in 2003. On average, economic entities are annually obliged to go through certification procedures 13 times. From overall companies that certify their products, about 39% certify production lines and 61% - separate batches of goods.

On average in 2003, companies certified **production lines** 4 times per year, spending 20 days, or by 5 days more than during 2002. The cost incurred by the certification diminished from \$347 in 2002 to \$198 in 2003.

Companies that certify separate **batches of goods** perform this 16 times annually, spending 12 days and \$200. The time and costs remained, practically, at the level of the previous years.

### Hygienic Registration of Products.

About 64% from all polled participants were subject to hygienic registration in 2003. On average, the polled companies have to undertake hygienic registration 1.9 times a year. It takes an average of 14 days for a company to receive one hygienic permit, which is by 44% more than in 2002. The cost of this procedure was \$73, by 22% less than in 2002.

## Inspections

A Moldovan enterprise was subject in average to 18 inspections last year. The number of inspections did not change comparing to previous years. Inspectors spent an average of 27 days per annum on a single enterprise, or 21 days less than in the previous year. A mere 3% of the surveyed companies reported no inspections at all in 2003. Average inspection costs equaled \$752 per enterprise in 2003, or 38% less than in 2002. Fines levied on enterprises averaged at \$683 per enterprise, confiscations at \$475, “voluntary contributions” at \$251, and bribes at \$336.

## Tax Administration

An average economic entity pays a total of 8.5 taxes. Individual entrepreneurs pay in average 7.1 taxes. To ensure the timely payment of all taxes, 85% of the respondents maintain a staff of 2.1 in-house accountants. The situation remained unchanged during last years.

## Price Control

About 31.4% of Moldovan businesses are subject to a varying degree of price controls; the share increased significantly during last years. Most often the state limits the highest margin level. The survey demonstrated that the Tax Inspectorate controls most prices, comparing to other state bodies.

## Labor Regulations

Almost 70% of respondents state that they have optimal staff levels. About 24% of companies stated that do not have sufficient personnel, the share increasing over the last years. The most important reason, mentioned by half of them, is the lack of qualified people in the country.

## Contracts Monitoring

Although freedom of contract is defined into the Civil Code of the Republic of Moldova, 12% of those polled pointed out that the state oversees the conclusion and execution of their contracts. About 6% mentioned that, because of state involvement they lost on average \$25,064, or twice more than the same indicator during last survey.

## Legal System

During 2002-2003 about 29% of companies had to solve conflicts, the share decreasing continuously during last years.

When having litigations with other businesses, companies usually appeal to the Court (in 86% of cases), but only in half of cases (53%) such efforts are considered effective. The use of unofficial methods to solve the litigations decreased from 55% (during 2001-2002) to 44% (during 2002-2003). In the same time the effectiveness of such methods decreased from 85% to 53%.

When arriving to solve litigations with state agencies the most preferred method is the Court (79% from total cases). However, the effectiveness of the Court in this case is lower (44%), and the use of unofficial methods increased during last year. The effectiveness of such methods when solving litigations with state bodies remains the highest – 56%.

## INTRODUCTION

The survey, carried out in March-April 2004 on behalf of DAI-Bizpro/Moldova, illustrate the business climate in Moldova and the changes over the last 3 years (2001-2003). This is the third consecutive survey of this type. Similar surveys were carried out in 2002 and 2003.

The **general objective** of the survey is to assess the impact of state policies, requirements, and institutional arrangements on business entities operating in Moldova. In particular, **the objectives** of this project are the following:

- Provide the Government of Moldova, as well as civil society institutions and international donor organizations with reliable quantitative data on the costs that absorb Moldovan businesses while complying with national and regional/local business regulations.
- Enable the Moldovan Government to make high quality policy analyses and implement decisions aimed at improving the overall business environment and investment climate in Moldova.
- Enable civil society institutions to make high quality policy recommendations and monitor their implementation, as well as impacts.
- Provide an instrument for monitoring changes in business costs over time and for measuring the impacts that specific policies of Moldovan Government have on reducing corruption and administrative barriers for businesses.
- Enable cross-country comparison of the business environment quality and issues faced by Moldovan businesses.

During last three years, the Parliament and Government have adopted a set of laws and measures, aimed to change the economic environment. The survey results can be used to compare the progresses made as a result of amendments in legislation. The results can be used, as well, to identify major business impediments and to formulate recommendations to improve the business climate.

In addition, the survey sought to analyze changes in the business environment over the last three years and assess their impact on private business development. It was also aimed at studying the private businesses climate in regions in comparison with the overall business climate in the country.

## METHODOLOGY

### Questionnaire

The questionnaire was developed based on the World Bank's methodology for state regulation studies. The questionnaire used for the development of the "Cost of Doing Business Survey" was tailored to Moldovan conditions at the moment of study.

### Selection of the businesses entities

The businesses entities were selected from the regions and Chisinau. Selected enterprises are statistically representative by regions, economic sector, enterprise size and legal form. They represent different legal forms from industry, agro-processing, construction and different kinds of services (transportation, trade, communications etc.). **The survey doesn't include agricultural enterprises or farmers, and large monopolistic enterprises.** The selected businesses were operational as of the date of interviews conduction. The sample of the individual entrepreneurs is smaller than representative nature of the general sample would suggest. However, it is sufficient for general statistical analysis and generalizations. The regional comparison was made for districts from previous administrative system. The reason is to assure the data comparability and to have a sufficient sample volume for data analysis at the regional level. A general statistical analysis was done for companies with foreign investments, i.e. companies that have at least 50% of foreign capital.

### Interviewing

The businesses entities were informed about the goals of this study. The managers and entrepreneurs were face-to-face interviewed in their native language. About 2-4 persons were interviewed from large enterprises and 1-2 persons – from micro, small and medium enterprises. After interviewing, about 10% of randomly selected enterprises were contacted to check the accuracy of data obtained and to confirm that enterprises were in fact interviewed.

### Data processing

The statistical data from the performed survey was analyzed using spreadsheets. Data was computed using filtering and the "Subtotal" function. Average data was counted only for respondents who reported some figures, e.g. the average of unofficial payments was calculated only for ones who reported the payments made; the average of time spent for customs clearance procedures was calculated only for those businesses, that reported that spent time. *Thus, total payments in many cases do not equal the amount of the elements, e.g. the average registration cost does not equal to the amount of registration official cost and of the registration unofficial cost.*

### Investigation Period

The investigation period was defined in the questionnaire and explained to the interviewed persons. Statistical data obtained from the performed survey reflect the following situation:

- a) in 2001-2003 for registration, premises, equipment and import-export areas of state regulations;
- b) in 2003 for inspections and contract execution;

- c) in 2002-2003 for the effectiveness of legal system;
- d) at the time of data collection (starting with 2004) for licensing, product certification, pricing, labor, tax administration.

The periods compared for these three surveys are shown in Table 1.

**Table 1. Periods, analyzed during the three surveys**

Fields of regulation	Survey time		
	January 2002	January 2003	March 2004
Registration, premises, equipment, import-export	1999-2001	2000-2002	2001-2003
Inspections, contract execution	2001	2002	2003
Legal system	2000-2001	2001-2002	2002-2003
Licensing, product certification, pricing, labor, tax administration	beginning of 2002	beginning of 2003	beginning of 2004

Exchange Rate, MDL per one USD

The following annual average exchange rate was used to calculate the costs:

1999	-	10.52 MDL per \$1
2000	-	12.43
2001	-	12.87
2002	-	13.57
2003	-	13.94
March-April, 2004	-	12.2 <sup>1</sup>

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<sup>1</sup> Source: National Bank of Moldova

## SURVEYED ENTERPRISES

The sample comprised 615 businesses from Chisinau, ten regions from Moldova and Administrative territory unit Gagauzia.

The survey sample is representative regionally, by the legal forms and number of personnel. The agricultural enterprises and monopolists fall outside the survey's purview.

More than a half of Moldovan enterprises (excluding the left site of Nistru river) are clustered in Chisinau, a fact duly reflected in the sample (see Table 2).

**Table 2. Polled enterprises broken down by region**

<b>Region</b>	<b>Number of surveyed enterprises</b>	<b>Share</b>
Chisinau city	325	53%
Balti	58	9%
Chisinau	30	5%
Cahul	36	6%
Edinet	26	4%
Lapusna	24	4%
Orhei	31	5%
Soroca	25	4%
Tighina	10	2%
Taraclia	10	2%
Ungheni	20	3%
Gagauzia	20	3%
Total	615	100%

The survey included a limited sub-sample of 103 individual enterprises (17% from total). The size of this sub-sample was not intended to be representative because of the disproportionately large size of this category of economic entities, small share of these businesses in net sales, and certain differences in their regulatory environment. By legal form, limited liability companies (56%) and joint-stock companies (22%) account for the bulk of businesses surveyed (see Table 3).

**Table 3. Distribution of enterprises by legal form**

Organizational form	No of enterprises	% of enterprises
Limited liability companies	343	56%
Joint stock companies	138	22%
Individual enterprises	103	17%
State or municipal enterprises	10	2%
Others	21	3%
Total	615	100%

Small businesses that employ up to 50 employees account for 81% of the respondents and, thus, make up the bulk of polled enterprises (see Table 4).

**Table 4. Distribution of enterprises by number of employees**

Number of employees	No of enterprises	% of enterprises
1 – 10	257	42%
11 – 50	242	39%
51 – 200	75	12%
201 – 500	29	5%
> 500	12	2%
Total	615	100%

The table below sets forth the breakdown of enterprises by line of business. The majority of polled enterprises are involved in trade (41%), services (32%) and manufacturing (26%), while only 1% of all interviewed businesses are knowledge-based companies, legal, consultancy companies and notaries.

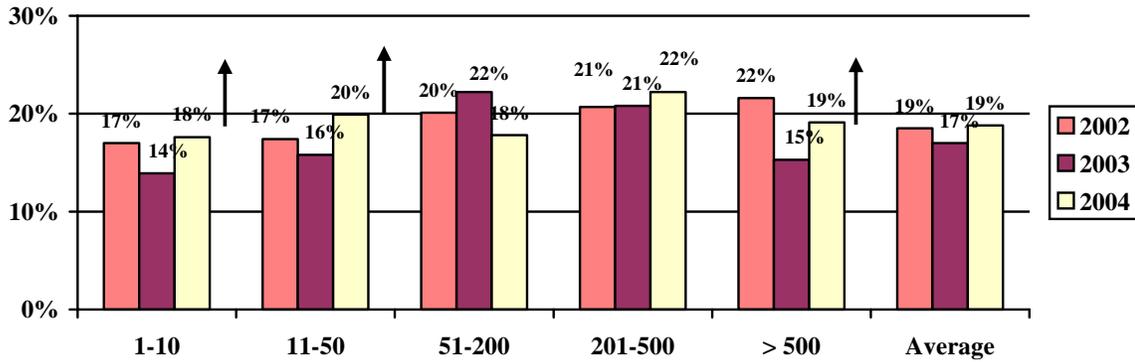
**Table 5. Distribution of enterprises by line of business**

Major lines of business	No of enterprises	% of enterprises
Manufacturing – food processing	53	9%
Manufacturing – other	102	17%
Wholesale and retail trade	254	41%
Services	197	32%
Research and development, Science	2	0.3%
Legal, Notaries, Consultancy	7	1%

### **General Time Indicator**

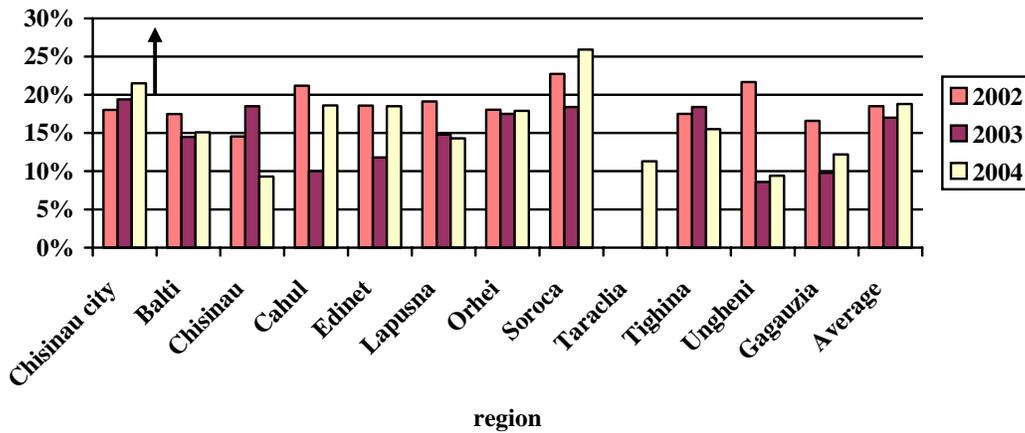
The management of the polled businesses reported spending an average of **18.8%** of their time on meeting the mandatory requirements. No major changes in comparison to previous years were recorded (see Figure 1). It dropped down by 2% during 2003 year and went up during 2004, reaching the level of the 2002. Nevertheless, there was a significant increase during last year of the time spent by small companies and managers of big companies to meet all regulatory requirements.

**Figure 1. Time share spent on meeting mandatory requirements for enterprises with various number of employees, %**



The amount of time required for fulfilling the mandatory requirements varies by region (see Figure 2). Some improvements during last two years could be mentioned for Ungheni region and Gagauzia. The time spent in the capital increased permanently during last three years.

**Figure 2. Time share spent on meeting mandatory requirements for enterprises from different regions**



## **I. REGISTRATION PROCEDURES**

### **1.1. Regulatory Environment**

#### **Registration**

##### *General information*

Moldovan businesses are obliged to get registered as economic entities and fulfill a number of statutory post-registration procedures. Any changes in the composition of company owners, general manager, location, size of a statutory capital, procedures for the acquisition and sale of on-balance assets and profit sharing, procedures for the assumption of joint responsibility and subsidiary liability by company owners, business objectives and lines of business, new company name, creation (liquidation) of separate structural subdivisions (offices and branches), and other information, which in accordance with applicable legislation, should be set forth in foundation documents, require amendment of registration documents and amendment of the information from the State Registry. In all these cases the companies have to operate the changes in the foundation documents and in the State Registry.

State registration of enterprises and organizations is performed by the **State Chamber of Registration** of the Informational Technology Department in the following cases: set-up of a new enterprise, newly created enterprise as a result of reorganization of already existed enterprises, as well as in case of changes operation in incorporation documents as result of changes of founders, manager, type of activity, legal address, and other information included in the State Registry. The national system of business registration is organized at both national and local levels. The local offices of the State Chamber of Registration perform state registration of enterprises and organizations in the regions.

##### *Background*

On December 20, 2001 the Government of Moldova approved the Decision No. 1419, which aim was to help the enterprises and to simplify the state registration procedures. By approving of this decision, the Government decided to create the automatic unique system of evidence of the legal entities and defined the Informational Technology Department as responsible for the stamps production monitoring.

In March 2002 (the 6<sup>th</sup> of March) the Government of Moldova approved the Decision No. 272 on “the Measures related to the creation of the automated informational system “State Registry of Legal Entities”, which has instituted the IDNO (Organization State Identification Number) for all legal entities. Following this decision, the number of the Fiscal Code given to the registered enterprise was **identical** to the registration number issued by the State Chamber of Registration.

The Government Decision No. 272 approved the concept of the automated informational system, without stating the direct requirement of the companies to get re-register in order to get the own IDNO. In order to finalize the measures stated in the Government Decision No. 272, on the 14<sup>th</sup> of July 2003 the Government approved the Decision No. 861 on “Entering into Force of the Unique State Identification Number of the enterprises and organizations”, which states the duty of the companies, which at the date of decision approval do not have the IDNO, to get it by the 1<sup>st</sup> of January 2004. Within this period the companies got it free of charge.

According to this decision the Informational Technology Department, after the 1<sup>st</sup> of January 2004, has to cancel the registration certificate and the certificate confirming the fiscal code of the companies, which do not have the IDNO, and to provide the personal IDNO to the companies, for an approved fee. The IDNO is provided to the companies within minimum one working day and (according to the Government Decision No. 926 dated July 12, 2002) costs 54 MDL (\$4) for an individual enterprise, 250 MDL (\$20) – for the legal person, 900 MDL (\$74) – for financial institution and insurance association. In order to get the IDNO, companies have to submit the following documents:

- a) Registration certificate (original),
- b) the Certificate of confirming the fiscal code (original),
- c) the Certificate of confirming the statistical code (original),
- d) for the managers and founders - natural person the IDNP (identification personal number) and for founders-legal persons – IDNO,
- e) confirmation of registration fee payment.

### Legal procedures

At present, the overall registration process can be structured in the following three stages:

- 1) pre-registration procedures,
- 2) registration procedures,
- 3) post-registration procedures.

In addition to the registration procedures, the legislation in force is also stating the procedures of amendments operation in the incorporation documents, and information changes in the State Registry for enterprise registration.

According to the Government Decision No. 926, the State Chamber of Registration offers assistance in preparing the documents required for the state registration and for amendments to the registration documents (these services had been previously provided also by private firms).

The documents required for state registration of enterprises are the following:

- a) Application Form, according to the State Chamber of Registration standard;
- b) Decision on the enterprise's foundation and incorporation act;
- c) The identification document of the founders and the managers;
- d) The Bank Certificate confirming the transfer of the social capital;
- e) Payment check of the Stamp duty – for the enterprises with social capital;
- f) Receipt of payment of the registration fee.

Starting with October 17, 2003, after entering into force of the Law No. 336-XV, the founders have to submit also the document issued by the territorial fiscal office confirming the fact that they do not have any debts to the national public budget.

For registration of the foreign capital enterprises, additionally to the Application Form, the founders shall submit the following documents:

- a) Statement of the National Commerce Registry of the investor's country of origin;
- b) Certificate of the Foreign Enterprise Registration;
- c) Incorporation documents of the foreign enterprise;
- d) Foreign Enterprise Certificate issued by their bank.

Documents mentioned in the points a), b) and c) have to be legalized by the Consular Offices of the Republic of Moldova in the founder country or accredited for this country, translated into the official language of Moldova and notary authorized.

After entering into force of the Law No. 336-XV (on July 24, 2003) founders could not be the persons who are the founders of a company that is not acting and that was not liquidated according to the legislation in force or has debts to the national public budget, until all these conditions are not fulfilled.

The registration process ends with Enterprise's registration in the State Registry and a Registration Certificate is issued to the company's manager. This Certificate allows to:

- 1) manufacture the stamp;
- 2) open bank accounts;
- 3) register at the local tax authority, and
- 4) register the enterprise at the National House for Social Security.

In accordance with the legislation, the state registration of an economic entity can take up to 15 working days (Article 14 of the Law No. 1265-XIV). The registration process lasts around 10 working days. The registration and other services may be provided in urgent regime (1-2 days) for double price. In all cases time is counted starting with the day of order receipt by the State Chamber of Registration.

### Registration Fees

On July 12, 2002 the Governmental Decision No. 926 on "Confirmation of the fees for services charged by the State Chamber of Registration of the Informational Technology Department" was adopted (the decision entered into force on July 18, 2002).

The procedure for enterprise registration, according to the Law on Registration of enterprises and organizations, implies 2 kinds of payments:

- the first – the registration fee for the registration services provided by the State Chamber of Registration, according to the Governmental Decision No. 926.
- the second – stamp duty for enterprises with social capital (0.5% of the social capital value), provided by the Article 12 of the Law No. 1265-XIV and the stamp duty and securities exchange tax – for joint stock companies according to the Decision of the State Commission for Security Market on "issuance and registration of the security", No. 76-5 dated December 29, 1997. It should be underlined that by October 17, 2003 the joint stock companies had to pay only the securities exchange fee, which according to the above decision was 0.4% of the first issuance value and 0.5% of the supplementary issuances value. On July 24, 2003 the

Parliament adopted the Law No. 336, stating that the joint stock companies have to pay the stamp duty. Additionally, joint stock companies have to pay (according to the Decision No. 76-5) the state tax for registration (270 MDL or \$22).

The payment system for registration and additional services before registration consists of many payment levels that can be incorporated into **three groups**. *The first* includes the service fees for:

- Enterprise and organization registration. The registration of an individual enterprise is by 54 MDL (\$4), a legal person – 250 MDL (\$20), a financial institution and organization – 900 MDL (\$74) and companies with joint venture capital – \$300.
- Operation of the amendments in the incorporation documents. The fee for this activity depends on the domestic and foreign type of property and is 180 MDL (\$15) for domestic enterprises and \$30 for the companies with joint venture capital. The fee for amendment of the information in the State Registry regarding the general manager is 90 MDL (\$7).  
It should be mentioned that according to the legislation in force (Article 18 of the Law No. 1265-XIV) the company has to submit the documents for amendments operation within thirty days after decision approval on changing of the incorporation documents or of the data amendments intruded in the State Registry. In case of legal address changing, the company has to inform the State Chamber of Registration within seven days and to notify the changing of the address by publishing in the “Monitorul Oficial”.
- Issuing a duplicate of the state registration certificate. The fee for this is 180 MDL (\$15).

*The second* includes the service fees for eight types of information on registered enterprises, which may be requested by the clients. These fees vary between 36 MDL (\$3) and 126 MDL (\$10).

*The third* includes the fees for other services as follows:

- **Pre-registration procedures.** These include the fees for consultant services, for carrying out or correction of the documents necessary for registration procedure, the company name checking and the publication of the information in the Official Bulletin of the State Chamber of Registration. The pre-registration fees currently stand at \$13 for an individual enterprise, \$34 for joint stock companies, and \$17 for limited liability companies, cooperatives, state owned and other companies. The structure of the pre-registration fees is the following:
  - The consultant’s fee is 27 MDL (\$2).
  - The fee for carrying out or correction of the documents necessary for registration procedure depends on the type of the company legal form: 54 MDL (\$4) for individual enterprise; 108 MDL (\$9) for partnership, cooperatives, Ltd., state and municipal companies, branches and organizations; 306 MDL (\$25) for the joint stock company.
  - The fee for name confirmation is 39 MDL (\$3).
  - The publication of the information in the Official Bulletin of the State Chamber of Registration is 54 MDL (\$4).

- **Issuance and authentication of the documents' copies.** The fees for a copy of a Foundation Agreement and Company Charter equal to 90 MDL (\$6) for each. A copy of any amendments in Foundation Agreement is charged by 54 MDL (\$4). The fees for a copy of a Decision and Minute of Meeting equal to 36 MDL (\$3) for each.
- **Amendment in incorporation documents.** Any amendments in the company documents or the general manager replacement are charged depending on the domestic and foreign type of property, and on the legal form and ownership. The fees for these services are: 108 MDL (\$8) for domestic joint stock company, Ltd and cooperatives; 72 MDL (\$5) for state and leasing enterprises, company's associations and branches, and other; 36 MDL (\$3) for individual company; and \$30 for joint venture capital.
- **Familiarization with the documents** of the registered companies. The fee is 54 MDL (\$4).

All registration fees are paid in Moldovan Lei in the bank located in the premises of the State Chamber of Registration.

It should be underlined that after entering into force of the Civil Code of the Republic of Moldova, the incorporation documents have to be authorized by a notary (Article 107 of the Civil Code). After approval of the Law No. 414-XV dated October 24, 2003 (entered into force on November 24, 2003) this provision was clarified and the authorization of the incorporation documents became the task of the state registrar of the State Chamber of Registration.

Supplementary, the companies have to pay 15 MDL (\$1.2) for authorization of the company name (the List of the services provided by the National Terminology Center, approved on May 30, 2003). Simultaneously under the registrations procedures the companies are receiving the Statistical Code. The fee for this is 12 MDL (\$1).

## **Post-registration procedures**

### General procedure

Each of the post-registration procedures, including the production of a stamp, opening of a bank account, registration with the National House for Social Security and local tax authorities, are governed by state regulations.

To order a seal, a company must obtain a special permit from the district police in whose jurisdiction the company is registered, by submitting an application and a copy of the Registration Certificate. The price for a seal is \$14 for a simple metal model, including 150 MDL (\$12) – the cost of the seal production, 15 MDL (\$1) – the name authorization on the seals and 9 MDL (\$1) – the state tax for the seal. The seals can be obtained currently at the State Chamber of Registration simultaneously with the company registration and are produced by the Informational Technology Department according to the Governmental Decision No. 1419 dated December 20, 2001.

To open a current account, a company shall provide the bank with a number of documents, set forth by the legislation in force (National Bank Decision No. 415 dated December 30, 1999 regarding the approval of the Regulation on opening and closing of the accounts in the banks of the Republic of Moldova, Article 4), as follows:

- a) application form for opening of the current bank account;
- b) the notary authorized copy of the state registration certificate;

- c) the notary authorized copy of the foundation documents;
- d) the notary authorized copy of the fiscal code confirmation certificate;
- e) the extract from the State Registry confirming the company manager, in original;
- f) the notary authorized two specimens of the seal and of the company employees signatures authorized to sign banking documents;
- g) the copies of managers and accountant identification document and
- h) the company labor contract with accountant.

The fee charged by banks for opening of the current bank account varies from 100 MDL (\$8) to 200 MDL (16\$).

After the state registration, the enterprise and organization has to register at the National House for Social Security by submitting the registration certificate and incorporation documents.

Within 15 days from the date of the state registration, the company and organization should register with the local tax authority. For this, it is necessary to submit the copy of the registration certificate and incorporation documents, the confirmation of the property on the premises where legal address is located or the rent contract and the confirmation of the ownership.

#### Notary Costs

As provided already, during registration and post-registration process some documents have to be authenticated by the notary. The authentication of the documents are charged by the notary according to the Notary Law No. 1453-XV dated November 08, 2002, State tax Law No. 1216-XII dated December 03, 1992, Law on the Methodology of the fees calculation for the notaries services etc No. 271-XV dated June 27, 2003. The documents authentication costs are the following:

- For signature authentication of the foundation documents the fee is 180 MDL per signature and 90 MDL per a supplementary copy and 10 MDL per document, which is the State tax; from the meeting minutes – 36 MDL per signature and 10 MDL per document, which is the State tax. The total cost is about 650 MDL (\$53) for two copies of the foundation documents and one copy of the meeting minutes for two founders.
- 6 MDL (Notary fee) and 0.5 MDL (State tax) for one page of an authenticated copy of the company's incorporation documents (registration certificate, foundation act, the fiscal code confirmation certificate). A typical Company Charter runs up to fifteen pages and thus costs 90.5 MDL (\$7.5) per copy.

For opening of the bank account, supplementary, the company shall submit two specimens of the stamp/seal and of the company employees signatures authorized to sign banking documents. The cost is 18 MDL (Notary fee) per person per sample and 5 MDL (State tax) per sample. In total for two persons per bank account the cost is 82 MDL (\$7).

#### **1.2. Duration of registration procedures (findings)**

Businesses that had to register or make changes to their registration documents over the last three years (2001-2003) spent an average of 25.4 days on complying with appropriate statutory procedures. It took businesses that had to register during the last three years 27.6 days to fulfill these statutory procedures. It constitutes 1.7 days more than for the same procedures during 2000-

2002. The time spent to make changes for registration documents slightly decreased from 25.2 days (during 2000-2002) to 24.4 days (during 2001-2003). Companies with foreign investment spent during 2001-2003 about 26 days for the registration and 19 days for registration documents amending.

During the last three years 53% of polled enterprises registered or modified their registration documents.

**Table 6. Average duration of the registration procedures**

Procedures	Survey time	% of businesses that reported from total polled	Duration, days		
			2002	2003	2004
Registration		15%	22.7	25.9	27.6
Amendments to registration documents		38%	21.2	25.2	24.4

Table 7, Table 8 and Figure 3 represent a breakdown of the registration timeframe by region and size of business.

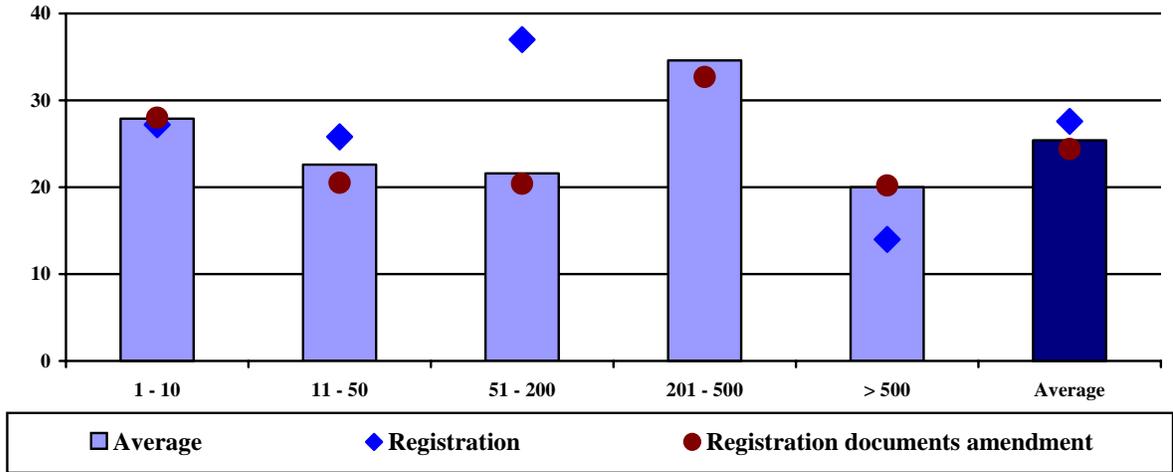
**Table 7. Registration by region, in days**

	Chisinau city	Balti	Chisinau	Cahul	Edinet	Lapusna	Orhei	Soroca	Taracalia	Tighina	Ungheni	Gagauzia	Average
Average for all types of registration	25.2	26.1	28.7	23.6	24.0	13.4	17.8	16.9	27.0	13.4	71.3	40.4	<b>25.4</b>
Registration	30.9	41.0	14.0	27.1	-	13.5	10.0	26.0	40.0	17.3	30.0	48.0	<b>27.6</b>
Registration documents amendments	22.1	25.0	49.2	20.8	25.9	12.3	21.3	12.8	14.0	8.3	76.4	38.5	<b>24.4</b>

**Table 8. Duration of the registration processes broken down by enterprise size, in days**

Number of employees	1 – 10	11 – 50	51 – 200	201 – 500	> 500	Average
Average for all types of registration	27.9	22.6	21.6	34.6	20.0	<b>25.4</b>
Registration	27.2	25.8	37.0	-	14.0	<b>27.6</b>
Registration documents amendments	28.0	20.5	20.4	32.7	20.2	<b>24.4</b>

**Figure 3. Process duration of receiving a registration certificate by size of enterprise, days**



The Figure above suggests that there are no significant differences between enterprises with different size when passing registration procedures.

**Table 9. Duration of the registration process broken down by state agencies**

State body	Survey time	Registration				Amendments			
		% report	Duration, days			% report	Duration, days		
			2004	2002	2003		2004	2004	2002
Registration Chamber		100.0	11.3	15.5	17.0	98.3	10.5	16.9	18.1
Department of Statistics and Sociology		64.1	2.2	1.5	3.2	34.2	1.7	2.4	2.5
Tax Inspectorate		70.7	2.9	3.3	3.8	48.3	4.8	2.2	3.7
Police (stamps)		55.4	2.3	5.9	4.7	27.4	5.1	6.5	4.1
National House for Social Security		57.6	1.5	1.4	2.8	30.8	1.7	2.1	6.0

During last years no major changes have been observed in the registration procedures duration. However, it should be mentioned a small increase of the time spent by enterprises to perform all procedures in the State Registration Chamber and in the Department of Statistics and Sociology and a significant increase in time spent when registering at the National House for Social Security.

### **1.3. Registration procedures cost (findings)**

The total registration costs for an average enterprise over the last three years amounted to **\$142**, increasing insignificantly in comparison to **\$137**, during 2000-2002. This amount includes both official and unofficial payments (Table 10). Enterprises spent in average \$128 on official payments and fees, which represent about 90% from total cost. “Voluntary contributions” are insignificant when going through registration procedures.

**Table 10. Registration Procedures Fees, \$**

Survey time Procedures	Average total costs			Official costs		“Voluntary contributions”		Unofficial costs	
	2002	2003	2004	%	amount	%	amount	%	amount
Registration	152	155	151	100	130	1.1	3.7	10.2	203
Amendments	133	133	136	100	125	4.4	24.4	8.9	110
All procedures <sup>2</sup>	132	137	142	100	128	3.4	22.5	9.6	145

The table above shows that the registration costs that amounted to \$151 are higher than the costs of statutory documents amendments procedure.

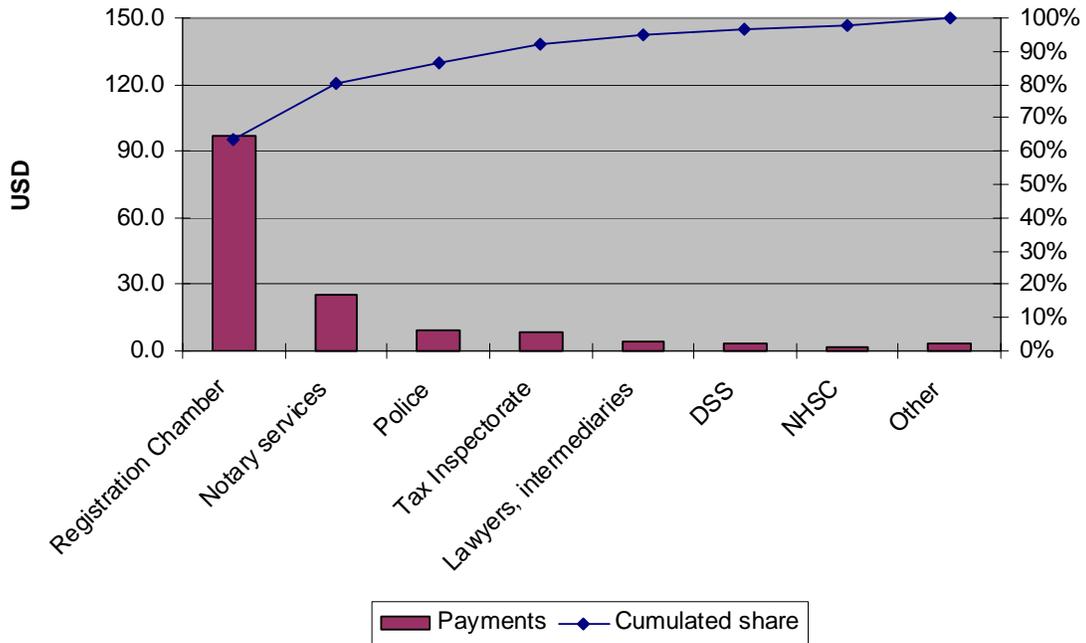
**Table 11. Registration costs broken down by registering agency**

State Agency	Official payments		Unofficial payments	
	% reported	amount	% reported	amount
Notary services	75	33.2	1	48.3
Registration Chamber	95	86.3	5	293.7
Department of Statistics and Sociology	36	8.3	0	-
Tax Inspectorate	24	25.9	5	37.5
Police (stamps)	39	21.9	1	74.3
National House for Social Security	8	16.3	0	-
Lawyers, intermediaries	6	32.0	2	113.4
Other	5	42.8	2	78.1

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<sup>2</sup> Include re-registration procedure, which has a very limited share in total

**Figure 4. Pareto chart: Registration costs broken down by registering agency**

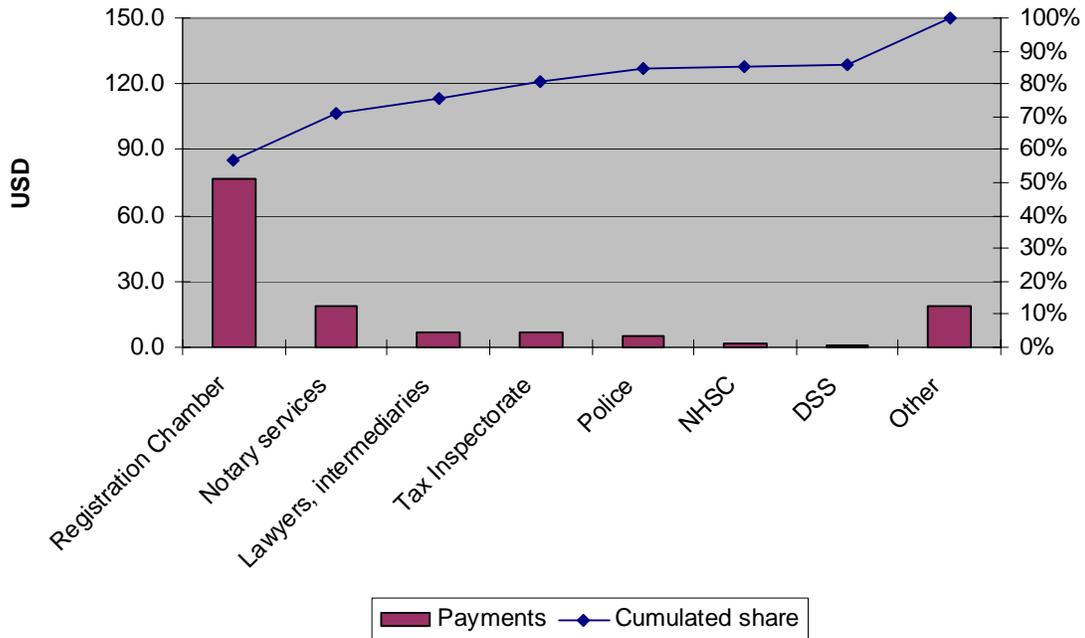


During the company registration about 80% from total payments are made when registering at the Chamber of Registration and to the notary.

**Table 12. Documents amendment costs broken down by registering agency**

State Agency	Official payments		Unofficial payments	
	% reported	amount	% reported	amount
Notary services	62	29.5	1	59.5
Registration Chamber	95	80.0	3	29.7
Department of Statistics and Sociology	10	8.9	0.4	7.4
Tax Inspectorate	4	58.1	3	141.0
Police (stamps)	20	25.8	1	7.4
National House for Social Security	4	15.3	1	74.3
Lawyers, intermediaries	10	47.2	1	197.0
Other	11	153.5	2	98.6

**Figure 5. Pareto chart: Documents amendment costs broken down by registering agency**



In case of statutory documents amendment, the Registration Chamber and the notary account for about 70% from total payments (see Figure 5).

#### **1.4. Registration procedures perception**

All respondents were asked to assess the problems of registration procedures by evaluating them on a 5-point scale, where value of 1 meant no problems at all and value 5 meant major problems. The Table below illustrates the assessment by entrepreneurs of problems connected with registration and registration documents amendments.

**Table 13. Registration problems perceived by the surveyed entrepreneurs**

Possible problems statements	Average evaluation values					
	Registration			Amendments		
	2002	2003	2004	2002	2003	2004
Overall difficult registration procedures	3.1	3.4	2.8	3.7	3.4	2.8
Overall process cost	3.2	3.1	2.5	3.6	3.1	2.8
Size of necessary statutory capital	2.2	1.6	1.3	2.4	1.3	1.4
Legal address proof	1.8	1.6	1.2	1.6	1.5	1.4

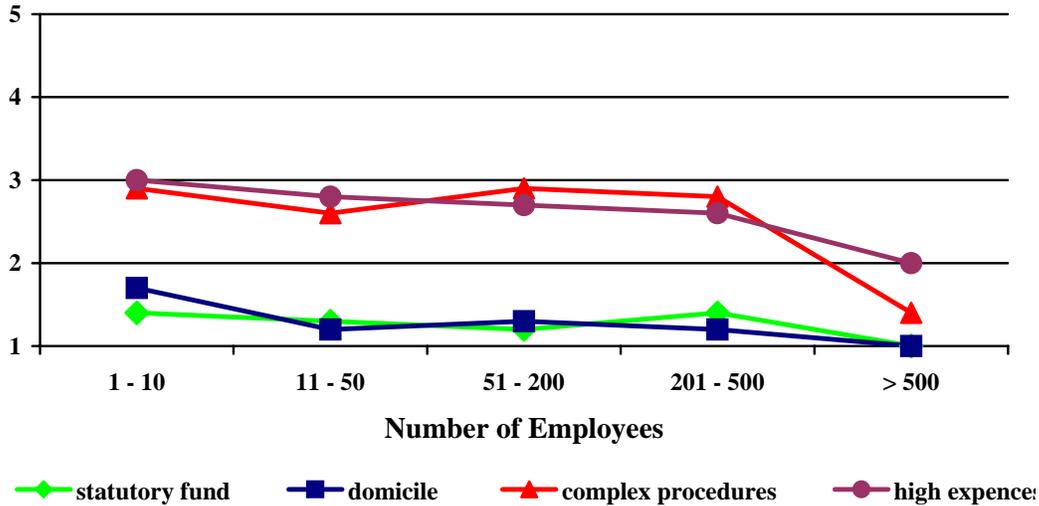
The survey results demonstrate convincingly that the registration and amendment procedures are not a substantial administrative barrier in business; the polled enterprises evaluated them at an average level. Table 13 displays a positive trend during last years in the companies' perception.

Figure 6 shows the importance of different problems when amending statutory documents broken down by company size. Problems are evaluated on a scale from 1 to 5: 1 – is not a problem, 5 – a

major problem. Due to a relatively small number of polled companies that registered during last three years it is not relevant to assess their problems by company size.

The assessment of problems encountered in the process of foundation documents amendment by company size is shown in the Figure 6.

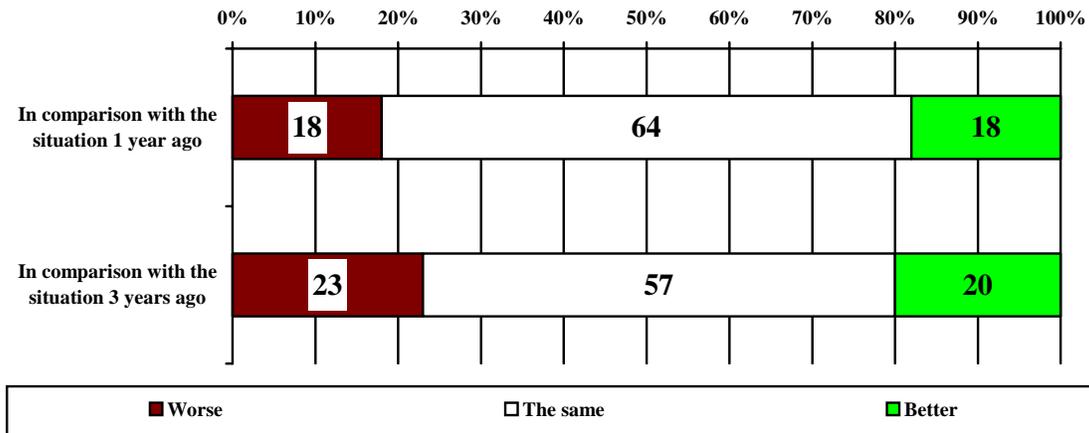
**Figure 6. Assessment of problems encountered in the process of foundation documents amendment by businesses of different sizes**



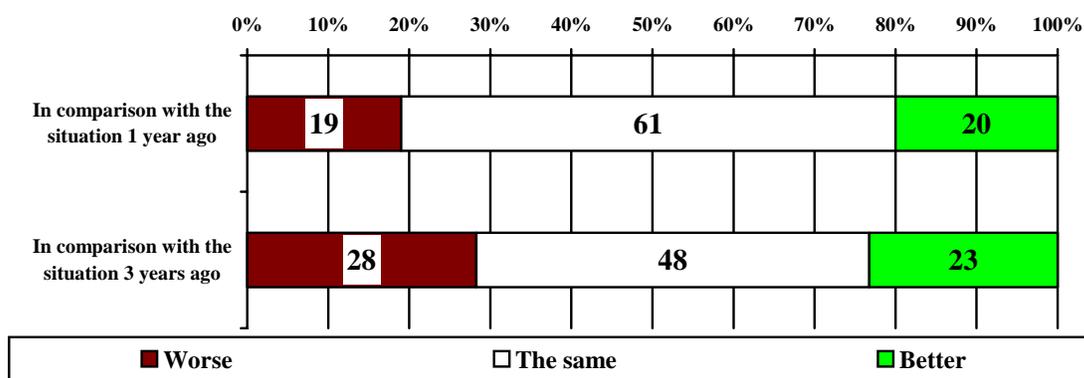
The figure above shows that even for small companies, which usually cannot afford to hire lawyers, registration procedures do not create difficulties.

Respondents were also asked to compare current registration procedures with those in the past. In the opinion of most polled participants there had been no major changes during last three years. (see Figure 7 – Figure 8 and Table 14).

**Figure 7. Overall changes perception in registration procedures**



**Figure 8. Overall changes perception in the procedures for foundation documents amendment**



**Table 14. Overall changes perception in registration procedures**

Base for comparison	Better		Same		Worse	
	Registration	Foundation documents amendments	Registration	Foundation documents amendments	Registration	Foundation documents amendments
1 year ago	18	20	64	61	18	19
3 years ago	20	23	57	48	23	28

Enterprises of different sizes differ in their assessment of the registration procedures amendments. Table 15 breaks down the opinions voiced by the polled participants by enterprise size. It could be seen some correlation between the company size and the perception of procedures' complexity. In the opinion of small companies registration procedures became more complex, while big companies stated the contrary.

**Table 15. Overall changes perception in all types of registration procedures, %**

Enterprises by the number of employees	1 year ago			3 years ago		
	Worse	The same	Better	Worse	The same	Better
1-10	24	57	19	29	53	18
11-50	17	64	19	26	48	25
51-200	14	66	20	23	51	26
201-500	24	53	24	35	41	24
> 500	0	88	13	13	63	25
<b>Average</b>	19	62	19	26	52	22

### **1.5. Analysis Summary**

The analysis showed that within last three years the government essentially amended the registration system under the Decision nr. 1419 on December 20, 2001, by centralizing the registration procedures within the framework of the State Registration Chamber and simplifying them. As a result, the following positive changes occurred:

- The pre-registration and registration procedures are centralized in a single place (a one stop shop). At present one person can submit foundation documents. When submitting documents, every economic agent receives a copy of the request where the date, time, persons and the required documents for registration are indicated.
- In order to reduce the registration period simultaneously with preparation of registration documents, the State Registration Chamber also performs the fiscal and statistical registration, makes the seal, coordinates the company name.
- The documents examination may be performed in normal conditions (during 10 days), as well as urgently (i.e. within 3 days).

The data analysis of the registration processes revealed that most of polled enterprises perceived that this field of state regulation remained unchanged during last years. However, comparing to other fields of regulation it enabled a friendlier environment for the entrepreneurs.

Despite the significant efforts to simplify the registration procedure, the average time to register a company at the Registration Chamber shows negative trends – it amounted from 11.3 days (during 1999-2001) to 15.5 days (during 2000-2002) and to 17.0 days (during 2001-2003). As a result, the overall registration time became longer (see Table 16).

Registration costs changed insignificantly during last years and amounted to \$142. About 80% from them are made when registering at the Chamber of Registration and the notary services. The number of respondents who paid unofficially when registering the company decreased from 26% to 10%. In the same time the average unofficial payment made by them (from \$84 to \$145) increased considerably.

**Table 16. Registration time and costs during last years**

Survey time	2002	2003	2004
Indicators			
Registration time, days	23	26	28
Registration costs, \$	152	155	151
Share of respondents that made unofficial payments, %	26	26	10

To simplify and improve the procedure of enterprises' registration, the following is recommended:

- To continue the reform of the enterprises registration system, simplifying and adjusting it to the international norms and standards.

- To reduce the registration costs within the framework of the State Registration Chamber by eliminating services, which are not performed de facto. For example, at present any entrepreneur should pay for any information provided as a consultation.
- To eliminate restrictions concerning the maximum number of registered activities or to simplify the procedure for their substitution.
- To reduce the procedures costs in case of equity capital growth, constituting 0.5% of the value at present.
- To simplify procedures for enterprise liquidation initiated by the owner.

## **II. PREMISES: REGULATIONS FOR THEIR USE**

### **2.1. Mandatory Environment**

The Civil and Land Codes of the Republic of Moldova as well as a multitude of legal acts, which are presented below, regulate processes related to constructions:

- Law No. 721-XIII dated February 2, 1996 regarding the “Quality in constructions”, amended in 1999 (by the Law No. 509-XIV from July 15, 1999), in 2000 (by the Law No. 926-XIV on April 27, 2000), in 2001 (by the Law No. 543-XV on October 12, 2001), in 2002 (by the Law No. 1221-XV on July 12, 2002) and in 2003 (by the Law No. 333-XV on July 24, 2003);
- Law No. 835-XIII on May 17, 1996 regarding “Principles of urban development”, amended in 1998 by the Law No. 237-XIV on December 23, 1998;
- Government Decision No. 246 on May 03, 1996 regarding land lots’ attribution, amended in 1997 (by the Decision No. 789 on August 18, 1997) and in 1999 (by the Decision No. 982 on October 26, 1999);
- Governmental Decision No. 285 on May 23, 1996 regarding “Approval of the Regulation on the adjacent constructions and installations commissioning”, amended by the Governmental Decision No. 1269 on December 20, 2000;
- Governmental Decision No. 360 on June 25, 1996 regarding “State Control of the constructions quality”, amended in 1996 (by the Decision No. 699 on December 18, 1996), in 2000 (by the decision No. 1269 on December 20, 2000) and in 2002 (by the Decision No. 441 on April 11, 2002) and the Regulation of the state quality control in constructions approved by this decision;
- Governmental Decision No. 361 on June 25, 1996 regarding assurance of the constructions quality, amended by the Decision No. 1399 on November 24, 2003 and the Regulation of projects and constructions’ inspection and the technical expertise of the project and constructions and the Regulation on construction specialists techno-professional evaluation, approved by this decision;
- Governmental decision No. 360 on April 18, 1997 regarding “Approval on the Regulation of urban development certificate and the authorization for construction works, amended in 1998 (by the Decision No. 320 on March 03, 1998), in 1999 (by the Decision No. 982 on October 26, 1999) and in 2001 (by the Decision No. 1363 on December 07, 2001);
- Governmental decision No. 382 on April 24, 1997 on Controlling the exploitation, intervention in due time and post-utilization of the premises, amended in 2000 by the Decision No. 1269 on December 20, 2000;
- Law No. 1543 on February 25, 1998 regarding the real estate cadastre, amended in 2000 (by the Law No. 1037-XIV on June 09, 2000), in 2001 (by the Law No. 757\_XV on December 21, 2001), in 2002 (by the Law No. 910-XV on March 14, 2002) and in 2003 (by the Law No. 333-XV on July 24, 2003).

The utilization of land-lots and real estate, as well as design and construction works are governed by the procedures of authorization through the certificate for urban development and authorization for construction. These authorizations were adopted through the “Regulation of the urban development certificate and the construction works authorization”, approved by the Governmental Decision No. 360 dated April 18, 1997 and are issued by the local authorities. The State Inspection for Constructions, under the Department of Constructions and Territory Development (created after

the reorganization of the Ministry of Ecology, Constructions and Territory Development), ensures constructions' compliance to the quality manual. Project design and its appraisal take a lot of time.

The main points in this field are as follows:

- The construction works, as well as the modernization, modification, transformation and reparation can be made only based on the project developed by the authorized legal or physical persons (article 13 of the Law. No. 721).
- Project activities for all types of constructions, for urbanism and/or engineering, reconstruction, construction of buildings, engineering construction etc. are subject of licensing (article 14 of the Law. No. 721).
- Execution of any construction works without the construction authorization issued by the State Inspection in Construction is forbidden (article 21 of the Law. No. 721).
- For each construction object the interested people have to get the certificate of urban development and the authorization for construction works and to develop the technical book of the building (article 22 of the Law. No. 721).
- Location of the construction and construction plan are authorized by the certificate of urban development; construction execution – by the authorization for construction works (article 41 of the Law No. 835).
- State control on the quality of the construction is carried out by inspections at different levels and persons (articles 6 and 7 of the Governmental Decision No. 360 dated June 25, 1996).
- The certificate of urban development and the authorization for construction works are issued by the local authorities (Governmental decision No. 360 dated April 18, 1997).
- The real estate is subject of registration with the Cadastral office (article 4 of the Law No. 1543 dated February 25, 1998).

The urban development certificate and the authorization for construction works are issued within 30 days after the application form submission by the solicitant. The certificate of urban development is valid from 3 to 24 months, starting with the issuing day. Issuing authority can make the extension of the validity period for 12 months. The validity of the authorization for construction works is 12 months and can be extended for 1 year.

The fee for the urban development certificate is 10 MDL plus 0.01 MDL for each square meter. For validity extension, the solicitant has to pay 50% of the initial transferred tax.

The construction authorization fee consists of nine levels and includes:

- 1% of the works and constructions value for all types of constructions;
- 0.5% of the works and construction value of locative blocks;
- 0.1% of the works and construction value of private houses;
- 50% of the initial transferred tax – for the extension of the certificate validity etc.

The cost of registration of the real estate with the Cadastral office is stated by the Governmental Decision No. 718 dated July 20, 2000 on approval of the services provided by the cadastral territorial offices, which states the tariffs of registration and the coefficients which can be applied to the tariffs for registration.

Design and construction activities are subject to licensing by the Chamber of Licensing, according to the Article 8 paragraphs 17) – 18) of the Law No. 451-XV on July 30, 2001 “On Licensing of Certain Types of Activities”.

For entities that have a negative impact on the environment, a state environmental appraisal is required at the stage of design, according to the Order No. 188 of the Ministry of Ecology,

Constructions and Territory Development dated September 10, 2002 (entered into force on February 07, 2003). The state environmental appraisal is mandatory for 32 types of premises, but can be requested as well as for other types mentioned in the Order. The list of documents required for the state environmental appraisal is quite long.

## **2.2. General information about types of premises**

The diversity of premises types used by Moldovan businesses in 2004 is displayed in Table 17.

**Table 17. Types of premises used by Moldovan economic entities**

	% using such type of premises	private property	state rent or use	other rent
Office	79.5%	66.7%	11.7%	21.6%
Premises for retail trade with food	19.3%	81.5%	9.2%	9.3%
Premises for other retail trade	28.9%	62.9%	12.0%	25.1%
Services premises	32.3%	68.2%	8.7%	23.1%
Public catering premises	13.4%	85.2%	4.9%	9.9%
Production premises	35.1%	81.9%	7.9%	10.2%
Storing facilities	53.0%	75.8%	7.7%	16.5%
Other premises	17.3%	77.6%	8.2%	14.2%

The table above demonstrates that companies usually own the premises used by them. Only in some cases companies rent them from the state or from other companies.

Before beginning to use premises, 14% respondents built them, 35% repaired them, 7.5% changed their function, and 35% did not do anything of the above.

## **2.3. Permits for premises construction and their inspection**

Before beginning construction, 97.7% of respondents obtained construction permits. During the last three years, on average, the polled economic entities spent **128 days** and **\$534** to obtain these permits (134 days and \$619 during 2000-2002, 89 days and \$563 during 1999-2001).

Companies located in Soroca, Edinet and Cahul regions spent the longest period to take out these permits: about 190 days in Soroca, 180 days in Edinet and 164 days in Cahul regions. Companies located in Lapusna region spent only 22 days to take out these permits. The average for the rest of the regions ranges from 42 in Orhei region to 149 days in Gagauzia.

The overall cost of construction permits is based on payments made by the polled economic entities (see Table 18).

**Table 18. Costs incurred by the polled economic entities while trying to obtain construction permits**

Payments categories \ Survey time	% reported the made payments			Average payments, \$		
	2002	2003	2004	2002	2003	2004
Official fees	69%	83%	88%	423	261	426
Expert assessment fees	50%	71%	-	81	223	-
Notary payments	40%	33%	38%	13	67	68
Lawyers and intermediaries payments	11%	6%	7%	36	94	35
Traveling expenses	n/a	n/a	41%	n/a	n/a	63
“Voluntary contributions”	12%	31%	19%	15	182	200
Unofficial payments	50%	43%	34%	178	371	195

*Note: “official fees” for 2004 survey include the expert assessment fees*

About 6% of those polled reported that the state control agencies inspected construction works in progress, entailing an average cost of **\$164**.

For the premises commissioning, companies should get the permits from instances that approved the project. During 2001-2003 it took an average of **46 days** and **\$202** for the polled businesses to receive such permits (41 days and \$514 in 2000-2002, 58 days and \$221 in 1999-2001).

The overall cost of construction permits is calculated on basis of payments made by the polled economic entities (see Table 19).

**Table 19. Costs incurred by the surveyed companies while commissioning newly constructed premises**

Payments categories \ Survey time	% reported the made payments			Average payments, \$		
	2002	2003	2004	2002	2003	2004
Official fees	64%	92%	68%	98	246	219
Expert assessment fees	49%	64%	-	44	111	-
Notary payments	38%	30%	19%	8	84	29
Lawyers and intermediaries payments	10%	2%	3%	9	74	119
Traveling expenses	n/a	n/a	28%	n/a	n/a	40
“Voluntary contributions”	6%	30%	4%	3	100	38
Unofficial payments	55%	55%	26%	122	293	122

*Note: “official fees” for 2004 survey include the expert assessment fees.*

It should be noted that about 26% of the respondents involved in construction had to pay bribes to secure premises commissioning.

An average polled business spent 170 days and \$716 on obtaining all permits for beginning construction and for premises commissioning (171 days and \$1,082 in 2000-2002 and 141 days and \$764 in 1999-2001).

## **2.4. Permits for premises renovation**

Before beginning to use premises, 35% of respondents renovated them, 73% of them obtained permits for renovation. The polled businesses spent an average of 73 days and \$309 to obtain these permits (53 days and \$461 in 2000-2002 and 33 days and \$175 in 1999-2001).

**Table 20. Costs for obtaining permits to start premises renovation**

Survey time Payments categories	% reported the made payments			Average payments, \$		
	2002	2003	2004	2002	2003	2004
Official fees	32%	66%	73%	273	286	262
Expert assessment fees	18%	57%	-	82	150	-
Notary payments	9%	10%	35%	5	39	63
Lawyers and intermediaries payments	6%	0.4%	4%	14	28	61
Traveling expenses	n/a	n/a	27%	n/a	n/a	43
“Voluntary contributions”	2%	14%	12%	2	104	102
Unofficial payments	16%	28%	32%	70	153	221

*Note: “official fees” for 2004 survey include the expert assessment fees.*

After completing renovation, 93% of businesses were obliged to take out permits for premises utilization. The average cost of those permits equals to \$437 (\$449 in 2000-2002 and \$463 in 1999-2001).

**Table 21. Costs for obtaining permits to start using renovated premises**

Survey time Payments categories	% reported the made payments			Average payments, \$		
	2002	2003	2004	2002	2003	2004
Official fees	80%	90%	67%	206	315	555
Expert assessment fees	28%	71%	-	22	111	-
Notary payments	10%	16%	16%	4	55	28
Lawyers and intermediaries payments	5%	3%	4%	6	56	117
Traveling expenses	n/a	n/a	14%	n/a	n/a	34
“Voluntary contributions”	6%	19%	13%	4	109	238
Unofficial payments	28%	41%	18%	274	135	111

*Note: “official fees” for 2004 survey include the expert assessment fees.*

The overall average cost of permits for premises use and renovation stood at \$712.

## **2.5. Permits to re-equip the premises**

Before beginning to use premises, 7.5% of respondents changed their designation. About 80% from them obtained permits. The polled businesses spent an average of 66 days and incurred costs of \$533 to obtain these permits (71 days and \$534 in 2000-2002, 47 days and \$298 in 1999-2001).

**Table 22. Costs for obtaining permits to change the premises destination**

Survey time Payments categories	% reported the made payments			Average payments, \$		
	2002	2003	2004	2002	2003	2004
Official fees	75%	72%	89%	142	265	347
Expert assessment fees	47%	53%	-	33	105	-
Notary payments	37%	12%	54%	8	110	60
Lawyers and intermediaries payments	12%	3%	11%	9	67	34
Traveling expenses	n/a	n/a	35%	n/a	n/a	44
“Voluntary contributions”	9%	9%	19%	5	307	455
Unofficial payments	47%	46%	39%	110	437	228

*Note: “official fees” for 2004 survey include the expert assessment fees.*

The percentage of those who rejig their premises and had to resort to unofficial payments is also high and stands at 40% of those polled. When re-equipment is completed, the businesses (70%) are still obliged to commission them at the average cost of \$440 (\$516 in 2000-2002 and \$360 in 1999-2001).

**Table 23. Costs for obtaining permits to start using premises whose designation has been changed**

Survey time Payments categories	% reported the made payments			Average payments, \$		
	2002	2003	2004	2002	2003	2004
Official fees	59%	86%	70%	135	330	520
Expert assessment fees	29%	61%	0%	13	70	-
Notary payments	15%	12%	16%	3	21.7	26
Lawyers and intermediaries payments	17%	2%	8%	42	148	34.7
Traveling expenses	n/a	n/a	22%	n/a	n/a	109
“Voluntary contributions”	3%	12%	5%	6	111	65
Unofficial payments	32%	51%	19%	161	335	217

*Note: “official fees” for 2004 survey include the expert assessment fees.*

The utilization permits, when changing the premises designation, cost even higher than those for newly constructed or renovated premises. The percentage of polled entrepreneurs who made unofficial payments is lower than in previous years, but the amount of unofficial payments is still high.

The overall average costs engendered by the pertinent permits stood at \$973 (\$927 in 2000-2002 and \$557 in 1999-2001).

**2.6. Permits for premises utilization which were not renovated or re-equipped**

More than one tenth of companies who did not do anything with their premises were still obliged to obtain utilization permits. On average, they spent 25 days and \$203 on securing these permits (16 days and \$207 in 2000-2002 and 13 days and \$72 in 1999-2001).

**Table 24. Costs for obtaining permits to start using premises that have not been changed**

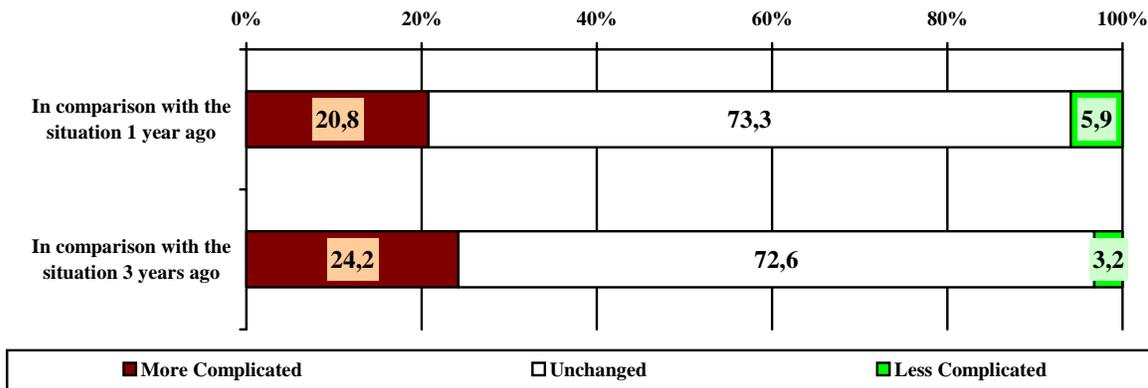
Payments categories	% reported the made payments			Average payments, \$		
	2002	2003	2004	2002	2003	2004
Official fees	23%	50%	87%	125	206	224
Expert assessment fees	14%	36%	-	70	168	-
Notary payments	10%	14%	33%	1	46	13
Lawyers and intermediaries payments	6%	-	-	15	-	-
Traveling expenses	n/a	n/a	13%	n/a	n/a	7
“Voluntary contributions”	3%	-	20%	2	-	15
Unofficial payments	2%	50%	7%	27	134	2

*Note: “official fees” for 2004 survey include the expert assessment fees.*

**2.7. Mandatory framework perception for premises use**

The respondents were asked to assess changes, which occurred in the procedures regulating the premises use. Their replies are outlined in Figure 9 and Table 25.

**Figure 9. Respondent’s assessment of changes in the premises use regulation**



**Table 25. Respondent's assessment of changes that occurred in the premises use regulation**

Compared to ...	More Complicated	Unchanged	Less Complicated
... one year ago	20.8%	73.3%	5.9%
... three years ago	24.2%	72.6%	3.2%

Most of respondents stated that conditions related to construction permits remained unchanged during last three years. But there are a quarter of respondents mentioning that conditions became more complicated.

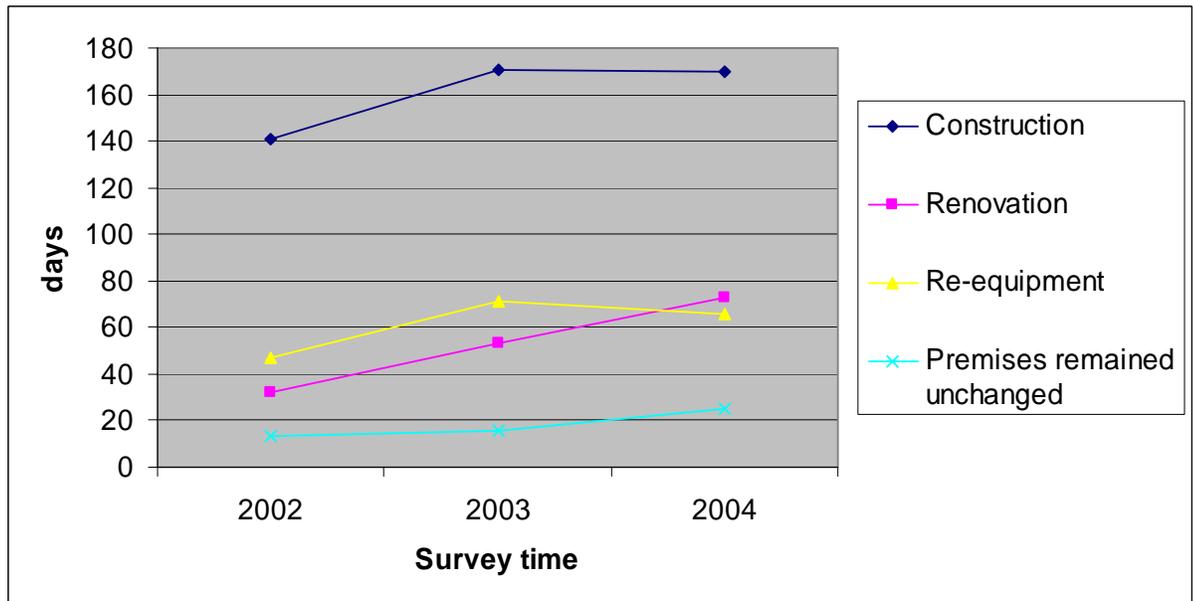
## 2.8. Analysis Summary

The survey revealed that the construction permit is the most time-consuming to obtain (see Table 26). Readjustment permits are the most expensive. Unofficial payments to obtain renovation and readjustment permits are comparable to the official ones.

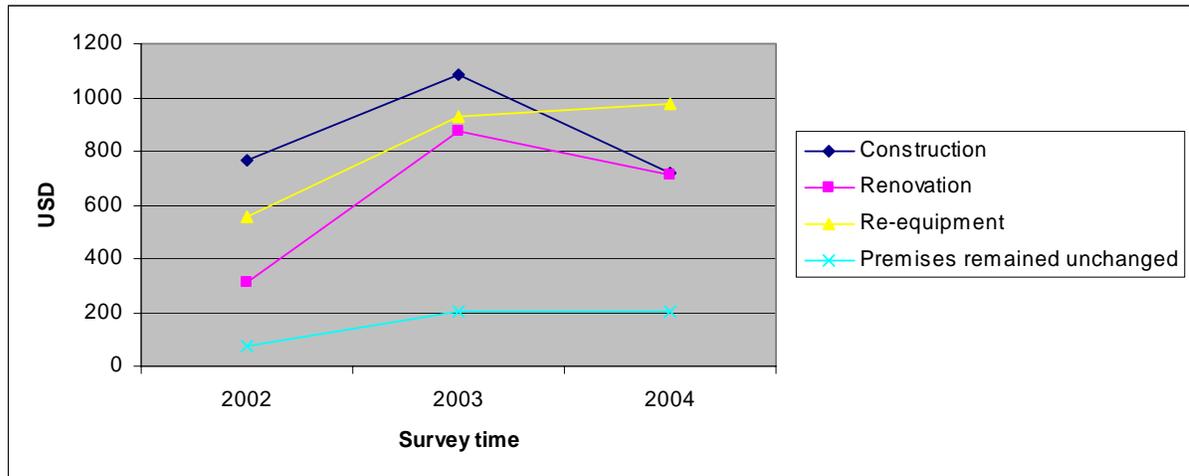
**Table 26. Average costs and procedures duration related to premises**

Survey time \ Activity	Duration, days			Costs, \$		
	2002	2003	2004	2002	2003	2004
Construction	141	171	170	764	1,082	716
Reparation or renovation	32	53	73	313	876	712
Change of premises designation	47	71	66	557	927	973
Premises remained unchanged	13	16	25	72	206	203

**Figure 10. Average duration of procedures related to premises**



**Figure 11. Average cost of procedures related to premises**



The procedures of authorization obtaining regarding constructions are very complicated and long lasting (it may take a year).

According to interviewed companies, in order to obtain permits for utilization of newly constructed premises, companies have to do a number of expensive activities (asphalting activities, renovation of local public authorities' offices) or transfer of certain amounts to the local authorities account.

It can be concluded that the mandatory environment related to utilization of premises got worse in the last three years. In addition, businesses have to go through costly and time-consuming procedures before they are actually able to make use of premises. These procedures are much more expensive than those connected with other fields of state regulation.

The local authorities' permission (city architects) is required for construction of facilities production. Still, this procedure is very long-lasting for enterprises from construction sector. Designers should obtain authorization for design activities. However, they have to coordinate their activities with local administration.

The local services authorization is issued for a short term (1 year). The price is very high: 1% from costs of activities to be performed. If a prolongation is needed, the company should pass again all procedures, at a cost of 0.5% from activities costs to be performed.

Building commissioning is also very expensive in terms of money and time. In order to be able to utilize facilities, the enterprise should obtain the permit from several bodies: sanitation department, fire preventing department, environment protection body, energy department, and other local authorities. These bodies examine whether the construction was performed according to the project specifications.

Based on the analysis performed, we can state that issuing of the construction authorization is not transparent, long lasting and expensive. Therefore, a procedure that will simplify the construction and commission of newly-constructed building should be developed:

- Establish a one stop point in the local architectural authority, in which the company will submit the request for construction and other documents prepared by him (design, materials used). All necessary documents needed for construction, which are issued by other authorities – license, permits from different bodies, registration certificate etc. – should be obtained by the local authority and not by the company.

- Introduce time limits for the necessary examination of required documents, as well as to eliminate efforts' duplication in this process – to exclude that different bodies unnecessarily examine the same documents.
- In order to establish less oppressive rules for the construction sector, without affecting the quality of constructions, it is recommended that procedures on constructions regulation comply with the EU standards. A study tour for public servants in an European country could be the first step.
- To create mobile teams for the premises commissioning that will include representatives from all interested parties. Companies will submit only the request to the team leader and will wait for the team visit. As a team leader could be the State Inspection in Constructions.

### **III. LICENSING**

#### **3.1. Licensing Regulation**

Basic principles of license issuance procedures are set in the Law No. 451-XV on July 30, 2001 “On Licensing of Certain Types of Activities” and in the Ordinance No. 28/36-g on “Approval of Licensing Conditions for Several Types of Activities” approved by the Ministry of Economy and the Chamber of Licensing on June 10, 2003. During 2001-2003 the licensing legislation was changed radically. Through the adoption of the above Law No. 451 the number of licensed business activities was reduced from 106 to 55. During the period 2001-2003 this Law was amended several times and the number of licensing activities increased by three (from 55 to 58).

The main licensing body is the **Chamber of Licensing**. It was founded in the beginning of 2002 and substituted 23 ministries and state agencies. The Ordinance comprises many licensing regulations developed by these bodies.

To get involved in a licensed activity, an entrepreneur is obliged to submit an application to Chamber of Licensing. The license fees are determined by the Law No 451-XV (Article 18). Currently, there are **8 levels** of new license fees:

- 1800 MDL (\$148) per license for the majority of activities;
- 900 MDL (\$74) per license for retail sale of the alcohol and tobacco products;
- from 3600 MDL (\$295) up to 90,000 MDL or (\$7,377) per license for gambling and 7% of lottery tickets sales;
- from 18,000 MDL (\$1,475) up to 36,000 MDL (\$2,950) per license for production or wholesale of alcohol products;
- 36,000 MDL (\$2,950) per license for activity like import and wholesale of alcohol products;
- from 18,000 MDL (\$1,475) up to 36,000 MDL (\$2,950) per license for import and production of tobacco products;
- 180,000 MDL (\$14,754) per license for the activity of import and wholesale of gasoline and liquefied gas;
- not less than \$1,000,000 for GSM services and interurban telephony.

Licenses are issued for 5 years (the most of them), for 1 year (for five activities), for 3 years (one activity) and for 25 years (two activities).

A recent problem for many companies providing training services is the Law No. 559-XV approved by the Parliament of Moldova on December 25, 2003, which limited the right of the enterprises to have license in this field and provide training. All training companies have to be reorganized by July 01, 2005 in private education institutions as non-commercial organization and to be accredited by the Ministry of Education.

#### **3.2. Number of Licenses**

To carry out its business activities, a Moldovan company needs to take out an average of **2.6** licenses in 2004 (2.2 licenses in 2003 and 3 licenses in 2002). Only 18% of surveyed economic entities do not perform licensed activities.

Larger companies have more licenses (see Table 27). Companies that employ more than 500 persons have an average of 8 licenses, those that employ 200-500 persons – 6.1 licenses. However, due to their reduced number, these figures are not influencing the situation at the country level.

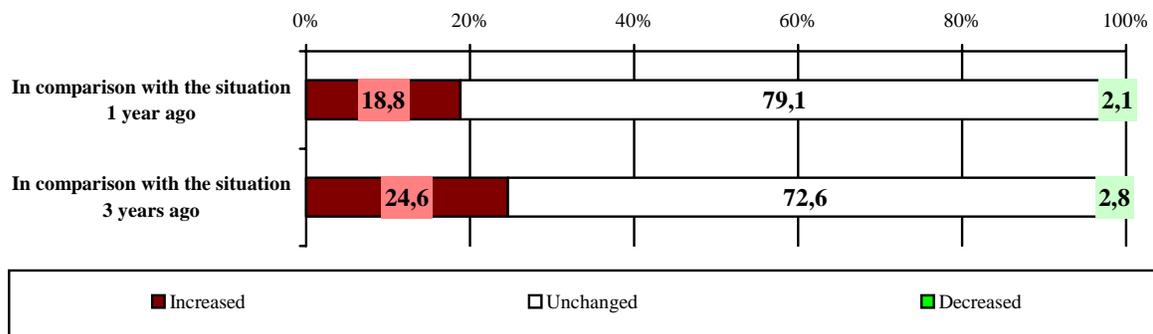
**Table 27. Average number of licenses broken down by enterprise size**

Survey time Number of employees	Average number of licenses		
	2002	2003	2004
1-10	2.2	1.6	1.4
11-50	2.3	1.8	2.1
51-200	3.4	3.0	2.7
201-500	3.8	2.6	6.1
> 500	4.5	2.1	8.0
Average	3.0	2.2	2.2

Only 2% of all polled companies had more than 10 licenses.

Perception of the legal framework in the area of licensing highlights that in time, companies are forced to obtain more and more licenses. Only nearly 3% of respondents reduced their number of licenses. Changes in the number of licenses that occurred in the past three years are set forth in Figure 12 and Table 28.

**Figure 12. Changes in the number of licenses**



**Table 28. Changes in the number of licenses**

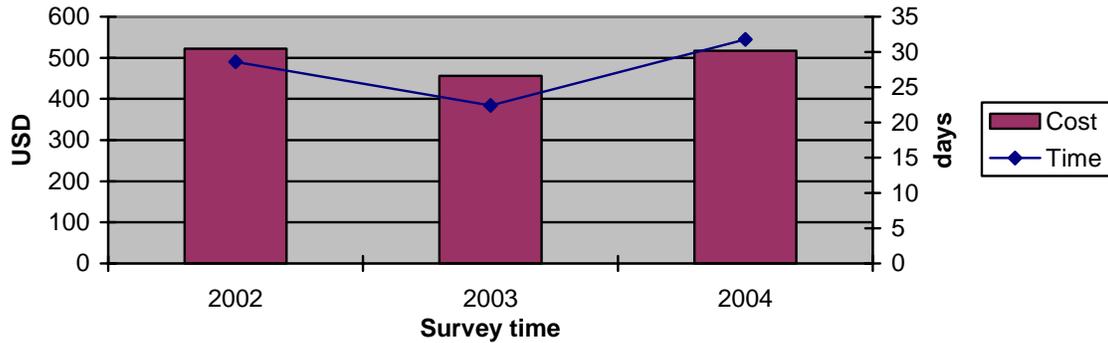
In comparison with ...	Increased	Unchanged	Decreased
... one year ago	18.8%	79.1%	2.1%
... three years ago	24.6%	72.6%	2.8%

An average license in 2004 is valid for 3.1 years (3.2 years in 2003 and 2.6 years in 2002). About 43% of the respondents claimed that their licenses were valid for five years.

### 3.3. Licensing Costs

In 2004 it took an average of 32 days and \$517 to take out one license. The situation did not change comparing to 2002 (see Figure 13).

**Figure 13. Average time and cost to get one license**



Licensing costs are broken down by type of payment in the table below.

**Table 29. Average costs incurred by polled businesses to obtain one license**

Elements	Survey time	% reported paying			Average amount paid, \$		
		2002	2003	2004	2002	2003	2004
Official payments		97%	98%	97%	376	342	461
Expert assessment fees		44%	38%	-	58	125	-
Notaries' fees		38%	29%	31%	10	28	24
Lawyers' and intermediaries' fees		6%	4%	7%	5	62	31
Unofficial payments		38%	28%	13%	62	154	375
Traveling expenses		59%	49%	32%	16	42	37

*Note: "official payments" for 2004 survey include the expert assessment fee.*

The share of respondents that paid unofficially decreased during the last years, but at the same time the amount of these payments increased. In 2004 the average amount of unofficial payments is comparable to the amount of official ones.

It is important to mention that companies with foreign investments spend more time and money for taking out a license (in average 38 days and \$1854).

Table 30 and Table 31 break down the licensing costs by legal form of businesses and by enterprise size.

**Table 30. Average licensing costs and processing time broken down by organizational form**

Survey time Organizational form	Time, days			Costs, \$		
	2002	2003	2004	2002	2003	2004
Limited liability companies	24.5	20.6	32.8	281	404	620
Joint stock companies	21.7	23.3	26.4	604	652	514
Individual entrepreneur	22.9	22	26.1	111	155	192
State or municipal enterprises	30.5	21	33.1	534	114	1112
Other form of business	14.7	138.3	69.8	61	489	114

The table above demonstrates that individual entrepreneurs incurred the lowest licensing costs. Licensing procedures proved the most expensive for joint stock companies and state or municipal enterprises. This could be explained by the correlation between the company size and the cost incurred during licensing (see Table 31). The bigger the company, the more expensive are licensing procedures.

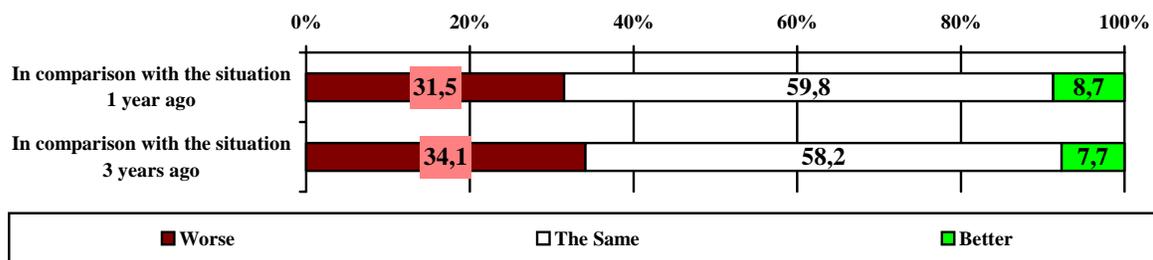
**Table 31. Average licensing costs and processing time broken down by number of employees**

Survey time Number of employees	Time, days			Costs, \$		
	2002	2003	2004	2002	2003	2004
1 – 10	13	19	30	103	255	223
11 – 50	26	23	34	346	410	454
51 – 200	22	22	31	604	869	1057
201 – 500	20	36	32	764	965	1458
> 500	30	23	22	735	305	1615

### 3.4. Perception of the situation in the area of licensing over the last three years

Amendments in the licensing conditions as assessed by the polled entrepreneurs are set forth in Figure 14 and Table 32.

**Figure 14. Changes in the licensing conditions as assessed by the polled entrepreneurs**



**Table 32. Changes in the licensing conditions over the last three years**

Comparing to ...	Worse	The Same	Better
... one year ago	31.5%	59.8%	8.7%
... three years ago	34.1%	58.2%	7.7%

The table above demonstrates that licensing conditions have become more complicated during last three years, even most of respondents assessed licensing conditions as the same.

### **3.5. Analysis Summary**

Our analysis reveals that during last three years the Government has radically reformed the licensing system through reducing the number of licensed activities (in 2001), centralization of the licenses' issuance at the Chamber of Licensing and simplification of the licensing process. As a result the following positive **outcomes** were achieved:

- Economic entities need fewer licenses. A single license for a number of related economic activities can be issued, eliminating the need to repeat the licensing procedure for each type of economic activity.
- Economic entities need to undergo the licensing procedure less frequently. The licenses' validity period has been lengthened, while the duration of the issuance procedure has been reduced.

The survey results demonstrate, however, that in the respondents' opinion licensing procedures are still very burdensome for economic entities in the Republic of Moldova, due to a large number of documents from several authorities required to receive a license. It takes an average economic entity more than two months (83 days) and \$1342 to obtain an average of 2.6 licenses (see Table 33). Although the share of respondents that paid unofficially decreased, the average amount paid unofficially increased two times comparing to the previous year.

**Table 33. Comparison of licensing regimes in different countries**

	2002	2003	2004
Number of licenses per average business	3.0	2.2	2.6
Time to get one license, days	28.6	22.4	31.8
Average costs	\$522	\$456	\$517
% paid unofficially	38%	28%	13%
Amount paid unofficially	\$62	\$154	\$375

The Law No. 451-XV changed the number of licenses, but didn't stream the procedure of their issuance, i.e. the number of documents required to obtain them. According to the company's managers, the obtaining procedure of all these documents is long-lasting and expensive, resulting in corruption.

The system of license issuing should be amended and simplified as follows:

- to reduce the number of documents required for license obtaining;

- to implement an information system that will allow to get the requested documents from other state bodies (Chamber of State Registration, tax authorities, fire prevention authorities) without the company's involvement;
- to reduce the number of licensed activities per company by aggregation of their sub-activities;
- to ensure the overall transparency of procedures and prices for all types of licenses
- to eliminate the necessity of notary confirmation of the documents submitted to the licensing bodies.

## **IV. IMPORT-EXPORT ACTIVITIES**

### **4.1. Import-Export Regulation**

Import-export activities are regulated by the Customs Code of the Republic of Moldova No 1149-XIV on 20.07.2000, as well as a number of Governmental Decisions and Ordinances of the Custom Department. The most important of them are the Governmental Decision No. 207 dated February 26, 2003 on “Approving of the regulations regarding the customs procedures application” and the Customs Department Ordinance No 276-0 “Regarding the customs clearance documents for foreign transactions” on October 24<sup>th</sup>, 2002. To get involved in foreign economic activities, a Moldovan company is obliged to register with an appropriate state custom office. Consequently, both a legal entity and an individual entrepreneur have the right to enter into import/export contracts starting from the date of their state registration.

For registration at the state custom office, the company has to submit the following documents:

- a) Application Form, according to the custom office standard;
- b) Copy of the state registration certificate;
- c) Copy of foundation documents;
- d) Copy of the certificate confirming the fiscal code;
- e) Copy of the certificate confirming the statistical code;
- f) Copy of the VAT certificate;
- g) Confirmation from the bank about the company bank account;
- h) Certificate confirming the company stamp;
- i) Document confirming the company general manager and accountant;
- j) Document confirming the specimen of the general manager and accountant signatures.

However, to avoid hefty penalties prescribed by the applicable legislation, economic entities are forced to keep track of overly complicated, frequently-changing and unsystematic legislation governing settlement procedures, regulation on the execution and conclusion of foreign trade transactions, regulation on the pre-shipment inspection of imported goods, customs procedures, certification of conformance and hygienic certification for food products, and drugs. Import and export of agricultural products is regulated through phytosanitary authorizations and livestock products are subjected to veterinary and radiology control.

The list of goods, which cannot be either exported or imported without a special license from the Chamber of Licensing includes the following: alcoholic products, tobacco products, chemical and biological products, perfumery and cosmetics, weapons. International cargo and passengers’ transportation also requires authorizations for the transportation means from the Moldovan Agency of Auto Transportation (AMTAI).

The Parliament has adopted on June 26, 2003 the Law “On pre-shipment inspection of goods”, which required the Government to:

- 1) appoint the company to provide of the pre-shipment inspection of goods;
- 2) approve the rules of goods pre-shipment inspection of goods;
- 3) approve the Regulation on pre-shipment inspection of goods;
- 4) approve the calculation methodology of the fee for inspection services.

On August 13, 2003 the Government of Moldova approved the Decision No. 994 about “Appointment of the company to provide the pre-shipment inspection of goods”. According to this decision, the Government appointed SGS Societe Generale de Surveillance S.A. for the pre-shipment inspection of goods.

The procedure for running of import-export activities are governed also by the Customs Department Ordinance No. 276-0 “Regarding the customs clearance documents for foreign transactions” on October 24<sup>th</sup>, 2002. According to this ordinance, the importer-exporter must provide an impressive number of authorizations and authenticated documents for customs clearance. The import-export of goods is followed by a high number of **authorizations and documents**, as follows:

- Purchasing Contract;
- Transport documents, depending on the type of transportation. For example, TIR-Card, Green Card, authorization CMR FORM + CMR Check-List in case of overland transportation.
- Commercial documents referred to the costs of goods (commercial invoice, pro-forma invoice);
- Licenses;
- Authorizations;
- Certificate of conformity;
- Certificate of origin;
- Repatriation Declaration for payments to foreign suppliers;
- Appraisal Act;
- ID Card/Passport of the person authorized to declare the company’s goods at the customs;
- Other documents can be requested.

Many other documents have to be provided in order to get these authorizations. Authorized legal persons should authenticate translated documents.

Through its Decision No. 207 on “Approving of the regulations regarding the customs procedures application” dated February 26, 2003, the Government approved the conditions for 14 customs procedures. This Decision entered into force on March 4, 2003 and has systematized the customs procedure of: import, re-import, transit, bonded warehouse, active processing, processing under customs supervision, temporary admission, free zone, passive processing, export, re-export, destruction, renunciation in favor of the state, and duty free shops customs procedure.

The Ordinance of the Customs Department of the Republic of Moldova No. 26-O dated February 11, 2004 approve the rules for completion of the customs declaration.

Other conditions that governed export activities are stated by the Law No. 1466-XIII dated January 29, 1998 “On Regulation of the financial resources’ repatriation of goods and services under foreign trade transactions”. The funds for exported goods must be transferred within 180 days from the goods’ shipment, 90 days from the payment day for the import of goods, 60 days from the end of technological cycle, and at least once a year for the goods under leasing contracts.

Failure to comply with the above-listed provisions is punishable by severe sanctions, which equal to 0.3% of the not-repatriated amount for each day of delay.

Importers and exporters are also subject to price control. Importers and exporters are obliged to change the customs declaration when they are not able to argue the feasibility of contract prices. Average prices on international markets are periodically published for exporters.

Another important point regarding the import is that the Customs Office is authorized to ask the importer, should they consider so, to submit the Certificate issued by the Chamber of Trade and Industry confirming the code of the imported goods. The local office of the Chamber of Trade and Industry issues these certificates for local companies. In such situation products are stored at the customs house for 2-3 days. The importer has to pay for inspection and certificate an official fee of about \$20-30.

According to the provisions of the Fiscal Code, Title III “Value Added Tax” No. 1415-XIII dated December 17, 1997, the Central Fiscal Inspectorate has issued the “Instruction for restitution of the value added tax” on December 30, 2002. This instruction brought significant changes to the procedure for restitution of the value added tax to tax payers. According to the new procedure, taxpayers are divided into three groups depending on their credibility degree: high, average and low. Restitution process depends on the group to which belongs the taxpayer and on the amount of tax to be restituted. Amounts over 500 thousands MDL can be solicited quarterly, amounts between 100 and 500 thousands MDL – semi-annually, and amounts below 100 thousands MDL – once per year. VAT restitution procedures are very complicated, requiring a large number of various documents, including reports of general and thematic inspections, while for the companies with low degree of credibility a thematic inspection is mandatory, upon which the decision on VAT restitution is taken.

During the import-export activities, the persons involved in such activities have to pay state established taxes. The system of taxes includes:

- Customs procedure tax, which equals to 0.2% of the amount of imported goods, but not more than 900 Euro (Law No. 1380-XIII dated November 20, 1997 on the customs tariff, Annex 2);
- Customs duty, which varies from 0 to 15% of the amount of imported goods (Law No. 1380-XIII dated November 20, 1997 on the customs tariff, Annex 1);
- Excise-duty, which depends of the products subject of excise-duty (Title IV of the Fiscal Code);
- Value added tax, which is from 0% to 20%, depending of the product and services (article 96 of the Fiscal Code).

## **4.2. Import transaction**

About 32% of respondents have been involved in import transactions in the last three years. About 70% from them were obliged to obtain certificates confirming the compliance of imports with Moldovan standards.

### **4.2.1. Costs related to imports certification**

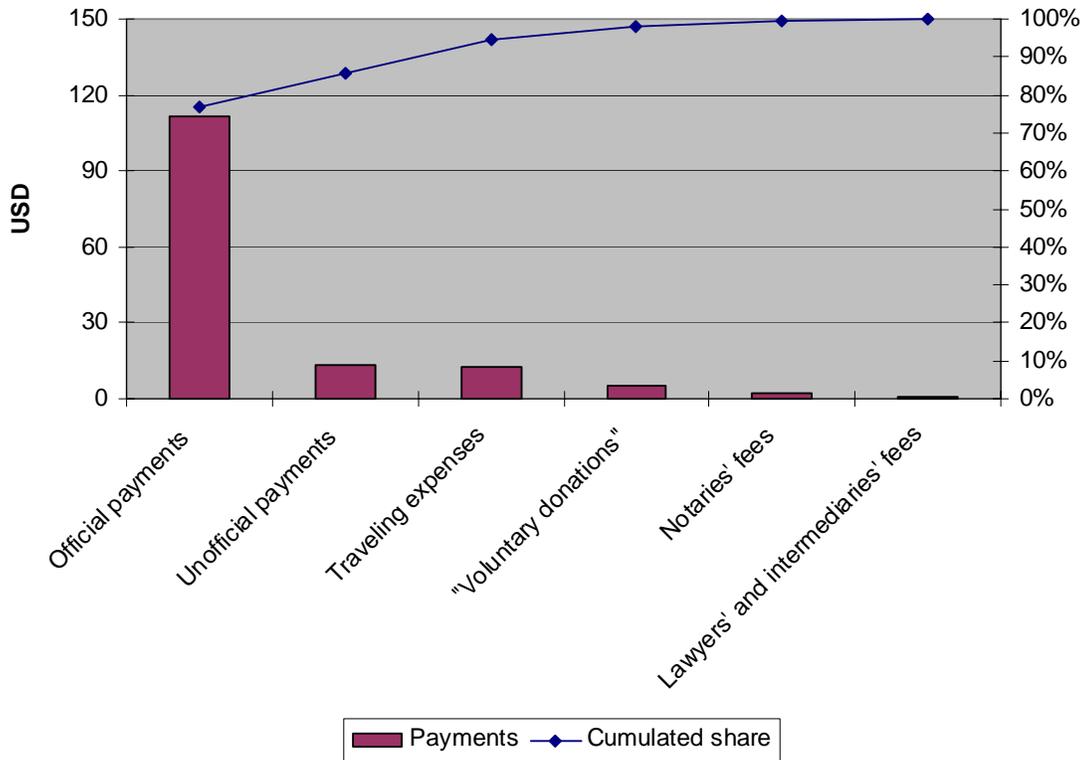
On average polled enterprises spent 13.1 days on import certification during last three years, 5 days less than during 2000-2002. The cost incurred by these operations during 2001-2003 was \$148, decreasing with \$47, comparing to the previous period (2000-2002). During the last year both official and unofficial payments decreased. The number of companies getting assistance from lawyers and intermediaries decreased considerably during the last years, decreasing in the same time the amount paid for such consultancy.

**Table 34. Average costs to get a certificate confirming the compliance of imports with Moldovan standards**

Elements	Survey time	% reported paying			Average payments, \$		
		2002	2003	2004	2002	2003	2004
Official payments		87%	98%	96%	127	97	116
Expert assessment fees		51%	62%	-	47	53	-
Notaries' fees		24%	8%	15%	12	15	17
Lawyers' and intermediaries' fees		11%	3%	3%	234	50	15
"Voluntary donations"		3%	5%	8%	16	31	61
Unofficial payments		38%	45%	24%	117	142	55
Traveling expenses		n/a	n/a	43%	n/a	n/a	30

*Note: "official payments" for 2004 survey include the expert assessment fee.*

**Figure 15. Pareto chart: Average costs to get a certificate confirming the compliance of imports with Moldovan standards**



*Note: the payments value in the chart represents the average value for those who paid, multiplied by the percentage of respondents that paid, i.e. the amount of unofficial payments on the chart is 13.2 = 55 \* 24% (see Table 34).*

The majority of polled importers (87%) that were imposed to get a certificate confirming the compliance of imports with Moldovan standards had the certificates proving the compliance of imports with the standards of the origin country.

#### 4.2.2 Customs Costs

The survey participants were asked to assess the costs and time spent on complying with customs procedures. During the last three years it took an average of 3 days to meet all customs requirements, which is about the same figure as during 2000-2002. The costs incurred by the respondents averaged at \$552 during the last three years, including fines, all sorts of fees and idle time costs, which is 38% more than during 2000-2002. Companies with foreign capital required less time per one import procedure (1.9 days), but almost the same costs - \$584.

**Table 35. Approximate costs and time spent on complying with customs' procedures for one transaction.**

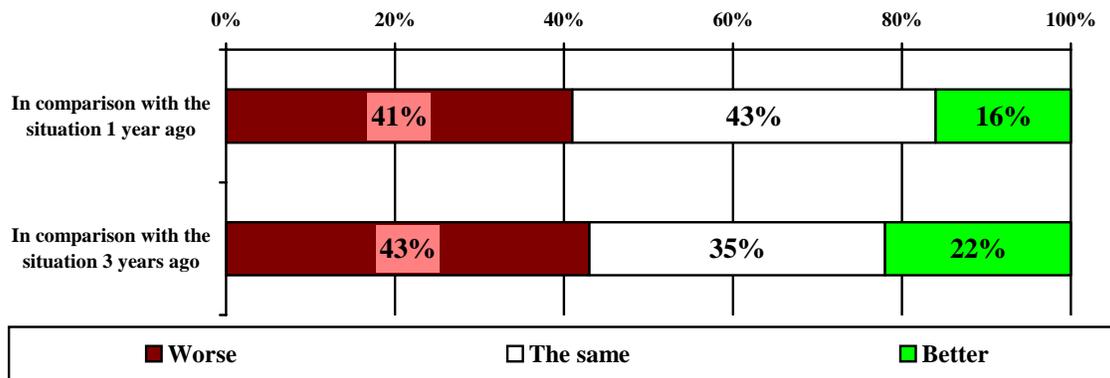
	% reported			Amount		
	2002	2003	2004	2002	2003	2004
Days	98	98	99	4.3	2.7	3.0
Official payments, \$	-	90	94	-	321	426
Penalties (including confiscations), \$	13	26	5	128	124	752
Other payments (unofficial), \$	58	54	33	129	73	130
Retention losses, \$	46	12	15	284	307	495
Total, aggregate figures, \$	-	100	100	-	400	552

#### 4.2.4. Perception of import procedures.

About 37% of all importers claimed that were obliged to pass the pre-shipment inspection (comparing to 68% during 2000-2002 years). On average they spent 4.8 days and \$435 in order to obtain a certificate (5.4 days and \$381 during 2000-2002 years). Procedures became during last year faster and are applied to fewer importers.

The major part of respondents claimed that the conditions have deteriorated markedly over the last three years (see Figure 16 and Table 36). However, there are about 20% of all importers that mentioned some improvements in the customs procedures.

**Figure 16. Evolution of procedures and conditions related to import transactions**



**Table 36. Evolution of procedures and conditions related to import transactions**

In comparison with the situation:	Worse	The same	Better
One year ago	41	43	16
Three years ago	43	35	22

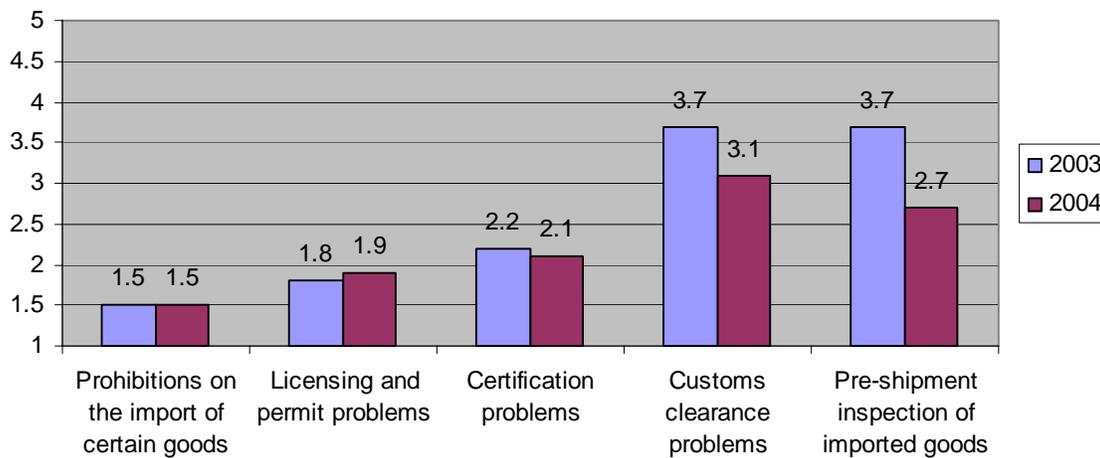
Importers experience the most serious difficulties when going through the customs procedures. However, the Table 37 and Figure 17 show some improvements when dealing with customs bodies and pre-shipment inspectors (SGS).

**Table 37. Reasons of the most serious difficulties related to import transactions**

Elements	Survey time		
	2002	2003	2004
Prohibition on the import of certain goods	1.5	1.5	1.5
Licensing and permit problems	2.5	1.8	1.9
Certification problems	2.9	2.2	2.1
Customs clearance problems	3.7	3.7	3.1
Pre-shipment inspection of imported goods	-	3.7	2.7

*Note: problems are rated using a 1 to 5 scale: 1 – no problems and 5 – very serious problems*

**Figure 17. Reasons of the most serious difficulties related to import transactions**



### **4.3. Export Transaction**

About 17% of polled companies have exported over the last three years, with an average of 25 transactions per year.

### 4.3.1. Customs costs

During last three years it took on average 3.5 days to meet all customs requirements for a single deal, which is twice more than during 2000-2002. The costs incurred by the respondents on average equaled \$223, or twice more than in the period 2000-2002. The cost comprises official payments, fines, all sorts of fees and idle time costs. It does not include customs duties. Companies with foreign investments spent in average 1.4 days and \$113 for one customs procedure. Companies exporting to OECD countries spent 4 days and \$237 per one export operation.

**Table 38. Approximate costs and time spent on complying with customs procedures for one transaction.**

Indicators	Survey time	% reported			Amount		
		2002	2003	2004	2002	2003	2004
Days		95	91	93	4.1	1.7	3.5
Official payments (except for customs duties), \$		76	77	74	72	102	136
Penalties (including confiscations), \$		3	16	2	94	47	562
Other payments (unofficial), \$		21	34	30	63	35	98
Retention losses, \$		6	10	20	123	67	155
Total, aggregate figures, \$		-	-	-	78	104	223

### 4.3.2. Assessment of export procedures

About 73% of all exporters stated that the state must return them the paid VAT. About 72% of them requested the sum officially. In average it takes 63 days for the state to pay back the VAT from the moment it received the request, which is twice less than during 2000-2002. Companies exporting to OECD countries received the paid VAT during 66 days.

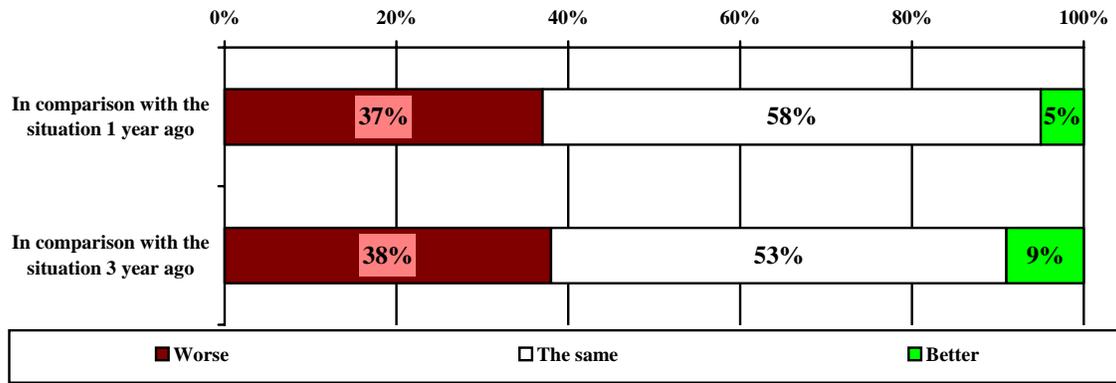
Only 29% of respondents received the VAT amount requested, which is, however, about 1.5 times more than in the period 2000-2002. Other received only a part of VAT or used it to pay other taxes. The Table 39 shows evident improvements in the field of VAT restitution. Companies exporting to OECD countries are in a better condition: 40% of them mentioned that usually receive 100% of the requested sum and another 40% use VAT to pay other taxes.

**Table 39. Restitution of paid VAT.**

Elements	Survey time	% of respondents	
		2003	2004
Usually receive from the requested amount 100%		20	29
Usually receive from the requested amount 75%-99%		29	15
Usually receive from the requested amount 50%-74%		21	20
Usually receive from the requested amount 25%-49%		17	11
Usually receive from the requested amount 0%-24%		7	4
Used VAT to pay other taxes		5	22

A significant share of surveyed companies points out that in the last three years the conditions have become less-business friendly (see Figure 18 and Table 40).

**Figure 18. Evolution of procedures and conditions related to export transactions**



**Table 40. Evolution of procedures and conditions related to export transactions**

	Worse	The Same	Better
One year ago	37%	58%	5%
Three years ago	38%	53%	9%

No company exporting to OECD countries mentioned that conditions related to export activities improved during last year.

VAT reimbursement and overall lack of confidence are seen as the main problems hindering the activities of exporters. Problems regarding the reimbursement of money in the specified by NBM period of time and customs clearance problems are also considered by exporters as important problems in their activity (see Table 41, where the problems are rated using a 1 to 5 scale: 1 – no problems and 5 – very serious problems.). However, comparing to the previous years the situation considerably improved. Companies with foreign investment as well as those exporting to OECD countries mentioned the lack of business confidence as the main impediment when exporting.

**Table 41. Reasons of most serious difficulties related to export transactions**

Elements	Survey time		
	2002	2003	2004
Prohibition on the export of certain goods	1.6	1.5	1.3
Licensing and permit problems	2.7	1.8	1.7
Certification problems	3.0	2.0	1.9
Problems incurred by the usage of state-fixed prices	1.7	1.5	1.3
Customs clearance problems	3.5	3.2	2.2
High export duties	2.9	3.2	2.0
Lack of business confidence	3.7	3.7	2.7
Problems regarding VAT reimbursement	-	3.9	2.7
Problems regarding the reimbursement of money in the specified by NBM period of time (90 or 180 days)	-	3.5	2.3

#### **4.4. Analysis Summary**

Our review reveals that import-export procedures require an excessive number of authorizations, permits and other documents.

Many times the same documents, permits, authorizations have to be submitted to different bodies. In most cases, authorities require the documents to be authenticated or presented in original. Our review did not identify any significant improvement in the polled companies' assessment in this field.

As mentioned above, in 2003 the procedures for VAT restitution have been notably improved. Nevertheless, the perception of polled entrepreneurs is that even for companies with a high degree of credibility the procedure is complex and time-consuming. According to the regulations the VAT restitution should take 45 days, however, due to the complexity of the procedure and lack of cash, the procedure of VAT restitution lasts longer (63 days). Sometimes, when the amount to be restituted is insignificant, the companies refuse to undertake the VAT restitution procedure, because of the above problems. For the enterprises that provide international transportation services is practically impossible to receive the VAT paid because of the legislation imperfections.

Restrictions on import of certain products are unjustified and permanently changing.

The comparison of import and export procedures shows that the time for clearing customs in Moldova in 2001-2003 is longer than during 2000-2002 years (see Table 42).

**Table 42. Dynamics of import and export procedures and regulations**

Indicators	Survey time		
	2002	2003	2004
Time for clearing customs when importing, days per one transaction	4.3	2.7	3.0
Costs for clearing customs when importing, USD per one transaction	n/a	400	552
Time for clearing customs when exporting, days per one transaction	4.4	1.7	3.5
Costs for clearing customs when exporting, USD per one transaction	78	104	223

The following recommendations could be mentioned:

- Customs procedures should be simplified by reducing the number of documents to be submitted and by avoiding examination of these documents by various institutions. Therefore, it is recommended to review the list of documents required for customs procedures to avoid the double examination.
- The transportation procedure of goods should be simplified. Therefore, it is recommended to avoid the customs seal monopolization. The enterprises interviewed recommended to simplify the procedure of car sealing by reducing the number of seals from six (three customs seals and three seals from the rail road departments) to two for the export in the neighboring countries.
- In order to reduce the transit barriers in import-export activities (specifically with Ukraine), it is recommended to sign intergovernmental acts with neighboring countries.
- The procedure of VAT refunding should be simplified to be more efficient.

## **V. EQUIPMENT**

### **5.1. General Information**

Acquisition of equipment is regulated by the civil legislation, including the provisions of the Civil Code of the Republic of Moldova (Law No. 1107-XV dated June 6, 2002) related to purchase/sale contracts and property transactions, as well as other legal acts dealing with leasing, shipment of goods, pricing, etc.

The import of new equipment and installations, which have a negative impact on the environment (boiler-houses, oil-mills, etc.), requires the technical documentation from the manufacturer and the state environmental appraisal, executed by the National Institute of Ecology. These requirements are stipulated by the Ordinance No. 188 dated September 10, 2002 (entered into force on February 7, 2003) of the Ministry of Ecology, Constructions and Territory Development. The list of documents required for the state environmental appraisal is quite long.

The installation and commission of special equipment like a bakery, thermal station or transportation means require also other authorizations besides those required for ordinary equipment. For transportation means three authorizations are required: one – from the Ministry of Transports and Communications, an ecology certificate and the compulsory insurance. The installation and commission of a bakery requires authorizations from energy related state bodies: two Power Distribution Companies and the State Energy Inspectorate. For thermal stations authorizations from the ecology bodies are required.

### **5.2. Certification Costs to Ensure Compliance with Moldovan Standards**

Out of 615 polled businesses, 437 (71%) have purchased equipment over the last three years. Out of these, 321 (74%) had a certificate confirming the equipment's compliance with Moldovan standards. In most cases (71%) these certificates were supplied along with the equipment, whereas 10% had to certify the equipment by them.

During 2001-2003 it took an average of **23.2** days to take out a certificate confirming the compliance of the purchased equipment to Moldovan standards at an average cost of **\$278**. In the surveys fulfilled in 2002 and 2003 these figure were lower, representing 14 days and \$135 and 21 days and \$195, respectively. Table 43 breaks down the costs by category.

**Table 43. Certification costs incurred by the surveyed companies**

Elements	Survey time	% reported that made payments			Average payments, \$		
		2002	2003	2004	2002	2003	2004
Official payments		79%	99%	96%	75	95	254
Expert assessment fees		56%	53%	-	40	141	-
Notaries' fees		14%	20%	23%	1	26	15
Lawyers' and intermediaries' fees		-	3%	4%	-	226	15
Traveling expenses		n/a	n/a	35%	n/a	n/a	30
"Voluntary donations"		8%	4%	4%	6	62	0.05
Unofficial payments		28%	29%	17%	33	48	120

*Note: the "official payments" for 2004 year survey include the expert assessment fee.*

About 75% of those who had to receive such a certificate themselves reported that equipment had a certificate issued in the country of origin. The geography of imported equipment varies from neighboring countries, such as Russia, Ukraine, Belarus and Romania to European states (the Czech Republic, Poland, France, Italy, Holland, Germany, etc.), Japan and USA

It is important to mention that companies with more than 50% of foreign capital spent less time and money for taking out a certificate confirming the compliance of the purchased equipment to Moldovan standards (only 3.5 days and \$60).

### **5.3. Other equipment permits**

The survey results demonstrate that a total of 7.7% of respondents have been obliged during 2001-2003 to obtain additional equipment permits that took **14.8** days and \$91 to get them (24.5 days and \$221 in 2003 and 17 days and \$162 in 2002). The table below breaks down the costs incurred (except for the certificate confirming the compliance with the Moldovan standards).

**Table 44. Costs associated with other equipment permits**

Elements	Survey time	% reported that made payments			Average payments, \$		
		2002	2003	2004	2002	2003	2004
Official payments		60%	89%	77%	71	80	83
Expert assessment fees		45%	61%	-	56	101	-
Notaries' fees		13%	19%	13%	1	28	47
Lawyers' and intermediaries' fees		-	2%	-	-	74	-
Traveling expenses		n/a	n/a	39%	n/a	n/a	17
"Voluntary donations"		4%	21%	6%	6	100	74
Unofficial payments		26%	65%	16%	62	108	58

*Note: the "official payments" for 2004 survey include the expert assessment fee.*

It should be noted that the amount of unofficial payments is still high, but the percentage of those who paid is lower than in previous years.

#### **5.4. Analysis Summary**

Our analysis shows that in the period 2001-2003 the procedures for obtaining a certificate confirming the compliance of the purchased equipment with Moldovan standards got more complicated and more cost-involving (money and time). The analysis of the surveyed companies' assessment puts in evidence these negative changes. More than two thirds of economic entities have purchased equipment over the last three years. In most cases these certificates were supplied along with the equipment, whereas nearly one fourth of companies had to certify the equipment themselves. In addition, 7.7% of respondents have been obliged to obtain other equipment permits

**Table 45. Comparison of duration and costs related to obtaining equipment permits in Moldova**

Indicators	Survey time		
	2002	2003	2004
Time to get a certificate of compliance to Moldovan standards, days	14	21	23
Average costs, \$	135	196	278
% Paid unofficially	28.3	28.9	16.7
Amount paid unofficially, \$	33	48	120
Time to get an additional equipment permit, days	24.5	17	14.8
Average costs for the additional permit, \$	162	221	91

It would be recommended to adjust the current system of equipment certification in the line with European standards, which are simpler and more transparent.

## **VI. REGULATION OF GOODS AND SERVICES**

### **6.1. Certification of Goods and Services Environment**

The Law No. 590-XIII dated September 22, 1995 “On Standardization” (modified by the Law No. 919-XIV dated April 12, 2000 and the Law 707-XV dated December 9, 2001), the Law No. 866-XIV dated March 10, 2000 “On technical barriers in trade” (modified by the Law No. 707-XV dated December 6, 2001) stipulate that certification and standardization are required in cases where legislation applies. The list of goods and services subject to certification can be determined by legal acts, rather than exclusively by laws. There are two types of certification in Moldova: mandatory and voluntary. The goods which are covered by statutory safety requirements aimed at protecting the life, health and property of individual citizens as well as environment are subject to mandatory certification in accordance with the National Certification System of the Republic of Moldova.

The Department for the Standardization and Metrology develops the list of goods and services subject to certification. As the latter charges fees for certification, it is only logical that it is interested in further expanding this list. About 240 groups of goods and 38 types of processes and services are certified by certification and inspection bodies of the Republic of Moldova.

### **6.2. Hygienic Certification Environment**

The Law No. 1513-XII dated June 16, 1993 “On the Sanitary and Epidemiological Welfare of the Population” stipulates that chemical and biological agents, either locally-produced or imported, that could involve a hazard for public health, as well as industrial and consumer goods, including foodstuffs, are subject to sanitary registration. The Center for Preventive Healthcare (in districts) and the National Center (in Chisinau) should issue a hygienic certificate on the basis of a complex laboratory research. The sanitary certification list is adopted by the Chief State Sanitary Doctor from local authorities, a fact that likewise certification sets the stage for a biased approach to the list formation.

According to the above-mentioned law, a number of activities can be fulfilled only after receiving the approval of the State Sanitary-Epidemiologic Service. These are:

- Distribution of land for buildings construction, their exploitation, as well as production and utilization of transport means.
- Production of the new technologies, materials, substances and articles in order to be applied in economy.
- Utilization of chemical and biological substances for plants protection, chemical fertilizers and other chemical products.

### **6.3. Certification of Goods and Services**

Of all polled businesses, 46% certified their goods and services.

On average, economic entities are obliged to go through certification procedures 13 times per year. Enterprises whose production lines are subject to certification do so in average 4 times a year. Businesses that have to certify separate batches of goods are annually subject to this procedure 16 times. The situation did not change during last year.

The frequency of certification varies by the organization form (see Table 46)

**Table 46. Share of enterprises subject to certification depending on the organizational form**

Organizational Form	Yes	No	Do not know
Limited liability companies	48	51	1
Joint stock companies	50	49	1
Private entrepreneurs	37	58	5
State or municipal enterprises	20	80	0
Other	43	52	5

The larger the enterprise is, the more frequently it is subject to certification (see Table 47).

**Table 47. Share of enterprises subject to certification depending on the number of employees, %**

Survey time Number of Employees	Yes			No			Don't Know		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
1-10	38	28	36	61	69	61	1	3	3
11-50	50	54	45	49	45	54	1	0	1
51-200	68	71	65	31	29	33	1	0	1
201-500	81	75	79	19	25	21	0	0	0
> 500	88	80	83	12	20	8	0	0	8

Of all respondents obliged to go through the certification procedures, about 22% of companies have to certify their production lines and 77% – individual batches of goods.

The averages time spent by surveyed enterprises on product batches certification is 12.2 days, at the same level as during the previous year. The time spent for the certification of the production line is about 20 days, or by 37% more than during the previous year.

The costs engendered by the certification of a production line are at the same level as in the case of the certification of individual batches – \$200 per one certificate.

During last years the number of companies that paid unofficially for product certification decreased continuously. In the same time decreased the amount paid unofficially for this procedure.

Companies with the foreign investment spent 12.9 days to certify production lines and 12.6 to obtain the certificate for a separate batch of products. For the certification procedures these companies spent \$73 for production lines and \$104 for a batch of products.

**Table 48. Certification cost of a production line and individual batches of goods**

Indicators	Survey time	Production Line			Individual Batches		
		2002	2003	2004	2002	2003	2004
Time needed to obtain a certificate, in days		19.1	14.8	20.3	12.7	11.2	12.2
Aggregate costs, \$		255	347	198	229	152	200
<b>Including:</b>							
Official payments - % of those who answered this question		89	91	100	88	89	99
Official payments, \$		93	236	167	139	71	152
Notaries' fees, % of those who answered this question		73	11	4	16	8	13
Notaries' fees, \$		12	17	9	14	14	30
Lawyers' and intermediaries' fees, % of those who answered this question		10	6	0	3	0	4
Lawyers' and intermediaries' fees, \$		180	86	-	119	-	20
Traveling costs, % of those who answered this question		-	-	42	-	-	41
Traveling costs, \$		-	-	23	-	-	14
"Voluntary donations", % of those who answered this question		6	17	15	6	10	8
"Voluntary donations", \$		94	87	49	23	88	38
Unofficial payments, % of those who answered this question		57	35	34	31	28	23
Unofficial payments, \$		130	74	39	88	86	66

#### **6.4. Hygienic Certification**

Of all surveyed participants, 64% are subject to hygienic registration. On average, the polled companies have to undergo hygienic registration 1.9 times a year. Exposure to hygienic registration does not vary significantly depending on the organizational form (see Table 49).

**Table 49. Share of enterprises of different organizational forms subject to hygienic certification of their goods**

Organizational form	Yes	No	Don't know
Limited liability companies	64	35	1
Joint stock companies	59	40	1
Private entrepreneurs	70	30	0
State or municipal enterprises	60	40	0
Other	62	33	5

There is some correlation between company size and the necessity to undergo hygienic registration (see Table 50). This could be explained by the diversity of products they are producing.

**Table 50. Share of enterprises subject to hygienic certification depending on the number of employees, %**

Number of Employees	Yes			No			Don't Know		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
1-10	40	48	59	60	45	39	0	7	1
11-50	60	66	65	39	33	34	0	1	1
51-200	62	62	63	37	37	36	1	1	1
201-500	69	61	79	29	39	21	2	0	0
> 500	70	55	83	30	45	17	0	0	0

On average, it takes 14 days to receive a hygienic permit, which is 44% more than in 2002. To pursue this procedure an enterprise spent \$73 in 2003, or 22% less than in 2002. Companies with foreign investments spent 11.7 days and \$69 to obtain a hygienic certificate.

**Table 51. Costs incurred by economic entities in the process of hygienic certification**

Elements	Survey time	% of replies obtained			Amount paid, \$		
		2002	2003	2004	2002	2003	2004
Official payments		89	96	98	42	55	61
Expert assessment fees		41	57	-	28	29	-
Notaries' fees		14	5	6	13	11	9
Lawyers' and intermediaries' fees		8	0.3	1	121	8	34
Traveling expenses		-	-	21	-	-	13
"Voluntary donations"		7	12	7	42	75	30
Unofficial payments		32	27	19	58	56	37
Aggregate data		-	-	-	77	94	73

*Note: the "official payments" for 2004 survey include the expert assessment fee.*

During last years the unofficial payments paid to get hygienic certification decreased continuously. In the same time decreased the share of respondents who paid unofficially.

It should be noted that the polled economic entities reported a much lower cost in the case of hygienic certification than in the case of product certification.

## **6.5. Analysis Summary**

The analysis of the procedures for goods and services' certification and the analysis of the companies' perception regarding these procedures reveal that the Moldova certification system is very different from similar systems of countries with market economies. The differences exist in the certification policy and the institutional framework. The goods and services' certification system did not undergo as many changes as other regulatory domains. Economic agents state that old standards, adopted in the 80-ies, are still being applied.

About a half of economic entities were obliged to have their goods or services certified and more than a half had to go through hygienic registration. Large companies (employing more than 200

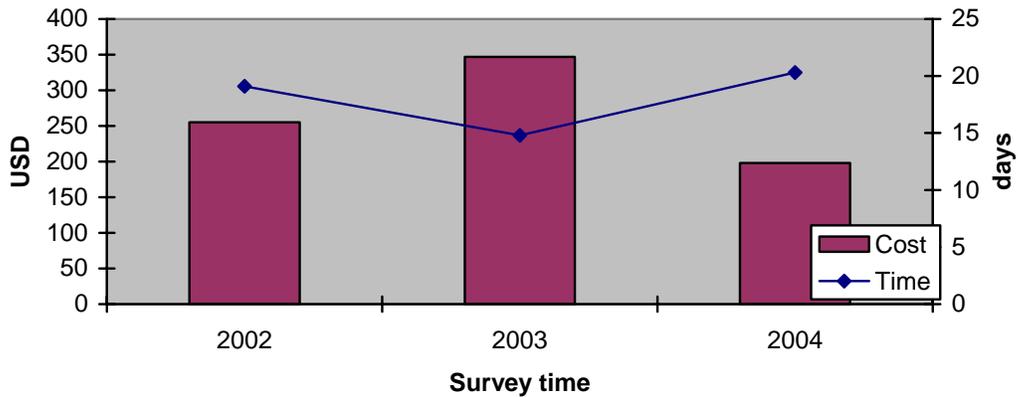
workers) are most exposed to certification – about 81% certify their products. More than a half of all respondents had to go through hygienic registration. However, hygienic permits are much less resource-intensive than certificates.

The results from the last survey do not differ significantly from those, revealed during the 2002 survey (see Table 52).

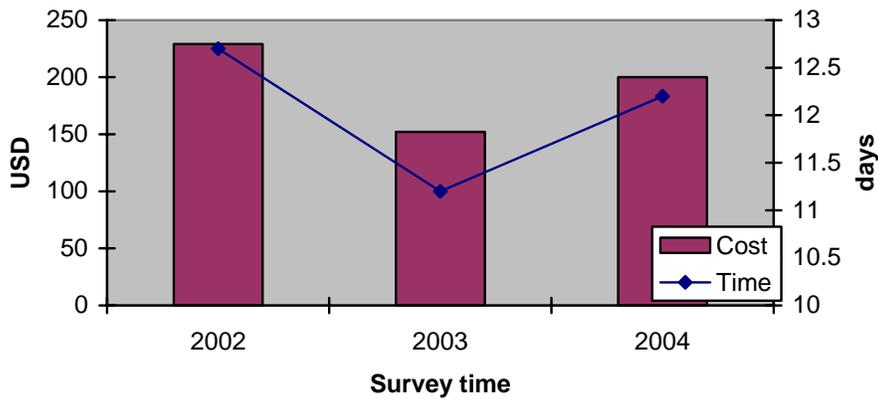
**Table 52. Product Certification Procedures Trend**

Indicators	Survey time		
	2002	2003	2004
Time needed to obtain a certificate for production line, days	19.1	14.8	20.3
Costs incurred by the certification of production line, \$	255	347	198
Time needed to obtain a certificate for a batch, days	12.7	11.2	12.2
Costs incurred by the certification of batches, \$	229	152	200
Time needed to obtain a hygienic certificate, days	12	9	14
Costs incurred by the hygienic certification, \$	77	94	73

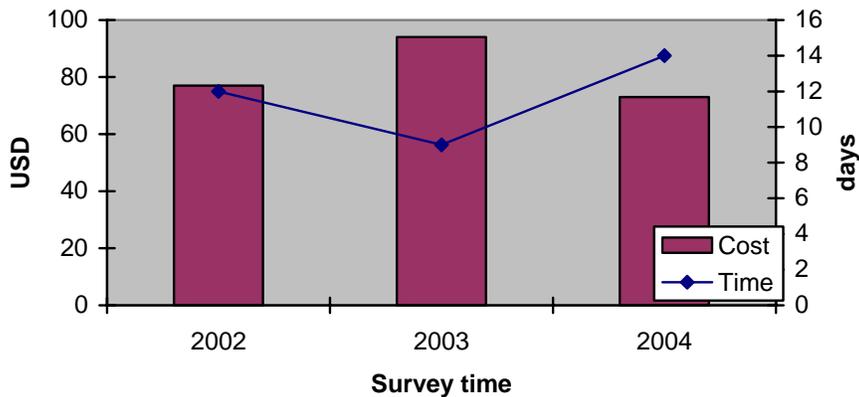
**Figure 19. Evolution of production line certification**



**Figure 20. Evolution of products batches certification**



**Figure 21. Evolution of hygienic certification**



In the opinion of polled enterprises, the Moldovan certification system has the following drawbacks:

- Currently there are complicated and time consuming procedures for the acknowledgment of certificates issued abroad, even in the industrially developed countries.
- Penalties for the sale of non-certified goods are very high (equal to the goods value)
- The certification authorities are not held liable for unidentified noncompliance in the certified goods.
- Cross examination by certifying bodies and sanitation authorities.
- Lack of standards for certification of some goods.
- Certification bodies are not properly technically equipped, resulting in impossibility to perform fast certification of goods and hygienic compliance. Sometimes, the lack of equipment leads to a certification based only on documents.

As a result of analysis the following recommendations in **certification of goods and services**, and **hygienic certification** areas may be considered:

- The Moldovan system for goods and product certification should be modified in line with EC standards. Additionally, the legislation should also be modified. Procedures for mutual certification recognition should be developed.
- To separate the functions of certification bodies for goods and services, of the hygienic certification and of other ministries and departments. In particular, the double-certification imposed by the Ministry of Agriculture and Food Industry and the Department for Standardization and Metrology should be eliminated.
- To review the list of products, that needs to be certified. Representatives from companies and customer protection bodies should be involved in the review.
- To reduce the duration of certification procedures.
- To clearly define the responsibilities and authorities of the certification bodies.

## **VII. TAX ADMINISTRATION**

### **7.1. Regulatory Environment**

The taxation system of the Republic of Moldova was cardinally changed on January 1, 1998, when the 1<sup>st</sup> and the 2<sup>nd</sup> Titles of the Fiscal Code entered into force. At present, six titles of the Fiscal Code were adopted and entered into force: Title one – General information about taxation system, Title two – Income tax, Title three – Value Added Tax, Title four – Excise, Title five - Fiscal administration, Title six – Estate income tax. Currently the Government of Moldova is developing the Title seven of the Fiscal Code – Local Taxes.

On March 01, 2002, by the Law No. 732-XV dated December 13, 2001 and the State Fiscal Inspection Communicate on the fiscal invoices (dated February 21, 2002) a new VAT invoice was introduced with higher degree of security, substituting two different forms, the old VAT invoice and the waybill. As a result the procedure of selling goods got a little easier. However, the printed forms of the new VAT invoices can only be obtained from the local fiscal authorities.

The taxation system is largely criticized by the Moldovan business community due to the high level of taxation, frequent changes of the fiscal legislation and high level of penalties and sanctions. Salaries are subjected to higher taxation (22%) than company's income tax (20%).

It is to underline that since January 2003 the Fiscal Code was modified and amended fifteen times, some changes being radical. Some of the most important modifications and amendments were introduced by the Law No. 430-XV dated October 31, 2003, which *inter alia*:

- Modified the article 15 of the Fiscal code, reducing the tax level for individuals from 25% to 22% and increasing the level of the amount subject to 10% income tax.
- Reduced the tax level for the legal persons from 22% to 20%.
- Increased the level of the excise.

Although starting January 2004 the income tax was decreased from 25% to 22%, the Parliament introduced by the Law No. 519-XV dated December 18, 2003 regarding the State social insurance budget on 2004 the 2% of individual social contribution from the salary.

### **7.2. Number of taxes and paper work**

An average surveyed economic entity in 2004 pays a total of **8.5** taxes (8.6 taxes in 2003 and 10.0 taxes in 2002) Individual entrepreneurs pay an average of 7.1 taxes, whereas legal entities average is about ten taxes. The average number of taxes paid by the companies with foreign capital is almost the same – 9.1 taxes.

To ensure the fulfillment of accounting work and payment in-time of all taxes, 84.7% of the respondents employ more than two full-time accountants. In addition, some of them hire outside accountants or consultants (see Table 53).

**Table 53. Labor resources needed to ensure the correct and in-time payment of taxes**

Survey time Resources	Average			Individual Entrepreneur			Legal Entity		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Full-time accountants	86.8%	76.2%	84.7%	59.6%	48.4%	63.1%	88.6%	79.2%	89.1%
Number of full-time accountants	2.3	2.5	2.1	1.28	1.24	1.05	2.35	2.6	2.25
Part-time accountants	7.4%	6.1%	7.1%	21.3%	15%	6.8%	7.1%	5.1%	7.2%
Hire outside accountants or lawyers	2.3%	2.7%	2.4%	4.2%	6.6%	6.8%	2.0%	2.3%	1.6%
Handle all tax issues themselves	3.5%	15%	5.2%	14.9%	30%	22.3%	2.3%	13.4%	1.8%

Table 54 presents the labor resources needed to ensure the correct and timely payment of taxes at enterprises of different organizational forms.

**Table 54. Labor resources needed to ensure the correct and in-time payment of taxes, depending on organizational form**

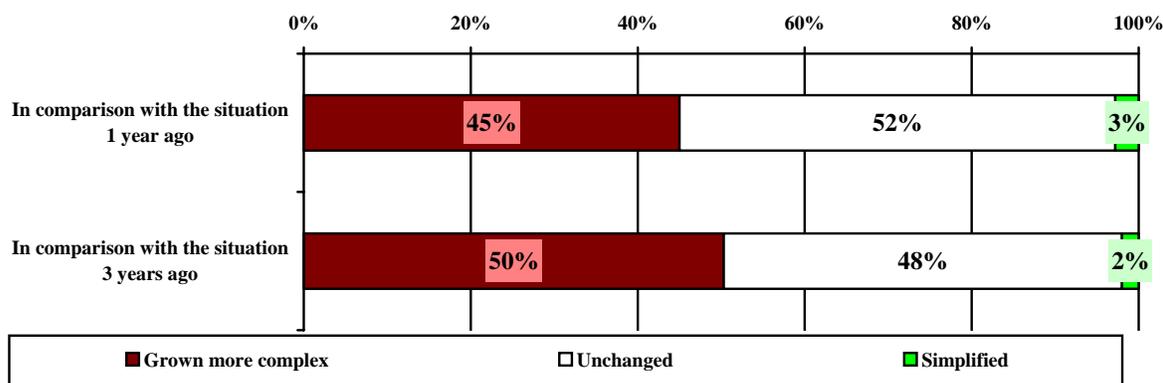
Survey time Organizational Form	In-house accountants		Part-time accountants		Hire accountants or lawyers		Handle all tax issues themselves	
	2003	2004	2003	2004	2003	2004	2003	2004
Limited liability companies	74.4%	87.5%	8%	8.7%	3.3%	1.5%	13.7%	1.7%
Joint stock companies	87.6%	96.4%	1%	2.2%	-	0.7%	11.4%	0.7%
Individual enterprises	48.3%	63.1%	15%	6.8%	6.6%	6.8%	30%	22.3%
State or municipal enterprises	69.2%	70%	-	20%	7.7	10%	23.1%	-
Other	75%	76.2%	-	9.5%	-	4.8%	25%	9.5%

The tables above show that even individual entrepreneurs are forced to have in-house accountants to make sure that all taxes are calculated and paid correctly. A small percentage of legal entities are capable of meeting all taxation requirements without help from accounting professionals.

### **7.3. Principal Taxation Problems**

The Moldovan taxation system keeps getting more complicated each year (see Figure 22 and Table 55).

**Figure 22. Evolution of the taxation system as assessed by the respondents**



**Table 55. Evolution of the taxation system as assessed by the respondents**

	Grown more complex	Unchanged	Simplified
One year ago	45.0%	52.2%	2.8%
Three years ago	50.3%	47.7%	2.0%

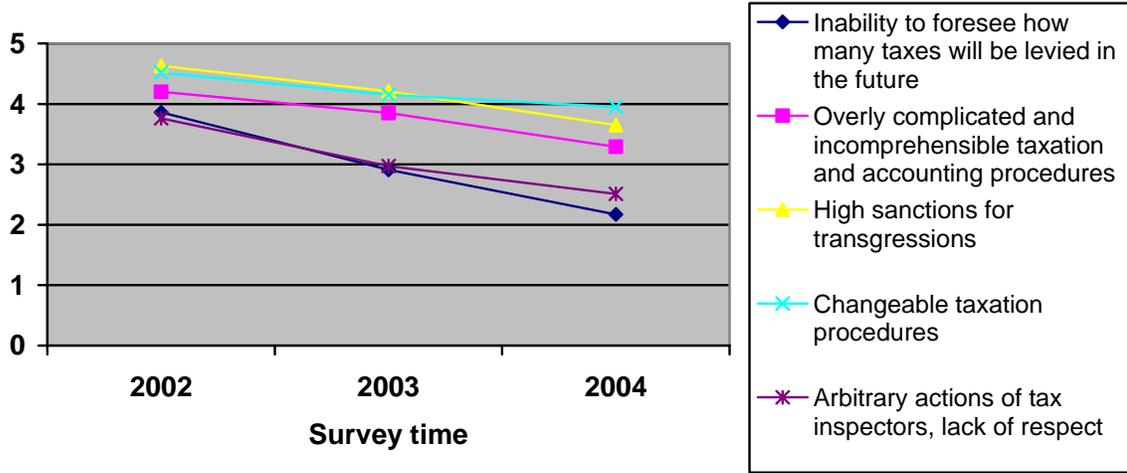
A very small percentage of the respondents detected some changes to the better.

The survey participants were also asked to rate taxation problems using the 5-point scale. The most serious problems come from the instability of taxation legislation, severe penalties for accidental mistakes and overly complicated and incomprehensible taxation and accounting procedures. Thus, an economic entity is caught in between the changing taxation framework and high penalties even for minor errors. However, a positive trend of companies' perception could be seen (see Table 56 and Figure 23)

**Table 56. Assessment of taxation problems by the polled economic entities**

Problems	Average			Individual Entrepreneurs			Legal Entities		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Inability to foresee how many taxes will be levied in the future	3.86	2.91	2.17	3.52	2.72	2.27	4.19	2.8	2.15
Overly complicated and incomprehensible taxation and accounting procedures	4.2	3.85	3.29	4.0	3.91	3.27	4.53	3.72	3.29
High sanctions for transgressions	4.63	4.21	3.65	4.43	4.18	3.65	4.57	4.21	3.65
Changeable taxation procedures	4.52	4.15	3.95	4.45	4.00	3.87	4.48	4.14	3.96
Arbitrary actions of tax inspectors, lack of respect	3.76	2.97	2.51	3.71	3.33	2.43	3.75	2.84	2.52

Figure 23. Assessment of taxation problems by the polled economic entities



#### 7.4. Analysis Summary

The taxation system is appraised by a half of the polled business as getting more complicated during last years. A very small percentage of the respondents felt some improvements in the system.

The most serious problems are caused by the instability of taxation legislation, high sanctions for mistakes and extremely complicated and incomprehensible taxation and accounting procedures.

Table 57. Comparison of tax administration related procedures in Moldova

Indicators	Survey time		
	2002	2003	2004
Average number of taxes	10.0	8.6	8.5
Number of full-time accountants	2.3	2.5	2.1

As a result of analysis some actions should be taken out in order to eliminate the following key business **impediments** in **tax administration**:

- Tax legislation is instable, with some taxes being reviewed annually under the Law on Budget.
- The procedure for financial report submitting to the Department of Statistics and Sociology is very exhausting and complicated. The procedure implies much time because requires a huge quantity of information.
- Individual entrepreneurs pay an excessive number of taxes – 7. In many cases, the tax amount is insignificant comparing to the effort needed to calculate it, to submit the report to the Fiscal Inspectorate and to pay the tax.

## **VIII. INSPECTIONS**

### **8.1. General Information**

At least 15 state bodies in Moldova are empowered to exercise control over economic entities. The activities of these entities are regulated by a plethora of legal acts that range from ordinances issued by these bodies to laws. Although the inspection procedures were liberalized to a certain extent, state controls still remain a major hindrance to the private business development.

The Government is well aware of the excessive number of inspections on economic agents and has adopted on February 18, 2003 the Decision No. 168 regarding coordination of inspection and control activities in order to address this issue. Through this decision the Government has assigned the Ministry of Economy as general coordinator of inspection activities, and authorized it, together with the Informational Technologies Department, to elaborate measures to improve this field. The deadline was set for March 31, 2003.

Based on the above decision, the Government has approved the Decision No. 395 regarding the controls' regulation, issued on April 01, 2003. According to the Decision No. 395, the control authorities will organize supervision and control activities at the enterprises as follows:

- not more than once in two calendar years – controls, regarding the economic-financial results of one and the same enterprise, and
- not more than once a year – controls, regarding the maintenance by the goods production enterprises of the technical, technological, sanitary, ecological, labor organization and other norms and codes.

In order to improve the entrepreneur climate in Moldova, the Government of Moldova approved on December 10, 2003 the Decision No. 1475 regarding the fee services provided by the central public authorities and inspection bodies. This Decision does not allow the services provision against fee if it is not approved by the Government.

### **8.2. Number and Duration of Inspections.**

In 2003, on average, the polled enterprises have been inspected 18.1 times, which is by 1.4 inspections less than in 2002. Inspectors spent an average of 27 days per year on a single enterprise, or by 21 days less than in the previous year. Companies with foreign investments are more inspected – 28.8 inspections during 2003 year.

Private entrepreneurs and state companies were less exposed to the attention of inspectors – 18 and 11 days, respectively, per company per year (see Table 58).

**Table 58. Aggregate duration of inspections hosted by companies of different organizational forms**

Organizational Form	Average number of inspections	Average duration per one visit, days	Average total duration, days
Limited liability companies	17.4	1.6	28
Joint stock companies	20.6	1.6	32
Individual enterprises	17.1	1.1	18
State or municipal enterprises	9.2	1.2	11
Other	22.7	1.2	28

The average duration of inspections of enterprises with public ownership did not differ from those of fully private companies and stood at 26 days. The figure for companies with foreign involvement is higher and equals to 44 days.

The number of inspections and their duration grows along with the number of employees on the company's payroll (see Table 59).

**Table 59. Average duration of inspections depending on the number of employees on the company's payroll**

Survey time No of employees	Average number of inspections			Average duration per one visit, days			Average total duration, days		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
1-10	10.1	16.4	12.8	4.8	1.9	1.4	48	31	17
11-50	15.0	15.1	16.3	4.9	2.3	1.5	74	35	24
51-200	19.7	24.3	29.0	6.1	2.9	1.4	120	71	41
201-500	19.7	31.0	43.4	6.5	2.9	1.8	128	89	76
> 500	25.3	45.5	39.7	6.8	2.7	2.0	172	125	79
Total	16.6	19.5	18.1	5.6	2.5	1.5	93	48	27

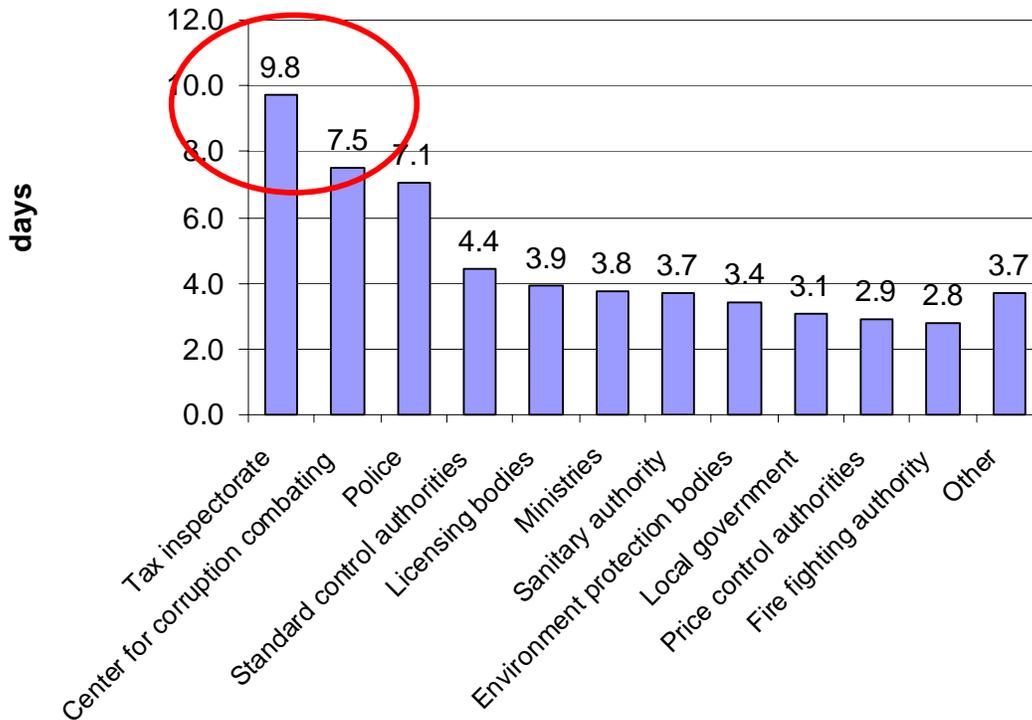
About 3.3% of the surveyed companies reported no inspections have been carried out at all.

The average number and duration of inspections broken down by the control agency are set forth in Table 60. The tax inspectorate, fire and sanitary authorities account for the bulk of inspections. However, during 2003 year their number and duration decreased by 10-20%. It must be mentioned the increase during the same period of the visits of police and of the Center for Economic Crimes and Corruption Combating.

**Table 60. Average number and duration of inspections**

Survey time Inspection authority	% responses obtained			Frequency			Number of days per 1 visit		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Tax inspectorate	90	87	78	3.5	3.6	2.5	13.4	7.7	3.9
Fire fighting authority	74	73	77	2.2	3.2	2.8	3.1	1.3	1.0
Sanitary authority	68	72	70	3.8	5.8	4.1	1.9	1.1	0.9
Police	43	40	55	4.8	6.9	5.9	3.1	1.0	1.2
Price control authorities	15	14	17	2.5	2.2	3.2	2.6	1.8	0.9
Standard control authorities	43	35	38	2.5	2.3	3.7	3.9	1.8	1.2
Environment protection bodies	53	49	48	2.5	3.1	3.1	2.5	1.2	1.1
Licensing bodies	33	25	29	2.1	1.5	3.9	5.9	1.3	1.0
Center for Economic Crimes and Corruption Combating	-	44	50	-	3.0	3.4	-	3.7	2.2
Ministries	21	13	18	2.7	2.7	2.1	6.4	1.4	1.8
Local government	39	37	27	3.6	4.0	3.4	4.9	1.0	0.9
Other	21	17	14	4.0	3.2	2.3	5.9	3.1	1.6

**Figure 24. Annual inspections duration**



### **8.3. Inspection costs**

Fines levied on enterprises in 2003 averaged out at \$683 (\$1,280 in 2002), confiscations – at \$475 (\$299 in 2002), “voluntary contributions” – at \$251 (\$336 in 2002) and bribes – at \$336 (\$180 in 2002). Average inspection costs equaled to \$752 or by 38% less than in 2002 year.

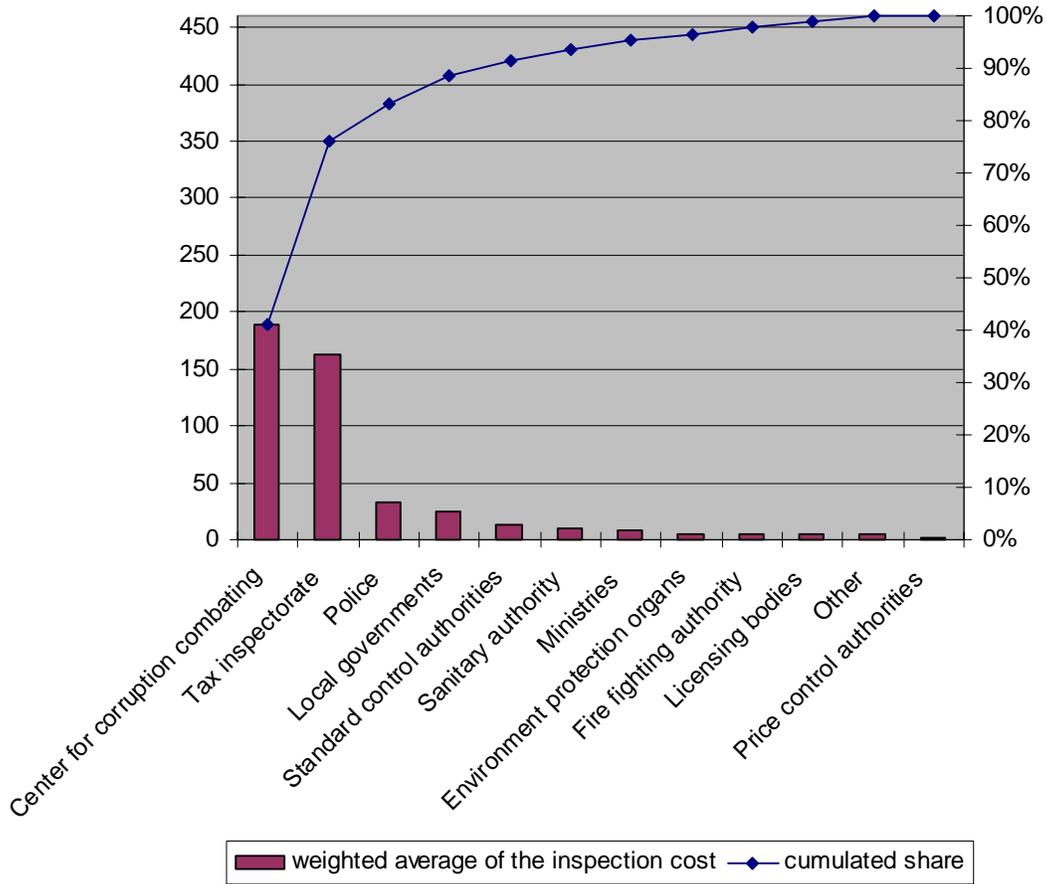
Average costs of inspections carried out by different state control agencies are given in Table 61.

**Table 61. Inspection costs suffered by surveyed companies over the last year**

	Fines		Goods confiscated		Voluntary contributions		Unofficial payments	
	% reported	Amount paid	% reported	Amount paid	% reported	Amount paid	% reported	Amount paid
Tax inspectorate	33	437	0.5	613	0.2	14	13	117
Fire fighting authority	8	29	0.2	7	1	31	10	27
Sanitary authority	10	50	0	-	0.2	72	10	50
Police	8	72	1	347	1	114	12	188
Price control authorities	1	48	0	-	0	-	1	44
Standard control authorities	5	159	0	-	0	-	3	177
Environment protection bodies	4	39	0	-	0.5	92	5	67
Licensing bodies	1	66	0	-	0	-	1	466
Center for Economic Crimes and Corruption Combating	14	1148	1	552	2	151	10	201
Ministries	2	203	0	-	0.5	117	1	307
Local governments	2	130	0	-	6	305	2	190
Other	1	175	0	-	1	169	1	131
<i>Total, aggregate figures</i>	<i>50</i>	<i>683</i>	<i>3</i>	<i>475</i>	<i>10</i>	<i>251</i>	<i>27</i>	<i>336</i>

The most frequently fines were imposed by the tax inspectorate (33%) and by the Center for Economic Crimes and Corruption Combating (14%). In must be mentioned than in almost other cases the number of respondents that paid unofficially exceeded the number of respondents that paid fines.

**Figure 25. Pareto chart: Inspection costs suffered by surveyed companies over the last year**



*Note: the weighted average of the inspection cost was calculated based on all companies, including those, which did not report some costs.*

About 76% of all inspections costs were generated by the visits of tax inspectorate and by the Center for Economic Crimes and Corruption Combating.

Table 62 demonstrates the correlation between inspection costs and company's size.

**Table 62. Average inspection costs broken down by company size**

Number of employees	Average Costs, \$		
	2002	2003	2004
1-10	370	295	221
11-50	496	646	679
51-200	1660	1749	1550
201-500	2055	1414	2317
> 500	10738	2403	2188
<b>Average</b>	<b>1361</b>	<b>1214</b>	<b>752</b>

The largest number of fines was imposed on the joint stock companies. Individual enterprises suffered less, as the amount of fines imposed was four times lower than the polled enterprises' average (see Table 63). However, the fines burden does not depend on the company's organizational form; they depend on the size of activity. Individual enterprises suffered less because their size is lower (see Table 62).

**Table 63. Average inspection costs broken down by organizational form**

Organizational Form	Average Costs, \$	
	2003	2004
Limited liability companies	836	754
Joint stock companies	1431	1139
Individual enterprises	417	172
Other	1087	799
Average	1214	752

Most of businesses consider that inspectors come to the company with preconceived attitudes (see Table 64). Only few of them believe that public servants are disinterested when checking the business activity.

**Table 64. Fair-mindedness of public servants**

	Yes	Partially	No	Do not know
All business are equally treated by Law	11%	13%	67%	8%
Law is enforced selectively	69%	17%	5%	8%

Despite the fact that most of businesses consider that the Law is applied unequally, they regard inspectors' visits as "scheduled ahead and legally justified" (see Table 65). Another important reason of the inspections was the wish of public servants to obtain unofficial payments.

**Table 65. Reasons for inspectors' visits**

Reasons	Importance
Scheduled ahead and legally justified inspection or audit	3.7
Fair and based on facts attempt to investigate the possible violation	1.8
Attempts to obtain unofficial payments or "voluntary contribution"	2.4
Attempts to pressure the company to make certain economic decisions (do certain kind of work, sign contracts, employ certain persons, etc.)	1.6
Abuse of power for unfair competition	1.8
Political reasons	1.4
Other subjective reasons	1.3

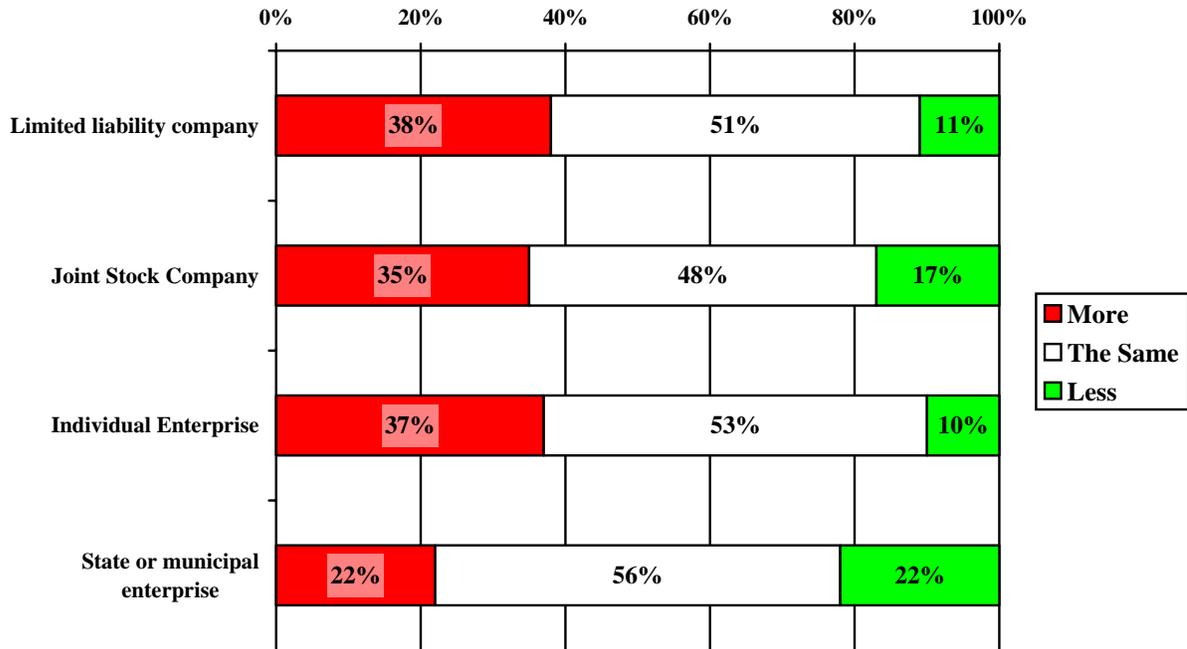
*Note: reasons are rated using a 1 to 5 scale: 1 – was not a reason and 5 – the most important reason*

### 8.4. Frequency of inspections compared with last year

More than a half of interviewed enterprises consider that the number of inspections compared with last year remained the same, nearly a third of those polled (37%) state that it has increased and 12% report a decrease.

Enterprises of different organizational forms and sizes give similar assessments of changes in the number of inspections (see Figure 26, Figure 27, Table 66 and Table 67).

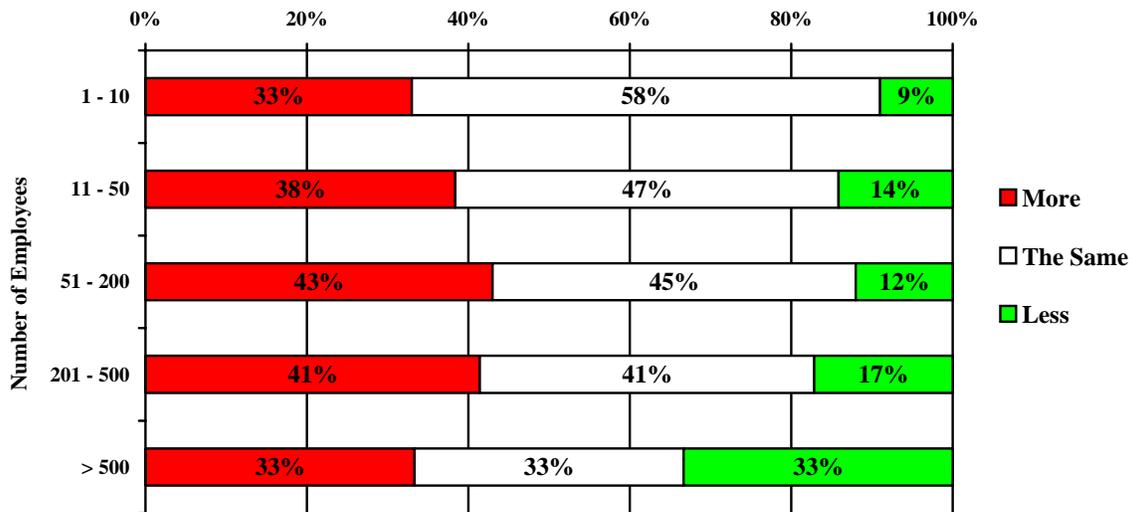
**Figure 26. Number of inspections analysis, broken down by organizational forms**



**Table 66. Number of inspections analysis, broken down by organizational forms**

Organizational Form	Average number of inspections	more, %	the same, %	less, %
Limited liability companies	17.4	38	51	11
Joint stock companies	20.6	35	48	17
Individual enterprises	17.1	37	53	10
State or municipal enterprises	9.2	22	56	22

**Figure 27. Changes in the number of inspections, broken down by number of employees**



**Table 67. Changes in the number of inspections, broken down by number of employees, %**

Number of employees	Average number of inspections	More	The Same	Less
1-10	12.8	33	58	9
11-50	16.3	38	47	14
51-100	29.0	43	45	12
101-500	43.4	41	41	17
> 500	39.7	33	33	33

### **8.5. Analysis Summary**

The survey demonstrated that Moldovan enterprises are subject to constant inspections executed by state control agencies. The average annual duration of inspections is about one month or twice less than in 2002. However, more than a half of polled enterprises consider that inspections stayed at the same level comparing to the previous year. Only 12% believe that the situation is becoming better. Enterprises employing more personnel had the most inspections.

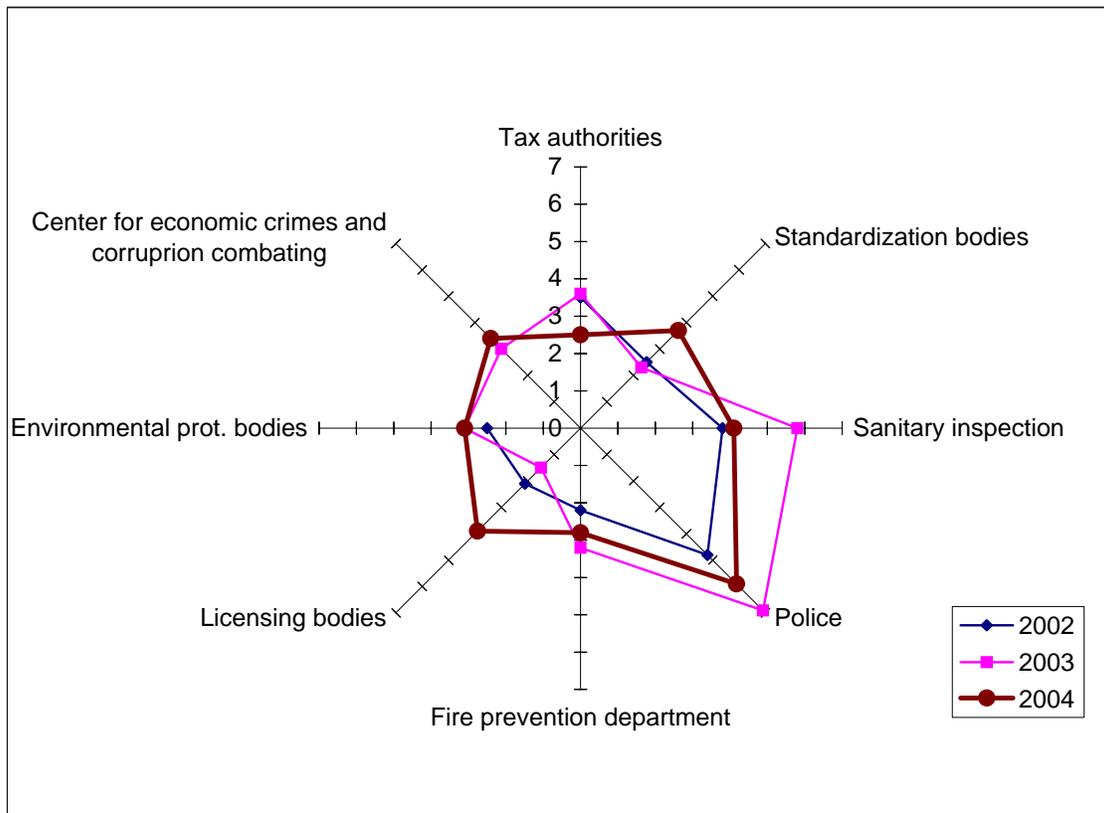
In many cases, inspections resulted with a fine. But in some cases – inspections carried out by the fire fighting authority, police, environment protection organs and licensing bodies – the sum of unofficial payments is equal or even higher than the level of fines. If the amount of sanctions is broken down by employee, the heaviest burden is carried by small businesses (less than 10 persons), where the per-employee amount of fines is about \$40 per year. At large enterprises that employ more than 200 people this ratio is about \$5.

Most of inspections are carried out by the police. Sanitary inspection, State standardization bodies and Licensing bodies do also an important number of inspections – about four per year (see Table 68 and Figure 28).

**Table 68. Inspections Frequency Trend**

Survey time	2002	2003	2004
<b>State bodies</b>			
Tax authorities	3.5	3.6	2.5
Sanitary inspection	3.8	5.8	4.1
Fire department	2.2	3.2	2.8
State Standardization bodies	2.5	2.3	3.7
Environmental agency	2.5	3.1	3.1
Licensing agencies	2.1	1.5	3.9
Police	4.8	6.9	5.9
Center for Economic Crimes and Corruption Combating	-	3.0	3.4

**Figure 28. Inspections Frequency during last years**



Although the number of inspections remained at the same level as during the previous years, their length decreased considerably during last two years: 1.9 times during 2001-2002 years and 1.8 times during 2002-2003. During last year the cost associated with inspections decreased 1.9 times (see Table 69).

**Table 69. Inspections Trend**

Survey time	2002	2003	2004
<b>Indicators</b>			
Average number of inspections per business	16.6	19.5	18.1
Number of days per year business is inspected	93	48	27
Fines paid annually	\$1,418	\$1,280	\$683

The following key business impediments in **inspection** area were mentioned:

- The responsibility of controlling bodies is vaguely defined. This is due to the fact that the acts adopted to outline the scope of activities and responsibility of these bodies contain only references to other legal acts.
- Private companies are more inspected than public ones.
- Inspections are done ex-prompt, without a prior notification.
- The Budget Law stipulates for each year the revenues from fines and penalties. Thus, inspectors are encouraged to achieve the “goal”.
- Sanctions can be imposed on the basis of intermediate inspection results, which can engender sizeable losses for entrepreneurs.
- Fines levied on a company can be debited against the bank accounts of economic entities that have outstanding debts to this company without their consent.
- Despite the recent efforts of the Government to reduce the number of inspections, most of companies accused the Center for Economic Crimes and Corruption Combating, which increased the frequency of inspection and the fines levied from companies. The costs caused by the visits of their inspectors exceeded even those caused by the Fiscal Inspectorate.

## **IX. PRICING CONTROLS**

### **9.1. Regulatory Environment**

The Laws No. 105-XV dated March 13, 2003 “On Protection of Consumers” and the Law No. 906-XII dated January 29, 1992 “On the Restriction of the Monopolistic Activity and Competitiveness Development”, as well as the Government Decision No. 547 dated August 4, 1995 “On Pricing and Tariffs State Regulation”, the Law No. 1308-XIII dated July 25, 1997 on the normative price and the procedure of the selling-buying of the land, State Budget Law No. 474-XV dated November 27, 2003 are the principal legal acts in the field of pricing.

The most important aspects of this economic regulation are set forth by the Government Decision mentioned above which states the guidelines of the state pricing policy, applicability of free and state controlled pricing, competencies of appropriate ministries, departments and local authorities in pricing regulation. The main principles of this decision are as follows:

- The products of the industrial and technical purposes, as well as of the national consumption, works and services provided by legal and natural persons of the Republic of Moldova can be sold at free established prices. The exception of this rule are such products, as land and bowels; coal sold by the state company “Moldova-Combustibil”; the transportation services, except the taxi and public transport; services of technical inventory of the buildings, land evidence; telecommunication, telegraph, post services provided to the population; precious metals; medicines, medical services; freight transport by railway transport; services of water backing; removal of snow, garbage, mechanical streets handling for enterprises, organizations and population; funeral services; services of centralize heating and water backing; rent services; natural gas; terminal and energy.
- The products of social purpose (such as canned meat, fruits and vegetables for the children; vegetable oil; milk, dairy products; butter; sugar; flour; children shoes; children workbook; laundry soap; detergents; construction materials;) and the mixture for the children the prices have the following price structure:
  - The imported products are commercialized at acquisition prices, including the transportation costs, customs taxes, state taxes and the commercial margin which cannot exceed 20% of the acquisition price.
  - The local produce products are commercialized at the prices with a maximum margin of 20% of the delivery price, including VAT, except the bread and bakery products for which the margin cannot exceed 10% (this provision is valid until September 01, 2004).

The tariffs for calculation of the land normative price are attached to the Law No. 1308-XIII dated July 25, 1997 and are as follows:

- Selling of the land of agricultural destination, homestead lands and garden lots – 289.53 MDL (\$24) per hectare;
- Forced alienation of the land of agricultural destination, homestead lands and garden lots – 579.06 MDL (\$48) per hectare;
- Excluding of the lots from the category of the land with agricultural and forest destination, as well as agricultural cycle, and selling of the lots from the inhabited locality – 9,264.96 MDL (\$759) per hectare.

The rent of the state property is regulated by the annually budget law. According to the Law No. 474 (Annex 8) the rent is established depending on location (Chisinau, Balti, other cities, towns, rural area, which varies from 155 to 20 lei per sq. m. per year), placing coefficient (separate

building, annex, parterre, underground, which varies from 0.5 to 0 per sq. m.), characteristics of the space (water supply, canalization, hot water, centralized heating), utilization coefficient (state financed institutions, auxiliary spaces, spaces for providing of the services to the population, offices, restaurants, etc, which varies from 0.05 to 4 per sq. m.) and the market coefficient, which cannot be less than 0.5. This annex is stating also the structure of the rent of the equipment, transport facilities and fix assets.

Approximately 30 enterprises are presently included in the list of monopolists and the prices for the goods and services they produce are regulated in compliance with the Law. No 906-XII dated January 29, 1992 “On the restriction of the monopolists’ activity and competitiveness development”.

## **9.2. The Extent of Pricing Controls**

The survey revealed that 31% of the respondents in 2004 year are affected by pricing controls, the share increasing during last years: 28% in 2003 and 19% in 2002. About 17% of prices in 2004 are regulated by the state (16% in 2003 and 19% in 2002).

It is important to mention that companies with foreign investments are less affected by pricing controls. Only 11% of such companies suffer from state control, which regulates less than 9% of prices.

Table 70 and Table 71 set forth the share of companies subject to pricing controls broken down by organizational form and region.

**Table 70. Share of companies, subject to pricing controls, depending on organizational form**

	<b>No</b>	<b>Yes</b>
Limited liability companies	68%	32%
Joint stock companies	68%	32%
Individual entrepreneurs	40%	29%
State or municipal enterprises	60%	40%
Other	67%	33%

The Table above demonstrates that individual entrepreneurs are less subject to state pricing controls. Only 29% of those polled are of the opinion that the state interferes in pricing.

**Table 71. Share of companies, subject to pricing controls, depending on the region**

Region \ Survey time	No			Yes		
	2002	2003	2004	2002	2003	2004
Balti	80.5%	72.9%	75.9%	19.5%	27.1%	24.1%
Cahul	67.2%	81.8%	61.1%	32.8%	18.2%	38.9%
Chisinau city	79.1%	74.7%	69.9%	20.8%	25.3%	30.1%
Edinet	73.2%	65.9%	84.6%	26.8%	34.1%	15.4%
Chisinau	93.1%	61.5%	83.3%	6.9%	38.5%	16.7%
Lapusna	100.0%	65.5%	62.5%	-	34.5%	37.5%
Orhei	97.2%	60.7%	48.4%	2.8%	39.3%	51.6%
Soroca	76.9%	66.6%	40.0%	23.1%	33.3%	60.0%
Taraclia	n/a	n/a	80.0%	n/a	n/a	20.0%
Tighina	100.0%	78.6%	50.0%	-	21.4%	50.0%
Ungheni	85.7%	50%	55.0%	14.3%	50.0%	45.0%
Gagauzia	100.0%	96.3%	90.0%	-	3.7%	10.0%

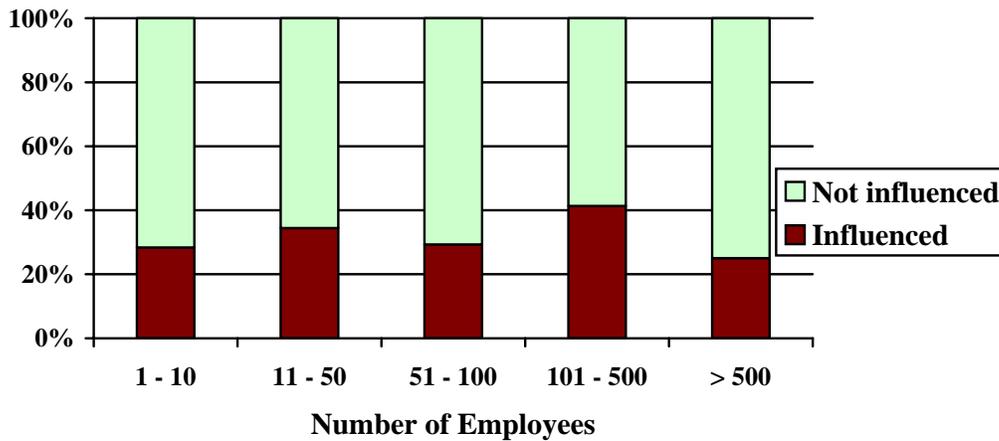
Economic entities based in the Soroca, Orhei and Tighina regions are most subject to pricing controls, whereas the Gagauzia authorities are more liberal in this regard.

Table 72, Figure 29 and Table 73 demonstrate that there is no correlation between the company size and the level of price regulation.

**Table 72. Share of companies, subject to pricing controls, depending on the company size**

Survey time Number of Employees	Not influenced			Influenced		
	2002	2003	2004	2002	2003	2004
1-10	77.7%	74.9%	71.6%	22.3%	25.1%	28.4%
11-50	82.8%	67.4%	65.6%	17.2%	32.6%	34.4%
51-200	82.1%	76.3%	70.7%	17.9%	23.7%	29.3%
201-500	79.2%	81%	58.8%	20.8%	19%	41.4%
> 500	97%	71%	75%	3%	29%	25%

**Figure 29. Share of companies, subject to pricing controls, depending on the company size**



**Table 73. Share of prices subject to state control, depending on the company size**

Survey time Number of employees	Share of prices subject to state control		
	2002	2003	2004
1-10	15.3%	14.1%	14.6%
11-50	14.1%	18.5%	19.5%
51-200	16.1%	12.9%	14.6%
201-500	14.9%	10.8%	31.8%
> 500	17.7%	27.6%	8.7%

### **9.3. Perception of pricing control methods**

Most often the state resorts to margin ceilings when regulating the price (see Table 74).

**Table 74. State control of prices for goods and services**

	2002	2003	2004
Through restrictions placed on profitability	56.0%	23.7%	18.3%
Through the prices ceilings	34.4%	17.9%	17.7%
Through the margin ceilings	41.4%	38.2%	32.4%

#### **9.4. State agencies authorized to control prices of goods and services**

The survey demonstrated that prices are primarily controlled by the Tax Inspectorate (see Table 75).

**Table 75. State agencies that control prices**

	2002	2003	2004
Tax inspectorate	28.7%	9.5%	27.5%
Ministry of Finance	12.9%	4.0%	4.2%
Price control authorities (antimonopoly)	21.6%	11.9%	2.6%
Licensing bodies	-	7.1%	2.4%
Ministries	8.3%	9.7%	2.9%
Local governments	9.9%	1.7%	2.3%
Other	9.2%	4.3%	0.7%

#### **9.5. Analysis Summary**

About one third of Moldovan economic entities are subject to pricing controls in 2004. Percentage of economic entities subject to pricing controls increased in comparison with the previous year. Prices control authorities used more often price ceilings and profitability ceiling in order to influence prices.

**Table 76. Comparison of pricing control associated procedures in Moldova**

	2002	2003	2004
Percentage of economic entities subject to pricing control	19%	27.5%	31.4%
Average percentage of prices regulated by state	19.2%	15.8%	17.2%

## **X. LABOR REGULATIONS**

### **10.1. Regulatory Environment**

The main legal acts regulating this subject are the Labor Code of the Republic of Moldova (Law No. 154-XV dated March 28, 2003), Law No. 847-XV dated February 14, 2002 on remuneration of labor, Governmental Decision No. 198 dated March 12, 2001 regarding the approval of the Labor collective contract (national level), Governmental Decision No. 152 dated February 19, 2004 regarding the tariff salary of the employees of the 1<sup>st</sup> category from the entities with financial autonomy.

The Labor Code entered into force on October 01, 2003 and substituted the previous Code dated May 25, 1973 and remains the principal legal act that governs labor issues. The general opinion of the employers is that this code protects only the interests of the employees. The Labor Code brought a lot of new issues, *inter alia*:

- Every employee shall have a written labor contract;
- Regulation of the contract validity period, providing the cases when the contract can be concluded for an established time period;
- Modification of the labor contract;
- Increasing of the period of time of partially paid holiday to care the children.

According to the Government decision No. 152, starting by February 01, 2004, the minimal monthly salary is 360 MDL (\$30) for the micro enterprises, and medical institutions and 440 MDL (\$36) for other sectors of the economy.

### **10.2. Availability of labor resources**

All respondents were asked to assess the availability of labor resources to ensure the most effective operation of their businesses and maximize profits. About 70% declared that they have optimal staffing levels. The personnel shortage was mentioned by 24% of respondents, the share increasing twice comparing to the previous year. It is important to mention that companies with foreign investments are not claiming excessive staffing levels; 35% of them have less than enough. The main reason for this is the lack of qualified people.

**Table 77. Assessment of the staffing level**

	Survey time		
	2002	2003	2004
More than enough	18.8%	6.3%	7.2%
Sufficient	61.3%	79.1%	68.6%
Less than enough	18.5%	10.7%	23.6%
Do not know	1.3%	0.5%	0.6%

The largest percentage of enterprises claiming excessive staffing levels is among joint stock companies - 18.1% (see Table 78). This is largely due to the fact that most joint stock companies were established on the basis of state enterprises. Individual entrepreneurs tend to be the most efficient ones.

**Table 78. Assessment of the staffing level depending on the enterprises organizational forms**

Survey time Organizational form	Excessive		Sufficient		Insufficient		Do not know	
	2003	2004	2003	2004	2003	2004	2003	2004
Limited liability companies	3.3%	4.9%	86.3%	68.5%	9.2%	25.9%	0.6%	0.7%
Joint stock companies	20.5%	18.1%	68.1%	55.1%	10.0%	24.6%	0.5%	2.2%
Individual enterprises	1.7%	1.9%	85%	83.5%	13.3%	14.6%	-	-

The larger the enterprise is, the more excess labor it has (see Table 79).

**Table 79. Assessment of the staffing level depending on company size**

Survey time Number of Employees	Excessive		Sufficient		Insufficient		Do not know	
	2003	2004	2003	2004	2003	2004	2003	2004
1-10	1.0%	2.3%	88.7%	79.4%	9.3%	17.9%	1.0%	0.4%
11-50	6.1%	5.8%	82.6%	65.1%	10.9%	27.8%	0.4%	1.3%
51-200	17.3%	18.7%	72.4%	49.3%	9.6%	30.7%	0.6%	1.3%
201-500	46.2%	27.6%	38.5%	51.7%	15.4%	20.7%	-	-
> 500	25.0%	16.7%	50.0%	58.3%	25.0%	25.0%	-	-

The regional perspective is set forth in the table below.

**Table 80. Assessment of the staffing level by companies, depending on the region**

Staffing Level Region	Excessive	Sufficient	Insufficient	Do not know
Balti	12.1%	63.8%	22.4%	1.7%
Cahul	11.1%	68.5%	19.5%	0.9%
Chisinau city	6.5%	67.1%	25.5%	0.9%
Edinet	3.8%	84.6%	11.6%	-
Chisinau	3.3%	60%	36.7%	-
Lapusna	8.3%	62.5%	29.2%	-
Orhei	3.2%	83.9%	12.9%	-
Soroca	12%	52%	36%	-
Taraclia	10%	90%	-	-
Tighina	70%	20%	10%	-
Ungheni	5%	70%	25%	-
Gagauzia	10.5%	84.2%	5.3%	-

Most businesses retain excess staff due to moral reasons and because the process of staff dismissal is expensive and takes long time.

**Table 81. Reasons precluding the company management from cutting staffing levels**

We think that it is not right to dismiss staff	38%
It will cause problems with the state authorities	4 %
Staff dismissal is a lengthy and expensive process	21%
It will invite problems with trade unions	2%
Other	34%

The main reason that does not allow the surveyed enterprises to hire additional personnel is the lack of qualified people (see Table 82).

**Table 82. Reasons impeding the company management from hiring additional personnel**

Lack of qualified people	46%
Uncertain future of the company	16%
This leads to problems with the trade-unions	1%
The company is in the process of hiring of new personnel	10%
Other	26%

### **10.3. Analysis Summary**

About 70% of respondents state that they have optimal staffing levels to ensure the most effective operation of their businesses.

At the same time about one fifth of respondents assess the current staffing level as less than enough. The share of such companies doubled during last year. The main reason for not hiring new personnel is the lack of qualified people on the labor market.

An insignificant share of companies mentioned that have overstaff. Joint stock companies are the worst affected by overstaffing. The larger the enterprise, the more excess labor it has. The main reason that precludes the surveyed enterprises from staff cutting is the moral one.

## XI. CONTRACT EXECUTION

### 11.1. Regulatory Environment

The freedom of contract principle is protected by the Moldovan Civil Code. The commercial contracts are not subject to state registration.

### 11.2. State control over the conclusion and execution of contracts

About **12%** of polled enterprises pointed out that the state oversees the conclusion and execution of their contracts (18% in 2003 and 33% in 2002). The extent of the state supervision is directly linked to the company size (see Table 83).

**Table 83. Officials' supervision of companies' contracts, depending on the company size**

Survey time Number of employees	Yes		No			Do not know			
	2002	2003	2004	2002	2003	2004	2002	2003	2004
1-10	30.9%	14.5%	8.2%	66.0%	83.4%	91.4%	2.1%	2.1%	0.4%
11-50	27.0%	15.6%	14.9%	69.6%	83.1%	84.6%	3.3%	1.3%	0.5%
51-200	37.1%	23.1%	12%	62.3%	76.9%	85.3%	0.7%	-	2.7%
201-500	48.9%	23.1%	31%	46.7%	76.9%	69%	4.4%	-	-
> 500	45.5%	23.8%	-	51.5%	76.2%	91.6%	3.0%	-	8.3%

The regions' perspective is set forth in the Table 84. The state controls are most stringent in the Lapusna, Orhei and Cahul regions.

**Table 84. Officials' supervision of companies' contracts, depending on region**

Survey time Regions	Yes			No			Do not know		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Balti	32.9%	28.6%	13.8%	67.1%	71.4%	86.2%	-	-	-
Cahul	39%	30.3%	16.7%	57.6%	69.7%	83.3%	3.4%	-	-
Chisinau city	41.9%	17.6%	11.4%	54.5%	80.5%	87.4%	3.6%	1.8%	1.2%
Edinet	12.2%	19.5%	-	87.8%	80.5%	100%	-	-	-
Chisinau	31.0%	23.1%	6.7%	69.0%	76.9%	93.3%	-	-	-
Lapusna	10.3%	6.7%	33.3%	89.7%	93.1%	66.7%	-	-	-
Orhei	11.1%	7.1%	32.2%	86.1%	92.9%	64.5%	2.8%	-	3.3%
Soroca	53.8%	-	-	30.8%	100%	100%	15.4%	-	-
Taraclia	n/a	n/a	10%	n/a	n/a	90%	n/a	n/a	-
Tighina	50%	-	-	50%	100%	100%	-	-	-
Ungheni	-	47%	5%	100%	53%	95%	-	-	-
Gagauzia	-	3.8%	10.5%	100%	92.4%	89.5%	-	3.8%	-

Contract conditions, partners and contractual prices are subject to the closest state supervision (see Table 85)

**Table 85. Contracts aspects most controlled by the state**

	Survey time		
	2002	2003	2004
Prices	47.7%	9.2%	48.0%
Type of goods	37.0%	7.3%	14.7%
Contract size	54.9%	6.2%	17.3%
Contract conditions	69.7%	11.0%	49.3%
Partners	47.7%	10.8%	24.0%

Tight state supervision of commercial contacts in 2004 precluded 6.3% of the respondents from meeting their contractual obligations (5.1% in 2003 and 14.2% in 2002) and entailed average losses of \$25,064 (\$10,240 in 2003 and \$7,894 in 2002).

### **11.3. Analysis Summary**

About one sixth of economic entities have pointed out that in 2004 the state oversees the conclusion and execution of their contracts. The extent of the state supervision is directly linked to the company size. The average losses incurred by the contract supervision are increasing during last years (see Table 86)

**Table 86. Comparison of contract execution associated procedures in Moldova**

	Survey time		
	2002	2003	2004
Percentage of respondents affected by state control in the domain of contract	32.8%	17.8%	12.3%
Average losses from contract non execution	\$7,894	\$10,240	\$25,064

## **XII. PROMOTION OF PERSONAL INTERESTS OF PUBLIC SERVANTS**

The survey participants were asked about state authorities' interference in the company activity in order to promote public servants personal interests. Nearly 9% of the polled enterprises confirmed that state authorities interfered in the company activity. Another 88% mentioned the contrary.

**Table 87. State interfering in the company activity as result of promotion of public servants personal interests, depending on the company size**

Number of employees	Answer		
	Yes	No	Do not Know
1-10	5.8%	91.8%	2.4%
11-50	10.8%	85.5%	3.7%
51-100	12.0%	86.7%	1.3%
101-500	10.7%	89.3%	-
> 500	8.3%	91.7%	-

The smallest companies are less affected by state authorities' interference in the company's activity. The largest percentage of enterprises claiming interference in their activities are medium size ones.

**Table 88. Share of companies affected by authorities interference**

Region	Share
Balti	9%
Cahul	17%
Chisinau city	7%
Edinet	-
Chisinau	3%
Lapusna	8%
Orhei	6%
Soroca	4%
Taraclia	50%
Tighina	-
Ungheni	15%
Gagauzia	35%

The majority of the surveyed companies affected by authority's interference are in Taraclia region and Gagauzia.

Tight state authorities' interference in companies' activities conducted to average losses estimated at \$25,524.

### **XIII. EVALUATION OF THE LEGAL SYSTEM**

#### **13.1. Regulatory Environment**

Settlement of the disputes between the companies in the Republic of Moldova is done by a legal court, according to the Law No. 225-XV dated May 30, 2003 “On Civil Code Procedures” or by an external trade court, according to the Law No. 129 dated May 31, 1994 “On Arbitrage Court”. The state tax for applying in the legal court is stated by the Law No. 1216-XII dated December 03, 1992 on the State tax, which stipulates a tax of 3% from the requested amount, but not less than 15 minimal salaries for the patrimonial disputes.

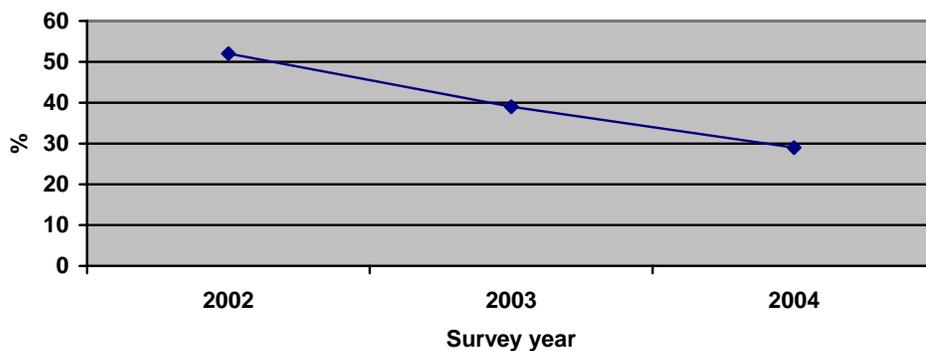
The Law No. 225 entered into force on June 12, 2003 and starting this day the most provisions of the Civil Code Procedures dated December 26, 1964 lost their validity. The law introduced a lot of new provisions differing from the previous one, regarding the procedures as well as the competence of the courts.

A very important legal act that regulates the right of the enterprises when needs protection from the illegal activities of the state bodies is the Law No. 793-XIV dated February 10, 2000 on “Administrative court”. This law is providing to each company that does not agree with the act of the state body to appeal against the act. The cost of this appeal for a legal person equals to 20 minimal salaries, which constitutes 360 MDL (\$30).

#### **13.2. Effectiveness of conflict solving methods**

During the last two years (2002-2003), about 29% of companies had to solve conflicts (with partners, clients or state entities), the share decreasing continuously during last years.

**Figure 30. Companies that had to solve conflicts**



*Note: The data shows the situation for two years preceding the survey time*

When arriving to some conflicts with other economic agents, companies usually appeal to the Court (86%), but only in a half of cases (53%) they are considering such efforts effective (see Table 89 and Figure 32). During last year the effectiveness of unofficial methods to solve litigations decreased considerably (see Figure 33). In the same decreased the number of companies that apply

to such methods. The most ineffective in solving conflicts with economic agents are considered state agencies (see Figure 31). As result, the number of companies that apply to them decreased considerably.

**Table 89. Effectiveness of different methods to solve problems with economic agents**

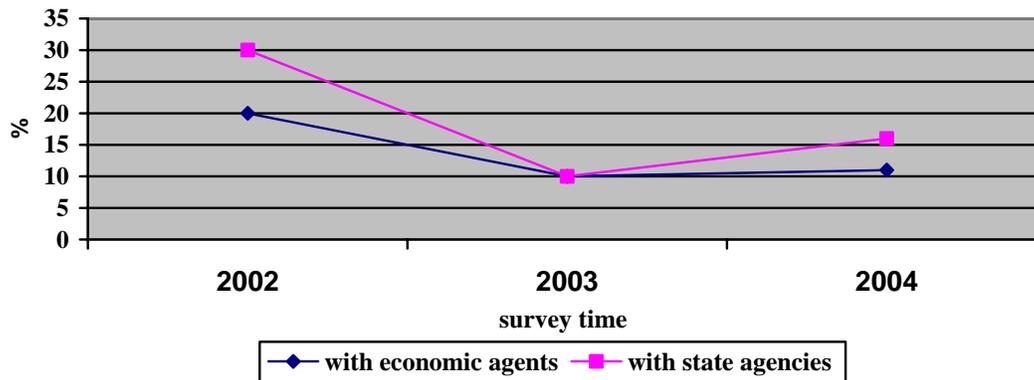
Survey time	% of respondents that applied (from those who reported conflicts)			Effectiveness					
				Effective			Ineffective		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
State entities	47	45	29	20	10	11	80	90	89
Court	79	86	86	43	40	53	57	60	47
Unofficial methods	50	55	44	81	85	53	19	15	47

When companies have problems with the state agencies, the Court and State entities are preferred to solve the conflict (see Table 90). However, the effectiveness of unofficial methods still remains the highest (56%).

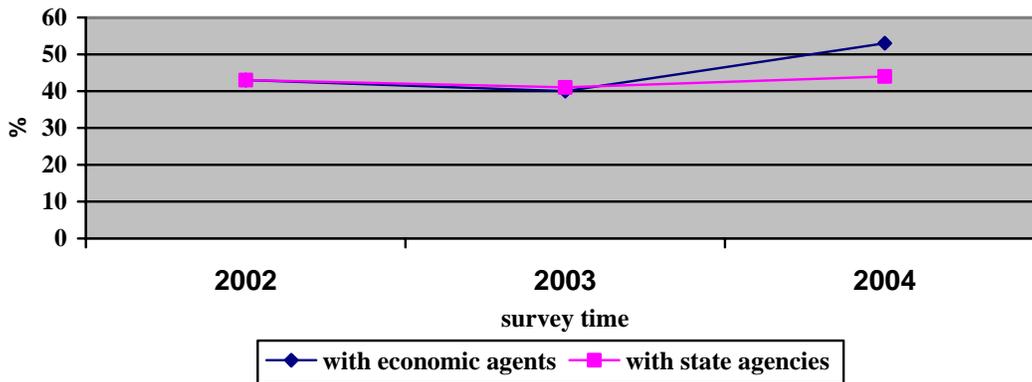
**Table 90. Effectiveness of methods to solve problems with state agencies**

Survey time	% of respondents that applied (from those who reported conflicts)			Effectiveness					
				Effective			Ineffective		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
State entities	70	52	68	30	10	16	70	90	84
Court	73	74	79	43	41	44	57	59	56
Unofficial methods	41	48	51	72	82	56	28	18	44

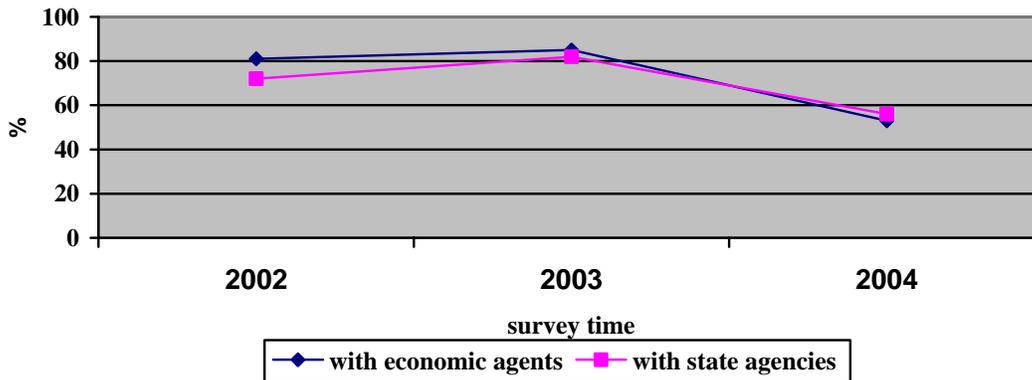
**Figure 31. Effectiveness of state entities in solving conflicts**



**Figure 32. Effectiveness of the Court in solving conflicts**



**Figure 33. Effectiveness of unofficial methods in solving conflicts**



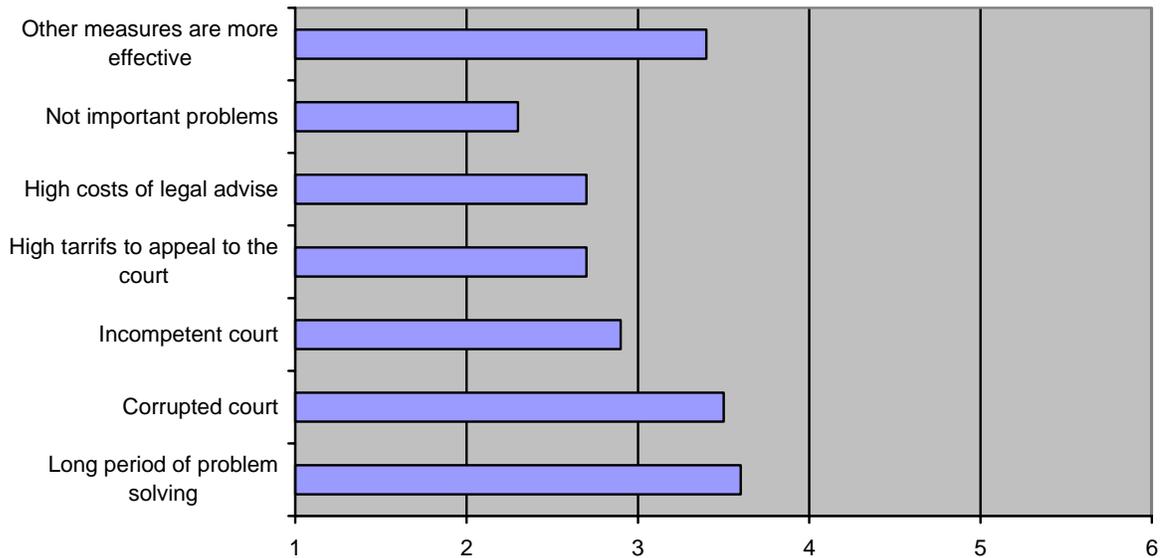
**13.3. Evaluation of the Court's services**

The most important reasons for not appealing to the Court remain the same as during the previous years: the long period of problem solving, the corruption and the presence of other measures to solve the problems (see Table 91 and Figure 34, where the problems are evaluated on a scale from 1 to 6: 1 – not important reason, 6 – important reason).

**Table 91. Reasons for not appealing to the court**

Reasons	Survey time	Importance		
		2002	2003	2004
Long period of problem solving		4.5	5.4	3.6
Corrupted court		4.6	4.4	3.5
Incompetent court		3.7	4.1	2.9
High tariffs to apply to the court		4.3	4.1	2.7
High costs of legal advise		4.5	3.8	2.7
Not important problems		3.4	3.6	2.3
Other measures are more effective		3.9	5.1	3.4

**Figure 34. Reasons for not appealing to the Court**



The reasons for not going to the Court does not depend on the company size (see Table 92).

**Table 92. Reasons for not appealing to the court, broken down by the company size**

Reasons	Company size	Importance		
		1-10	11-50	51-200
Long period of problem solving		3.0	3.9	3.8
Corrupted court		2.5	3.9	4.3
Incompetent court		2.8	2.9	3.3
High tariffs to apply to the court		2.1	3.2	2.6
High costs of legal advise		2.7	2.8	2.6
Not important problems		3.1	2.3	1.0
Other measures are more effective		2.6	3.5	4.5

The satisfaction level of those who appealed to the court didn't change during last years (see Table 93). The high level of responses variance does not allow to state that there are some differences among regions – only the data for Chisinau and Gagauzia could be considered consistent.

**Table 93. Satisfaction level of those who appealing to the Court, broken down by region**

Survey time Region	Satisfaction level			
	2002	2003	2004	
			average	standard error of estimation
Chisinau city	3.1	3.0	3.1	0.19
Balti	3.0	2.6	2.9	0.50
Chisinau	3.1	3.5	2.5	0.57
Cahul	3.4	3.2	2.5	0.45
Edinet	3.0	2.8	4.0	-
Lapusna	2.2	2.4	3.7	0.71
Orhei	2.8	2.9	3.8	0.39
Soroca	2.8	3.6	2.3	0.53
Taraclia	-	-	2.5	0.50
Tighina	-	4.0	3.8	0.80
Ungheni	2.8	2.6	2.6	0.62
Gagauzia	2.5	2.1	2.5	0.15
Total	2.9	3.0	3.1	0.12

### **13.4. Legal assistance**

About 74% of the respondents requested legal assistance to solve problems.

Many of small companies can not afford to use layers' assistance. Most of big companies engaged an internal lawyer who solved their problems (see Table 94).

**Table 94. Legal assistance by the company size**

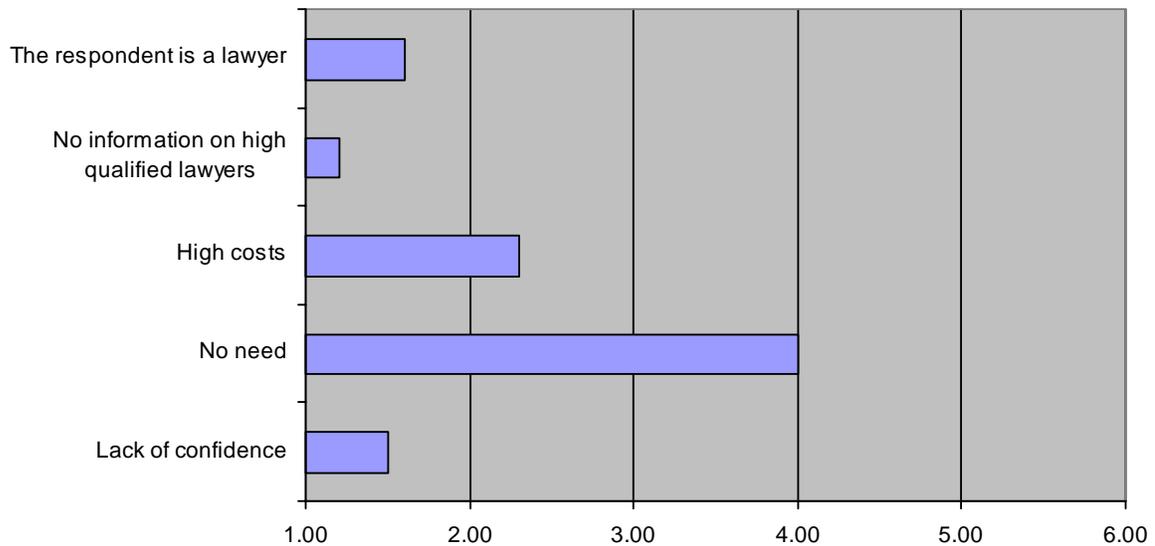
Assistance from	% of respondents that needed the legal assistance					
	1-10	11-50	51-200	201-500	> 500	Average
External legal experts	33	37	35	25	14	34
Internal lawyers	17	19	44	69	57	30
Part-time lawyers	6	16	9	6	-	10
Not appealed	44	27	12	-	29	26

The most important reason for not appealing to an external legal consultancy is the high cost of services (see Table 95, Table 96 and Figure 35, where the problems are evaluated on a scale from 1 to 6 points).

**Table 95. Reasons for not appealing for legal consultancy**

Reasons	Survey time	Importance		
		2002	2003	2004
Lack of confidence		2.1	2.6	1.5
High costs		4.6	4.6	2.3
No information on high qualified lawyers		2.5	2.5	1.2
The respondent is a lawyer		2.1	2.8	1.6

**Figure 35. Reasons for not appealing for legal consultancy**



**Table 96. Reasons for not appealing for legal consultancy, broken down by the company's size**

Reasons	Importance				
	1-10	11-50	51-200	201-500	> 500
Lack of confidence	1.9	1.3	1.3	1.0	1.0
High costs	2.6	2.2	2.3	2.0	2.0
No information on high qualified lawyers	1.4	1.2	1.0	1.0	1.0
The respondent is a lawyer	1.7	1.9	1.0	1.0	1.0

The satisfaction of companies that applied to the services provided by lawyers does not depend on company's size (see Table 97).

**Table 97. Satisfaction level of those who applied for legal consultancy, broken down by company's size**

Company size	Survey time	Satisfaction level		
		2002	2003	2004
1-10		3.3	3.7	4.2
11-50		4.6	4.2	4.0
51-200		4.3	4.0	4.2
201-500		4.1	4.0	3.9
> 500		3.8	3.0	3.4
Average		4.3	4.0	4.1

### **13.5. Analysis Summary**

During the last two years, about 29% of companies had to solve conflicts (with partners, clients or state entities).

When arriving to some conflicts with other economic agents, companies usually appeal to the court (86%), but only in a half of cases (53%) they are considering such efforts efficient. The effectiveness of unofficial methods to solve the litigations with economic agents decreased from 85% to 53%. As a result, the share of respondents that applied to such methods decreased from 55% to 44%.

When solving litigations with state agencies the most preferred method is the court (79% from total cases). However, the effectiveness of the Court in this case is lower (44%), and the use of unofficial methods increased during last year. The effectiveness of such methods when solving litigations with state bodies remains the highest – 56%.

The most important reasons for not appealing to the court are: the long period of problem solving, the corruption and the widespread awareness of other, more effective, measures to solve the problems.

About 74% of the respondents requested legal assistance to solve litigations and are relatively satisfied with them. The satisfaction level was 4.1 points from 6 available and remained at the same level as during previous years.

## CONCLUSIONS

The survey demonstrated that the private sector is subject to excessive state regulation. Some improvements are perceived by the respondents in registration procedures. However, such domains of state regulation, as constructions, import-export activities, tax administration and inspections became more complicated during last three years. The share of respondents paying unofficially was reduced almost in all fields. Nevertheless, the amount paid unofficially increased in many cases: licensing, import-export procedures, etc.

The analysis of the registration processes revealed that companies spent a little more time and money during 2001-2003. However, the perception of respondents is that some improvements have been done in the registration procedures.

The 2004 survey reveals that the situation regarding the Premises Construction State Regulation got worse. The time and resources spent to obtain permits for construction or reconstruction were not reduced. In addition, businesses have to go through costly and time-consuming procedures before they are actually able to use the constructed premises. These procedures are much more expensive than those from other fields of state regulation.

The comparison of the licensing procedures during last three years reveals that the average costs and time to get one license remained rather the same. The share of respondents paying unofficially was reduced, but in the same time increased the amount they pay.

The comparison of import-export procedures during last years shows that the time for customs clearing didn't change significantly. The amount spent for customs clearing increased, especially for export operations. Thus, an important number of respondents mentioned that export conditions became worse comparing to three years ago.

The comparison of product batch certification shows that the costs and time remained at the same level, as revealed by the 2002 survey. The percentage of respondents that made unofficial payments decreased continuously during last years. The same trend was noticed in the certification of production lines.

Tax administration procedures remained at the same level during last years. The too complicated tax administration procedures for small companies' force, even individual entrepreneurs, to maintain 1-2 accountants employed.

The survey demonstrated that enterprises are subject to constant inspections executed by many state control agencies, especially by the police, Department for corruption and organized crime combating, sanitary authorities and licensing bodies. As a result of data analysis, we can safely conclude that the function of inspection of state bodies is overemphasized.

The share of companies subject to pricing control increased constantly during last three years. At the same time the survey results demonstrate that percentage of the respondents affected by pricing controls are practically the same during the same period.

Companies lack qualified labor force. The problem became critical in 2004 year, when a quarter of all respondents mentioned it.

The survey results show that the average losses of polled companies from contract non-execution increased permanently during last three years.

**Table 98. Comparison of main indicators for Moldova**

Indicators	Survey time		
	2002	2003	2004
<b>Registration</b>			
Time, days	22.3	25.9	27.6
Costs, \$	152	155	151
Share of respondents that made unofficial payments, %	26	26	10
<b>Premises</b>			
Construction, days	141	171	170
Renovation, days	32	53	73
Re-profiling, days	47	71	66
Construction, \$	764	1,082	716
Renovation, \$	313	776	712
Re-profiling, \$	557	927	973
<b>Licenses</b>			
Number per average business	3.0	2.2	2.6
Time to get one license, days	29	22	32
Average costs, \$	522	456	517
% Paid unofficially	38	28	13
Amount paid unofficially, \$	62	154	375
<b>Import</b>			
Time spent on import certification, days	14.7	18.3	13.1
Amount spent on import certification, \$	208	195	148
Time for customs clearing, days	4.3	2.7	3.0
Amount spent for customs clearing, \$	-	400	552
<b>Export</b>			
Time spent for customs clearing, days	4.4	1.7	3.5
Amount spent for customs clearing, \$	78	104	223
VAT payback period, days	-	112	63
<b>Certification of equipment</b>			
Time spent to obtain a certificate of compliance, days	14	21	23
Average costs, \$	135	195	278
% paid unofficially	28.3	28.9	16.7
Amount paid unofficially, \$	33	48	120
<b>Certification of goods and services (batches)</b>			
Time spent to obtain a certificate, days	13	11	12
Total costs, \$	229	152	200
% made unofficial payments	31	28	23
Unofficial payments, \$	88	86	66
<b>Certification of goods and services (production line)</b>			
Time spent to obtain a certificate, days	19	15	20
Total costs, \$	255	347	198
% made unofficial payments	57	35	34
Unofficial payments, \$	130	74	39
<b>Hygienic permits</b>			
Had to obtain hygienic permits, %	59	59	64
Time spent to obtain a certificate, days	12	9	14
Official costs, \$	42	55	61
% made unofficial payments	32	27	19
Unofficial payments, \$	58	56	37
<b>Tax administration</b>			
Average number of taxes	10.0	8.6	8.5
Number of full-time accountants	2.3	2.5	2.1
<b>Inspections</b>			
Average number of inspections per business	16.6	19.5	18.1
Number of days per year business is inspected	93	48	27
Fines paid annually, \$	1,418	1,280	683
<b>Pricing control</b>			
Economic entities subject to pricing controls, %	19	28	31

Average percentage of prices regulated by state	19	16	17
<b>Contract execution</b>			
Respondents affected by the contract control, %	33	18	12
Average losses from contract non execution, \$	7,894	10,240	25,064
<b>Legal system</b>			
Effectiveness of the state bodies in solving problems with economic agents, %	20	10	11
Effectiveness of the court in solving problems with economic agents, %	43	40	53
Effectiveness of the unofficial methods in solving problems with economic agents, %	81	85	53
Effectiveness of the state bodies in solving problems with state agencies, %	30	10	16
Effectiveness of the court in solving problems with state agencies, %	43	41	44
Effectiveness of the unofficial methods in solving problems with state agencies, %	72	82	56
Satisfaction level of those who applied to the court, %	48	50	52
Satisfaction level of those who applied to the legal assistance, %	72	67	68