




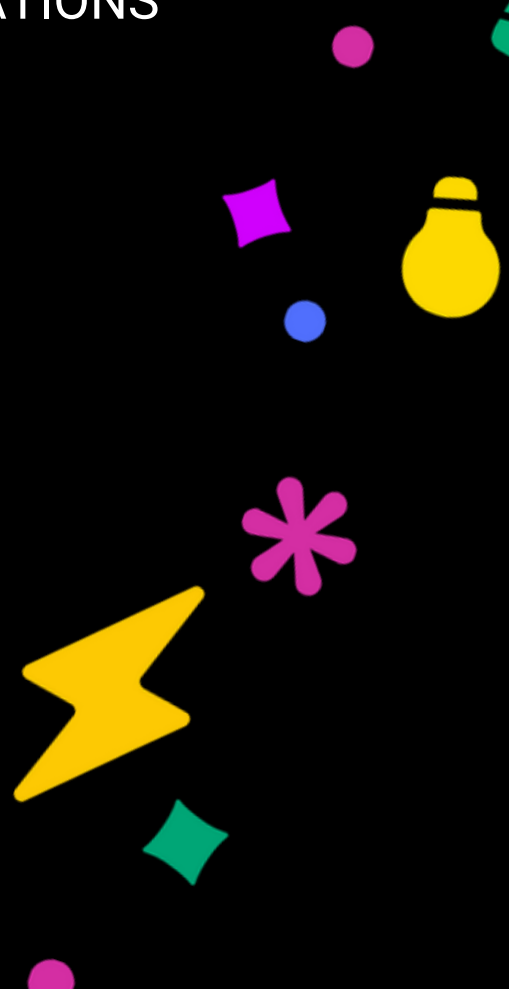
Cu susținerea  CIPE

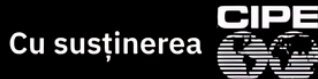
The text 'Cu susținerea' is in a white, sans-serif font. To its right is the CIPE logo, which consists of the letters 'CIPE' in a bold, white, sans-serif font above a stylized globe icon with horizontal lines.

WHITE BOOK OF SMEs

IN-DEPTH ANALYSIS

FINDINGS AND RECOMMENDATIONS





In-depth study of the SME sector in the Republic of Moldova and the recommendations to be implemented by the government to support the development of the SMEs.

The study is carried out by the Alliance of Small and Medium Enterprises from Moldova and financed by the Center for International Private Enterprise (CIPE)

Authors:

David Smith, AIM President, SME policy expert

Dumitru Vicol, economic and financial-banking policy expert

Mihai Malashevschi, legal and regulatory expert

White Book of SMEs

White Book of SMEs	1
Section 1. Introduction	2
Section 1.1 Methodological Approach	3
Section 2. Economic Context	7
Section 2.1. Moldova's SME Sector Profile	7
Section 2.2. Developments in SMEs sector in the Year 2023	10
Section 3. Enterprise Environment	10
Section 3.1. Human resources and Workforce development	10
Section 3.1 (a) Worsening labor situation	11
Section 3.1 (b) Grey labor force	15
Section 3.1 (c) Education of new specialists	15
Section 3.2. Access to finance and Costs	17
Section 3.2 (a) Overview	18
Section 3.2 (b) Debt market-based instruments:	18
Section 3.2 (b) Equity market-based instruments	20
Section 3.2 (c) Excessive interest rates	23
Section 3.3. Taxation policies and Regulatory Predictability	24
Section 3.3 (a) State of play and impact	24
Section 3.3 (b) Low previsibility and frequent change	27
Section 3.4. Regulation and compliance	33
Section 3.4 (a) Financial costs	34
Section 3.4 (a).7. Next Steps	42
Section 3.4 (b) Time costs	43
Section 3.4 (b).3. Next steps	48
Section 3.5. Bureaucracy	49
Section 4. Future policy design	57
Section 4.1 Structural / Strategic Recommendations	58
Section 4.2: Technical Recommendations	60
Section 4.2(a) Building a Dynamic SME Sector	60
Section 4.2(b) Workforce Productivity	63
Section 4.2(c) Elimination of Gaps, Illegalities and Gray Areas	63
Section 4.2(d) Access to Finance	64
Section 4.2(e) Taxation and Tax Policy	65

Acronyms

SMEs	Small and Medium Enterprises
AIM	Alliance of Small and Medium-sized Enterprises from Moldova
AIR	Regulatory Impact Analysis
ANOFM	National Employment Agency
FISC	State Fiscal Service
IDNO	Registration number of legal entities in Moldova
PIT	Personal income tax
IPO	Public offering of shares
CIT	Corporate income tax
ILO	International Labor Organization
GDP	Gross Domestic Product
ICT	Information and communication technology
EU	European Union

Section 1. Introduction

The sector of Small and Medium-sized Enterprises (SMEs) continues to have an essential role for the national economy. These enterprises account for 98.4% of the total number of enterprises in the economy and generate 37.6% of turnover obtained by enterprises. As a result, they account for about half (48%) of Gross Domestic Product. At the same time, about 30.1% of the bank loans are contracted by SMEs from the country, and if we take into account legal entities only, the share of SMEs reaches 46.8%.

In this White Book of SMEs AIM has conducted an in-depth study of aspects of the national economy, regulatory structure and decision making structure that most affect SMEs. Special attention is paid to so-called “elephants in the room” aka problems that are well known both inside and outside government but are rarely discussed or targeted by reforms. Issues of non-compliance and informality are measured via indirect methods in this report and the structural underpinnings of these and other challenges are explored in detail.

In non-scientific surveys of AIM’s member companies we can see that business owners are cautiously optimistic about the future. 71.4% of companies surveyed say that they agree or partially agree with the statement “2024 will be a good year for my business.” The same 71.4% agree or partially agree that the country is going in the right direction. At the same time zero percent of companies agreed fully with the idea that it is easy to find qualified workers at this time. And 57.2% of companies expressed dissatisfaction with the bank loan opportunities available to their companies. Further challenges can be seen in perceptions of the ease of interacting with state institutions and the stability and predictability of the regulator environment. This data, and the research presented in this report, paint a picture of both opportunity and challenge. AIM believes that with the right reforms it is possible to see major economic growth in the near future. Conversely, without bold reforms the country will continue to be an unattractive place to do business and optimism will fade.

Through this report AIM hopes to contribute to the national dialog around economic growth, reform and EU accession. In addition to a study of the various sectors covered in this report AIM presents a series of recommendations for Future Policy Design in Section 4. This section includes “technical” recommendations for specific reforms that will most positively affect SME development and economic growth. It also includes “structural / strategic” recommendations that will support an “all of government” effort at economic reform and growth. For this, each ministry must have a mandate to support economic growth and be accountable to the public for actions that they take in their areas of responsibility. AIM believes that creating the conditions for sustained, robust economic growth is critical to solving national problems, including migration, and to aiding in Moldova’s path to EU integration.

Section 1.1 Methodological Approach

Context

This document was created based on an analysis conducted by AIM in the first half of 2024. The monitored period included the most recent 2024 months and 2023, with certain earlier incidences incorporated as necessary. The primary objective of the document was to identify and document critical challenges in the Moldovan SME sector, as well as to bring attention to the challenges that have an impact on SMEs. This is essential to gain a comprehensive understanding of the factors affecting SMEs, which is crucial for informed decision-making and policy development.

The analysis is based on an exercise that included several analytical phases including but not limited to: a survey of 120 enterprises—micro, small, and medium—from the development regions of Moldova, with the indication of the branches of activity; document analysis; monitoring of the Parliament plenary session, meetings of the Government; monitoring and analysis of information on the official websites, etc.

An applicable evaluation methodology is developed for the purpose of this document. The results, findings, and recommendations presented in this document are based on the application of this methodology as described below.

Objectives of evaluation and monitoring

The overall objective of the Report is to identify and document critical challenges in the Moldovan SME sector, as well as to bring attention to the challenges that have an impact on SMEs.

The specific objectives of the White Book are:

Objective 1	Objective 2	Objective 3
1. Conduct a comprehensive analysis of the SME environment in Moldova aimed to identify and address critical challenges in the said sector.	2. Assess and understand the factors affecting SMEs in order to inform effective decision-making and policy development.	3. Develop recommendations and strategies and share such well-defined recommendations and strategies that address the identified challenges and foster SME growth with relevant stakeholders.

Applied methods and techniques

A complex methodological approach, including the application of various research methods and techniques, was proposed to achieve the objectives outlined in this document. The White Book involved a combination of qualitative and quantitative methods, which included *inter alia*: (i) international and national document analysis as well as comments / proposals and recommendations made in such papers; (ii) monitoring of the enacted legislation as well as Parliament and Government meetings and plenary sessions; (iii) monitoring of official websites and analyzing the information displayed; (iv) survey among AIM members.

(a) **Document analysis** was used to collect and systematize the information contained in the international and national documents mentioned below, in order to establish the consistency between the outlined findings and actual implementation of reforms as well as existing challenges.

The evaluator used the following documents/sources of information:

- (i) National Bureau of Statistics, National Bank of Moldova
- (ii) Eurostat, World Bank
- (iii) Mapping of financing instruments and practice for MSMEs in the Republic of Moldova, UNDP,
- (iv) International Monetary Fund Moldova Country reports¹
- (v) SME Policy Index: Eastern Partner Countries 2024²
- (vi) Promo-Lex reports on the transparency of the decision-making process in the Parliament of Moldova³
- (vii) Annual Report 2023 The Secretariat of the Economic Council to the Prime Minister⁴
- (viii) GRECO Moldova compliance report⁵

¹ <https://www.imf.org/en/Publications/CR/Issues/2023/12/19/Republic-of-Moldova-Staff-Report-for-2023-Article-IV-Consultation-Fourth-Reviews-Under-the-542616>

² https://www.oecd-ilibrary.org/development/sme-policy-index-eastern-partner-countries-2024_3197420e-en;jsessionid=w_qJ06ft5KtAuWUciWKgsfFDiRiLQR0ulLtc8QP.ip-10-240-5-23

³ <https://101.promolex.md/publicatii>

⁴ <https://consecon.gov.md/en/2024/03/27/annual-report-2023/>

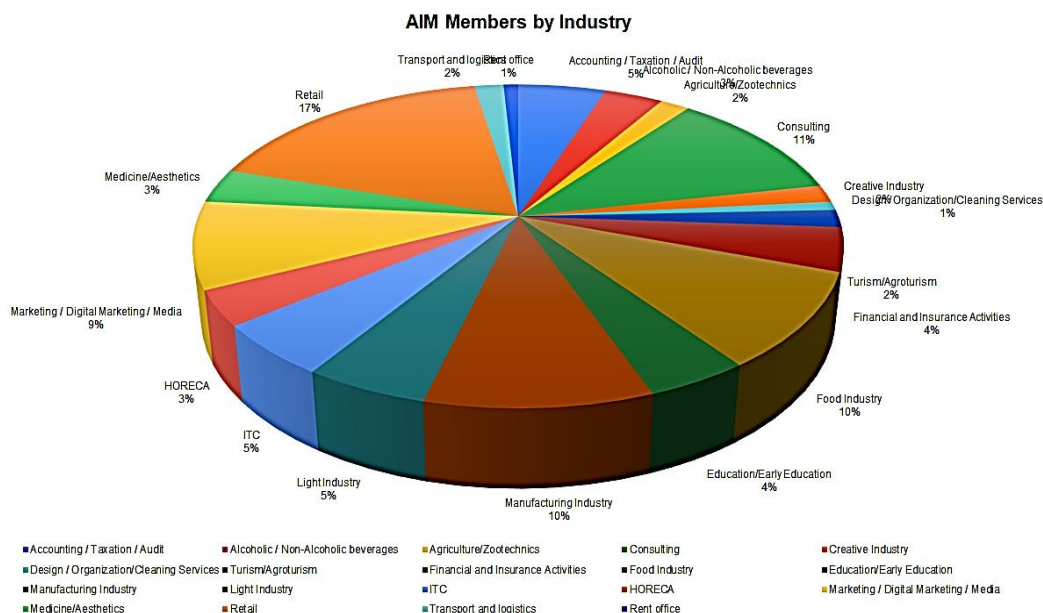
⁵ <https://rm.coe.int/fourth-evaluation-round-corruption-prevention-in-respect-of-members-of/1680ab41b9>

(ix) European Commission Republic of Moldova 2023 Report⁶

(b) **Monitoring the legislative and decision-making processes.** The Parliament plenary session, meetings of the Government, etc. where relevant legislation has been adopted or where it should have been approved were carried out by online tracking of the meetings held and by consulting the draft legislation that included initiatives related to the SMEs in the monitored period.

(c) **Monitoring and analysis of information on the official websites** of relevant national agencies and authorities such as the Parliament, the Government, and others such as the Ministry of Economy, the Ministry of Finance, the State Tax Service, etc. The digital version of the Official Gazette and Official legislative database⁷ were also analyzed in relation to the subjects concerned. These activities were carried out online.

(d) **Survey** was carried out among AIM member companies to ensure an accurate assessment of the problems and proper feedback on perception of issues is provided. Thus, three interviews were conducted with representatives of the 19 industries as follows:



Assessment process

The evaluation process of the initiatives and actions of AIM included in its Legislative Agenda consists of 5 stages, as follows:

Step 1	Step 2	Step 3	Step 4	Step 5
Documentation	Elaboration and consultation of the evaluation methodology	Data collection	Data processing	Elaboration of the White Book

(a) **Documentation** – analysis of the context and situation in the assessed area, of the specific actions included in the structure of the White Book, as well as of the applicable and related regulatory framework and/or economic facts.

(b) **Elaboration and consultation of the evaluation methodology:**

(i) Development of the conceptual and methodological framework of the evaluation.

(ii) Development of research tools.

(iii) Conducting the (online) methodology consultation meeting with the AIM team between June 14-18, 2024.

⁶ https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_698%20Moldova%20report.pdf

⁷ www.legis.md

- (c) **Data collection** – this stage involves organizing the data collection process through:
 - (i) monitoring the meetings of the Parliament, the Government, etc.
 - (ii) analysis of the official pages of international organizations and national authorities such as the Parliament, the Government, but also others such as the Ministry of Economy, the Ministry of Finance, the State Fiscal Service, etc.
 - (iii) Survey among AIM members.
- (d) **Data processing** – during this stage a few operations were carried out with reference to the verification of the data collected by analyzing the recordings and facts identified through the Data collection phase.
- (e) **Elaboration of the White Book** – analysis of data collected within the documentation process, preparation, and consultation of the White Book with the AIM team.

Section 2. Economic Context

When compared to similar economies within the EU and broader Western Balkans region, Moldova has serious deficiencies in both the numbers of SMEs operating and the productivity of those companies. The available data indirectly points to serious regulatory challenges inhibiting SME growth and development. Most critical are bureaucratic complexities and obstacles when opening and running a company and a lack of structures to bring unofficial companies and workers into the system.

Bottom Line Up Front:

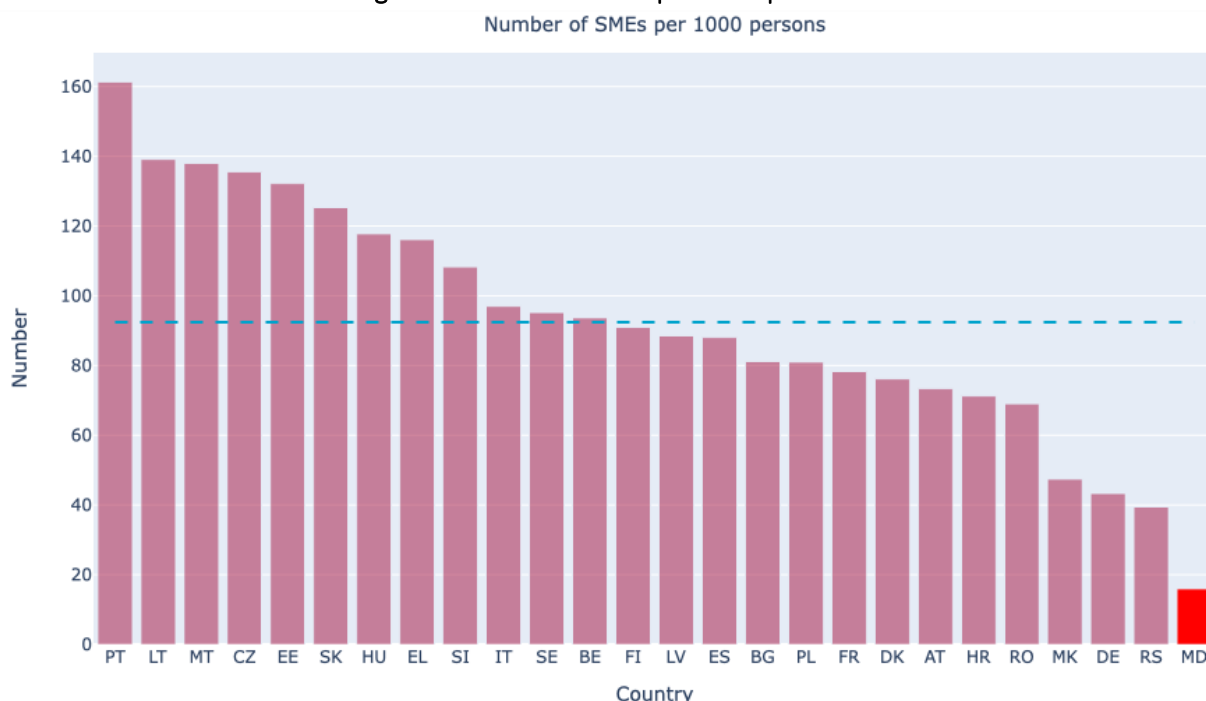
- Moldova has far fewer SMEs per capita than the EU norm.
- Moldovan SMEs employ more people on average than the EU or neighborhood / near-peer norms.
- The larger size and smaller number collectively imply more cumbersome regulations, more challenges running an SME in Moldova and consequently more informal SMEs.
- SME revenues per employee are much lower than near-peers in the EU (Moldova 24,900 EUR vs Estonia 138,000 EUR and Slovenia 129,000 EUR). Moldova's numbers compare more readily to Balkan nations with high levels of informal work (Albania and North Macedonia).
- Productivity numbers are skewed by informal work. Moldova's construction industry rivals Belgium in revenue per employee and the services sector leads the region.

Section 2.1. Moldova's SME Sector Profile

Moldova needs more SMEs. In 2021, Moldova had 41423 SMEs in market sectors⁸, translating into 15.9 enterprises per 1000 person ratio (Figure 1). This is the smallest ratio among EU countries and Moldova's peers on the European continent. Serbia's ratio was 39.4, with Portugal and Lithuania at the other end, registering 161 and 139 SMEs per 1000 persons, respectively. In the first instance, this suggests that entrepreneurship activity in Moldova is still limited.

⁸ All economic sectors except agriculture, energy production, water, education and health care

Figure 1 Number of SMEs per 1000 persons



Source: Eurostat, NBS

Moldovan SMEs are usually larger than in other European countries. However, the average number of employees in Moldova’s industry is 10 (Figure 2), which is not far from the top of the range for European peers, with 11 in Bulgaria and 10 in Estonia, while Montenegro has the lowest number. Interestingly, the average SME entity in construction in Moldova has about 7 employees, which is higher than both EU and EU peer countries' maximum of 5 and 6 in Austria and Albania, respectively. In services, an average SME employs 4 persons, at the top of the EU peers range in line with Serbia. Although the number of SME entities per 1000 people in Moldova is low, those entities are usually bigger than on the European continent. This probably suggests that running small enterprises in Moldova is more cumbersome than in Europe.

Revenues per employee in Moldovan SMEs are low. Moldova’s Industry absorbs 20% of the total employees of SMEs engaged in the market sectors. Only Bosnia and Herzegovina has a more significant figure among EU countries and peers, while Czechia and Serbia follow closely. At the same time, the share of employees in the construction sector is 10.1%, which is relatively low compared to Romania, Hungary, and Estonia, which register above 15%. Similarly, the services sector provides jobs for 70% of SME employees in Moldova, similar to Romania and slightly higher than Estonia. At the same time, the SMEs in the industry sector generated EUR 24.9 thousand in 2021, which is marginally higher than Albania but far from the top range of EU peers like Estonia and Slovenia, which are generating EUR 138 thousand and EUR 129 thousand, respectively. Similarly, the SMEs in the construction sector produce EUR 32 thousand per year, just below North Macedonia and Albania. SMEs in service sectors are generating EUR 41.9 thousand EUR, more than 30 thousand EUR in Albania and 38 thousand EUR in North Macedonia.

The value added in construction is unusually high. The value added per employee, i.e. productivity, of the industry sector in Moldova was 14.9 thousand EUR was in 2021, which is higher than Albania (8 thousand EUR), Serbia (12.8 thousand EUR) and Bulgaria (12.9 thousand EUR), but far from Montenegro with 32.9 thousand EUR or Estonia with 34.2 thousand EUR. At the same time, the value added per employee of SMEs in the Moldovan construction sector is 34.3 thousand EUR, which is significantly above the top of the EU peers range as Montenegro registered only 26.1 thousand EUR. This is also above the EU average and is in

line with Belgium with 35.4 thousand EUR. The services sector generated a value-added per employee of EUR 20.1 thousand in Moldova, four times higher than Albania and more than Romania with 13.5 thousand EUR.

Figure 2 SMEs parameters across EU⁹ and EU peers¹⁰



Source: Eurostat, NBS

The low productivity is a structural issue. The above observations suggest that the number of employees in construction is significantly underreported, which probably distorts the perception of the sector’s productivity. Also, the fact that a significant chunk of total employees are in the industry while both turnover and value added per employee are low reflects the sector’s structural low productivity. Agriculture is also a crucial sector where small and individual enterprises dominate. For example, agricultural production was MDL 43.8bn in 2021, while the individual sector comprised MDL 23.1bn. Also, agriculture employs 179.3 thousand people, but only 35 thousand are employees. Therefore, The main disadvantages of this concentration level by individual enterprises and informal employment are that the level of investments, technology, integration into the value chain, and employment remains limited.

Section 2.2. Developments in SMEs sector in the Year 2023

The labor market had an unusual phenomenon in 2023. The official number of unemployed registered with the National Employment Agency (ANOFM) was 8.9 thousand people at the beginning of 2024, compared to 21.2 thousand at the beginning of 2023. At the same time, the estimated number of unemployed, according to the International Labor Office (ILO), increased from 41.2 thousand on January 1, 2023, to 45 thousand at the beginning of 2024. Consequently, more and more unemployed people decide not to register officially. Additionally, some are unemployed for an indefinite period, suggesting that they are earning illegal income or are part of the circular migration. These factors put even more pressure on employers to source employees from the National Employment Agency.

⁹ All European continent countries except Luxembourg, Malta, Netherlands, Ireland, Norway and Iceland

¹⁰ Albania, Bosnia and Herzegovia, Bulgaria, Estonia, Croatia, Hungary, Lithuania, Letonia, North Macedonia, Montenegro, Romania, Serbia and Slovenia

Section 3. Enterprise Environment

Section 3.1. Human resources and Workforce development

Bottom Line Up Front:

- Moldova has faced structural labor shortages over the last decade which are becoming more acute.
- The most critical labor shortages are happening in sectors seeing rapid change due to the war (e.i. transportation). But labor shortages in all sectors that do not have high rates of informality (i.e. construction) have persisted for some time.
- The labor situation has continued deteriorating even as wages have risen closer to the average worker's expectation of fair compensation (wages were 60.5% of the amount desired / expected by workers in February 2024 as compared to 49% in 2020) .
- Data on Moldovan worker productivity paints a complex picture when compared to peers. In some sectors informality drives misleading numbers (construction, agriculture). In other sectors, legal incentives encouraging offshoring misleadingly present Moldovan workers as unproductive (ICT).
- Moldova's workforce faces serious demographic challenges. The number of workers in the 35-54 year old range is double that of those in the 15-34 year old range.
- Migration continues to drain the labor force. Of citizens aged 19-23 40% are residing outside of Moldova. With accelerating migration and increasing job vacancies Moldova has space to accommodate at least 10-15 thousand immigrants. Increasing numbers of foreign students also provide an opportunity for part time workers.
- The informal economy continues to make up around a quarter of Moldovan workers with the highest informality existing in agriculture (52.7%) and construction (14.4%).
- Higher education output of skilled specialists is projected to keep pace with industry growth, but high levels of vacancies persist implying that wage offerings are not keeping pace with the expectations of the skilled workforce.

Section 3.1 (a) Worsening labor situation

The most critical labor shortages are in manufacturing and transportation. Vacancy rate as a share of total jobs is a decent proxy for labor shortage. Figure 3 shows this indicator for Moldova and the EU countries and peers: i) the red box shows the 2nd and 3rd quartile of peer countries (the 25% value from the average); ii) the red points in extremes show the lowest and maximum values for peer countries; iii) the blue dot points show the minimum and maximum values for EU and peer countries without countries; iv) yellow point is the value for Moldova. The most significant labor shortages are in manufacturing, transportation, financial, real estate and professional activities. For all these sectors, the vacancy rate as a share of total jobs is above the ones in peer countries. However, these are still below the levels in countries like Sweden, Austria, Belgium and Czechia. Interestingly, the vacancy ratio in the construction sector is relatively low. Nonetheless, this ratio might be distorted by the significant proportion of the gray economy in the construction sector. The transportation sector has seen a substantial recovery after 2020. In 2022, exports of transport services amounted to USD 480 million, compared to USD 250 million in 2020. This is mainly thanks to the transportation of Ukrainian products. Therefore, this might explain the recent labor shortage in transportation.

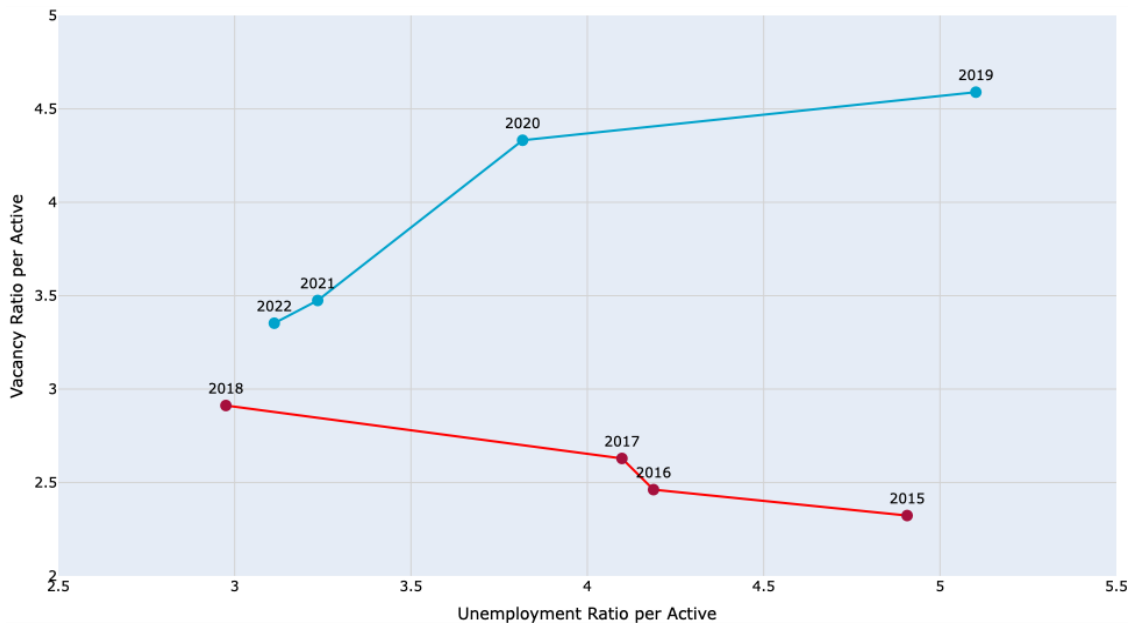
Figure 3 Vacancy rate as a share of total jobs



Source: Eurostat, NBS

The labor shortage has persisted for a long time. The dynamics of the unemployment and vacancy ratios relative to the number of active population (employed and unemployed) in the past decade suggest that there is a structural issue where the vacancy ratio remains high (Figure 4). This signals that the current labor market cannot fill the necessary vacancies. This can be related to a combination of mismatched skills, low wages, and reluctance to participate in the labor market. However, the current salary has been raised to the level that covers a decent chunk of expectation. According to the CBS-ASA survey in February 2024, 70% of respondents indicated that the desired salary should be between 10,000 and 20,000 lei per month, with a median of around 17,500 lei, compared to the average net salary of 10,600, i.e. 60.5% of desired salaries. Although the gap is still significant, it has diminished in the past few years (13.450 lei median vs 6617 actual average wages in 2020, i.e. 49% of desired salaries). Also, according to the same survey, 60.8% of respondents in the 18-29 age group mentioned that they would consider migrating temporarily, which will likely add additional pressure on the labor market and salary level.

Figure 4 Vacancy rate as a share of total jobs



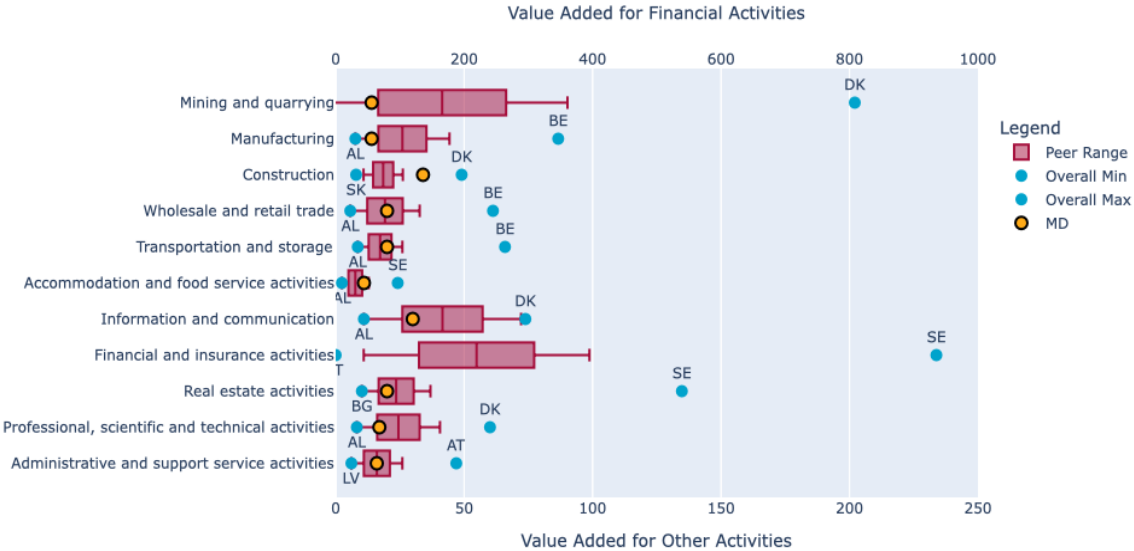
Source: Eurostat, NBS

The vacancy ratio in the ICT sector is slightly lower than the average of EU peers. The number of employees in BPO and IT exploded to 42 thousand in 2023 compared to 27 thousand in 2015. However, there are increasing signs that companies struggle to find employees despite relatively high wages. The average salary in IT is expected to be 2141 EUR in 2024 compared to EUR 577 for the economy after taxes (13,700 lei brutto); therefore, the ratio is expected to be around 3.7, compared to 2.1 in 2013.

The labor shortage has also pushed the minimum wage higher. In 2023, the minimum wage was EUR 205 compared to EUR 298 in Albania, EUR 399 in Bulgaria and EUR 606 in Romania. Government efforts are likely to concentrate on catching up with the minimum wage, at least at the Bulgarian level.

The low value added per employee in Moldova’s SMEs is a structural issue. Moldova’s value added per employee per sector is consistently above the minimum value per peer countries, as Albania’s productivity per sector is mostly lower (Figure 5). However, considering the significant share of unofficial work in Albania, 37%, according to the European Training Foundation¹¹, the productivity gap between Moldovan and Albanian economies might be smaller. At the same time, the value added in construction is unusually high in Moldova, but this might be related to the underreported labor force. Moldova is less productive in mining, manufacturing, and professional services than its peers. Nonetheless, the economy’s productivity is similar to the average of its peers in trade and administrative services. The economy has higher productivity in construction, transportation, and accommodation services than its peers. Although ITC is an important economic driver of Moldova, its productivity is far from the average for peers¹². Looking at agriculture, the sector employs 179.3 thousand people, but only 35 thousand are employees. The main issue is that the level of education is relatively low. However, the need for more qualified people will increase once productivity increases based on technology.

Figure 5 Value added for economic activities



Source: Eurostat, NBS

¹¹ https://www.etf.europa.eu/sites/default/files/document/CFI_Albania_2021.pdf

¹² **Note:** Moldova’s IT Parks law, combined with nascent e-commerce structures and regulations, strongly incentivizes companies to offshore income and onshore expenses. Local IT companies only have “income” from their parent companies sufficient to pay salaries, rent and office expenses. Therefore productivity comparisons are not a reflection of Moldovan workers but of the incentives created by the legal structure.

The structure of employed people by age group also weighs on productivity. According to the NBS data, at the end of 2023, the employed population aged between 35 and 54 was 461.1 thousand (95.5% of the active population or 66.2% of the total population), while the employed population aged 15-34 numbered only 226.7 thousand people (93.4% of active population or 40.6% of total population). The low employment of young people results from multiple factors such as: reluctance of students to do internships and that employers are prioritizing potential candidates with more experience. Considering that more and more people are reaching early retirement age, employers will face an even more acute labor shortage. Although these people have knowledge, their work potential and productivity are declining despite higher salaries. Therefore, their labor productivity is diminishing.

Foreign migrants could fill up the current vacancies. The migration in Moldova has had three phases. The first one was in 2000-05 when people emigrated due to poverty, the second one was in 2015-18 when migration was motivated by a better life. Now, the migration is focused on young people. Out of 187 thousand young people in the 19-23 age group, almost 40% reside abroad, according to a note from IDIS Viitorul. Therefore, it is difficult to fill up the 30 thousand vacancies, according to official statistics. Consequently, the economy could easily absorb 10-15 thousand immigrants for a few years. In addition, in the 2022-23 academic year, there were about 5000 international students. Considering the war in Ukraine, this can be an excellent opportunity to offer a more attractive educational offer to Ukrainian students and then integrate them.

Section 3.1 (b) Grey labor force

The informal economy comprises about a quarter of the economy. In 2023, the share of people employed in the market economy, excluding public administration and education, who had an informal job was 29.7% (203.1 thousand out of 683.4 thousand). In the non-agricultural and public sectors, informal employment constituted 16%, with construction being the most affected. The construction sector employs 63.3 thousand, but only 21.4 thousand are officially employed. The undeclared work is another structural issue, as it constituted 5.7% in the fourth quarter of 2023 compared to 6.6% in the fourth quarter of 2022. Employment without completing individual employment contracts (based on verbal agreements) is more frequent among men (7.7%) compared to women (3.9%).

Section 3.1 (c) Education of new specialists

The young people are more focused on college-level education. The number of young people within the 18-23 age group has decreased from 254.5 thousand in 2015 to 146.3 thousand in 2022. However, the share of the young people studying at the universities in Moldova has increased to 45.7% in 2022 from 35.8% in 2015. t The 9.9pp increase is distributed as follows: 2.6pp universities, 3.8pp colleges, 0.4pp professional schools and 2.7pp lyceums. Therefore, the increasing interest in colleges is a healthy phenomenon that should align better with the educational supply and demand.

The current state of the manufacturing industry has enough specialists. Considering dampened productivity in sectors such as manufacturing and ICT, specialists will be increasingly needed. The data of the medium-term labor market forecast (2024-2026) show that between 2023 and 2026 (Table 1), the number of employees in the manufacturing industry in the Republic of Moldova is expected to increase by about 8%, or about 8900 people, of which 860 specialists and technicians, 630 administrative staff and officials, 3860 skilled workers and 3460 other occupations and unskilled workers. Therefore, the manufacturing industry can rely on the current labor market conditions. However, the high level of vacancy points towards a structural mismatch of skills and salary expectations.

Table 1 Number of employees in the manufacturing industry according to the Medium-term Labor Market Forecast (2024-2026)

	Total	Specialists and technicians	Staff and administrative officers	Commercial staff	Skilled and assimilated workers	Other occupations	Unskilled workers
2023	113626	11001	8095	1140	49230	33141	11019
2026	122531	11863	8730	1229	53089	35738	11882

Source: Medium-term labor market forecast (2024-2026), PNAIPE 2024-28

The number of engineers is relatively sufficient for the current state of economic complexity. However, in order to boost productivity in the manufacturing industry, focusing on products with higher complexity, it is necessary to significantly increase the number of highly qualified staff with technical specializations in the manufacturing industry. According to data from the National Social Insurance House, in May 2023, 14916 people were employed in the Republic of Moldova in the positions of engineer and 5918 people in positions of technicians (Table 2). Thus, there is a relatively sufficient number of skilled employees needed to bolster the potential of the manufacturing industry. However, the low salary and productivity of manufacturing are what keep the vacancy and labor shortages so high. Nonetheless, the agricultural sector will remain under pressure from a human resources perspective. In 2022, only 913 students were at the educational branches related to agriculture compared to 2492 back in 2005. The biggest problem is that the requalification interest from people in agriculture is quite low. However, this is because 65% of agriculture workers unofficially.

Table 2 Number of engineers and technicians employed by sector of activity, May 2023

	Engineers	Technicians
Manufacturing	1887	1084
Production and supply of electricity and heat, gas, hot water	978	258
Construction	1287	234
Wholesale and retail trade; Car maintenance and repair. and moto.	1168	576
Transport and storage	592	304
Information and communications	3885	922
Professional, scientific and technical activities	1249	263
Total	14916	5918

Source: CNAS, PNAIPE 2024-28

Section 3.2. Access to finance and Costs

Bottom Line up Front:

- Debt financing for SMEs is dominated by bank lending but loan structures do not accommodate micro-enterprises which are serviced primarily by shorter term non-bank loans unsuitable to long term investments.
- Informal borrowing in the form of late supplier debt is hard to quantify but endemic due to a lack of working capital loans for SMEs. This type of B2B debt slows financial flows in the economy and results in wasted time as many companies are both debtors and lenders who must collect and repay in their own value chains.
- Structural and trust issues have resulted in a non-existent corporate bond market in lei.

- Moldova has few venture funds or business angels providing equity financing, and fewer still aimed at financing startups and early growth phase companies.
- Share concentration as well as other structural factors create an unattractive environment in the Moldovan Stock Exchange and discourage new IPOs. In practice the local equity market is non-functional.
- Legislative gaps preventing people from digitally signing investment documents without their physical presence prevents online equity crowdfunding from functioning.
- In a time of growing excess liquidity in bank's SME loan portfolios remain significantly lower than peer countries standing at 7.9% of GDP in Moldova compared to 13.85% in Serbia, 14.88% in North Macedonia and 20% in Georgia. Moldova is projected to have an SME finance gap of around 5% of GDP or \$580 million USD.

Section 3.2 (a) Overview

Moldovan SMEs have access to a relatively limited spectrum of financing instruments. The banking loans are the most important financing for SMEs in Moldova. However, the banking sector has not succeeded in satisfying the demand from SMEs for more flexible financing instruments. Since 85% of Moldova's total firms are micro, in recent years, non-banking financial institutions such as microfinance, savings and credit associations and leasing companies have seen an accelerated development phase. As of the first quarter of 2024, the loans offered by microfinance institutions were 13.7bn compared to 66.9bn offered by the banking system. However, the loans from microfinance institutions might have short maturity that does not suit the potential investments over long terms of SMEs.

According to a recent UNDP study¹³, the financing mechanism available in Moldova can be grouped into debt or equity instruments.

Section 3.2 (b) Debt market-based instruments:

Loans from business partners

SMEs usually rely on their own resources and might absorb loans from business partners. However, over 86% of MSMEs are micro-enterprises, so the number of business partners is limited, making such loans hard to come by. Additionally, individual loans are generally short-term terms being unsuitable for SMEs needing long-term investments.

Critically, much of the B2B lending occurring happens in the form of overdue supplier debt. Companies making B2B purchases often operate with 7-day or 15-day payment terms. Exceeding this contractual deadline could result in financial penalties, but is often overlooked or flexibility is given in order to preserve working relationships. This situation results in a deceleration of financial flows between SMEs as various links in a payment chain wait on the one delinquent partner. It also consumes time, which is spent trying to coax payments from debtors.

Asset-based finance

Loans for working capital

Working capital loans are usually offered to MSMEs and start-ups up to 50-70% of annual sales revenues (maximum MDL 500ths for start-ups or MDL 10mln for other entities). The maturity of these loans is up to 24-36 months, contingent on the availability of collateral, while the grace period oscillates from 0 to 120 days.

¹³ Mapping of financing instruments and practice for MSMEs in the Republic of Moldova, UNDP, 2022

Overdraft arrangements have become more popular in the past few years. The limit is usually around 50% of monthly sales revenues for the preceding 12 months up to MDL 1.5mln without collateral or MDL 2.5mln with collateral. The maturity of overdraft loans could be up to 18 months. The banks usually ask that 70% of sales revenues for the preceding six months come through the bank. However, these loans are usually dedicated to entities in commerce and services.

Loans for investment purposes

Investment loans are usually up to 84 months and up to 90% of the investment project, with a 12-month grace period. If the entrepreneur is a woman and an SME, these loans can be guaranteed up to 70% from ODA.

Leasing

Vehicle leasing dominates the market, representing only around 8% of equipment leasing. This form of financing costs more than bank lending, but fewer guarantees are required from the borrower. The leasing arrangement might be up to 60 and 49 months for new and used equipment, respectively. If the object of the leasing contract is a unique or large-scale good, the leasing arrangements may take a long time and require considerable effort.

Agricultural loans

The loans dedicated to the agricultural sector have a maturity of up to 60 months, aiming to finance the expenses for carrying out the activity in agriculture. The banks are offering the needed amount instantaneously on the card, requiring only the identity card and/or entity registration documents without the need to offer collateral. Additionally, the loans financing agricultural machines are popular as well, where the machine remains as collateral. However, the banks cannot finance more than 80% meaning that 20% should be the contribution from the entrepreneur. The maturity might be up to 60 months with an 8-month grace period.

Corporate bonds

The capital market is heavily underdeveloped, with limited financial instruments available. Consequently, the non-existent trading on the regulated market of municipal or corporate bonds and the illiquidity of government bonds are preventing potential enterprises from contemplating placing bonds to finance their long-term investments, for example. The market for corporate bonds denominated in local currency is essentially non-existent. At the same time, the prohibition on issuing corporate bonds in foreign currency on local markets is deterring the enthusiasm of potential issuers. Therefore, corporates can access loans in foreign currency from international financial institutions, but they cannot issue foreign-denominated bonds. These limitations are also unfavorable to foreign investors and the Moldovan diaspora, who still do not trust the local currency's stability without a liquid secondary market.

Alternative debt

Access to finance for start-ups and innovation projects can be more difficult, as their risk profile and their capital structure require different financing approaches compared to funding for traditional MSMEs. Investors treat small, innovative, young firms differently from others, due to their elevated risk profile and the high share of intangible assets. Therefore, there is an increasing need for private partners, such as venture funds or business angels, willing to support innovative MSMEs. However, the few investment funds and business angels interested in investing in Moldova prefer equity financing, targeting well-established companies that could generate investment projects with attractive rates of return.

Crowdlending

Figura is the only crowdfunding platform that designed a marketplace for loans. At the moment, investors are offering consumer loan financing expenditures such as holidays, home repairs or even refinancing other more expensive loans. The interest rate oscillated between 15% and 30% for loans up to EUR 5000 and maturity up to 5 years. The attractiveness of returns for investors and smoother access to finance for private persons is paving the way for the integration of SMEs in the current crowdfunding ecosystem. Consequently, Figura has recently started intermediating SME loans.

Section 3.2 (b) Equity market-based instruments

Issuing shares/IPO

A small number of shareholders usually holds the majority stakes in large companies. Therefore, the potential minority equity stakes in enterprises admitted to the Moldova Stock Exchange are not attractive to investors, which leads to a limited number of transactions due to the lack of offers of shares. However, the recent efforts for closer collaboration between the Moldova Stock Exchange and the Bucharest Stock Exchange should fuel some dynamism in the future. Based on this integration, in the future, some SMEs might do IPOs on AeRO segment dedicated to SMEs on the Bucharest Stock Exchange.

Private Equity and business angels

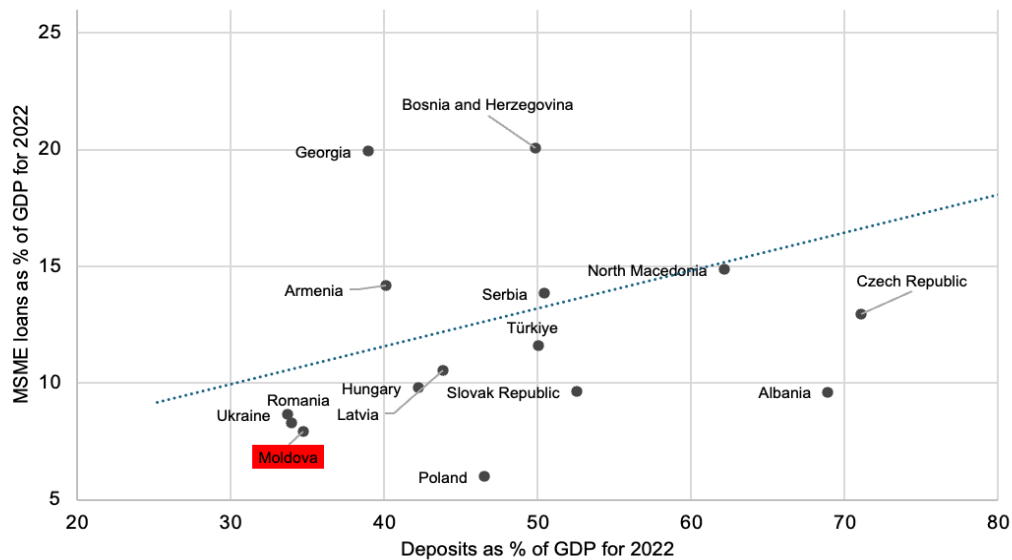
There are only a handful of private equity funds active in Moldova. However, they are revealing the lack of interest in SMEs. Therefore, business angels might cover this gap. Business Angels Moldova (BAM) is a group of experienced business people and top managers ready to invest in startups at their early stages of development. They can offer investments up to USD 25 thousand per business and mentorship from leading professionals. However, business angels, including their networks, usually focus on high-growth/high-potential firms in high-tech areas such as ICT, biotech, clean tech and health-related technologies. Also, considering the limited supply of investment projects with a high rate of return, the business angels or venture funds environment has limited upside in Moldova.

Equity Crowdfunding/IPO

The major challenge lies in regulation. The law on crowdfunding should establish the appropriate framework for investor protection, transparency and information disclosure. However, the registration of change in the ownership of the limited company is cumbersome in Moldova at the moment, requiring the investor's physical presence at some point. Nonetheless, the new government has a solid focus on digitalisation, and the full digitalisation of the ownership change process is likely to be delivered in the near future. Therefore, SMEs could eventually rely on equity crowdfunding attracting investors from all over the world, especially the diaspora.

SMEs' access to finance has been a structural issue for a long time. Outstanding SME loans from commercial banks were 7.9% of GDP in 2022. This is the second lowest value among 16 regional economies and is significantly inferior compared to Serbia and North Macedonia, for example, where the outstanding SME loans were 13.85% and 14.88%, respectively (Figure 6). At the same time, the deposits as % of GDP in Moldova were around 34.73% in 2022, again one of the lowest ratios in the region. Also, the excessive liquidity was around 1.6% of GDP at the end of 2022, which has recently risen to about 4% of GDP. The depressed levels of SME loans in the context of excessive liquidity reveal the limited capacity of the Moldovan banking system to support economic development compared with other countries in the region.

Figure 6 SME loans as % of GDP vs deposits



Source: Eurostat, NBS

The SME finance gap might be around 5% of GDP. The SME finance gap, the difference between current supply and potential demand, is a decent proxy for the restrictions of access to finance. The SME Finance Forum estimated the SME finance gap of Moldova¹⁴ in 2017 at USD 894 mn or 13.5% of GDP. According to a macro-econometric model designed by one of the authors for a UNDP study,¹⁵ the financial gap is oscillating around 4.9% of GDP or USD 580 mn, considering the actual SME loans as % of GDP were 5.5% in 2019 (estimation for 2020 was ignored due to pandemic distortion of data).

Loans are too concentrated on agriculture. Looking at the loans across economic sectors in the region, the loans to agriculture as a share of GDP in Moldova are one of the highest levels in the region. Similarly, the ratio of loans to trade sector to GDP in Moldova is also higher than the regional average suggesting that agriculture and trade sectors are relatively more indebted than similar countries in the region. At the same time, the industry, services, transport and communications sectors absorbed less loans relative to the GDP compared to other countries in the region. This implies that increasing efforts to extend loans to those sectors can fill the SME finance gap.

Section 3.2 (c) Excessive interest rates

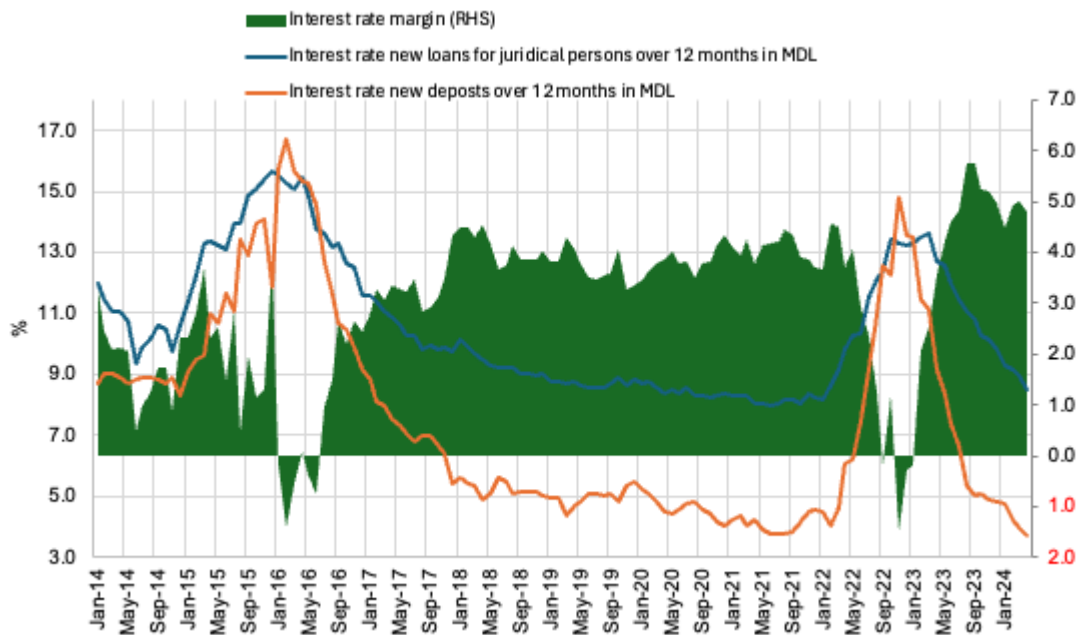
The high-interest rate for loans has been constantly raised as a significant obstacle to accessing more loans. Figure 7 shows the interest rate margin between new loans for juridical persons over 12 months in MDL and new deposits for the overall banking system over 12 months. It can be clearly seen that the recent relation in monetary policy has led to a significant drop in deposit rates. Still, the slope of decline in rates for juridical persons was not that abrupt, leading to a higher interest rate margin. This points out that the banking system considers the current business environment requires higher risk premia for lending to juridical persons. However, the recent 373 government program should have alleviated the high-interest

¹⁴ MSME Finance GAP - Assessment of the shortfalls and opportunities in financing micro, small and medium enterprises in emerging markets, SME Finance Forum, 2017

¹⁵ Mapping of financing instruments and practice for MSMEs in the Republic of Moldova, UNDP, 2022

rate for loans. Nonetheless, entrepreneurs are still reluctant to engage in long-term investments amid a volatile geopolitical environment. Hence, additional financial products, such as investment guarantees, are needed.

Figure 7 Interest rate margin



Source: NBM

Section 3.3. Taxation policies and Regulatory Predictability

Bottom line Up Front:

- On paper Moldova has a modern, competitive tax structure when compared to regional and EU countries. In reality non-compliance, including structural gaps and incentives against compliance, contribute to a system that does not reflect the simple comparisons often made.
- Income and payroll taxes, including social contributions, only compare favorably with other nations when top-income brackets are used. Moldova's flat tax system is not so competitive when compared against lower income brackets in other nations.
- Volatility and lack of transparency / public consultations in the passage of fiscal policy results in an uncertain and unpredictable business environment. In 2023 the Fiscal Code saw an average of 2 amendments per month as compared to the labor code which saw an average of one amendment per month.
- The high frequencies of legal and regulatory changes and use of dense, technical language, makes the process of understanding and forecasting change in the business environment very challenging for SMEs.

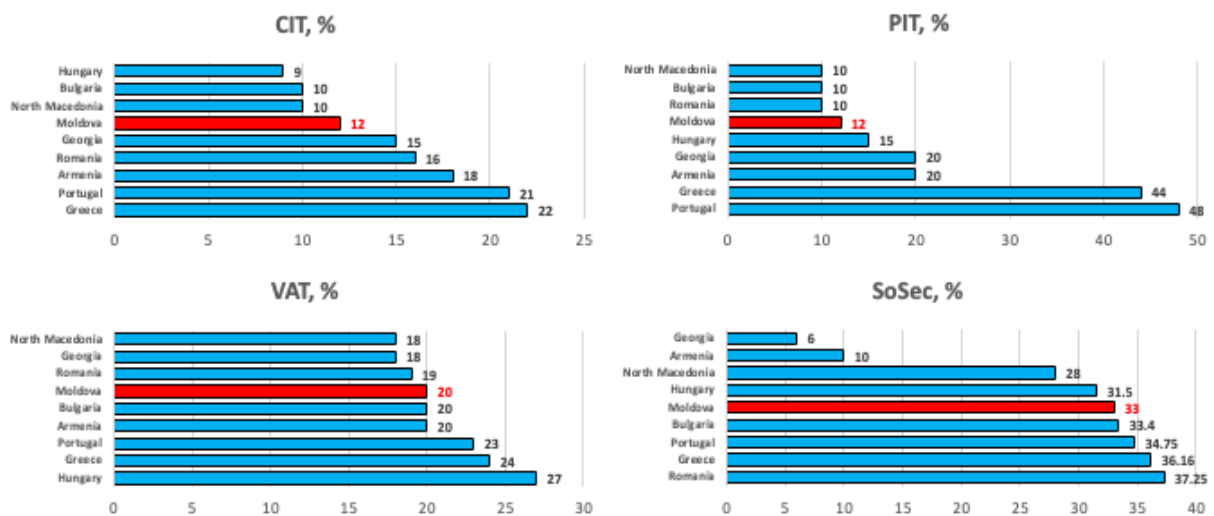
Section 3.3 (a) State of play and impact

Moldova has an attractive taxation environment. The current level of corporate income tax (CIT) is 12%, which is relatively attractive to many countries in the region. However, some countries like Romania have reduced CIT for SMEs where the tax is 1% of total sales for revenues below EUR 1 million. At the same time, Portugal has a tax rate of at least 21%, which can be increased between 24% to 29% depending on the level of profit. The personal income tax (PIT) is flat at 12% in Moldova, which is slightly higher than 10% in North Macedonia, Bulgaria and Romania. However, this is more attractive than: i) 15% in Hungary and Georgia,

ii) Armenia at 20%, iii) Greece that taxes income up to EUR 10000 with 9% and then gradually rises up to 44%, iv) Portugal that applies 13.25% for income up to EUR 7703 and then gradually rises up to 48%. For comparison, EU countries with progressive tax rates are: Austria, Belgium, Croatia, Czechia, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain and Sweden. At the same time, the countries with flat rates are: Bulgaria, Estonia, Hungary and Romania.

Social security tax is 33% in Moldova. This is significantly higher than Georgia with 6% or Armenia that has a rate of 5% for monthly gross salary below EUR 1200 and 10% for higher salaries. The social security tax in North Macedonia is 28% while in Hungary it is 31.5%, but 15% of the unused amount of child tax base allowance can be deducted from the total amount of 18.5%. In Bulgaria, the social security and health insurance varies between 32.7% to 33.4%. In Portugal, the social contribution is 34.75% where 11% is paid by the employer. In Greece, the social contribution is 36.16% and monthly contribution is capped at EUR 7126.94, In Romania, the employees are paying 25% and 10% for social and health insurance, respectively, while employers add a 2.25% labor insurance. Therefore, the overall level of salary-related taxes is relatively competitive compared to Romania, Hungary and the European average.

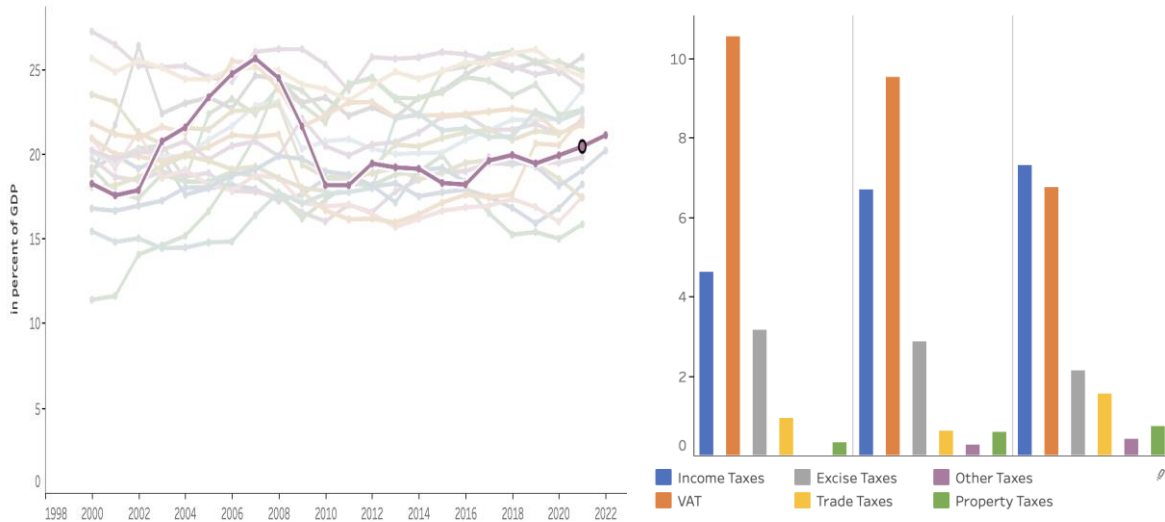
Figure 8 Tax rates in Moldova versus peers



Source: NBM, PwC

Moldova relies too much on VAT. Moldova's tax revenues per GDP (Figure 9, left chart) was 20.4% of GDP for 2021, which is in the middle of the range compared to peers, where Romania and Serbia collected 15.8% of GDP and 25.7% of GDP, respectively. In 2021, the government revenues were heavily relying on VAT (Figure 9, right chart), collecting about 10.5% of GDP, which was 1pp higher than the average for the Eastern Europe and Central Asia region and 3.8pp higher than the world average. At the same time, the income tax generated only 4.6% of GDP, which is 2pp and 2.7pp lower than the Eastern Europe and Central Asia region and World.

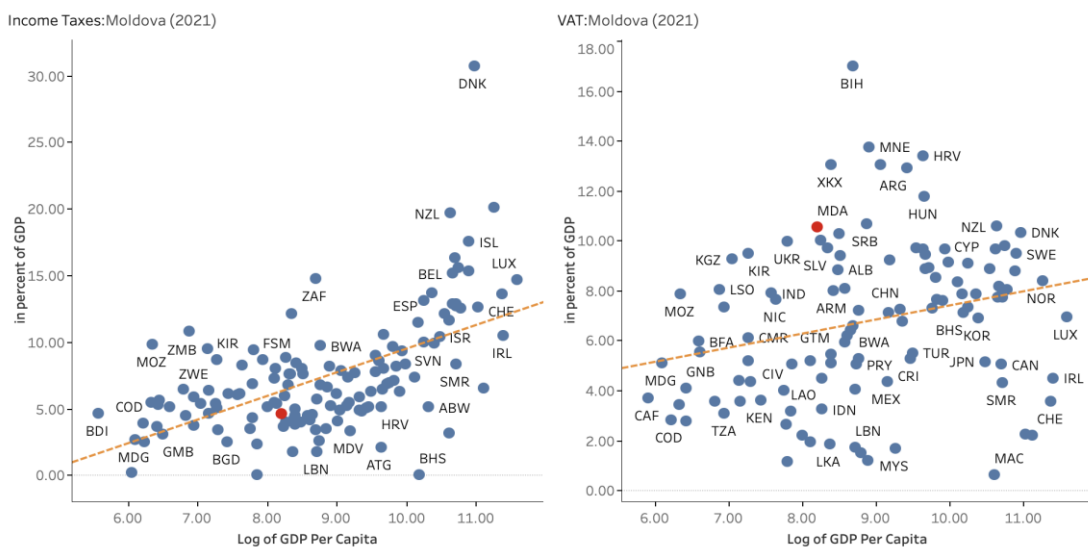
Figure 9 Tax revenues per GDP in Moldova versus peers (left) and tax type in Moldova versus Eastern European and Central Asia and World



Source: World Bank

The compliance level is moderate. The previous observations are strengthened when the income and VAT taxes per GDP are compared to countries with similar levels of GDP per capita. For 2021, The VAT taxes per GDP are significantly above and income taxes per GDP are below the benchmarks (Figure 10). This suggests that the level of compliance with income taxes, including corporate and personal income taxes, is relatively low. The World Bank Revenue Dashboard quantified the income tax gap at 4.2% of GDP, whereas the CIT gap is about 3% of GDP. These, in combination with the large information economy, which has been recently estimated at 25.4% for 2019¹⁶, are generating significant tax loss in the amount of around 7.3% of the GDP.

Figure 10 Income and VAT taxes in Moldova versus the peers



Source: World Bank

¹⁶ The phenomenon of informal economy and employment in the context of Covid-19 pandemic, Expert-Grup, UNDP, 2021

Section 3.3 (b) Low previsibility and frequent change

Introduction

Decision-making transparency is the procedure for ensuring that the public is informed and involved in the decision-making process of state institutions and is regulated by the regulatory framework in force.

Ensuring decision-making transparency is one of the main factors contributing to increasing the degree of accountability of the public administration towards the citizen, as beneficiary of the administrative decision and to increasing the confidence of the associative sector in the intentions and actions of state institutions. The application of the principles of transparency in decision-making (publicity and accessibility) implies informing citizens on issues of public interest to be consulted and facilitating active participation in the administrative decision-making process and in the process of drafting legislation.

It is of the utmost importance for businesses to be transparent in their decision-making processes, particularly when it comes to fiscal, customs, and regulatory policies. If the public consultation process is flawed, the entire business sector is negatively affected, as it lacks awareness of the impending changes to the regulatory environment.

The decision-making process encompasses a number of stages and procedures outlined in local legislation. Overall, the process is functional, but there are still some shortcomings that we will discuss in this chapter and draw attention to. Among the most significant shortcomings are opacity in the decision-making process, changing the game rule in the course of the game, and lack of predictability in fiscal and budget policy.

Opacity in decision-making process 2021 - 2024

The GRECO report on Moldova¹⁷, in part relating to transparency in decision-making processes, highlights difficulties. A retrospective look at the aforementioned question shows a significant proportion of the problem during the period of 2021–2022, which has been slightly ameliorated during the 2023 period.

The Promo-Lex report on monitoring the 11th legislature¹⁸ for the period between July 26, 2021, and July 29, 2022, has revealed a lack of respect for transparency in decision-making processes. This has been evidenced by an absence of information regarding public consultations, the non-compliance with certain recommendations and expertise, as well as the low rate of organized public hearings and debates by Parliament. Only 9.2% of the total number of drafts examined were the subject of hearings or public debates organized by standing committees. Additionally, the report has determined that the current Parliament's website structure is outmoded, its content does not adequately reflect the public's interest, and the open data on Parliament's activities is unavailable or cannot be accessed, due to the new website construction.

Also, European Commission highlighted in its 2023 monitoring report "several gaps hindering the transparency of decision making and public participation in Parliament"¹⁹. In 2022, 71 draft normative acts were approved by Parliament under the priority or the urgent procedure (around 20% of the total). A total

¹⁷ <https://rm.coe.int/fourth-evaluation-round-corruption-prevention-in-respect-of-members-of/1680ab41b9> page 3, FOURTH EVALUATION ROUND, Corruption prevention in respect of members of parliament, judges and prosecutors, SECOND INTERIM COMPLIANCE REPORT, REPUBLIC OF MOLDOVA, Adopted by GRECO at its 93rd Plenary Meeting (Strasbourg, 20-24 March 2023)

¹⁸ https://promolex.md/wp-content/uploads/2022/11/Sumar_Parliament_ENGL_final.pdf, Promo-Lex, November 2022

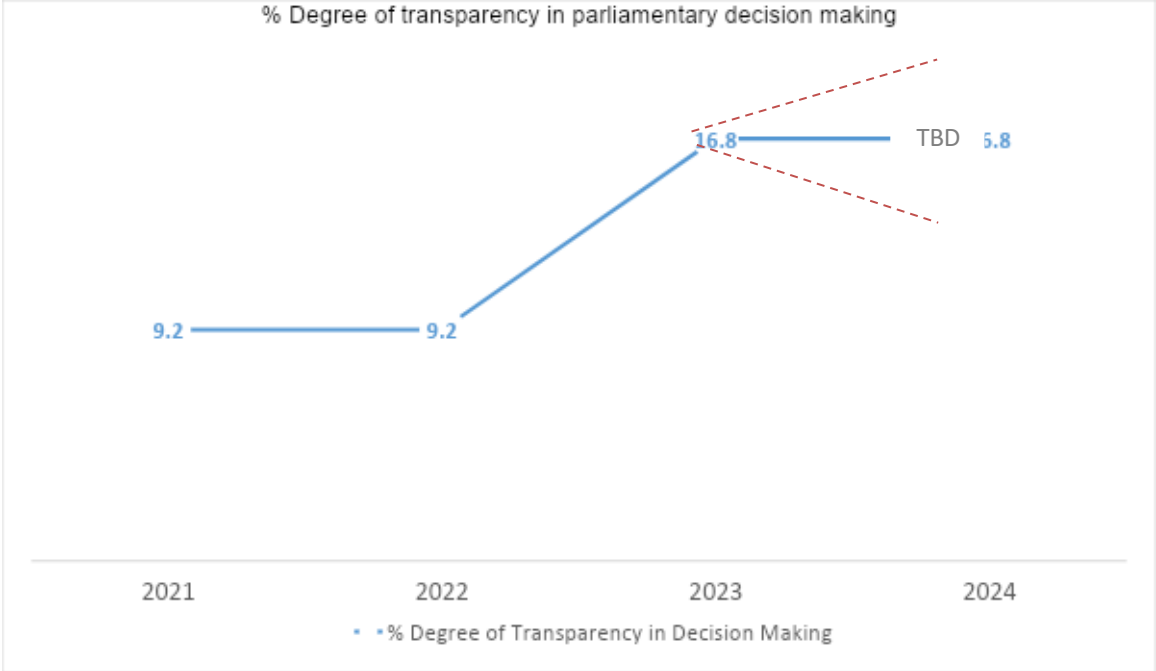
¹⁹ https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_698%20Moldova%20report.pdf page 13, Republic of Moldova 2023 Report, Accompanying the document, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 2023 Communication on EU Enlargement policy, Brussels, 8.11.2023, SWD(2023) 698 final

of 65 draft laws were voted in two readings at the same plenary in 2022, and 124 draft laws were adopted in two readings within 30 days (34% of the total) from the moment the draft was registered²⁰.

However, a 2024 analysis of civil society organization monitoring of transparency in governmental decision-making still reveals certain concerns. The monitoring report of parliamentary activity for the 2022-2023 period revealed that just 78 draft laws, or 16.8%, underwent public consultation during the period under review²¹.

In comparison to the previous monitoring period, when public consultations were conducted for 9.2% of draft laws, we have observed an increase in the percentage of draft laws that have been consulted, rising by 7.6%. The most common forms of public consultation in Parliament were hearings and public debates.

Figure 11



At the time of writing this report, we do not yet have exact figures regarding the percentage share of the transparency process in the first half of 2024, as it is still in progress and subject to change. It would be beneficial to maintain the positive momentum observed last year. However, on February 15, 2024, the Parliament set a new record for opacity in decision-making processes at the plenary session. The meeting agenda was revised by 766%²², representing an unprecedented rate of change in the current Legislature's activity. The agenda was expanded to include 21 topics, a sevenfold increase from the original number of planned projects.

Such a high turnover of amendments has a negative impact on the transparency and predictability of the legislative process. Furthermore, at this meeting, the parliamentary majority rejected all opposition proposals, including those to exercise parliamentary control through the plenary hearing of 10 dignitaries

²⁰ https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_698%20Moldova%20report.pdf page 13, Republic of Moldova 2023 Report, Accompanying the document, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 2023 Communication on EU Enlargement policy, Brussels, 8.11.2023, SWD(2023) 698 final

²¹ https://data.promolex.md/uploads/101/reports/report_14_ro.pdf
legislatura a XI-a, august 2022 - iulie 2023

²² <https://101.promolex.md/noutati/detalii/75>

and heads of public authorities. 43%²³ of the projects examined during the meeting were voted on in a manner that did not adhere to the principles of transparency in decision-making.

The 2022-2023 legislative period saw the introduction of a significant number of draft laws targeting the following key areas: (1) economy, financial and fiscal affairs²⁴; (2) social protection, work and health; (3) appointments/resignations/designations; (4) justice, home affairs, security and defense. It is clear that draft legislation with a significant effect on the business environment is being given the highest priority. It is therefore evident that there is a need for increased accountability and transparency. Greater transparency would include the involvement of a larger number of representatives from small- and medium-sized businesses in decision-making processes and the formation of a wider consensus on the decisions taken.

Changing the game rule in the course of the game

It is crucial to maintain a stable business environment, which is undermined by frequent changes to the rules during the course of a game. Consequently, the more frequently the legislative framework of the state undergoes changes during the year, the more the businesses in Moldova are subject to disruption. Large enterprises are better equipped to absorb this type of shock, given their greater potential to comply with the new requirements of the legislative environment. In contrast, micro and small enterprises are extremely vulnerable to frequent changes in legislation.

In this chapter, we will address two key issues related to the frequent modification of the primary and secondary legislative framework, as well as the use of excessively technical language in the public consultation process. Furthermore, the absence of a comprehensive regulatory framework poses a challenge to the business environment. As AIM has repeatedly highlighted, including in its 2022-2023 Activity Report²⁵, the lack of a secondary framework is also a problem facing the business environment. Consequently, a legislative provision in favor of business cannot be implemented because the relevant agency lacks the secondary legislation for a proper enforcement of the primary legislation. Let's now turn our attention to the issue of frequent changes in legislation. These changes directly influence entrepreneurial activity in Moldova, causing a lack of predictability that materializes through increased financial expenses for compliance and taxation.

As regards the frequency of amendments to the legislative framework, the Law on normative acts²⁶ gives us a clear answer that acts may be amended not more frequently than once every six months and only in case of necessity. This is based on the principle of stability and predictability of laws as a basic principle of lawmaking.

There are numerous examples, but for the purposes of this document, we will only refer to a few examples that are of the greatest relevance to the business environment. In 2023, the Fiscal Code underwent 22 amendments in 12 months, with an average of almost two amendments per month (see Figure 12).

²³ <https://101.promolex.md/noutati/detalii/75>

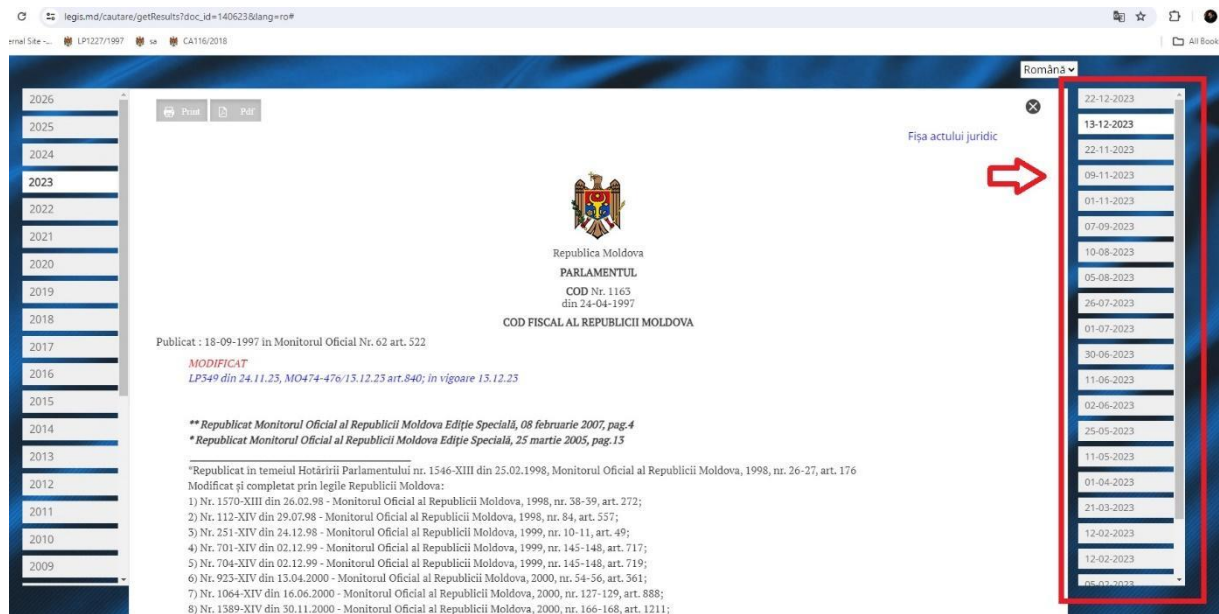
²⁴ https://data.promolex.md/uploads/101/reports/report_14_ro.pdf

legislatura a XI-a, august 2022 - iulie 2023

²⁵ <https://sme.md/en/monitoring-and-evaluation-report-on-participation-in-the-decision-making-process/> - MONITORING AND EVALUATION REPORT ON PARTICIPATION IN THE DECISION-MAKING PROCESS, AIM, 2023

²⁶ https://www.legis.md/cautare/getResults?doc_id=142658&lang=ro# - Legea 100/2017 cu privire la actele normative

Figure 12



For example, only in March 2024, the Fiscal Code underwent 3 amendments²⁷, including text corrections due to errors²⁸, which reaches a new level in terms of the frequency of changes and the lack of predictability of the legislative act in question. The Labor Code underwent 5 amendments in the first 5 months of 2024, or monthly²⁹. The law on state registration of legal entities and individual entrepreneurs was amended 6 times during the year 2023³⁰.

In conclusion, strengthening the mechanism of stability of legal norms and stopping frequent changes in the legislation related to the business environment would be beneficial. This fact would bring predictability in the operation of businesses in Moldova and strengthen confidence in local business. The frequent change, as we have shown the examples above, causes excessive bureaucracy but also confusion in the ranks of entrepreneurs and obviously higher expenses for adjusting their activity to the new rules of the game during the game.

A further challenge for the business environment is the use of overly complex terminology in decision-making transparency processes and incomplete information. The legislative drafting process requires the use of technical language and terminology. Although draft normative acts are accompanied by informative notes and, in some cases, regulatory impact analyses, the business environment lacks the highly qualified human resources to decipher the language used. SMEs often lack the requisite knowledge to understand the intended changes in a draft act or other document due to the use of overly complex language.

One potential solution to the described problem would be to accompany draft normative acts with a summary in a simplified language. The use of plain language would ensure that all stakeholders, including entrepreneurs, can understand the proposals. This would also encourage greater participation in the consultation and decision-making processes, enhancing transparency.

²⁷ https://www.legis.md/cautare/getResults?doc_id=138283&lang=ro#

²⁸ https://www.legis.md/cautare/getResults?doc_id=142459&lang=ro

²⁹ https://www.legis.md/cautare/getResults?doc_id=142481&lang=ro Codul Muncii 154/2003

³⁰ https://www.legis.md/cautare/getResults?doc_id=140174&lang=ro# - Legea 220/2007 privind înregistrarea de stat a persoanelor

A lack of predictability in fiscal and budget policy.

In Moldova, there has been a long-standing tradition of amending legislation related to the business environment and investment climate on an annual basis through the fiscal budget policy or fiscal and customs policy, as appropriate. This act, which typically includes dozens of pages of amendments to the regulatory framework, which even without it undergoes frequent changes as previously analyzed, further complicates the business environment. The act allows the state to adjust its fiscal and customs priorities for the upcoming year. In addition, this act has a direct impact on the business environment as a whole, including small, medium and large businesses. This frequent practice is highly detrimental to the business environment, as it introduces opaque processes during the adoption process, making it even more challenging for businesses to navigate.

For instance, the 2023 tax and customs policy document, comprising 97 pages, included extensive amendments to 21 legislative acts³¹. This change is essential for the business environment in the country as a whole, and it will have an immediate impact on anyone involved. As a result, any predictability is lost, and the business environment at the end of the year is unprepared for a regulatory shock that comes the following year. Moreover, such practices involve a multitude of amendments, comprising summary tables of approximately 380 pages of legal text, replete with technical language, which is often difficult for those in the business environment to comprehend. Consequently, the business environment is frequently unaware of the new regulations that will enter into force next year following the adoption of the text by Parliament.

One solution to these opaque practices, which ultimately harm the business environment, is to develop a strategic vision for each government-invested entity by Parliament. This could be achieved through the creation of a governance document, such as the four-year Governance Programme. A strategic and conceptual document should set out the government's priority directions for a period of four years. It should be noted that the government may deviate from these directions only in cases of combating regional or global shocks. From a domestic perspective, this would provide regulatory stability for businesses and boost investor confidence in the jurisdiction.

Next steps

It is widely acknowledged by both civil society within Moldova and the international community that the Moldovan authorities have room for improvement in terms of decision-making transparency. A lack of transparency has a direct impact on the business environment, resulting in higher financial expenses for businesses in general, particularly for smaller, medium-sized enterprises, which are particularly vulnerable.

To address these shortcomings, it is recommended that the relevant authorities take steps to address the issue from top to bottom. The development of strategic documents outlining three-to-four year development and regulatory priorities is recommended. This will result in a business environment that is more predictable, which is essential for good development. Furthermore, all legislative amendments and the decision-making transparency process are to be used on a large scale, much wider than at present, as indicated in Figure 11. It is recommended that draft normative acts be accompanied by summaries in plain language and accessible to the general public, in addition to the so called „argumentation notes³²” which are drawn up in technical legal language. These should be subject to the mandatory public discussion and consultation process. Finally, we must strengthen the legal mechanism that would prevent the amendment of legislation as frequently as it is currently and in previous years. This would provide much-needed stability and predictability to Moldovan business, which is essential for fostering a conducive environment for investment.

³¹ <https://particip.gov.md/ro/document/stages/proiectul-de-lege-cu-privire-la-modificarea-unor-acte-normative-politica-fiscala-si-vamala-pentru-anul-2023/9259> - The draft law on the amendment of some normative acts (fiscal and customs policy for the year 2023)

³² Note de argumentare

Section 3.4. Regulation and compliance

Bottom Line Up Front:

- Digitization of government services is a key strategy to save companies time and money. Currently around 43% of the 523 public services provided by various government and state agencies are available online.
- **Compliance Time:** Company managers spent an average of 6.2% of their working time on compliance in 2020, down from 17% in 2005. The main drivers of this time cost were frequent changes in legislation, managing unfair competition and tax compliance (among others)
- Improvements in time spent on compliance have been driven by increased e-governmental services and better than average licensing procedures compared to EaP countries. The main challenge is tax compliance where Moldova's tax system and related administration is second to last in the EaP and Moldovan companies spend around 33% more time complying with tax laws than Armenia or Ukraine.

Section 3.4 (a) Financial costs

State of play

Despite the challenges Moldova has faced in recent years, the country has demonstrated a positive development dynamic compared to the countries of the Eastern Partnership (EaP), as illustrated in Figure 16. While there is still work to be done in many areas, as we have highlighted in this chapter, Moldova has made significant progress. We will now provide an overview of the general economic situation in Moldova. This will be followed by a detailed analysis of specific sectors that have a direct impact on business costs, including e-government services, company registration, business licensing, and tax compliance procedures for SMEs. Finally, we will conduct a regional analysis to compare the situation in Moldova with those in the EaP countries.

The economy continues to suffer from the spillover effects of the war. GDP contracted by a further 2.3 percent in the first half of 2023, following a 5% contraction in 2022. A modest recovery was observed in 2023 and is expected in 2024, supported by strong agricultural production and a rebound in consumption and investment as real wages and remittances recover and risk perceptions improve. Net exports, mainly due to a contraction in imports, made a positive contribution to growth³³. However, GDP is expected to remain below pre-pandemic and pre-war trends, with a persistent negative output gap. Risks to the outlook are large and tilted to the downside, as war-related uncertainty remains high and could slow the recovery³⁴. With inflation decelerating, economic activity remained weak in the first half of 2023. The deceleration in inflation was faster than expected. Headline inflation fell to 6.3% in October (from a peak of 34.6% in October 2022). This was driven by lower food and fuel prices, including due to the recovery of agricultural production after the drought in 2022, and a firm monetary policy response. Core inflation has also declined in recent months, to 4.55% in January 2024 and 3.94% in March 2024³⁵. There has been some improvement in the labor market. The unemployment rate fell to 4.9%³⁶ in the last quarter of 2023, after reaching 5.5% in the first quarter of 2023. It remains well above the level at the end of 2021.

³³ <https://www.imf.org/en/Publications/CR/Issues/2023/12/19/Republic-of-Moldova-Staff-Report-for-2023-Article-IV-Consultation-Fourth-Reviews-Under-the-542616> - IMF Country Report No. 2023/428 on Moldova, 2023

³⁴ <https://www.imf.org/en/Publications/CR/Issues/2023/12/19/Republic-of-Moldova-Staff-Report-for-2023-Article-IV-Consultation-Fourth-Reviews-Under-the-542616> - IMF Country Report No. 2023/428 on Moldova, 2023

³⁵ <https://www.bnm.md/ro/content/rata-inflatiei-0> - Annual inflation rate index, National Bank of Moldova

³⁶ https://statistica.gov.md/ro/forta-de-munca-ocuparea-si-somaiul-in-trimestrul-iv-2023-9430_61004.html - Labor force: employment and unemployment in the fourth quarter of 2023, National Bureau of Statistics of the Republic of Moldova

Figure 13

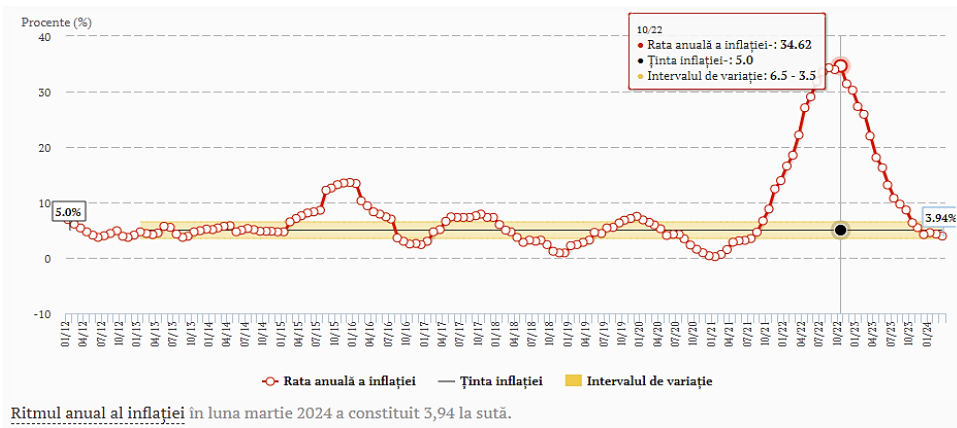
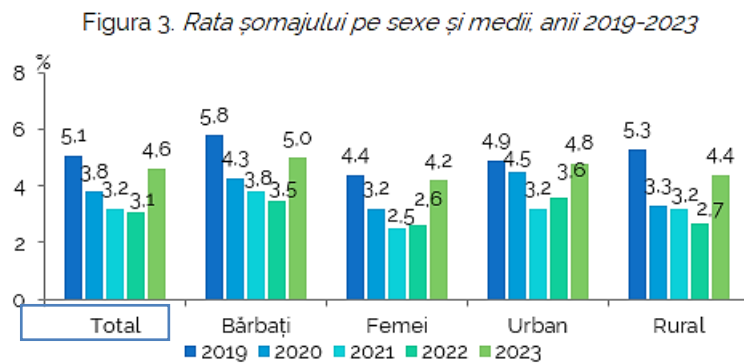


Figure 14



The authorities continue to focus on measures to mitigate the impact of the multiple crises and support recovery, while also advancing longer-term reforms. Near term fiscal policy should focus on supporting the most vulnerable and safeguarding energy security. Also authorities set as a priority debureaucratization and support for SMEs. In this regard a series of so called „deregulation packages”, consisting of 5 separate laws and regulations, has been developed on the initiative of the Ministry of Economic Development and Digitalization. Some of them have been adopted by the Government and the Parliament during 2023³⁷. According to the Minister of Economic Development and Digitalization, this package brings significant changes in areas such as digitalization, labor relations and state control of entrepreneurial activity, and will allow for annual savings of approximately 50 million lei³⁸ (2.5 million euros). According to the new regulations, during the first three years of operation of small and medium-sized enterprises, the controlling body will not be entitled to apply sanctions or restrictive measures, except in cases where serious or repeated crimes are committed by the entrepreneur.

E-government services

As of September 2023, according to the data provided by AGE, the Government Portal of Public Services contains information on 714 available public services, of which 283 e-services (39.63%) can be accessed online. Of the 283 e-services, 126 are services related to the issuance of authorized documents and 157 are services for citizens and businesses. Of the 157 public services that can be requested online, 36 (22.92%) are provided in digital format (services for which the providers ensure the formalization and full programming of the process of providing them)³⁹.

37 <https://consecn.gov.md/wp-content/uploads/2024/03/Annual-Report-2023.pdf> - Economic Council Annual Report, 2023

38 <https://www.moldpres.md/en/news/2023/03/10/23001930> - New deregulation package to save about 50 million lei annually

39 <https://ipre.md/2023/09/29/nota-analitica-gradul-de-utilizare-al-serviciilor-digitale-in-republica-moldova-realitati-provocari-si-recomandari/> - Analytical Note: The degree of use of digital services in the Republic of Moldova: realities, challenges and recommendations, IPRE

According to the Ministry of Economic Development and Digitization, in Moldova there are 523 public services offered by 42 public institutions (ministries, agencies, inspectorates, specialized services and centers, etc.), 226 of them are already digitized, which represents 43.2% of the total number.

The number of digitized services increased until the beginning of 2024, but Moldova's rate of digitization is moderate. The elimination of corruption and the large-scale introduction of digitized services for the business environment will reduce the time and financial costs related to the operation of a business.

Specific goals and measures for the provision of digital services to the business sector are part of the NPACC 2023-2027⁴⁰, which was adopted in 2023. They include: the full digitalization of the processes for registration, suspension, closure and carrying out various changes of status; the digitalization of customs procedures, including electronic declaration for all types of customs regimes; the modernization of the electronic control system to enable risk-based controls and the digitization and automation of control reports; and the further digitalization of government-to-business services (permits, licenses, authorizations, approvals, etc.) through the Digital Single Window.

The government has taken steps to establish a comprehensive legislative framework for the digitalization of government services. In 2021, it enacted a comprehensive legislative act⁴¹ to facilitate remote interaction and digital interactions between the government and businesses, including remote registration of companies and modification of incorporation or liquidation documents. The new legislation allows for the use of electronic signatures in employment relations between an employer and an employee, including the signing of remote employment contracts. Furthermore, it permits the unilateral recognition of qualified advanced electronic signatures issued in EU countries, enabling the Moldovan diaspora and European investors to interact with the Moldovan authorities at a distance. The new regime also facilitates the wider use of electronic documents⁴². Furthermore, the new legislation introduces the digital power of attorney in relations with public authorities and facilitates remote registration on the public procurement portal, subsequently enabling businesses to submit offers for electronic public procurement. Finally, it facilitates the use of electronic documents in other areas of importance for businesses, including relations with public utility companies (natural gas, electricity, water/sewerage, communications, etc.).⁴³

In 2022, MDelivery⁴⁴ — a digital platform launched by the government service—became operational, facilitating the dissemination of performance data on public services to the public. In February 2023, the specific legislation came into force. It defines the two main concepts that underpin the concept of digital government: the “digital-by-default” and the “digital-first” principles. Public institutions are required by these principles to receive electronic documents, and to give priority to issuing documents in an electronic format.

Company registration

Business registration procedures have been further simplified. They are already well advanced. They are now available on the Internet and can also be carried out from outside of the country. Legislative amendments provide for the possibility of submitting documents for registering all types of legal entities in

⁴⁰ https://www.legis.md/cautare/getResults?doc_id=139409&lang=ro - The National Program for Promoting Entrepreneurship and Increasing Competitiveness 2023-2027, approved by Government Decision no. 653/2023

⁴¹ <https://mded.gov.md/content/economia-digitala/> - Ministry of Economy and Digitalization

⁴² https://www.legis.md/cautare/getResults?doc_id=142444&lang=ro# - Law on Electronic Identification and Trust Services no.124/2022

⁴³ https://www.legis.md/cautare/getResults?doc_id=137589&lang=ro - Law for the amendment of some normative acts: Development of remote business in the Republic of Moldova /Contactless Business in Moldova no. 126/2023

⁴⁴ https://www.legis.md/cautare/getResults?doc_id=127710&lang=ro Government Decision No. 152/2021 on the approval of the Government Delivery Service Concept (MDelivery)

electronic format, using a qualified advanced electronic signature (requesting remote authorization)⁴⁵. If the application for registration is made through a representative, the power of attorney can be issued through the digital platform MPower. MPower is a register of powers of attorney based on electronic signatures. All decisions taken by the Agency for Public Services⁴⁶ concerning the establishment, reorganization, liquidation, suspension, or resumption of the activities of the company, its branches, as well as amendments to its founding documents, can be published electronically. At the same time, some of the fees for services provided by the state registration body have been abolished. These include the fee for drafting or amending the deed of foundation, decisions of the general meeting of the founders (shareholders)⁴⁷, etc. These changes significantly simplify the registration procedure.

The phenomenon of stamping documents, although no longer required by national legislation, still exists in Moldova. This phenomenon/system is an inheritance from the Soviets, whereby all critical (and completely unimportant) documents must have a signature and a stamp as proof of legal legitimacy. Even though the Parliament made the stamp optional a few years ago. In practice, however, the stamp is still required from time to time for B2B and B2G interactions. Sometimes even by governmental agencies. In essence, it is easier to get a stamp than it is to try to convince another party that a stamp is no longer a legal requirement.

Business licensing

The licensing process is structured according to the "one-stop-shop" principle. Amendments to applicable legislation were adopted⁴⁸ in 2021. The updated legislation introduces the concept of an "Integrated Information System for Managing and Issuing Permissive Documents" (SIA GEAP⁴⁹). The aforementioned legislation stipulates that the permissive acts, including licenses, permits, and others, as well as their duplicates, can only be issued, refused, extended, perfected, suspended, or withdrawn by the issuing authority through the SIA GEAP. This standardization of processes has increased transparency. Furthermore, the 2022 amendments to the law require all licenses, permits and authorizations to be issued in electronic format via the applicant's email address or the government electronic notification service. Should the original be presented in paper format, a digital copy will be provided as well. In 2023, 86% of permissive documents were requested and issued on this digital platform (131 out of 152 total)⁵⁰.

There are, however, serious problems with the practical application of the new options that are available. Some point to the still low level of use of the digital options by the business community or even by the public officials who have to use them in practice. Others are unaware of the existence of such digital options and are limited to physically going to government offices. Nevertheless, there is still much to be done in terms of informing and educating SMEs about the use of new digital opportunities.

Tax compliance procedures for SMEs

A number of modifications have been introduced in the legislation in the last period aimed at creating a simplified tax regime for individual entrepreneurs and micro and small enterprises. Tax administration procedures have been simplified with the introduction of a one-stop shop electronic platform for tax filing,

⁴⁵ https://www.legis.md/cautare/getResults?doc_id=138261&lang=ro# - Law No. 220/2007 on state registration of legal entities and individual entrepreneurs

⁴⁶ <https://www.asp.gov.md/en> - State Registration Body

⁴⁷ https://www.legis.md/cautare/getResults?doc_id=139793&lang=ro# - Government Decision No. 966/2020 on services provided by the Public Services Agency

⁴⁸ https://www.legis.md/cautare/getResults?doc_id=142517&lang=ro# - Law No. 160/2011 on regulating through authorization of entrepreneurial activity

⁴⁹ <https://egov.md/ro/node/39805> - Integrated Information System for Managing and Issuing Permissive Documents

⁵⁰ <https://www.imf.org/en/Publications/CR/Issues/2023/12/19/Republic-of-Moldova-Staff-Report-for-2023-Article-IV-Consultation-Fourth-Reviews-Under-the-542616> - IMF Country Report No. 2023/428 on Moldova, 2023

an e-invoicing system⁵¹, an e-request for registration as a VAT payer⁵² or of subsidiaries, and the launch of the Personal Office of the Taxpayer.

Corporate income tax is fixed at a uniform rate of 12%. However, SMEs that are not registered as VAT payers and that fulfill specific criteria set forth in the Fiscal Code may select a special corporate income tax (CIT) framework with a tax rate of 4% on total sales determined for accounting purposes. Furthermore, tax benefits are available to enterprises located in information technology parks. They are subject to a unified tax rate of 7% of total revenue. The tax encompasses corporate income tax and contributions to both the Social Fund and the Medical Insurance Fund. Furthermore, at the conclusion of 2022, Parliament approved an amendment to the tax code that grants a total tax exemption on non-distributed dividends generated by SMEs. Additionally, a new VAT tax refund system for enterprises not engaged in import-export activities has been established.

The IMF in its country report underlined that as part of the process of rationalizing the tax regime for individual entrepreneurs and SMEs although there are no personal deductions or a minimum non-taxable income level for auto-entrepreneurs. Some presumptive tax thresholds have been increased, allowing more individuals and microenterprises to benefit from the simplified tax regime. For instance, the upper threshold for individuals earning an income from commercial activities and registered as sole proprietors was doubled at the end of 2022 and is now MDL 600 000 (EUR ~31 000). The tax rate in this case is set at 1% of individual income, but not less than MLD 3 000 (EUR ~160)⁵³.

Regulatory costs in the Eastern Partnership Region

In order to promote entrepreneurship and SME growth, it is essential to establish a sound and transparent institutional and regulatory framework. This includes the definition of clear parameters for the identification of SMEs; the identification of institutions responsible for the design, implementation, monitoring and evaluation of SME policies; and the development of mechanisms for policy discussion and coordination. Since 2020 (Figure 15), the Eastern Partnership (EaP) region has made incremental progress in this dimension. All countries reported gradual improvements in most sub-dimensions, with Georgia confirming its position as a frontrunner, except for Armenia and Ukraine. Nevertheless, all countries have aligned their national SME definitions with the EU in terms of employment criteria, although other parameters still differ. Medium-term SME strategies, with differences in structure and evaluation practices, have been developed by almost all EaP governments.

Nevertheless, sectoral gaps remain. Georgia was the only country to implement a dedicated strategy for 2021-2025 by the end of June 2023. This situation changed after Moldova adopted its own strategy - the NPACC 2023-2027⁵⁴, which was adopted in September 2023. SME development agencies have expanded beyond promoting entrepreneurship to offer targeted business services to help firms grow and digitize; in Armenia, Georgia, and Moldova, they also provide loan guarantees to SMEs. During the pandemic, agencies in Azerbaijan, Georgia, Moldova, and Ukraine strengthened their capacities. However, due to pandemic-related disruptions, the simplification of laws and regulations, including RIAs, suffered a setback. In terms of systematic application of RIAs, Moldova stands out.

Last, with the establishment of electronic platforms, strategic directions, agency roles and monitoring across the region, all countries have begun to consider SME digitalization in their institutional and policy frameworks for SMEs. In fact, Armenia, Azerbaijan, Georgia, and Ukraine have shown a strong commitment to the digital transformation of SMEs. They have allocated resources to relevant agencies.

⁵¹ <https://servicii.fisc.md/efactura.aspx>

⁵² <https://www.contabilsef.md/inregistrarea-in-calitate-de-platitor-al-tva-in-cazul-gospodariei-taranesti-de-fermier/>

⁵³ <https://www.imf.org/en/Publications/CR/Issues/2023/12/19/Republic-of-Moldova-Staff-Report-for-2023-Article-IV-Consultation-Fourth-Reviews-Under-the-542616> - IMF Country Report No. 2023/428 on Moldova, 2023

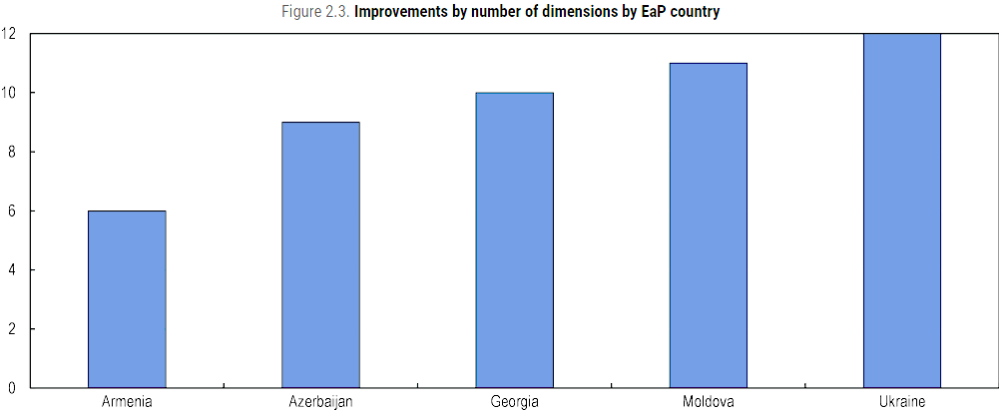
⁵⁴ https://www.legis.md/cautare/getResults?doc_id=139409&lang=ro - The National Program for Promoting Entrepreneurship and Increasing Competitiveness 2023-2027, approved by Government Decision no. 653/2023

Figure 15

2024 SME Policy Index scores in the EaP countries							
	Armenia	Azerbaijan	Georgia	Moldova	Ukraine	EaP average	Weight
Composite score for SME digitalisation	3.44	3.14	3.96	3.40	3.77	3.54	
Legislative simplification and RIA	3.03	2.90	3.50	3.35	3.27	3.21	25%
Public-private consultations	4.16	3.40	4.65	4.27	4.26	4.15	15%
Legislative simplification and RIA	3.03	2.90	3.50	3.35	3.27	3.21	25%
E-government services	4.00	4.25	4.29	4.34	4.66	4.31	35%
Business licenses	3.66	3.96	5.00	4.69	4.40	4.34	10%
<i>Licence procedures</i>	4.14	4.43	5.00	4.43	4.83	4.57	40%
<i>Monitoring and streamlining of licence systems</i>	3.33	3.64	5.00	4.87	4.11	4.19	60%
Company registration	4.88	4.52	5.00	4.74	4.52	4.73	25%
<i>Design and implementation</i>	4.80	4.20	5.00	4.90	4.20	4.62	60%
<i>Monitoring and evaluation</i>	5.00	5.00	5.00	4.50	5.00	4.90	40%
Tax compliance procedures	2.73	3.70	4.26	3.78	2.73	3.44	20%
<i>Tax compliance and simplification procedures</i>	3.12	3.59	4.53	3.35	3.12	3.54	60%
<i>Monitoring and evaluation of SME-specific tax measures</i>	2.14	3.86	3.86	4.43	2.14	3.29	40%
Bankruptcy and second chance	1.97	1.91	3.36	2.00	2.52	2.35	
Preventive measures	1.34	1.69	3.24	1.46	1.75	1.90	30%
<i>Design and implementation</i>	1.86	2.71	3.60	2.14	2.89	2.64	40%
<i>Performance, monitoring and evaluation</i>	1.00	1.00	3.00	1.00	1.00	1.40	60%
Survival and bankruptcy procedures	2.74	2.15	4.13	2.72	3.39	3.03	40%
<i>Design and implementation</i>	3.35	3.88	4.33	3.80	3.96	3.87	40%
<i>Performance, monitoring and evaluation</i>	2.33	1.00	4.00	2.00	3.00	2.47	60%
Promoting second chance	1.00	1.33	2.33	1.00	1.83	1.50	20%
Services provided by government	3.38	3.96	4.51	4.17	4.08	4.02	40%
<i>Planning and design</i>	3.55	3.55	5.00	4.27	4.27	4.13	35%
<i>Implementation</i>	3.33	4.39	4.39	4.28	4.50	4.18	45%
<i>Monitoring and evaluation</i>	3.18	3.73	3.91	3.73	2.82	3.47	20%

The SME environment in the EaP has evolved in different ways. Overall, reflecting EaP countries' efforts to help citizens acquire and develop entrepreneurial skills and competencies, progress in the area of entrepreneurial human capital is the highest on average. Significant improvements have also been made in the "Responsive Government" component, where, as noted above, the increase in average scores has been largely driven by improving the business environment for SMEs. Access to markets, on the other hand, where significant improvements in support for SME internationalization are offset by significant setbacks in public procurement, is where the weakest progress can be observed. While all EaP countries recognize the importance of SME internationalization and have adopted a strategic approach to promoting exports and using e-commerce, the results of the assessment show a deteriorating regulatory framework for public procurement. The Figure 16 below shows, for each country, the number of dimensions on which the scores have improved from the 2020 assessment to the present day.

Figure 16



Section 3.4 (a).7. Next Steps

The Moldovan SME community advocates further expanding the range of public services available through e-platforms and collecting data on the use of e-government services by SMEs in order to increase their usage. This would reduce the financial and time costs of bureaucratic procedures in the business environment.

Another issue that needs to be addressed is the simplification of tax compliance for SMEs in Moldova. In general, tax and accounting procedures in Moldova are extremely complex and bureaucratic. There is no online portal that provides SMEs with tax-related information in a clear and understandable way. Moreover, the electronic invoicing system needs to be reformed in order to simplify it. Another area of simplification would be the introduction of electronic receipts⁵⁵. Tax receipts could be in digital form and could be received by email, for example, similar to other European countries.

The government is recommended to reconsider the effective tax rate imposed on different types of businesses and the impact of different tax regimes and incentives on business growth and SMEs. In addition, a new regulatory framework for the self-employed⁵⁶ would bring additional revenue to the budget, as well as money from the black economy into the transparent banking sector.

The SME community urges the strengthening of the transparent decision-making mechanism and public consultations alongside the application of the RIA⁵⁷, where Moldova is already making good progress.

⁵⁵ <https://sme.md/agenda-legislativa/> - 4.1.3. Online Payments and E-Bon fiscal (Tax Voucher), 4.1.4. Tax Invoice in case of Cash and Card Payments, PLAN OF PARTICIPATION IN DECISION-MAKING PROCESS FOR THE YEAR 2024, AIM, October 2023

⁵⁶ <https://sme.md/agenda-legislativa/> - Paragraph 4.1.1. The right to self-employment, PLAN OF PARTICIPATION IN DECISION-MAKING PROCESS FOR THE YEAR 2024, AIM, October 2023

⁵⁷ <https://sme.md/raportul-de-monitorizare-si-evaluare-a-participarii-la-procesul-de-luare-a-deciiziilor/> - Chapter 8. Recommendations. Page 51. MONITORING AND EVALUATION REPORT ON PARTICIPATION IN THE DECISION-MAKING PROCESS, AIM, Chisinau, August 2023

Section 3.4 (b) Time costs

The estimation of costs over time is a complex subject for any economy. The estimation of costs over time results in lost time and lost income, as well as the inefficient use of human resources, which the employer is ultimately responsible for. These factors contribute to the fueling of the corruption factor in an economy.

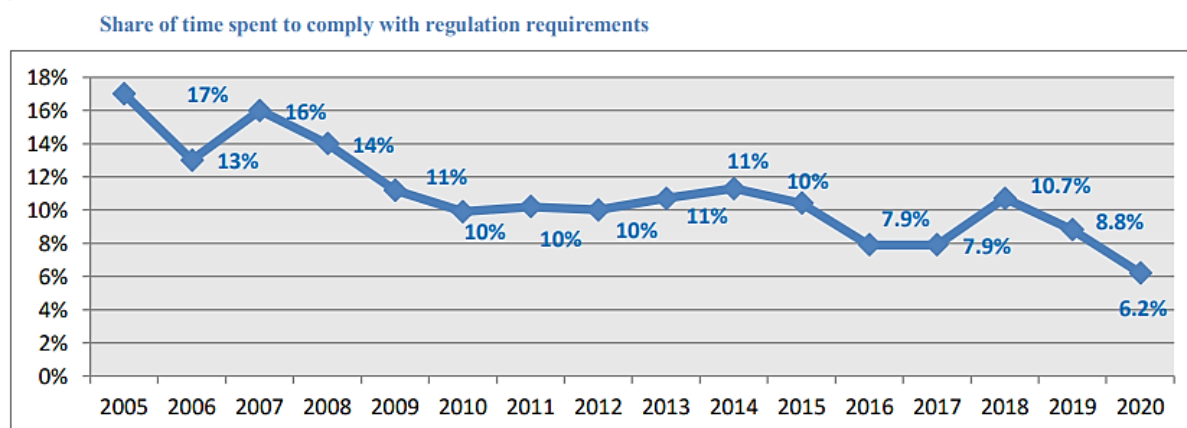
Historical background

In this chapter, we propose to address the subject of time costs that a Moldovan business faces in its activity, as well as its financial consequences. To gain a deeper understanding of the subject, we will make a comparison in dynamics, which will help us analyze the progress or regressions in the discussed field. Another important factor is the perception of the business environment regarding the time lost for certain bureaucratic processes.

Historically, the general perception of the business environment in Moldova has improved at a slow but steady pace. From 2010 to 2015, the indicator remained relatively stable, fluctuating between 10% and 11%. It then decreased to 8% from 2016 to 2017. In 2018, the indicator returned to the level observed between 2010 and 2015, at 10.7%. The median value was 10%. In 2019, the general time indicator began to decline, reaching 6.2% in 2020, the lowest level recorded between 2002 and 2020⁵⁸.

Figure 17 illustrates the evolution of the indicator, which suggests that a business manager's perception regarding the business environment has improved.

Figure 17



For instance, in 2020, companies engaged in trade (5.1%) spend the least amount of time communicating with state bodies, while companies in the non-food industry and transport spend the longest time—7.8% and 8.5%, respectively. Managers of companies with up to 10 employees, which account for over 80% of the sample, spend on average 5.7% of the time communicating with state bodies. Companies with more than 10 employees interact more with state bodies (8.4%). By region, the best situation is observed in central regions (4.9% of the time), while the North is at the opposite end, with an average of 9.1%⁵⁹.

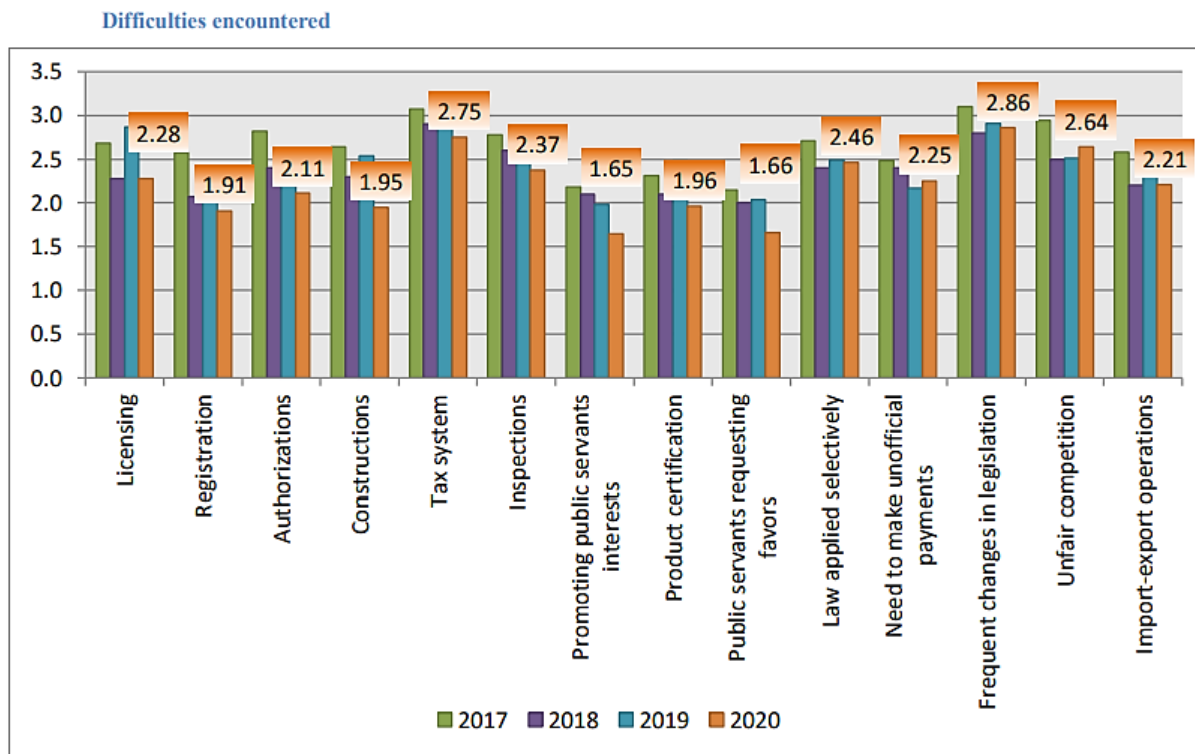
Managers believed that the most significant challenges arise from the frequent changes in legislation and the tax system. The graph below illustrates the historical regulatory context and how it has evolved in terms of its impact on the business environment. Historically areas that presented the fewest problems were the

⁵⁸ https://uipac.md/uploads/0/images/large/cost-of-doing-business-2020-eng_652552b91ac82.pdf - Survey, Cost of Doing Business 2020, The World Bank

⁵⁹ https://uipac.md/uploads/0/images/large/cost-of-doing-business-2020-eng_652552b91ac82.pdf - Survey, Cost of Doing Business 2020, The World Bank

promotion of public employees' interests and the requests for favors by state bodies. The perception of these areas improved significantly.

Figure 18



State of play

In comparison to historical data, the situation in Moldova has improved in the period of late 2023 and early 2024. This is evident when examining a series of indicators established in the OECD⁶⁰ report on the situation of economic development in Moldova, in comparison to the progress in the countries of the Eastern Partnership (EaP).

Regarding the conditions that impact the time costs of running a business, we highlight the following, as reported in Figure 18, which we propose to analyze further. There has been a revival of the provision of public services in digital format, which strengthens e-Government in Moldova. Moldova only cedes primacy to Ukraine, but it is above the average among the EaP states.

In terms of licensing and authorization, Moldova ranks very well among the EaP states and is surpassed only by Georgia. However, Moldova ranks higher than the average among the EaP countries. In terms of business registration, we are at the average level in EaP.

A problematic situation is attested in the chapter of tax law compliance procedures. This is where the Moldovan business environment is in trouble. Consequently, the national legislative framework is the second-to-last in the EaP states in terms of progressivity. The business medium requires a significant level of effort in terms of time and cost compared to its colleagues in Armenia or Ukraine, where the procedures are simpler by approximately one-third compared to those in Moldova.

An important element is the professional training and qualification of personnel working in the environment of small and medium-sized businesses. The 2023/2024 indicators show that Moldova is better

⁶⁰ <https://www.oecd-ilibrary.org/docserver/3197420e-en.pdf?expires=1713865627&id=id&accname=guest&checksum=9514A039FC02177C0772C06906E40419> - OECD, SME Policy Index, Eastern Partner Countries, 2024

prepared than the average among the EaP countries. However, there is still work to be done to advance Georgia in this area, which is currently in first place.

Figure 19

2024 SME Policy Index scores in the EaP countries

	Armenia	Azerbaijan	Georgia	Moldova	Ukraine	EaP average	Weight
Digital economy for SMEs							
Composite score for SME digitalisation	3.44	3.14	3.96	3.40	3.77	3.54	
<i>Selected framework conditions for the digital transformation</i>	3.92	2.96	4.02	3.22	3.93	3.61	
Pillar A – Responsive government							
Institutional and regulatory framework	3.24	3.69	4.37	3.93	3.68	3.78	
Legislative simplification and RIA	3.03	2.90	3.50	3.35	3.27	3.21	25%
Public-private consultations	4.16	3.40	4.65	4.27	4.26	4.15	15%
<i>Implementation</i>	2.13	2.22	2.15	2.24	2.14	2.18	45%
<i>Monitoring and evaluation</i>	3.13	3.40	4.20	3.80	3.80	3.67	20%
E-government services	4.00	4.25	4.29	4.34	4.66	4.31	35%
<i>Strategy, planning and design</i>	3.93	4.30	4.92	4.82	4.56	4.51	35%
<i>Implementation</i>	4.21	4.33	4.36	4.42	4.88	4.44	45%
<i>Monitoring and evaluation</i>	3.67	4.00	3.00	3.33	4.33	3.67	20%
Business licenses	3.66	3.96	5.00	4.69	4.40	4.34	10%
<i>Licence procedures</i>	4.14	4.43	5.00	4.43	4.83	4.57	40%
<i>Monitoring and streamlining of licence systems</i>	3.33	3.64	5.00	4.87	4.11	4.19	60%
Company registration	4.88	4.52	5.00	4.74	4.52	4.73	25%
<i>Design and implementation</i>	4.80	4.20	5.00	4.90	4.20	4.62	60%
<i>Monitoring and evaluation</i>	5.00	5.00	5.00	4.50	5.00	4.90	40%
Tax compliance procedures	2.73	3.70	4.26	3.78	2.73	3.44	20%
<i>Tax compliance and simplification procedures</i>	3.12	3.59	4.53	3.35	3.12	3.54	60%
<i>Monitoring and evaluation of SME-specific tax measures</i>	2.14	3.86	3.86	4.43	2.14	3.29	40%
Outcome-oriented indicators	4.56	5.00	4.11	4.11	3.67	4.29	10%
Bankruptcy and second chance	1.97	1.91	3.36	2.00	2.52	2.35	
Preventive measures	1.34	1.69	3.24	1.46	1.75	1.90	30%
<i>Design and implementation</i>	1.86	2.71	3.60	2.14	2.89	2.64	40%
<i>Performance, monitoring and evaluation</i>	1.00	1.00	3.00	1.00	1.00	1.40	60%
Survival and bankruptcy procedures	2.74	2.15	4.13	2.72	3.39	3.03	40%
<i>Design and implementation</i>	3.35	3.88	4.33	3.80	3.96	3.87	40%
<i>Performance, monitoring and evaluation</i>	2.33	1.00	4.00	2.00	3.00	2.47	60%
Promoting second chance	1.00	1.33	2.33	1.00	1.83	1.50	20%
Pillar B – Entrepreneurial human capital							
SME skills	2.37	3.59	4.12	3.89	3.91	3.57	
SME skills	2.41	3.76	4.25	4.10	4.01	3.71	90%
<i>Planning and design</i>	1.67	3.13	4.49	4.69	3.39	3.47	30%
<i>Implementation</i>	2.75	4.00	3.80	4.00	4.75	3.86	50%
<i>Monitoring and evaluation</i>	2.67	4.11	5.00	3.44	3.11	3.67	20%

Another crucial factor related to time costs is the interaction with the financial sector, not just the bureaucratic apparatus of the country. In the chapter on access to financing, which can impede a business just as much as a slow and inefficient bureaucratic apparatus, we highlight the following situation:

At the beginning of 2024, according to OECD⁶¹ data, there is a discernible and positive trend in terms of the quality of the legal framework for access to financing. Moldova is the leader of the ranking, but we are below the average level of the countries in the EaP group in terms of granting conditions. However, the

⁶¹ <https://www.oecd-ilibrary.org/docserver/3197420e-en.pdf?expires=1713865627&id=id&accname=guest&checksum=9514A039FC02177C0772C06906E40419> - OECD, SME Policy Index, Eastern Partner Countries, 2024

situation improves when we discuss the financing conditions through the micro-financing or leasing sector. Here, Moldova ranks above the average of the EaP countries. It should be noted that Moldova has adopted and implemented a series of legislative amendments in recent years, and the supervisory authorities have implemented the secondary framework.

In regard to digitalization of financial services and financial education, there is room for improvement when viewed through the lens of EaP group progress. Moldova's performance in this area lags slightly below the average indicator.

Moldova's position in terms of SMEs' participation in developing state standards is noteworthy compared to other EaP countries. This denotes a high degree of access to the decision-making process for these entities. However, further efforts could enhance the level of participation and involvement in this process.

Figure 20

2024 SME Policy Index scores in the EaP countries

	Armenia	Azerbaijan	Georgia	Moldova	Ukraine	EaP average	Weight
Pillar C – Access to finance							
Access to finance	3.54	3.31	4.07	3.48	3.40	3.56	
Legal and regulatory framework	4.03	4.13	4.31	4.33	3.70	4.10	35%
<i>Creditor rights</i>	3.20	4.10	4.10	5.00	3.20	3.92	24%
<i>Register</i>	4.86	4.91	5.00	4.81	4.90	4.90	24%
<i>Credit information bureau</i>	4.32	4.32	4.32	4.32	4.32	4.32	24%
<i>Banking regulations</i>	3.40	2.90	4.09	3.00	1.26	2.93	14%
<i>Capital market</i>	4.16	3.71	3.71	3.71	3.89	3.84	14%
Sources of external finance - bank financing	2.30	2.34	3.74	2.67	2.54	2.72	25%
<i>Banking lending practices and conditions</i>	2.66	2.32	3.31	2.66	2.50	2.69	60%
<i>Credit guarantee schemes</i>	1.78	2.38	4.38	2.70	2.61	2.77	40%
Sources of external finance – non-bank financing	4.56	3.61	3.71	4.04	4.22	4.03	15%
<i>Microfinance institutions</i>	4.40	4.08	5.00	4.64	4.60	4.54	33%
<i>Leasing</i>	4.71	3.51	5.00	4.71	5.00	4.59	33%
<i>Factoring</i>	4.70	3.35	1.25	2.90	3.20	3.08	33%
Venture capital ecosystem	3.34	2.04	3.56	2.32	2.52	2.75	5%
<i>Legal framework</i>	3.78	3.44	4.11	3.44	3.44	3.64	35%
<i>Design and implementation of government activities</i>	3.75	1.40	3.67	2.04	2.47	2.66	45%
<i>Monitoring and evaluation</i>	1.67	1.00	2.33	1.00	1.00	1.40	20%
Financial literacy	4.53	3.27	4.80	2.94	3.94	3.90	5%
<i>Planning, design and implementation</i>	4.75	3.50	4.75	3.10	3.94	4.01	80%
<i>Monitoring and evaluation</i>	3.67	2.33	5.00	2.33	3.93	3.45	20%
Digital financial services	3.52	3.05	3.94	3.02	3.81	3.47	5%
<i>Regulatory frameworks for digital financial services</i>	3.74	3.60	4.37	3.55	4.11	3.87	50%
<i>Supervisory framework for digital financial services</i>	3.30	2.50	3.50	2.50	3.50	3.06	50%
Pillar D – Access to markets							
Public procurement	3.00	2.72	3.68	3.40	3.58	3.28	90%
Standards and regulations	3.60	3.20	4.37	4.13	3.86	3.83	
Overall co-ordination and general measures	5.00	3.23	5.00	4.33	5.00	4.51	10%
Harmonisation with EU acquis	3.58	3.30	4.42	3.94	4.40	3.93	40%
<i>Technical regulations</i>	4.10	3.14	4.36	4.10	4.42	4.02	16.7%
<i>Standardisation</i>	4.25	3.30	4.49	4.05	3.67	3.95	16.7%
<i>Accreditation</i>	3.61	3.84	4.36	4.36	4.80	4.19	16.7%
<i>Conformity assessment</i>	2.76	3.40	4.19	4.29	4.68	3.87	16.7%
<i>Metrology</i>	4.78	3.35	4.47	3.80	4.73	4.23	16.7%
<i>Market surveillance</i>	1.94	2.76	4.60	3.00	4.04	3.27	16.7%
SME access to standardisation	3.85	3.25	4.13	4.55	2.83	3.72	30%
<i>Awareness raising and information</i>	4.33	4.17	4.25	4.83	3.92	4.30	30%
<i>SMEs' participation in developing standards</i>	4.50	4.00	4.50	5.00	3.50	4.30	30%
<i>Financial support to SMEs</i>	3.00	2.00	3.75	4.00	1.50	2.85	40%
Digitalisation of standards and regulations	1.50	2.13	3.63	2.50	2.50	2.45	10%

Section 3.4 (b)

As the figures above demonstrate, Moldova is in a relatively strong position in terms of the pace of reform implementation, when compared with other countries in the EaP region. At the same time, according to OECD data, Moldova is just behind of Ukraine in terms of the number of sectors undergoing reform (see Figure 16). For more effective economic policy and business environment alignment, including for small and medium enterprises, we believe it is essential to compare economic indicators with those of EU member states such as Romania, Latvia, Lithuania, and Estonia. Benchmarking and referencing these countries as examples for policy development and implementation would facilitate more dynamic business regulation and digitalization growth.

Section 3.5. Bureaucracy

In recent years, regulatory authorities have been considering measures to deregulate various sectors of the economy. In essence, it is a comprehensive process of analyzing the selected economic sectors, identifying existing issues, and implementing regulatory measures to address them in order to enhance the business environment. In the period 2023–2024, seven sets of regulations were adopted with the aim of simplifying bureaucratic procedures and creating a more favorable business environment for businesses in Moldova. The Ministry of Economy and Digitization has stated that following the adoption and implementation of the first five deregulation packages, the business environment is estimated to have saved approximately 304 million lei and received benefits of approximately 550 million lei⁶².

A summary of the deregulation measures indicates that changes have been made in the following sectors to streamline processes and reduce bureaucracy:

Package No. 1 - On May 11, 2023, Parliament approved Law No. 112, which contains a series of legislative amendments designed to significantly reduce the unjustified requirements imposed by the state on entrepreneurs. According to the document, the employer is no longer obliged to approve an internal regulation and draw up preliminary contracts. Furthermore, companies in the ICT field will be able to hire specialists on the basis of a fixed-term contract. The legislation excluded record keeping and reporting to military centers on potential recruits. The so-called "blue passport" was also eliminated—the permanent medical file where the results of multiple medical examinations and other information are recorded. This represented a bureaucratic burden that put 30 thousand employees in the HORECA sector, but also in other sectors, in difficulty. In order to facilitate the development of small businesses, it was simplified to change the destination of spaces in blocks from residential to commercial/services.

Package No. 2 - In November 2023, the Parliament adopted Law No. 325/2023, the tax and customs deregulation package. The law is expected to generate economic benefits of at least 500 million lei annually. The law includes several notable provisions, including the elimination of vehicle registration and control, an increase in the amount considered tax arrears from 100 to 500 lei, the introduction of the right to deduct VAT for purchases based on tax vouchers in the amount of up to 2000 lei when paid with a business payment card, a reduction in the minimum value of tax or customs liabilities that can be contested in dispute resolution boards, and several other beneficial changes for the business community.

Package No. 3 - The third package introduces changes to horizontal legislation in the field of state control. The package also expands the scope of law enforcement, aligns the responsibilities of control bodies with the areas of state control, introduces contraventions for inspectors who apply measures and sanctions not explicitly provided for by law, and includes numerous other beneficial provisions for the business community. The changes are designed to reduce the risk of sanctions for businesses and the burden of compliance in the state control process.

Package No. 4 - Government approved the fourth package on January 10, 2024, and submitted it to Parliament for adoption. The document proposes amendments to 12 laws with the objective of removing

⁶² <https://consecon.gov.md/wp-content/uploads/2024/03/Raport-Anual-2023.pdf>

a series of constraints and reducing the regulatory burden on entrepreneurial activity. The package provides for the recognition of commodity exchanges in EU countries and the modernization of stock market legislation.

In addition, the changes will streamline connection procedures to public utilities, eliminate the requirement for a “Book of Complaints,” and provide other benefits for the business community.

Package No. 5. - Government approved 5-th package on November 1, 2023, through Government Decision no. 831. The Decision includes several key provisions, including the exclusion of adaptation medical exams, the exclusion of mandatory medical exams for employees who use computers and other visually tracked devices, the exclusion of doctor's records from the roadmap, the admission for subsidization of additional rural tourist reception structures, such as rural houses, tourist guesthouses, craft units, and other beneficial provisions for the business community.

Package No. 6 and 7 – The regulations in these packages are designed to reduce costs and barriers for the Moldovan business environment, with a focus on various areas, including the commodity exchange, consumer protection, rural tourism, hygiene training, occupational health and safety, public procurement, and alternative methods of identification and certification of public keys.

Despite the government's efforts to streamline bureaucratic procedures for businesses, there are still important sectors that require attention. These sectors focus on eliminating bureaucratic barriers and regulatory inefficiencies, as well as reducing time spent on economic processes.

Regarding the elimination of bureaucratic barriers, we will highlight one of the most significant obstacles to efficient processes and economic growth. This issue is systemic in nature and requires a comprehensive approach to its resolution. In the section on regulatory inefficiencies and time savings, we will discuss the elimination of outdated standards and the digitization of processes.

Enhancing inter-institutional cooperation

It is often the case that communication between the private sector and public authorities, or between civil society and authorities, is subject to criticism. This can result in a lack of transparency in decision-making processes, which in turn hinders the registration of greater successes. However, Moldova is ranked better than other countries from the Eastern Partnership, such as Georgia or Ukraine, in this regard. This fact is indicated in reports from international organizations. However, an important factor that is not included in these reports and that is not on the Government's agenda is the inter-institutional resistance or lack of effective communication. This has a significant impact on the process of debureaucratization in Moldova.

The lack of effective communication between public institutions and agencies can often create more challenging circumstances for the business environment than expected. It is crucial to highlight this issue with the relevant authorities and propose solutions to address it. Ineffective communication between different ministries or departments with conflicting agendas can significantly impede the implementation of key reforms, particularly those related to economic and business environment development. This process not only affects reform implementation and new normative initiatives aimed at improving the business environment, but it also has broader implications for various other areas. The lack of communication or the adoption of opposing positions between institutions can result in significant revenue losses to the state budget. These losses may be in the form of collections or taxes.

As a business association, AIM consistently engaged with the relevant public authorities involved in the creation of SME-related regulations. Additionally, AIM conducted periodic assessments of the openness of institutions to business and of dialogue. Over the past three years, there has been an increase in dialogue with civil society regarding decision-making transparency, with the problems outlined in Section 3.3. (b). However, despite this progress, some public institutions have adopted positions that have slowed down or removed initiatives to improve the business environment from the decision-making process.

During the period in question, a trend of divergent positions was observed between the Ministry of Economy and Digitalization, which promoted liberalization of the business sector, and the Ministry of Finance, which followed the existing status quo and was the "accountant" of revenues to the state budget. It is frequently the case that initiatives to reform the business environment require the backing and endorsement of the Ministry of Finance in order to be implemented effectively. Those in favor of the current status quo often cite a reduction in immediate revenues to the state budget when arguing against new modernization initiatives. However, this ignores the potential for future revenue increases in the medium and long term. This approach based on different positions often creates a reluctance in inter-institutional dialogue, which slows down the promotion of economic reforms in specific sectors of the business environment that require modernization and digitization.

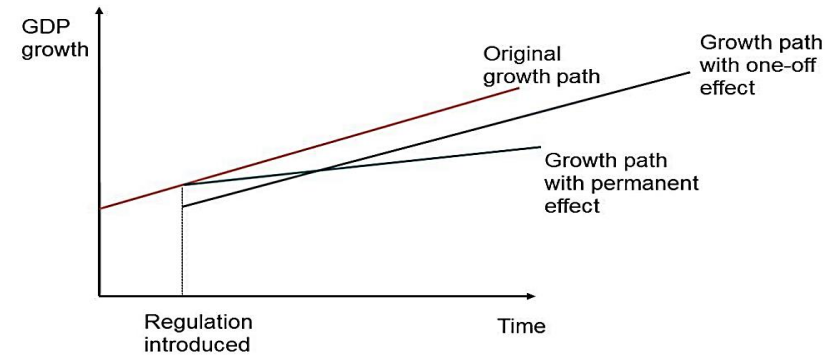
To address this issue, it is recommended that an in-depth analysis of the communication channels between the ministries be conducted. This will allow for the proactive implementation of the governance program adopted by the Executive upon the investiture by the Parliament. It is important to recognize that sound economic strategies should not be hindered by concerns about immediate revenue impacts to the budget, particularly when these are offset by long-term budgetary gains. It is crucial that authorities promoting economic reforms and initiatives favorable to the business environment demonstrate the qualitative and quantitative impact of their initiatives in a clear and concise manner. This will ensure a comprehensive understanding of these initiatives by other ministries and key stakeholders involved in the decision-making process. To oversee and streamline the process, we recommend establishing clear standards at the State Chancellery level to prioritize economic modernization initiatives based on financial data, long-term revenue projections, and strategies aimed at reducing time and resource costs for the business environment.

Focus on Innovation and growth

Regulation of the business environment and its operational rules is a core and perpetual topic of contention between businesses and relevant state authorities. Regulations aimed at rectifying market regulatory gaps have the potential to positively impact economic activity by promoting greater efficiency and clarity for businesses, consumers, and the state. At the same time, overregulation of the business environment, the market, and the rules of activity has a negative impact on economic growth and leads to increased compliance costs, market distortions, and unintended consequences.

To ensure a balanced approach, a thorough and careful analysis between these two elements—lack of regulation and overregulation—is necessary. This will allow for a dynamic but organic development of the business environment and economic growth. It is important to note that regulatory measures can influence the level of economic activity and the rate of economic growth. These two distinct concepts are illustrated in the figure below.

Figure 21

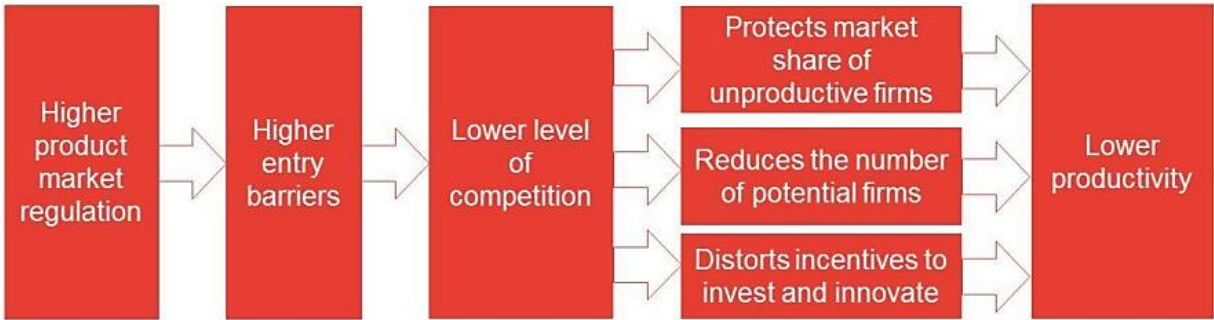


Source: Frontier Economics

The business community generally considers compliance costs to be a significant factor in their overall productivity and the resources they are prepared to allocate for innovation, development, and expansion. As illustrated in Figure 21, the introduction of a permanent regulatory burden by the state has a negative impact on economic growth. When a regulation is introduced with a one-time effect, economic growth indicators also experience a slowdown⁶³. It follows that deregulation by the state would create a more favorable business environment for development.

With regard to the impact of excessive regulation on the business environment, please refer to Figure 22. This illustrates that a higher level of regulation of the business operating environment leads to increased financial costs for enterprises seeking to access the market. Restrictions on market access inevitably impact competition in a specific segment of the economy, leading to a reduction in the number of companies and the reduction of financial resources available for innovation and modernization.

Figure 22



Source: Frontier Economics

The preceding information indicates that the weakening of centralized state regulation of the business environment has an effect on the freedom of business operation as a whole and on the economy. It is crucial that the deregulation process encompasses more than the traditional methods of analysis and legislative amendment to reduce bureaucracy. In addition to this, the measures implemented should be focused on economic growth and, in particular, innovation. As previously mentioned, the government has already taken several measures to address this issue. In addition, we will discuss a series of concrete actions in Section 4.2.

To facilitate the allocation of resources for innovation from the business sector, it would be necessary to liberalize certain sectors of the economy under state supervision. The innovative measures were particularly relevant and necessary during the pandemic, when businesses were isolated from customers and had to find alternative ways of conducting business. Technologies such as online shopping, online banking, and online payments were crucial for maintaining business continuity. This presents an opportunity for the development of the fintech sector (including e-payments), along with related services. Such measures would include so-called sandbox licenses which can be applied in many sectors along with fintech.

The objectives of a sandbox can vary considerably in practice. Sandboxes are typically classified into four categories based on their objectives: (i) policy-focused; (ii) product or innovation focused; (iii) thematic; and (iv) cross-border. It should be noted, however, that these categories are not mutually exclusive.

- Policy-focused sandboxes are: These sandboxes utilize the sandbox process to assess specific regulations or policies.

⁶³ <https://assets.publishing.service.gov.uk/media/5a7905d040f0b676f4a7d401/12-821-impact-of-regulation-on-growth.pdf>

- Innovation- or product-focused sandboxes: These sandboxes facilitate innovation by reducing the cost of entering the regulated marketplace, enabling firms to assess the market viability of new business models.
- Thematic sandboxes: Sandboxes of this type are designed to accelerate the adoption of a specific policy or innovation, or to support the development of a particular subsector or specific products aimed at particular population segments.
- Cross-border sandboxes: Cross-border or multi-jurisdictional sandboxes facilitate cross-border movement and operations for firms, while encouraging regulatory cooperation and reducing arbitrage.

A total of 73 sandboxes were announced globally between 2016 and 2020. A graphical representation of Figure 23 illustrates this point⁶⁴. Across the world there are currently 111 „regulatory sandboxes”⁶⁵, as well as 88 innovation offices.

Figure 23

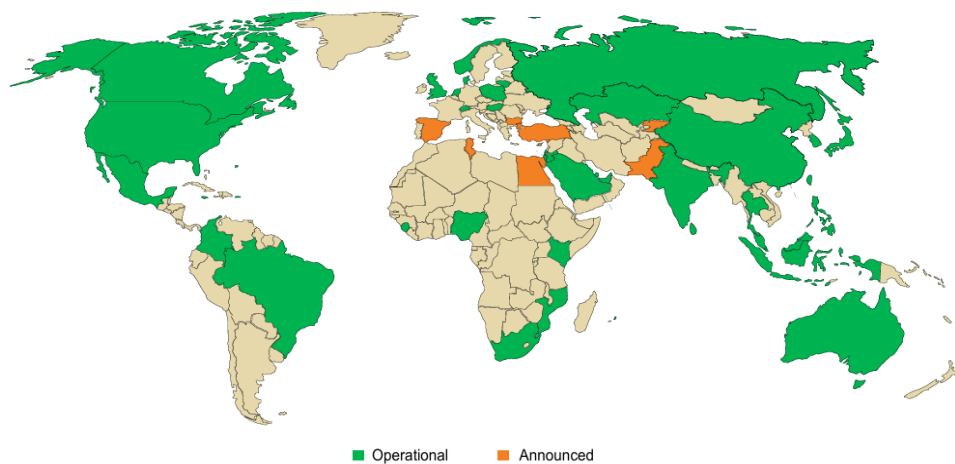
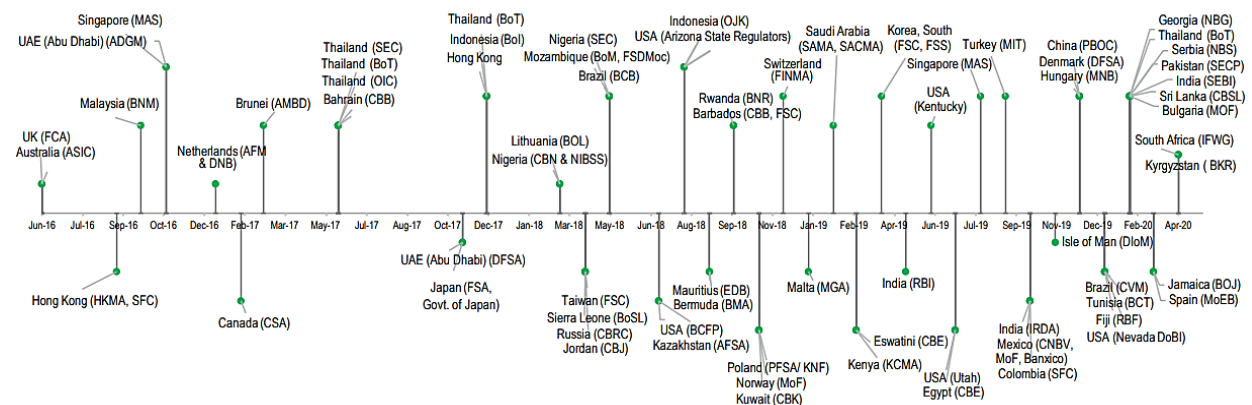


Figure 24 provides a chronology of the phenomenon and the jurisdictions where it applies.

Figure 24



⁶⁴ <https://documents1.worldbank.org/curated/en/912001605241080935/pdf/Global-Experiences-from-Regulatory-Sandboxes.pdf>

⁶⁵ <https://www.globalgovernmentfintech.com/sandboxes-could-amplify-problems-imf-analysis-questions-many-test-spaces-impact/#:~:text=in%20a%20sandbox%20proliferation-Across%20the%20world%20there%20are%20currently%20111%20regulatory%20sandboxes'%2C.%2C%20geography%2C%20status%2C%20year%20of>

A review of the national legal framework in Moldova reveals that there are no current discussions regarding the application of sandboxes, with the exception of the energy sector⁶⁶. The advancement of sandbox discussions in several economic sectors in Moldova would strengthen the regulatory legal framework with a more liberal approach, leading to greater economic development and innovation.

The introduction of sandboxes in Moldova would have the dual benefit of fostering innovation and growth in the country's financial and other sectors. In Moldova, sandboxes would emerge from a context that is unique to this country. Therefore, in order for them to be a useful tool, they must be set up in an appropriate manner. Consequently, it would be advisable to engage the business community in a comprehensive and consistent dialogue before introducing the sandbox concept.

In a situation of regional and global economic instability and challenges, the easiest way for Moldova to achieve substantial GDP growth is through investment in improvements in the efficiency of the domestic market. Unnecessary red tape wastes a significant amount of time. For large companies, these inefficiencies often take the form of "jobs" that exist only to make it easier to comply with laws or circulate documents. For small businesses, whose time is their most valuable asset, these tasks often fall to the owners or senior managers of the company.

The criticality of this issue is illustrated by the following estimate of lost time and its impact on GDP. It is estimated that the time lost by businesses due to regulatory compliance accounts for a certain percentage of Moldova's annual GDP. At the same time, the burden of regulatory compliance is estimated to be significant, including up to 1.5% of GDP in EU countries⁶⁷, up to 3.6% of GDP in Denmark⁶⁸, up to 12% of GDP in the U.S. ⁶⁹, according to a number of studies and research papers conducted in various jurisdictions around the world.

Taking into account the above arguments, AIM is of the opinion that Moldova should not try to catch up with the situation in certain countries, but to become a leader in terms of ease of doing business and elimination of red tape.

Section 4. Future policy design

According to the research conducted in this White Paper AIM has identified a series of key challenges and opportunities facing Moldova's SME sector and the economy more broadly. AIM recognizes that sustained, inclusive, economic growth is *the* key factor that will contribute to solving the country's social, demographic and political challenges in years to come. EU integration, slowing and reversing migration, building a European standard of living across the country and fostering societal optimism about the future all rely on major, sustained, economic growth.

Key to economic growth is the health, viability and competitiveness of the small business sector. Small businesses are the risk taking centers of innovation that drive local and national growth and grow into the industry leaders and national champions of the future.

⁶⁶ <https://energie.gov.md/ro/content/ministerul-energiei-discutat-cu-membrii-consiliului-economic-proiectul-de-lege-privind>

⁶⁷ https://regulatorystudies.columbian.gwu.edu/sites/g/files/zaxdzs4751/files/2022-10/regulatory_compliance_burdens_litreview_synthesis_finalweb.pdf

⁶⁸ https://regulatorystudies.columbian.gwu.edu/sites/g/files/zaxdzs4751/files/2022-10/regulatory_compliance_burdens_litreview_synthesis_finalweb.pdf

⁶⁹ <https://nam.org/regulatory-onslaught-costing-small-manufacturers-more-than-50000-per-employee-29236/?stream=series-press-releases>

The following policy recommendations are designed to address the challenges identified in this white paper and to create opportunities for future economic growth. For each section we have split the recommendations into 2 sections:

1. **Structural / Strategic** - Recommendations on how the government and state institutions can adapt to the requirements of continued reform and the urgent need for economic growth.
2. **Technical** - Recommendations on specific policy areas and potential opportunities for reforms.

While the technical recommendations below outline opportunities for legal and regulatory reforms that will substantially support economic growth and the small business sector, AIM believes that structural reforms are the most critical for achieving long term growth. Currently, all efforts at economic reform, including debureaucratization, are addressed by the business community to the Ministry of Economy and Prime Minister's Economic Council. These two entities collectively "own" the problem of economic development. In a situation where economic development is the overriding priority of the state, and the only real solution to the critical problems facing citizens, this is insufficient. Every ministry should be responsible for growing the economy within its area of responsibility. In some cases the mechanism for this responsibility is to directly support growth in some or all sectors of the economy. In others, it may simply be evaluating the ministry's area of responsibility to identify opportunities at process simplification and time saving. We will discuss ways for individual ministries to contribute to economic development below.

In order to achieve sustained growth, all elements of the government must actively work for growth and report on their actions in support of economic development to the parliament and public on a regular basis.

Section 4.1 Structural / Strategic Recommendations

- A. **Adding a "Growth Mandate" to the Ministry of Finance**: The Parliament and the Government each on its own level should decide that the Ministry of Finance should be given a growth mandate. This mandate should be made primary in the Ministry's [mission and vision statement](#) on par with the responsibility for budgetary stability. The Ministry should be held accountable to this mandate by providing public economic growth projections as the key rationale for decisions made by the ministry.
- B. **Adding a "Growth Mandate" to the Ministry of Culture**: Moldova's number one export potential, by virtue of being highly underdeveloped, is inbound tourism. In order to promote a national strategy for promoting tourism as well as the national brand in wine and key products, we advocate that Parliament and Government add a "Growth Mandate" to the mission and vision (which, if they exist, are not public documents) of the Ministry of Culture. This mandate should require the ministry to create reports on their efforts at growing cultural tourism and be held accountable by publishing these reports publicly and presenting them to parliament.
- C. **Designating the Ministry of Labor as *structurally* responsible for eliminating salaries in envelopes and unloyal competition via payroll tax evasion**. Currently the Ministry is responsible for inspections and controls of unofficial labor and has an *enforcement* role in combating salaries in envelopes. AIM believes that the Ministry should further be tasked with a responsibility to eliminate the structural underpinnings of this activity. The ministry should not only evaluate existing data for potential non-compliance, but look for missing data via statistical means to identify sectors with widespread non-compliance (e.g. seasonal workers) and suggest legislation to bring these workers into a fair and transparent system. The Ministry should be held responsible on a regular basis for the continued existence of unofficial work, and present the efforts being made at both enforcement and legislative reform.

- D. **Setting a national goal of identifying and closing key structural gaps by EOY 2025** : The government should create a working group targeting the identification and closure of key legislative and regulatory gaps. This working group should be led by the Prime Minister’s Economic Council with a mandate from the Prime Minister and should suggest legislative and regulatory fixes for these gaps which should be passed and implemented by EOY 2025. AIM has identified a list of key gaps (See Section 4.2(c) Technical Recommendations) which can serve as a starting list of objectives for the working group. Critically, all of these issues are well known to business, civil society and to the government itself. The purpose of this group should be to directly address the elephants we already know are in the room.
- E. **Creation of an Office of the Business Advocate**: In order to create a data driven systemic approach to rapidly adapting to changing economic conditions the government and parliament should create an Office of the Business Advocate [as outlined by AIM’s 2024 Legislative Agenda](#). This office should include an internal “Department of Innovation” which collects issues and opportunities raised by the private sector and makes regular recommendations to the government and parliament on ways to keep legislation and regulation aligned with the development of new business sectors.
- F. **Creating a Tax Administrative Simplification Mandate** - The Ministry of Finance and State Tax Service should be given a mandate to simplify the process of paying taxes in Moldova. This should be done by publicly setting a target to match or exceed the ease of compliance of a specific EU nation (e.g. Estonia). The government should set this mandate by utilizing internationally recognized metrics as well as internally created metrics in order to create the comparison. A time bound target should be created to conceptualize and implement the necessary reforms to hit this target.
- G. **Mandating the implementation of Risk Based Assessments for all control agencies** : Too many control agencies utilize a random or non-transparent mechanism for planning and conducting inspections and controls. AIM recommends that the government mandate that all controlling agencies implement a set of risk-based criteria for their controls which is publicly presented for comment and input. Eliminating unloyal competition is important for SMEs seeking a level playing field as it is important for the government seeking to eliminate non-compliance. This white book shows that it is possible to statistically understand where there are critical issues of non-compliance by comparing national statistics with those of peer and near-peer countries. Comparing employment statistics, productivity statistics (which can imply non-fiscalized income), worker distributions and more can highlight critical areas. Just as with agricultural / seasonal workers *everyone knows* where the biggest problems are. Agencies should be mandated to show their work and present a public risk analysis mechanism to prove that they are attacking the issues and not focusing on fully compliant companies which are easier to find, control and at times harass.
- H. **Creation of a permanent Public-Private dialog platform on the education of specialists** - The Ministry of Education should create a mechanism for structured feedback from private sector companies regarding curriculum offerings, international partnerships and other mechanisms for assuring that the higher education system is producing graduates who are fully prepared for the realities of the modern economy.

Section 4.2: Technical Recommendations

AIM proposes the following technical recommendations to law or regulation in order to simplify business, combat informality and spur economic growth.

Section 4.2(a) Building a Dynamic SME Sector

As outlined in Section 2.1 Moldova has fewer SRLs per capita than peer countries or aspirational countries within the neighborhood and the EU. Furthermore, Moldovan SMEs employ, on average, more workers than SMEs in companies studied in this comparison. This implies 2 key issues:

1. It is more difficult to register and operate a small business in Moldova
2. It is prohibitively costly or otherwise impossible to register and operate a microbusiness in Moldova - leading to the operation of unregistered microbusinesses and therefore skewing the employee average in various sectors.

In order to solve this issue, and to make Moldova competitive in business operations it is critical to structurally incentivize company formation and growth through the micro-business > SME > corporation life cycle.

In order to create the dynamic SME sector required for growth AIM makes the following **Technical Recommendations**:

- A. Passing a Small Producers Law:** AIM actively advocates the creation of a comprehensive set of regulations, taking into account European practices, focused on the needs and activities of small producers. It is proposed to develop a series of amendments to the existing legislation in order to optimize and simplify the technical and sanitary requirements to facilitate the activity of food operators producing small quantities of animal/non-animal food products, producers of artisanal products, producers of traditional products and food services in tourist/agro-tourist accommodation. In order to facilitate the activity of food operators, so that small food producers can carry out their activity in more flexible codes, including the implementation of food safety management systems, including good hygiene practices and procedures based on HACCP principles, AIM proposed to complete the draft HG discussed during the meeting of the Working Group established by MAIA Decree No. 118 of September 25, 2023. At present, the public food sector⁷⁰ is regulated by the classic authorization procedure for all food operators; in this sense, and in order to facilitate the activity of small producers, the simplified procedure provided for in the proposed amendments⁷¹ will replace the veterinary health authorization, which is now issued through a much more complicated procedure, so it is proposed to complete HG no. 1209/2007. Concerning the activity of tourist pensions, there is currently no specific law or special regulations for the activity of tourist and agritourism pensions. At present, tourist and agrotourism pensions belong to the category of catering establishments and must comply with the relevant regulations in this field. Since the current regulations⁷² regulate the types and classification of tourist and agritourism accommodations, we propose to supplement them with provisions directly related to the requirements for the preparation and serving of meals, as well as the registration procedure for food safety.
- B. Simplified Micro-Business:** The government should further simplify the processes of operating and administering micro-scale SRLs. For companies of this size the primary burden, in both time and money, is accounting and Human Resources compliance. In order to attract informal micro-enterprises into the system it must be as easy to operate a micro-SRL in Moldova as it is to operate an equivalent company in Estonia. AIM recommends taking inspiration from other countries in crafting this policy. Most critically, micro-SRLs should be able to simply file reports and tax statements online with the government. This should be possible without specialized and costly

⁷⁰ HG nr.1209/2007 - https://www.legis.md/cautare/getResults?doc_id=137074&lang=ru#

⁷¹ pachetul de Lege de modificare a unor acte legislative inclusiv conform derogărilor prevăzute și în Legea nr.50/2013 pentru acordarea certificatului de înregistrare în domeniul siguranței alimentelor - https://www.legis.md/cautare/getResults?doc_id=133187&lang=ro#

⁷² HG nr.643/2003 - https://www.legis.md/cautare/getResults?doc_id=124342&lang=ro#

software (1C, etc) and should be straightforward enough that any business owner can do it themselves without an accountant.

- C. **Self Employment and Individual Contractor Law:** Moldova does not have a functioning system of self-employment for cases where individuals work in the service sector but are not full-time employees of a company. This means that many workers, who are important for the economy and are often hired by companies for short-term work, do not fall strictly under the provisions of the Tax Code, i.e. they do not pay taxes, are not considered legal employees by companies and their financial sources are often outside the financial system managed by the country's banking system. This issue affects a broad range of occupations, such as plumbers, handymen, painters, all types of repair workers, consultants (online marketing, social media, and so on). What these professions have in common is that they are often 1 person or a small team (2-3 construction workers). They are too small to form an SRL. The lack of legislation in this area does not only affect the workers, who are unable to legalize their income, but also the companies, which need to create "gray" or "black" cash to pay for the services they need. Companies cannot afford not to hire a plumber when pipes start leaking or small but urgent jobs need to be done. The need to employ people who are not covered by current legislation means that 'informal' relationships are accepted, which in turn is a breeding ground for tax evasion and corruption. AIM has studied regional and global best practices on self-employment and proposes a structure similar to that in certain European countries. People working in certain sectors should be treated as micro-enterprises for themselves. Our solution requires a fully transparent and digital system, facilitated by the FISC and operated by banks. Using the beneficiary's IDNO code and bank details, individuals and companies can pay a self-employed person. This payment process would record the type of work and the time of payment. Taxes would be automatically withheld by the financial institution. AIM proposes a special graduated tax rate starting at 2% and increasing by 2% annually until it reaches the tax rate for commercial companies. This gradual increase in the tax rate will bring people into the new system. Eventually, it will bring the self-employed into line with the general level of business taxation, recognizing them as micro-businesses. By bringing in new customers who are not currently "banked", banks will be incentivized to participate. Currently, this category of self-employed is not taxed at all. Therefore, every cent of tax is a cent that the FISC does not collect and remains in the gray economy. For more details, see AIM's proposed bill on self-employment⁷³.

Section 4.2(b) Workforce Productivity

- A. **Foster closer relationships between higher education, trade schools and the private sector.** The Ministry of Education should mandate career days, job fairs and other exchange opportunities between educational institutions and the private sector. Additionally, the ministry should seek more input in key curriculum development questions from industries which will be asked to employ the graduates of the various faculties. More information can be found in [AIM's legislative agenda 2024](#).
- B. **Passage of Mini-Jobs** - the government should consider the [creation of a system of mini-jobs](#), as proposed by MP Mariana Lucrețeanu, in order to stimulate highly mobile part time employment. By increasing the number of part time workers, especially those seeking to do a similar job for multiple companies, companies will have more hiring options and be able to hire part time specialists rather than full time generalists. More specialization leads to higher productivity and additional gains for companies who will have access to higher quality workers.

⁷³ <https://drive.google.com/drive/u/0/folders/1yFa1-L681IVx1Bde1-oabqDLGndhu7Ak>

- C. **Attracting Immigrants** - Due to the structural labor shortage in the economy it is critical that Moldova establish a process of attracting and integrating foreign workers. This policy should focus on simplified worker visas for targeted countries of origin, mechanisms of Romanian language learning for immigrants and strategic efforts to retain foreign students after graduation.

Section 4.2(c) Elimination of Gaps, Illegalities and Gray Areas

In AIM's analysis "gaps" or "loopholes" in legislation and tax policy are areas of normal, required, business activity which are not provided for under current law, or, where the legal provisions governing such activity so completely fail to regulate the named activity that they are effectively non-existent. Loopholes occur when legislation or regulations are designed with flaws or are outdated, forcing companies to find illegal or semi-legal solutions in order to perform or accomplish a simple task. Legal loopholes create the "informality" effect. To enable companies to do the right thing without breaking the law or seeking informal solutions, it is essential to close these loopholes and establish a clear regulatory framework.

Legislative and regulatory gaps such as this are both socially and economically toxic. They require law breaking, or bending, by businesses simply trying to operate and thus expose companies to the risks of non-compliance or partial compliance. Economically, they put critical business activities outside the scope of normal business activities, reducing paid tax (or tax deductions), mischaracterizing business structures making lending and borrowing more challenging, and often moving certain business functions for foreign jurisdictions.

- A. **Agricultural and seasonal workers:** As outlined in Section 3.1(b) Moldova has a problem with massive unofficial workforces in key sectors - none more than agriculture and seasonal work. The government should create a simple, attractive mechanism for legalizing this workforce. AIM recommends integrating seasonal workers into a self-employment mechanism as outlined in Section 4.2(a).C.
- B. **Onshoring of Capabilities:** Companies operating in Moldova that require normal but unavailable capabilities often are forced to offshore elements of their activity in order to operate. This includes online payments processing, issuing digital receipts, automated issuing of tax invoices, etc. These capabilities are clearly required and companies such as digital taxi-companies, IT services companies, scooter rentals, etc all operate in offshore jurisdictions in order to access digital services that have often been available in those jurisdictions for decades but still do not exist in Moldova. In order to support local companies, foster local economic growth and capture this local economic activity in state tax receipts it is critical to pass legislation and regulation targeted at onshoring these capabilities.
- C. **Onshoring of Business Activity:** Companies will similarly locate in offshore jurisdictions in order to access normal and expected business functionality that is unavailable in national legislation. The government made major strides to closing this capability gap in 2023 with the passage of the SRL reform law that liberalized shareholder relationships and company structures in the country. This must be followed with further reforms to make it attractive to locate companies in Moldova and fully operate them domestically. This includes the codification of actual *limiting of liability* into the structure of Limited Liability Companies.

Section 4.2(d) Access to Finance

- A. **Creating a Long Term Capitalization Plan for 373 and state backed loan guarantees** - Given the estimate that the SME finance gap in Moldova could be as high as 5% of GDP the current strategy of capitalizing programs such as 373 from external partner funds and direct government resources

is insufficient. AIM has proposed the creation of a Private Long-Term Savings and Investment Program for workers, similar to the 401k retirement program in the US¹². This program would allow workers to save 10% of their income (pre-tax) and be matched by their employers at the 50% level (also pre-tax). Contributions to the investment account would be taxed only if withdrawn before certain number of years, for example 7. . The funds would be managed by a qualified management team of financial professionals selected and certified by the government agency overseeing the program. Participation in the program in Moldova is proposed to be voluntary for companies and employees, but mandatory for companies receiving tax subsidies, such as those in the IT Park. Employees of the IT park whose income is more than three times the equivalent of the country's minimum wage would have to participate in the maximum amount of savings. Funds under this program should be used in whole or in part for business development loans on favorable terms, similar to 373.

- B. Supporting supply chain financial instruments. SMEs typically decide to factor their receivable assets for instantaneous cash flow instead of waiting for buyers to settle the transaction within 30 days. This kind of financing is beneficial because consistent and uninterrupted cash flow is among the most significant challenges SMEs face in operating their business. Therefore, the proposal is to create a guarantee fund for factoring contracts for specific export-oriented industries and countries.
- C. Providing support to issue bonds or equity on Bucharest Stock Exchange. The AeRO is a dedicated segment of the Bucharest Stock Exchange for SMEs where the entities can attract private capital either via issuing bonds or equities. Therefore, the authorities should focus on providing support on improving SMEs' governance, procedures, investment plans and transparency to boost their productivity. Consequently, mature enough SMEs could target a potential listing on the AeRO.

Section 4.2(e) Taxation and Tax Policy

On paper Moldova has a competitive tax system that favorably compares to European norms. In practice, widespread non-compliance, tax evasion and a tax system that disproportionately targets low income workers paints a different picture. Eliminating informality and unloyal competition is not only an enforcement issue but a set of interrelated structural challenges. AIM advocates for the creation of new structures to formalize existing but informal business relationships and to realign the current income tax system to make it more fair. Finally, it is critical to make Moldovan more competitive in the area of tax compliance by simplifying processes and implementing new mechanisms for commerce.

- A. **Formalizing Existing Micro Businesses** - In order to eliminate informality, bring new resources to the budget and assure that all workers have access to banking and normal financial resources the government should implement reforms in Self Employment (Section 4.2(a).C), codify Small Producers into a legal structure (Section 4.2(a).A), pass a reform recognizing part time workers with multiple workplaces such as the "Mini-Job" reform (Section 4.2(b).B), and create a mechanism for Agricultural and seasonal workers (Section 4.2(c).A).
- B.
- C. **Adopt a system of differentiated (marginal) taxation** - The government should introduce a system of differentiated taxation based on the amount of income, which increases the tax burden with income rather than decreasing it. Just as the IT Park Law brought IT companies that had been operating illegally outside the state tax system into the legal tax system. A significant reduction in tax payments for the lowest paid workers would remove the main incentive for envelope wages. This would lead to higher wages for workers and higher profits for companies, which would have more resources to hire more people to expand their businesses and operations. Tax thresholds for a differential tax system should be carefully consulted with economists and experts to achieve 2 primary goals. First, to incentivize tax compliance by low-wage workers. Second, to encourage those with high incomes or who currently use "other" sources of income to bring their wages into

the economy in a formal way. No solution other than a differentiated tax system can achieve both objectives simultaneously.

D.

E. **Online Payments and E-Bon fiscal (Tax Voucher)** - At the present time, the e-commerce sector in the Republic of Moldova is anemic and almost non-existent. Banks and some third-party payment processors have started to allow people to pay for goods or services online in the last 3 years. At the same time, these services are not easy to use and are not fully integrated with the main providers of online payment services in Moldova. For example, paying for Yandex Go is done in Amsterdam, paying for Bolt in Estonia, paying for Glovo in Spain, etc. Given the lack of local payment processors and, critically, the loopholes in the electronic payment voucher legislation, businesses have had to find solutions. The requirement for paper vouchers excludes online marketplaces with a common distribution infrastructure, such as Amazon, and recurring payments for digital services, such as subscription-based services. In a separate paper, AIM and other e-commerce stakeholders analyzed these issues in a concept paper entitled *Unlocking Moldova's e-commerce potential*⁷⁴. The government needs to create a digital collection system - the e-Bon fiscal – to create the financial infrastructure for a modern e-commerce sector. AIM has developed in a document – *Functional Specification for E-Bon Fiscal Reform* – a concept including a functional specification for this system based on the new STS MERV system⁷⁵.

F. **Tax Invoice in case of Cash and Card Payments** - Even into the 21st century, Moldova still requires a special invoice signed and stamped by company executives on every B2B cash or company card transaction. Accountants from the selling company and the buying company have to get together and create, sign and stamp a tax invoice every time a company needs to quickly go to the store and buy a set of light bulbs. These documents are not invoices. While an invoice is a debt contract in which a company receives goods and agrees to pay for them at a later date, tax invoices combine the qualities of both an invoice and a delivery receipt. They are required even when companies pay with cash or a bank card at the time of purchase. The most important thing is that these documents do not serve any purpose for the FISC. The VAT system was explicitly designed to allow the movement of goods and services in an economy and the taxation of value-added without the need for a two-way chain of verification for all commercial transactions. This system is not necessary. It's time consuming and administratively costly, which is essentially harmful to the economy. The burden of complying with the rules leads companies to skip the small procurement process and fail to comply with the applicable regulatory framework. We describe this problem and proposals for solutions in an AIM case study - *Structural incentives and compliance*⁷⁶. In order to adopt international best practices and simplify B2B transactions and compliance, AIM proposes a general overhaul of the tax invoice system. A separate document, to which this Legislative Agenda refers, contains the full set of AIM proposals⁷⁷. The key aspects of this reform are as follows:

- a. **(a) Acceptance of the tax document as a "primary document"** - applicable to B2B trade and payments and for VAT and credit compliance checks. We support the government's proposals to create a limited acceptance scheme that would only apply to bank card purchases and would be subject to a monthly limit. AIM sees this concept as a good start, but the ultimate goal is full acceptance of the Tax Voucher for cash and bank card purchases in B2B transactions (subject to existing cash purchase limits).
- b. **(b) Elimination of the tax invoice for B2B transactions involving debt.** An invoicing system modeled on the EU e-invoicing standards should be used for purchases or transactions involving delivery and subsequent payment. This system is easy to use. It can be read automatically by default and is decentralized. It should replace the existing e-

74

https://docs.google.com/document/d/1WL6B10p6ea0hstzd7dqBtUoAdAvo_JboUrR6s3eYh04/edit#heading=h.y4i54187m8j

S

75 <https://docs.google.com/document/d/12tOTg-yv59I9ikiV6OzhvJk6C10etr8KM7j-qA-fdY4/edit>

76 https://docs.google.com/document/d/1yDDaxXalyioG5zyvTy5t6xGG6wmu_eqPZQ2v_EYeoI0/edit

77 https://drive.google.com/drive/u/0/folders/1_NuuhhEEf_izgiqHfBuN2o-Fz2Pm9Z

invoicing system, which has none of the above advantages. As part of its EU accession efforts, Moldova needs to implement these initiatives in a way that is practicable in Europe. This would be beneficial for the business environment and for moving towards compliance with EU standards.

- c. **(c) Use of e-Bon fiscal and MERV to Enable FISC Understanding and Tracking** - While the elimination of invoices in their current form has immediate and clear benefits for businesses, it is clear that tax authorities will want to retain the deeper insight into transactions and trade that the current intrusive tracking system provides. Fortunately, with the creation of the MERV and the formulation of the AIM e-Tax proposals, there is a beneficial solution that can work for all stakeholders. Using the QR code on tax receipts, the FISC should create a system that allows business accountants to digitally record their purchases for VAT refunds. This will prevent double-use of tax receipts or other potential fraud, while maintaining a simple system without wasted paper, unnecessary signatures and stamps.