

# Comparative evaluation of Republic of Moldova's competitiveness within the group of economies in transition



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Among European countries which have completed the transition from planned to market economy, Moldova has enjoyed less success. Although it is working to support the creation and strengthening economic transition, the expected results are achieved slowly. Republic of Moldova has signed in June 2014 the Association Agreement with the European Union, in order to complete the transition period, to increase business competitiveness and populations' quality of life and therefore to reduce development disparities compared to other countries in the region. The article below treats the main pillars of economic competitiveness of the country in comparison with other economies in transition, on the base of Global Competitiveness Report methodology.

**Keywords:** competitiveness, transition economy, Moldova, doing business, investments.

In the Global Competitiveness Report for 2015, Moldova ranks 84 of 140 countries with a score of 4,0 points on a rating scale of 1-7. General domestic economic situation in 2015 has evolved favorable for the investment environment compared to 2008, when it ranked 95 of 134 countries.

In 2015 the country holds its best scores on Health and primary education pillar, Macroeconomic environment. It performs worst on Innovations (2,6 points) and Market

size (2,7 points) pillars. Over 2008-2015 the greatest improvements occurred in Technological Development and Infrastructure (fig. 1). However, there has been a significant drop in position for Institutions, Labor market efficiency and Financial market development pillars (fig. 2).

Referring to Institutions, Moldova ranks 123 of 140 countries with a score of 3,2 points. This is a worrying situation, as Moldova gave up 31 positions since 2008.

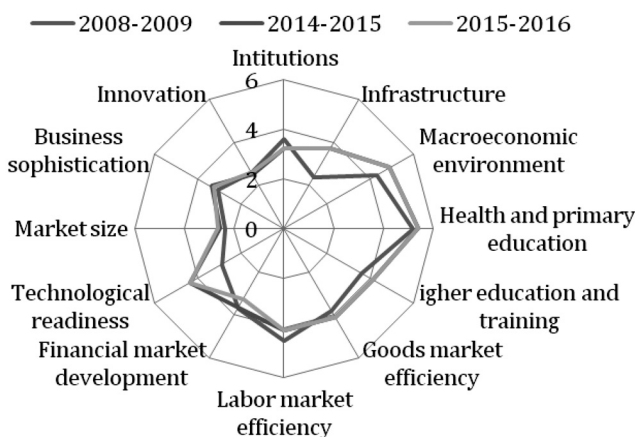


Fig. 1. Main components of Global Competitiveness Index for Moldova for 2008, 2014 and 2015 years

Source: Global Competitiveness Report 2008-2009, 2014-2015, 2015-2016



Fig. 2. Scores for Institutions pillar, from 1 (the lowest) to 7 (the highest)

Source: Global Competitiveness Report 2015

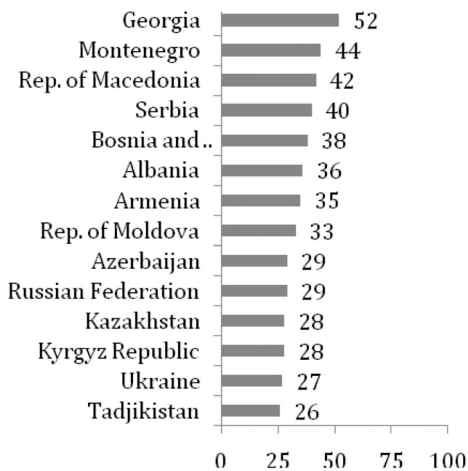


Fig. 3. Corruption perception Index, from 0 (highly corrupt) to 100 (very clean)

Source: Transparency International

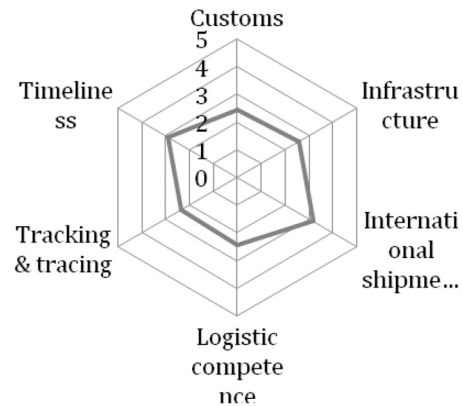


Fig. 4. Logistic performance Index for Moldova in 2014, from 1 (lowest) to 5 (highest)

Source: World Bank

According to the Global Competitiveness Report 2015-2016 main drags on investments in Moldova are corruption, political instability and bureaucracy – which is directly linked to the quality of governance. Corruption has always been a problem for Moldova, marking a 33 score on Corruption Perception Index on a scale from 0 (highly corrupt) to 100 (fig. 3). The situation is even more worrying given that the country dropped 11 positions compared with 2012 in the same ranking. We perform badly in compared to other transition economies, Moldova living behind only Bosnia and Herzegovina, Serbia and Ukraine.

In the group of countries with economies in transition Moldova fills the middle positions in the ranking, being «cleaner» than such countries as Azerbaijan, Russia, Ukraine and others, but showing significantly weaker positions against Georgia, Montenegro, Macedonia and others. In the same context it was developed the Index of decisional transparency, which scored 59 points for Moldova in 2014, indicating a reduced transparency of the act of government [3]. Problems most often heard in the speeches of foreign investors in the country refers to the large number of state controls, the lack of a mechanism for handling complaints from investors, legal framework providing clarity on the rights and obligations of investors, a system of effective safeguards and clear (ex. Investment agreements).

On the same scale of 1 to 7, Moldova moved up its score from 2,4 in 2008 to 3,7 in 2015, performing well and showing overall improvement of infrastructure in the last 7 years, moving up the ladder from 92 (2008) to 83 (2015). The highest score in this pillar the country accrued for air transport infrastructure (3,8) and the weakest scores for railway infrastructure (2,2) and roads (2,4). Logistics Performance Index as of Moldova scores 2,6 points out of 5, ranking the 94th place of 160 countries, with the largest shortcomings for track deliveries, bureaucracy at border control, etc. (fig. 4, 5).

Currently around 47% of national roads and 80% of local need rehabilitation. Port infrastructure, although well equipped – Giurgiulesti International Free Port has extensive and modern infrastructure – does not have a good link with the capital and the rest of the country precisely because of the quality of roads and railways, not sufficiently well integrated into the economic cycle of the country. Authorities should be aware that attracting FDI will increase pressure on infrastructure and level of service thereof may be decisive in the future. Among economies in transition, Moldova ranks in the lower half of the ranking, surpassing only Albania, Bosnia and Herzegovina, Tajikistan and Kyrgyzstan, well below infrastructure levels of such economies as Russia, Georgia, Kazakhstan (fig. 6).

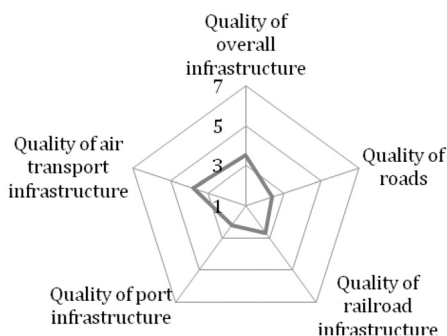


Fig. 5. Infrastructure score for Moldova in 2015, from 1 (lowest) to 7 (highest)

Source: Global Competitiveness Report 2015

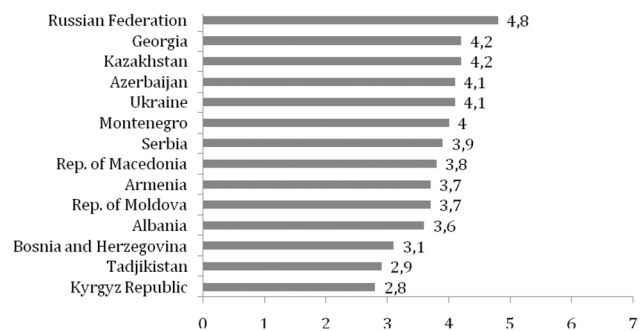


Fig. 6. Infrastructure in 2015, from 1 (lowest) to 7 (highest)

Source: Global Competitiveness Report 2015

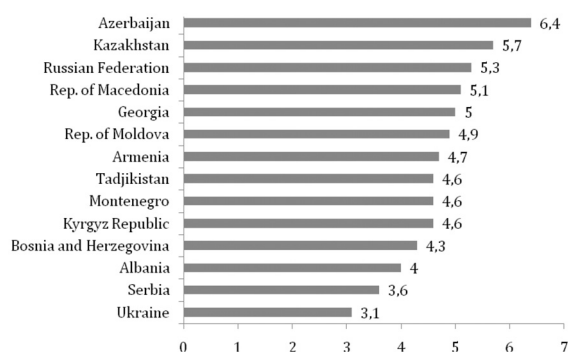


Fig. 7. Score for Macroeconomic environment in 2015, from 0 (lowest) to 7 (highest)

Source: Global Competitiveness Report 2015

The macroeconomic environment includes five economic indicators that dictate the overall business climate in the economy and describe national economic stability. It's about state budget balance (% of GDP), gross savings (% of GDP), inflation rate (annual%), state debt (% of GDP), the country's credit rating (on a scale from 0-100) (fig. 7). In 2015 Moldova ranked 55 of 140 countries with a score of 4,9, pretty good compared to 88th in 2008. Despite leapfrogging ... positions this year, in 2015 the Moldovan economy suffered heavily from the crisis in banking sector and downgraded on the inflation indicators (11 positions), savings (7), state debt (15), country credit score (2).

According to the methodology of Global Competitiveness Report, Higher education and training pillar consists of 8 indicators: registration gymnasium, enrollment in higher education, quality of education, quality of education in the real and scientific subjects, quality of school management, Internet access in schools, affordability of specialized training, instructors availability (fig. 8). From 2008 to 2015 the national score had a positive evolution from 3,6 to 4,1 points. Compared to countries with economies in transition, Moldova shows same level as Tajikistan and Kyrgyzstan, with scores of 4,1 points. Weaker in this respect are only Georgia, Azerbaijan and Bosnia and Herzegovina. According to UNCTAD report on Moldova's investment policy, although the

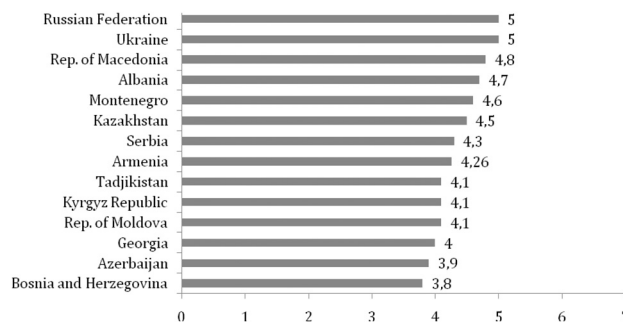


Fig. 8. Score for Higher education and training in 2015, from 0 (lowest) to 7 (highest)

Source: Global Competitiveness Report 2015

cost of labor is a competitive advantage for Moldova, the limited availability of qualified workers, and in some regions, even unskilled workers is a considerable barrier to foreign investment.

Effective training is another shortcoming in this context, an example that reveals the quality of the education system being the case of ICT industry in Moldova. According to a USAID Moldova study, the number of IT graduates (1800 and 2000 year) is sufficient for domestic needs of the IT industry, but the percentage of technically well qualified ones is very small, so that training costs in the company are high [4].

Goods market efficiency (Pillar No. 6 of the GCI) refers to the availability of conditions for initiating and running a business, and the set of evaluation indicators include inter alia intensity of competition, effectiveness of anti-monopoly policy, fiscal burden, number of procedures and days to start a business, trade tariffs, etc. In this respect Moldova posted small gains in 2015 stepping up 2 positions. Fig. 9 reports Moldova is on equal footing with Tajikistan, leaving behind only Ukraine, Bosnia and Herzegovina and Serbia. While most other economies surpass Moldova in this pillar, they do not reach far scores than Moldova does, the best economy in this area being Macedonia, with 4,6 points.

The positive development in recent years is also revealed by Doing Business ranking, through Ease of

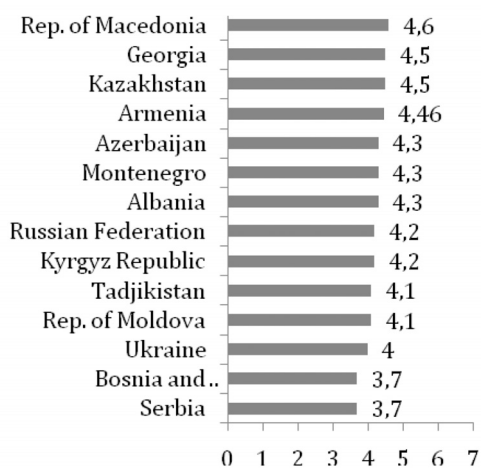


Fig. 9. Score for Goods market efficiency in 2015, from 0 (lowest) to 7 (highest)

Source: Global Competitiveness Report, 2015

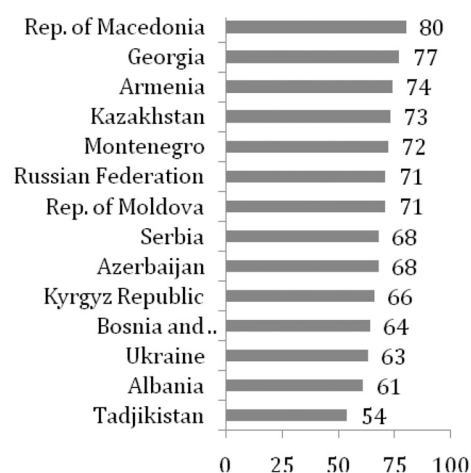


Fig. 10. Ease of doing business in 2015, from 0 (lowest) to 100 (highest), percents

Source: Doing Business, 2015

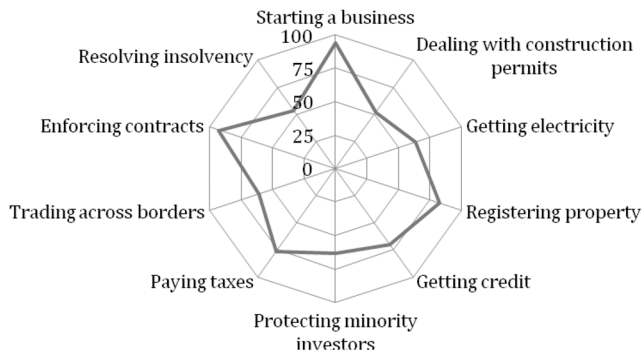


Fig. 11. Ease of doing business on main components for Moldova in 2015, from 0 (lowest) to 100 (highest), percent  
Source: Doing Business, 2015

doing business indicator. In 2008 Moldova rank 92nd place among 178 countries. In 2015 substantially lifted up on 52 of 189 countries with a score of 71 points out of 100 (fig. 10).

The spectacular evolution in recent years is being revealed by pretty favorable 71 position in the ranking of economies in transition, where Moldova shares the same position with Russia on this indicator. The progress was due to simplifying procedures for starting business by eliminating the Tax Service inspection and improving licensing system for insolvency administrators (y. 2015), cancellation of minimum capital requirement for limited liability companies and the launch of electronic payment of taxes such as value added tax, income tax, property tax, land tax (y. 2014). Within Ease of doing business indicator Moldova show the worst scores for Dealing with construction permits (dropping 17 positions compared to 2008), Enforcing contracts (50 positions), Protecting minority investors and Getting electricity (fig. 11).

The greatest progress has been made on Starting a business (leapfrog 55 positions), Registering property (25), Getting credit (89), Protecting minority investors (62), Paying taxes (33), Resolving insolvency (22). In 2008 tax payments last 218 days per year and decreased essentially in 2015 to 168 days. Thus Moldova ranks

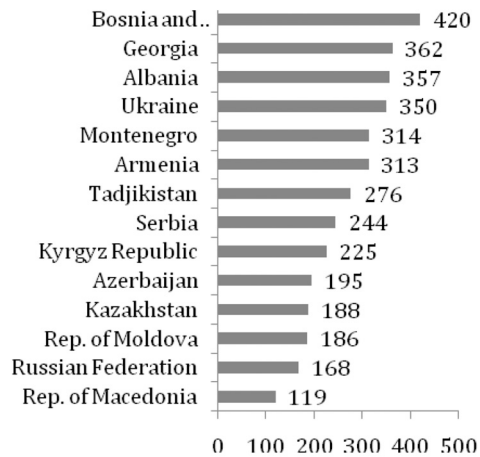


Fig. 12. Time for tax payment in 2015, hours per year  
Source: Doing Business, 2015

third in the ranking of economies in transition, being surpassed only by Russia (168 days) and Macedonia (119) (fig. 12).

Another indicator of relevance is high tax burden. In 2008 Moldova ranked 65, later in 2011 moved up to 32, in 2013-2014 the 31% tax burden displaced Moldova to 39. In 2015 the rate increases to 40% and Moldova drops to 79th position among 140 countries, lower than even 2008. Among countries in transition Moldova does not seem competitive, having higher tax rate than most countries (fig. 13).

From 2008 to 2015 Moldova improves radically its position in international rankings with reference to Cross-border trade, rising from position 122 in 2008 to 33 in 2015 (fig. 14). The main reforms of simplifying the process of cross-border trading occurred in 2015 when it was significantly reduced the period of processing the permission from 23 days to 53 hours for export operations and from 27 days to 10 hours for import. Also essentially were reduced transportation costs and customs procedures. These reforms place Moldova among the top five countries in transition economies.

When analyzing labor market efficiency pillar, it appears that Moldova decreases 30 positions over 2008-2015 (fig. 15). The cause is shortcoming of the following



Fig. 13. Tax burden in 2015, % of profit  
Source: Doing Business, 2015

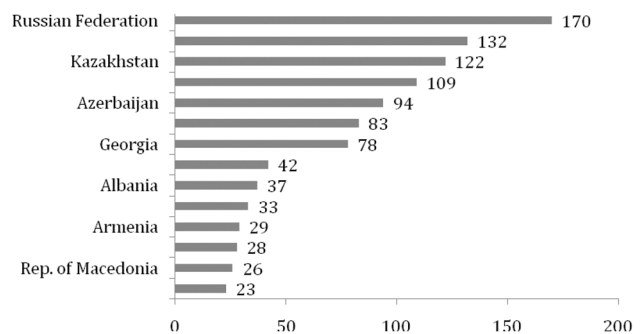


Fig. 14. Cross border trade for economies in transition in 2015 (rank)  
Source: Doing Business 2015

## ИННОВАЦИИ В СТРАНАХ СНГ

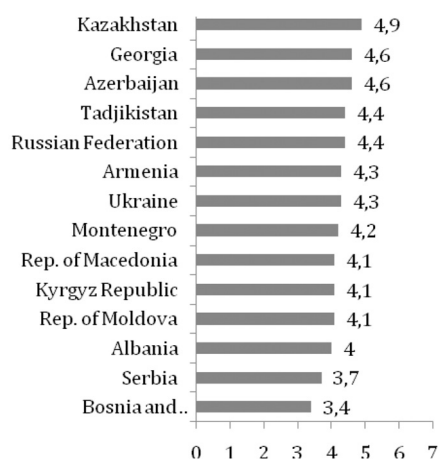


Fig. 15. Labor market efficiency in 2015, from 0 (lowest) to 7 (highest)

Source: Global Competitiveness Report 2015

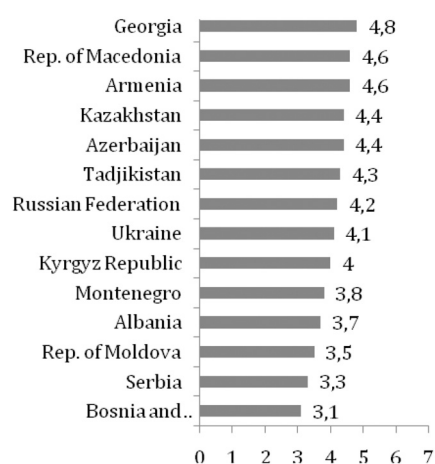


Fig. 16. Hiring and firing practices in 2015, from 0 (lowest) to 7 (highest)

Source: Global Competitiveness Report 2015

indicators: cooperation employee-employer practices of hiring and firing, pay and productivity, talent retaining, a situation which shows that employee/employers relations are more confrontational than co operational, practices of hiring and firing stiffens and productivity is not consistent with the remuneration, thus staff turnover is high. It should be noted an indicator of the labor market, which is Professional management, according to which, hiring managers should be based on merit and not nepotism or favoritism. Moldova has lost 31 positions in the ranking from 2008 to 2014 on this regard.

In competition with countries with similar economic regime Moldova has no advantageous position. Moldova's position decreased from 33 in 2009 to 100 in 2011 and 93 in 2015. This score is unfavorable, which positions Moldova the last in economies in transition (fig. 16).

Financial market development has been affected by recent events in the financial market during 2014-2015 years. As a result of major bank fraud committed at the end of 2014 the traditional No. 105 position of Moldova in 2014 decreased to 115 in 2015. Were worsened the following indicators: availability of venture capital (7 positions), soundness of banks (8 positions), regulation of securities transactions (12 positions), banking compliance

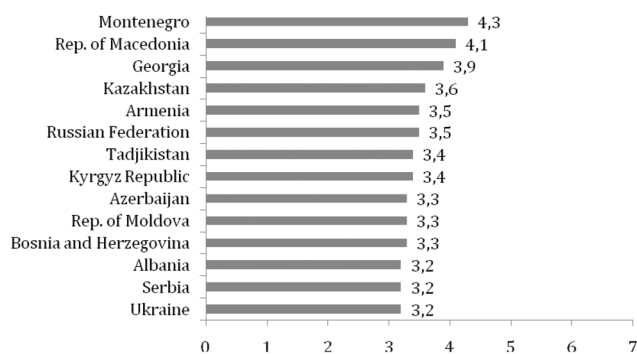


Fig. 17. Financial market development in 2015, from 0 (lowest) to 7 (highest)

Source: Global Competitiveness Report 2015

index (6 positions). If Moldova maintained its image it would rank top 4 in the rankings of transition economies. In this situation, it fills last positions in the rankings (fig. 17).

Technological development place Moldova at a high rank, scoring well from 2,9 points in 2008 to 4,4 in 2015 and ranks second place among transition economies, surpassed only by Serbia. Moldova managed progress at Technological availability, taking 4th place among economies in transition (fig. 18). Broadband internet is a remarkable comparative advantage for Moldova, placing it on position 18 out of 140 in 2015, outpacing not only the countries with economies in transition, but also world economic powers.

The complexity of the business environment is a comprehensive pillar, consisting of indicators showing the business structure in the country. It includes the quantity and quality of local supply, development of clusters, nature of competitive advantage, value chain breadth, control of international distribution, manufacturing complexity, applicability of marketing, willingness to delegate authority. Showing the functionality of domestic economy, economies in transition have very close scores ranging from 3,1 points to 3,9 points for

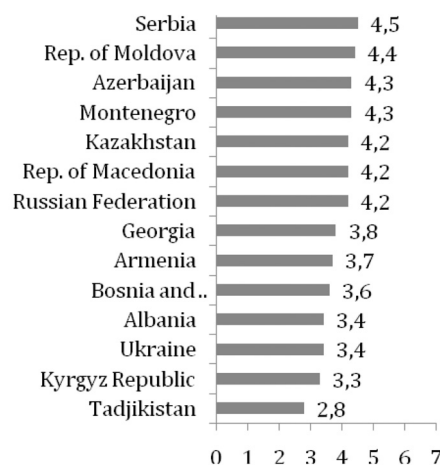


Fig. 18. Technological readiness in 2015, from 0 (lowest) to 7 (highest)

Source: Global Competitiveness Report 2015



Fig. 19. Business sophistication in 2015, from 0 (lowest) to 7 (highest)

Source: Global Competitiveness Report 2015

Serbia to Macedonia (fig. 19). Moldova has developed and diversified economic structure, increasing from 2,8 in 2008 to 3,3 points in 2015.

Being a country with a small area, Moldova ranks worst on Market size pillar, with a score of 2,2 points in 2015, down from 2,8 in 2008. In the ranking of economies in transition Moldova ranks second at the end, just surpassing Montenegro. The market size pillar includes a set of indicators such as the size of the domestic market, foreign market size, GDP per capita and the share of exports in GDP. Moldova doesn't show comparative performance for any of the indicators. Although the geographical area is crucial in this regard, there are states with small territory, but managed way better performance in competitiveness: Armenia, Macedonia, Albania, Belgium, Slovenia, Israel, etc.

Along 2008-2015, on a scale from 0 to 100%, the index of economic freedom for Moldova remained about the same 57%, being considered a relatively repressed economy. Relatively free countries are those with a score exceeding 60%, which are the most countries in the group of transition economies (fig. 20). Only Georgia has crossed the threshold of generally free states, with a score above 70%.

If regarding to freedom of corruption Moldova has advanced modestly from 32% in 2008 to 35% in 2015, when it comes to the property rights Moldova has dropped dramatically, from 50% in 2008 to 40% in 2015, positioning itself as a repressive state.

Innovations are the last pillar in assessing the international competitiveness of economies, based on such indicators as innovativeness, quality of research institutions, private spending on research and innovation, industry-academia collaboration, purchase of advanced technologies, etc. In the last 7 years Moldova has maintained overall innovation score of 2,6 points, which places the country at the bottom of the table of economies in transition.

## Conclusion

After analyzing the Moldovan economy's competitiveness through the Global Competitiveness Report methodology were revealed the following:

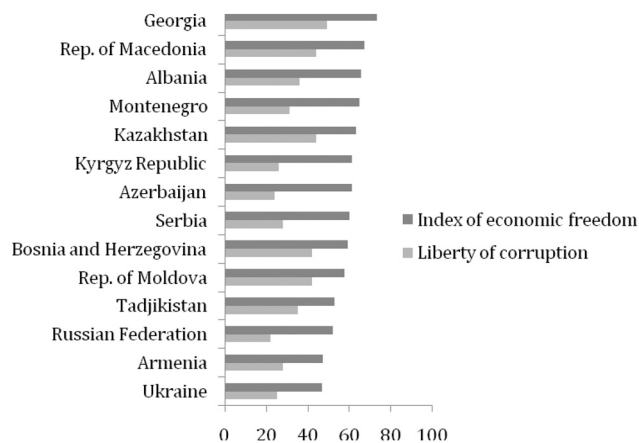


Fig. 20. Index of economic freedom and others in 2015, % from 0 (repressed) to 100 (free economy)

Source: Heritage Foundation Report

1. Moldova has improved it's position in the international ranking from position 95 in 2008 to 84 in 2015.
2. The pillars of competitiveness that improved were infrastructure, macroeconomic environment, higher education and training, goods market, technological development, business complexity.
3. The progress in position was detained by the country's reduction to a lower rank on other pillars of competitiveness: labor market efficiency, financial market development, market size, Innovations, Institutions, Health and primary education.
4. Thus, it comes that only 50 percent of relevance indicators of competitiveness Moldova marked progress.
5. While the country has significantly improved its score by reducing several times the number of days and fees for cross-border trade and facilitate the initiation of business, obtaining credit, paying taxes and termination of insolvency proceedings, Moldova suffered greatly from the crisis in the banking sector.
6. The main causes of the crisis were systemic constraints such as poor corporate governance, ineffective monitoring instruments and banking supervision, unsatisfactory regulatory framework for the prevention and management of banking crises.
7. Official data show Moldova is a relatively repressed country, with small gain on corruption combating and property rights respect.
8. The true environmental consequences of the crisis generated in 2015 will find their reflection only in the following editions of the Global Competitiveness Report.

Thus, we submit the following recommendations for the government of the country:

- a) Assuring political and macroeconomic stability and increasing the transparency of the administrative process;
- b) It is necessary to replace the outdated technical standards (GOST) with other modern when issuing building permits, and simplifying the connection of industrial halls to urban services. Introducing electronic infrastructure for the operation of the

- licensing system by creating databases, online platforms and electronic connections with other institutions involved in the process can provide a highly optimized.
- c) Adjustment of Banking Supervision and monitoring tools in order to increase capacity to prevent and manage banking crises;
  - d) Establish a unified tax administration procedures, which would eliminate the possibility of arbitrary application of the law. Here it should be mentioned the need to establish safeguards that will ensure fiscal stability (ie for a period of 5-10 years) for large investors;
  - e) Updating educational standards according to economic activities, especially for those export-oriented and periodic evaluation of the relevance and quality of curricula;
  - f) Strengthening the legal framework for the protection of competition and intellectual property.

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## **Сравнительная оценка конкурентоспособности Молдовы в группе стран с переходной экономикой**

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Среди европейских стран, которые завершили переход от плановой экономики к рыночной, Молдова пользуется меньшим успехом. Несмотря на то, что она работает, чтобы поддержать создание и укрепление экономического перехода, ожидаемые результаты достигаются медленно. Республика Молдова подписала в июне 2014 г. Соглашение об ассоциации с Европейским союзом, для того чтобы завершить транзитный период, а также для повышения конкурентоспособности бизнеса и качества жизни и, таким образом, уменьшить неравенства в области развития по сравнению с другими странами региона. В данной статье рассматриваются основные составляющие экономической конкурентоспособности страны по сравнению с другими странами с переходной экономикой на основе методологии Глобального отчета о конкурентоспособности.

**Ключевые слова:** конкурентоспособность, экономика переходного периода, Молдова, ведение бизнеса, инвестиции.

## **Поиск инновационных технологий для включения в перечень экологической сертификации**

ГУП «Государственный природоохранный центр» Департамента природопользования и охраны окружающей среды Москвы и ГБУ «Агентство инноваций Москвы» объявили о проведении открытого запроса на поиск инновационных компаний и решений для их включения в перечень экологической сертификации и получения экологической маркировки.

Открытый запрос направлен на поиск и отбор современных инновационных технологий и решений, которые отвечают ключевым требованиям программы, могут быть потенциально включены в перечень экосертификации и могут получить экомаркировку от ГУП «Государственный природоохранный центр».

Преимущества участия для компаний и решений:

- возможность сертификации товара/продукции/услуги/объекта компетентным государственным центром по сертификации;
- объективная оценка экологического качества продукции в соответствии с действующими стандартами и нормативными требованиями;
- применение научно обоснованных методик количественной и качественной оценки;
- широкие маркетинговые возможности для продвижения продукции, основанные на объективной оценке;
- соответствие требованиям «зеленых» государственных и корпоративных закупок.

Участвовать могут любые российские и иностранные юридические лица, способные предложить инновационное решение актуальной проблемы города и осуществить тестирование нового технологического решения в городской среде. Компании должны строго соответствовать тематике конкурса.

Чтобы принять участие необходимо зарегистрироваться на сайте программы «Открытые запросы» и заполнить профиль участника. Далее нужно заполнить электронную форму конкурсной заявки на портале конкурса, после заполнения всех обязательных полей – верифицировать заявку. Приложить дополнительные материалы (при их наличии). Участники конкурса до истечения срока подачи заявок могут корректировать и дополнять информацию о проекте, в том числе на основании обсуждений и обратной связи от экспертов. В заявке на открытый запрос нужно представить модель работы компании, модель комплексного решения или описание уже разработанного решения, которое должно включать подробное указание принципов работы, существующие или предполагаемые ограничения применения, необходимые условия и требуемые ресурсы для внедрения.

Заявки нужно присылать до 31 мая 2017 г. Вопросы по поводу участия можно задать по телефону +7 (495) 225-92-52 или по электронной почте [MagomedovaAM@develop.mos.ru](mailto:MagomedovaAM@develop.mos.ru) (Алина Магомедова).

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