



Investing in Moldova's Future

# FOREIGN DIRECT INVESTMENTS

*The impact  
on the economy  
of the Republic  
of Moldova*



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# Abbreviations

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AGEPI	State Agency on Intellectual Property
AIPA	Agency for Payments and Intervention in Agriculture
bil.	billion
BIS	SC Business Intelligent Services SRL
BPO & SSC	Business Process Outsourcing & Shared Service Center
CAGR	compound annual growth rate
CFM	S.E „Calea Ferata of Moldova”
CIS	Commonwealth of Independent States
EBA	European Business Association of Moldova
EU	European Union
EUR	euro
FDI	Foreign Direct Investments
FEZ	Free Economic Zone
FIA	Foreign Investors Association
GDP	Gross Domestic Product
GVA	gross value-added
GVC	Global Value Chain
HoReCa	Hotel, Restaurant, Catering
HVA	High Value Agriculture
ICT	Information and Communication Technology
IFI	International Financial Institutions
MIA	Moldovan Investment Agency
IP	Industrial park
IT park	Information Technology Park
LSDP	Local Supplier Development Program
mil.	million

NARD	National Agency for Research and Development
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
NDS	National Development Strategy
NEA	National Employment Agency
NIER	National Institute for Economic Research
ODIMM	Organization for Small and Medium Enterprises Sector Development
OECD	Organization for Economic Cooperation and Development
QCD	quality, cost, delivery
RDA	Regional Development Agency
RF	Road Fund
RIA	Regulatory Impact Assessment
RM	Republic of Moldova
ROS	Return on Sales
SME	Small and Medium Enterprises
SoME	state-owned and municipal enterprise
SSC	Social Security Contribution
T AFL	manufacturing textiles, clothing and footwear
TNC	Transnational Corporation
ToR	Terms of Reference
UNCTAD	United Nations Conference on Trade and Development
USD	US dollar
VAT	value-added tax
y-o-y	year-on-year

# Key messages

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## FDI enterprises vs. local private and public enterprises

1. During 2010-2019, the total number of enterprises in Moldova, irrespective of the form of ownership, had a general growth trend. The 2015 financial crisis showed that **FDI enterprises are more resilient to various shocks** and that their number dropped by only 1.9% (or 83 units) compared to 2014. On the other hand, **the crisis showed the vulnerability of local private enterprises**, their number decreasing by 5.1% (or 2,430 units) compared to 2014.
2. **In the last 10 years, the share of FDI enterprises has decreased from 8.2% in 2010 to 7.5% in 2019.** This development has been caused exclusively by the significant reduction in the number of mixed enterprises (with foreign participation).
3. In 2019, a Moldovan enterprise, regardless of its form of ownership, employed, on average, 9.7 people. **FDI enterprises had, in the same year, an average number of 21.2 employees.** Local private enterprises had the smallest number of staff, with 6.7 people on average in 2019, and this is also one of the factors that make them more vulnerable and less resistant to various shocks.
4. **The number of employees in FDI enterprises increased during 2010-2019 from 66 to 90 thousand people,** this dynamic owing exclusively to the increased number of employees in foreign enterprises (with a CAGR of 7.4%). On the other hand, the number of mixed companies (with foreign capital) and their employees decreased with a CAGR of about 2% in the last 10 years.
5. **FDI enterprises achieve up to twice as much labour productivity as local private enterprises.** Traditionally, over the last 10 years, mixed companies (with foreign capital participation), register the highest labour productivity (1,425 thousand lei per employee in 2019), with sustained increases each year.
6. **Employees in FDI enterprises receive, on average, up to 2 times higher salaries compared to employees in local private enterprises.** The average level of remuneration expenses per 1 employee was 6.1 thousand lei in 2019. The average total monthly amount of remuneration of an employee's work in FDI enterprises exceeds approximately 1.5 times the average in the Republic of Moldova and

amounted to 9.2 thousand lei in 2019 (9.6 thousand lei in foreign enterprises and 8.2 thousand lei in mixed companies, with foreign participation).

7. In 2019, FDI enterprises paid 341.2 million Moldovan lei (or 24.1% of the total) in compulsory health insurance premiums. Also, FDI enterprises paid a total amount of 1.4 billion Moldovan lei to the social fund, in 2019 (23.9% of the total).

### **FDI: Global, regional and local developments**

8. The COVID-19 pandemic caused a dramatic decline in global foreign direct investment (FDI) in 2020. FDI flows fell by 35% in 2020 to USD 1 trillion from USD 1.5 trillion in 2019. This is the lowest level in 2005 and almost 20% lower than in 2009, following the global financial crisis. The main focus, at the level of economic policies, is now on the process of **economic recovery and relaunch - a more sustainable and inclusive recovery, but also with a greater resilience to future shocks.**
9. The **prospects are highly uncertain** and will depend, among other factors, on the pace of economic recovery and on the possibility of pandemic recurrence, on the potential impact on FDI of expenditure packages and recovery measures.
10. In the circumstances of the COVID-19 pandemic, but also of a large base of comparisons, related to 2019 – the best year since 2010, the net incurrence of liabilities, in the form of direct investments, attracted by the Republic of Moldova in 2020 decreasing dramatically – by 88% y-o-y, totalling USD 62.45 million. The main positive aspect worth mentioning, is **that, in the circumstances of the pandemic, the stock did not decrease, on the contrary, it increased, even if it was a marginal increase (+2.5% y-o-y).** This trend tells us that the spirit of calm and panic did not infiltrate among foreign investors, manifested, for example, by the conventional withdrawal of equity from the economy.
11. By geographical region, **the majority share of the inward FDI stocks in the form of equity participations and shares (82.2%) is attributed to investors from the 27 EU countries (excluding the United Kingdom).** In the last 3 years alone, the FDI stocks of the 27 EU countries increased by 46%. The top 5 sources of foreign investment in the form of equity participations and shares are Cyprus, the Netherlands, Romania, France and the United Kingdom. On the other hand, if taking into account the component of debt instruments, the Russian Federation is the largest investor in the national economy (with a stock of USD 869 million at the end of 2019).
12. During 2011-2019, Moldova carried out an average of 7 *Greenfield* projects per year, similar to the performance of Albania and Montenegro. Other comparable countries have carried out 2-8 times more such projects in the same period. Moldova lags behind

EU countries of similar size and, more importantly, other small states with economies in transition or states in the former Soviet Union (Armenia and Georgia).

13. Since 2003, the **manufacturing industry has been the main target of Greenfield's foreign investment in Moldova**, both in terms of the number of projects and capital investments. *Greenfield* FDI in Moldovan production has created approximately 11,174 jobs since January 2014, through 16 projects, valued at an estimated total of USD 767 million. However, the above investments have had a **limited impact on domestic production**, due to low technological sophistication and limited productivity, as well as **weak integration of local enterprises in the value chains of FDI enterprises**.
14. As far as the degree of penetration of foreign capital in the economy is concerned, expressed by the level of FDI stock *per capita*, the Republic of Moldova registers a low level of this indicator (USD 1,185 *per capita*) compared to the comparable countries: out of all these countries, only Ukraine has a lower level (USD 1,112 *per capita*). A comparison of the FDI stock with GDP shows a slightly more favourable picture, accounting for about 40% of GDP in 2019 - above the average of economies in transition and those in Eastern Europe.

### **FDI impact analysis**

15. One hundred percent foreign-owned enterprises and mixed enterprises (with foreign participation) make a significant contribution to the economic and social development of the Republic of Moldova - **with a relatively small share in the total number of enterprises, they show increased efficiency and have a systemic importance for the national economy**, which is also manifested by the following indicators:
  - ☑ FDI enterprises participate in the creation of GDP. In 2019, the share of FDI flows in GDP constituted 4.2%, and the share of FDI stocks in GDP - about 40%.
  - ☑ FDI enterprises are present not only in sectors with high GVA, but also in sectors with a relatively low share in value added. Due to higher productivity, FDI enterprises contribute to the development of these sectors.
  - ☑ With a share of only 7.5% in the total number of enterprises, FDI enterprises create jobs for 16.3% of the workforce, employed in enterprises in the Republic of Moldova. At the same time, their share in sales revenues is 28.4%, which shows a high labour productivity.
  - ☑ FDI enterprises contribute significantly to budget formation, with 29.4% of all income taxes accrued to the budget.
  - ☑ FDI enterprises contribute to the creation of fixed assets. They hold 27.4% of both industrial and social fixed assets.

- ☑ In the case of FDI enterprises, the level of labour remuneration is the highest, which contributes to the increase of the living standard and, to a certain extent, to the slowdown of the increase of emigration.
- ☑ FDI enterprise contribute to the creation of gross value added in the amount of 23.0% in the economy overall, while their share exceeds 50% in some types of activity (financial activities and insurance; information and communications).

### **Business linkages: survey results**

16. The survey was conducted among 101 FDI enterprises operating in the Republic of Moldova, and the impact of these enterprises on the national economy is significant - **investments of over USD 2.7 billion, about 32.3 thousand jobs created** (5.8% of total employees in the economy).
17. About **half of respondents (49%) indicated EU countries as the main market**. At the same time, the local market is the most important market for 40% of companies, and 11% of respondents are mainly focused on other markets (including CIS). 36% of companies mentioned that they work exclusively for export, while another 23% indicated that over 50% of their turnover is from export.
18. **Local suppliers are poorly integrated in the supply chains of foreign-owned companies**. The survey answers show that almost a third of the surveyed companies do not purchase core and/or basic raw materials (inputs) on the local market.
19. The connection with local suppliers is a bit better when contracting services. Thus, 43% of companies indicated that the local market is the main source of procurement of various services, covering over 50% of the needs of these enterprises. According to the companies participating in the survey, the **customs brokerage services**, provided by local suppliers, are most often requested by enterprises with foreign capital (80%), followed by **transport & logistics services (64%), financial services (56%) and repair & maintenance services (55%)**.
20. Most of the companies surveyed (55%) claimed that the **lack of inputs to the local market is the main barrier to expanding local supplies**.

Other issues, including lack of workforce, lack of innovation capacity, failure to meet Quality, Cost, Delivery (QCD) standards, etc., mentioned by most respondents, show that **FDI enterprises face a set of complex problems, when it comes to connecting and linking with potential local suppliers**.

21. When it comes about existence of minimum requirements for local SMEs, **most enterprises with foreign capital stated that they select the local suppliers based on a set of criterias**, such as QCD performance (quality, cost, delivery), technologies and machinery used (equipment and machinery), the experience of the local company, as well as international certifications.
22. The instrument that most companies use the most to begin the process of identifying potential suppliers is the **Internet searches** (83%), followed by **visits to suppliers** (56%) and **recommendations received from other investors** (55%).
23. **The forms of support that characterize a deeper and more advanced integration of local suppliers, such as the transfer of the technology process and the transfer of technology, are very uncommon practices.** Only 17% of respondents mentioned that they offer such support.
24. More than **half of the interviewed companies (54%) did not discuss with any state-owned organization regarding the development of partnerships with local companies.** At the same time, **80% of them declared their willingness to work in partnership with state-owned institutions**, within local supplier development programs.
25. Most companies (74%) mentioned **that financial incentives from the state for local suppliers** (especially to invest in the upgrading production infrastructure) would be the most effective way to boost business relations between FDI and local suppliers. Almost 60% of respondents noted the importance of the **availability of a high-quality database of local suppliers.**
26. Enterprises participating in the survey believe that the most effective and realistic policies to be promoted and implemented by state-owned institutions to increase the supply of local companies and their competitiveness, should aim at: **providing tax incentives for innovation and technology, simplified tax/customs procedures, simplified access to finance, educational and training issues, reducing state control pressure, promoting and expanding the *Local Supplier Development Program* at the national level** (currently underway for the *automotive* industry), etc.

## Policy proposals

27. Aligning the Republic of Moldova to the 2030 Agenda for Sustainable Development implies the transposition in the national strategic planning framework of its principles and targets – a process initiated with the development of the NDS Moldova 2030 project, which also takes into account Moldova's commitments under the EU Association Agreement.
28. NDS Moldova 2030 is to be the **umbrella document for all subsequent policy documents/operational instruments** (long-term sectoral and/or intersectoral strategies, medium-term planning programs, dedicated budget programs, etc.).
29. The strategic priority of the country, according to NDS Moldova 2030, is to increase revenues and reduce poverty and its risks, the main mechanism for this purpose being to **increase the country's competitiveness**, internally and externally, including through **smart specialization**.
30. Implementing the concept of smart specialization involves ensuring premises for the **development of sectors (economic activities) with high added value**, based on capitalizing on the national potential for research and development, innovation and technological transfer, industrial and natural potential, etc.
31. Multiple international and local studies (including the results of this study) demonstrate the **directly proportional link between a country's economic and social performance and assimilated FDI**, including the potential of foreign-owned companies to stimulate the development of local sectors/markets – by 'inducing' in its operational field of a business culture aligned to the best international practices, of modern technologies and of organizational/managerial know-how, etc.
32. Attracting FDI is an objective found on the agendas of most countries in the world, including of those in *Emerging and Developing Europe* (IMF classification), of which the Republic of Moldova is a part. Thus, the Republic of Moldova is in fierce competition for foreign direct investment with these and other countries.
33. The key element, which can 'make a difference' and offer Moldova competitive advantages in the process of attracting and maintaining FDI, is a robust and coherent public policy framework for **ensuring a favorable FDI investment climate**.
34. **Determinants** of ensuring an investment climate conducive to capitalising on the potential of FDI to contribute to the inclusive and sustainable development of the country include (i) improving the business environment/regulatory framework, (ii) developing human capital and better market governance, together with (iii) promoting

fair competition and strengthening markets, including by tightening up the state's presence in competitive local markets.

35. The national public policy framework aimed at improving the investment climate, implicitly promoting FDI, is to be complemented by policies and instruments applied to the **growth and internationalization of local enterprises**, as well as to **facilitate their integration into global value chains through FDI enterprises** in the country.
36. In order to stimulate the absorption of modern technologies and know-how – an indispensable premise for the integration in the global value chains and increase of the country's international competitiveness, it is proposed to develop and implement a **complex National Program for the Development of Local Suppliers (LSDP)**.
37. LSDP is to include information and advisory support and financial incentives for enterprises to comply with the requirements of potential GVC clients (primarily local FDI enterprises).
38. Achieving policy objectives aimed at promoting FDI and fully exploiting the potential of foreign-owned companies to contribute to increasing the competitiveness of the Republic of Moldova requires **strengthening the capacities of specialized national institutions** (MIA and ODIMM in particular).
39. Aligning with international best practices and real needs of foreign investors (existing and potential) requires continuous evaluation and improvement of the **operating model and toolkit** of MIA, including updating, increasing the relevance and efficiency of practical informational-consultative, administrative-procedural and financial, *policy advocacy*, etc. support activities/actions for FDI enterprises.
40. IMA is going to ensure continuous monitoring of global and regional trends in FDI, proactive and ongoing interaction with investors (including in the post-investment phase) and approaching their needs - in line with the **development partner** model for FDI enterprises.
41. Specialized public agencies (MIA and ODIMM) should strengthen the system of mutual interaction/cooperation, but also to assume the role of institutions-integrators of the **ecosystem for the promotion of FDI and the increase of the country's economic competitiveness**; To this end, they are to build strong partnerships with other institutions, at central and local level, in the public sector (NARD, AIPA, NEA, AGEPI, FEZ Administrations, Business Incubator Network, RDA, etc.) and associative sector (FIA, EBA, bilateral chambers of commerce, sectoral associations, etc.), as well as in the sectors of education, research and development, innovation and technology transfer, etc.

# Methodology and approach

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The study on the impact of foreign direct investment (FDI) on the economy of the Republic of Moldova was conducted in accordance with the structure proposed in the Terms of Reference (ToR).

The objectives of the Study on the Impact of Foreign Direct Investment (FDI) on the economy of the Republic of Moldova were (i) to identify the positive impact effects of FDI enterprises on the national economy as a whole, as well as on local companies, including from the perspective of their integration into the local and international production and services value chain and (ii) to develop public policy measures and proposals to attract foreign direct investment.

The authors of the study used a wide range of data sources relevant to the comprehensive content coverage. Open statistical data provided by the National Bureau of Statistics (NBS) and the National Bank of Moldova (NBM) through statistical database and periodicals made available to the general public were used. In addition, the authors obtained additional, more detailed, statistical data from the two institutions, which can be obtained through requests for official information.

To analyse Moldova's performance in attracting FDI in comparison to other countries, the authors used the UNCTAD statistical database (UNCTADSTAT), as well as the comprehensive publications of UNCTAD (United Nations Conference on Trade and Development).

The identification and analysis of the impact of connecting (linking) domestic companies to the global and local value chain by FDI enterprises were studied based on a questionnaire prepared by the authors, to understand the perception of FDI enterprises. In preparing the questionnaire, the consultant studied policy documents, relevant studies and statistical FDI data, in order to have a comprehensive and exhaustive picture and to formulate relevant questions to assess and measure the perceptions of foreign investors in a way that is as objective and representative as possible.

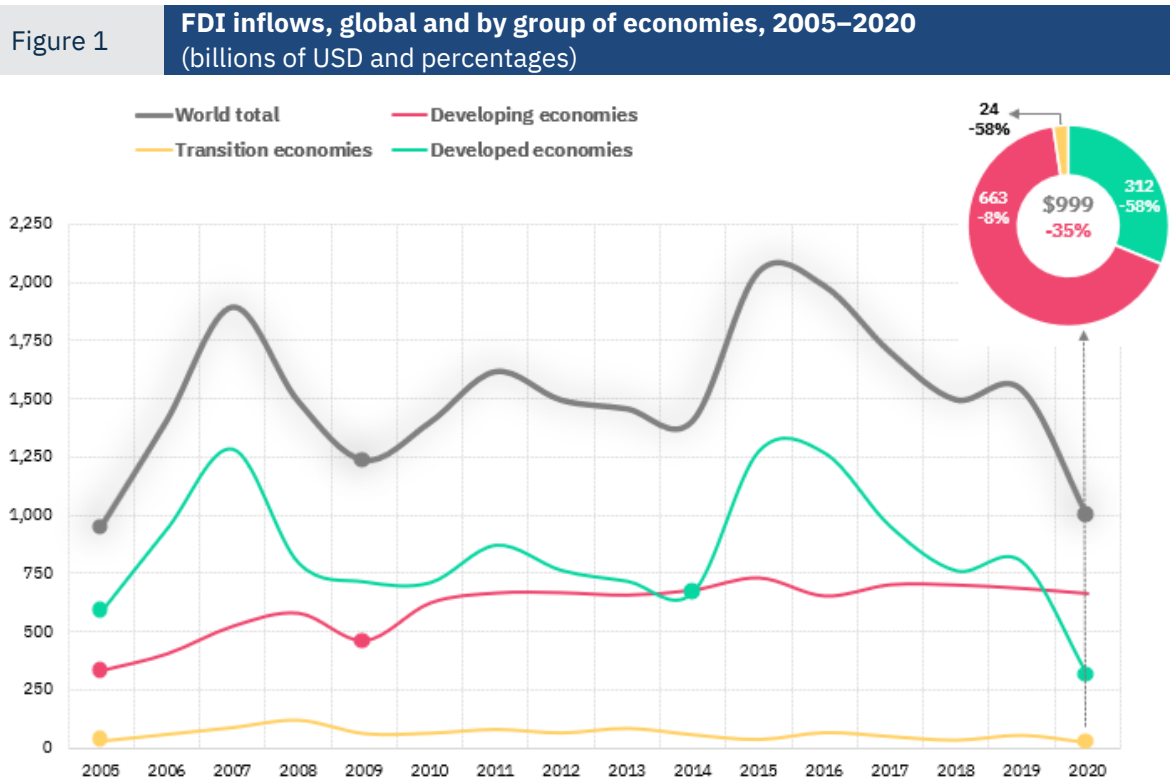
At the end of the study, the authors come up with a range of public policy proposals meant to contribute to increasing FDI in the Republic of Moldova and their impact on the country's inclusive and sustainable economic development, including by boosting partnerships (business relationships) between foreign-owned companies and local companies in order to integrate them into global supply chains.

# Chapter 1

## FDI: Global, regional and local developments

### 1.1 Global and regional trends

The COVID-19 pandemic caused a dramatic fall in foreign direct investment (FDI) in 2020. Global FDI flows dropped by 35% to USD 1 trillion, from USD 1.5 trillion in 2019 (Figure 1). This is the lowest level since 2005 and almost 20% lower than the 2009 trough after the global financial crisis.



Source: UNCTAD

The main focus is now on the recovery process. But it is not just about the relaunch of the economy, but about a more sustainable and inclusive recovery, which would ensure greater resilience to future shocks.

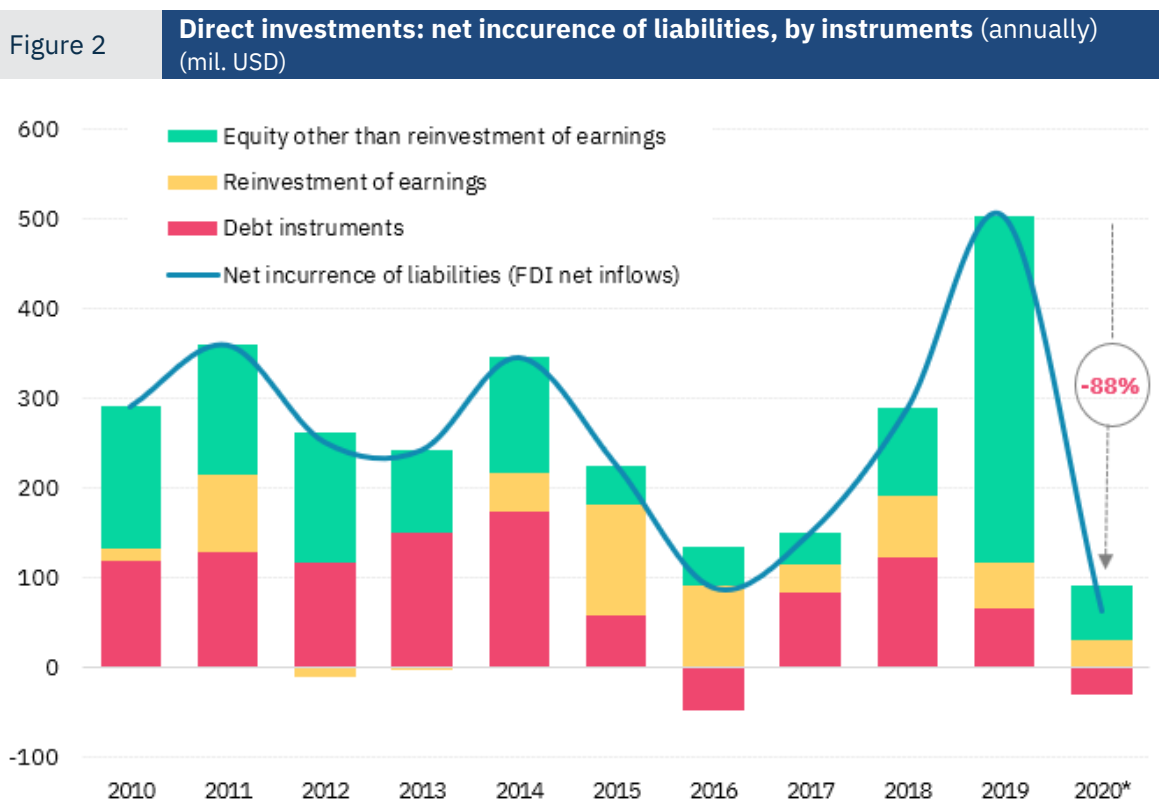
**In South-Eastern Europe**, which is less dependent on natural resources, FDI has also fallen (-14% to USD 6 billion), although to a much lesser extent than in the CIS and Georgia (-64%, up to USD 18 billion). Activities related to the supply of global value chains have been under pressure in all countries virtually, which explains part of the decline in FDI.

The delayed implementation of export-oriented GVC-related investment projects has influenced FDI flows to the South-Eastern Europe and Republic of Moldova economies - all being common attractive destinations for GVC investments in the *automotive* supply and assembly sector, as well as hospitality activities. Despite South-Eastern Europe's close ties to the EU, which could materialize in *nearshoring* activities, the new projects were late in materializing in the early stages of the crisis.

## 1.2 FDI in the Moldovan economy

### FDI net inflows

The FDI net inflows attracted by the Republic of Moldova during 2010-2019 had an oscillating evolution. The best result was recorded in 2019 – USD 501.61 million, while 2016 was at the opposite pole, with a total net flow of USD 88.39 million.



\* data for 2020 are provisional.

Source: NBM, International Accounts of the Republic of Moldova

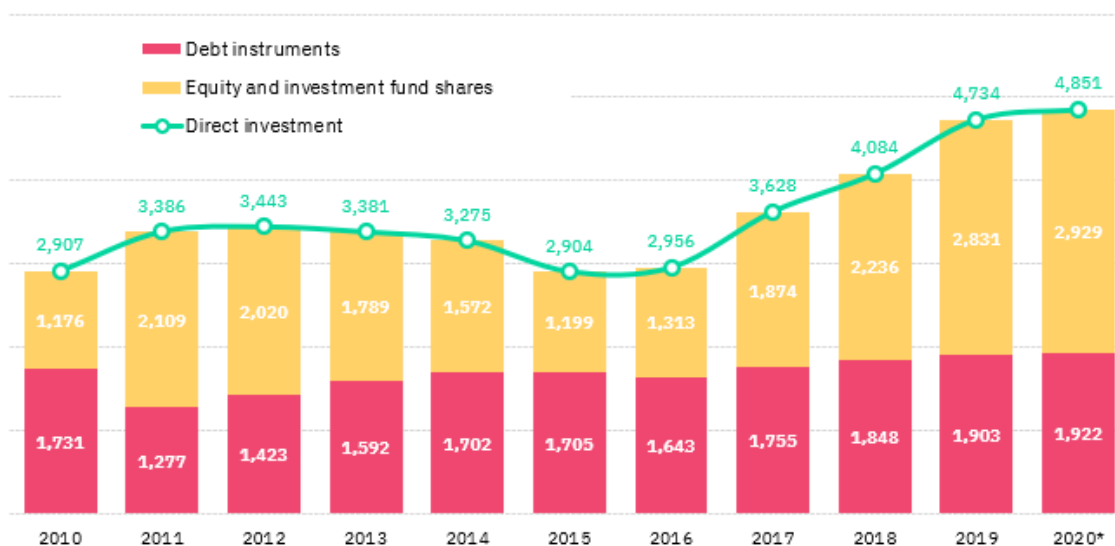
The net incurrence of liabilities in the form of direct investments decreased dramatically in 2020, by 88% y-o-y, totalling USD 62.45 million. However, we must keep in mind that this reduction took place both against the background of the COVID-19 pandemic, but also on the basis of large comparisons, related to 2019 - the best year since 2010.

### Inward FDI stocks

During 2010-2020, FDI stocks in Moldova registered fluctuations at times. The minimum of FDI stocks was recorded in 2015 - USD 2,904 million, while the maximum was reached in 2020 in the amount of USD 4,851 million.

**The main positive aspect worth-mentioning is that in the conditions of the pandemic the stocks did not decrease, on the contrary, it increased, even if it was a marginal increase (+2.5% y-o-y). This trend tells us that the spirit of calm and panic did not infiltrate among foreign investors, manifested, for example, by the conventional withdrawal of equity from the economy.**

Figure 3 **Inward FDI stocks (direct investment liabilities), at the end of the year\***  
(mil USD)



\* data for 2020 are provisional.

Source: NBM, International Accounts of the Republic of Moldova

### FDI distribution by economic activities (by the accumulated equity)

According to NBM data at the end of 2020, the main economic activities that benefited from foreign investment are financial and insurance activities (with 29.7% of the FDI stocks in the form of equity), wholesale and retail trade & repair of motor vehicles (25.8%) and manufacturing industry (18.9%).

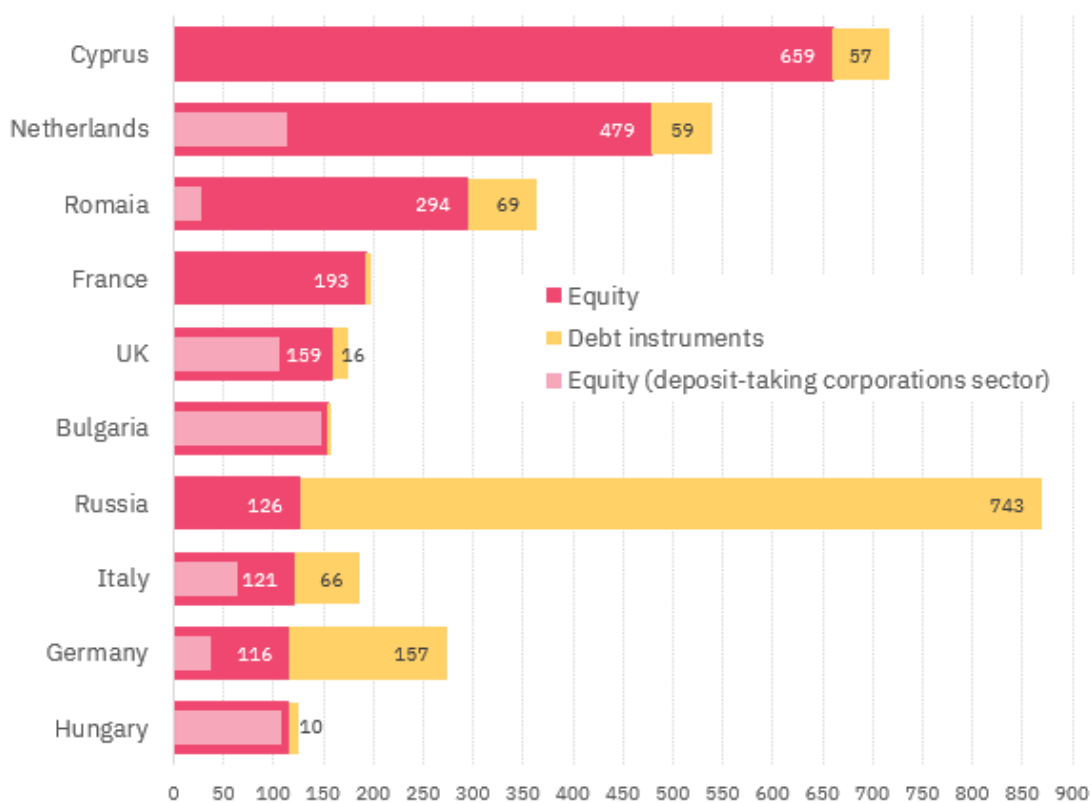
## Inward FDI stocks by geographical distribution

By geographical region, the majority share of the direct investments in the form of equity participations and shares (82.2%) is attributed to investors from the 27 EU countries (excluding the United Kingdom).

The top 5 sources of foreign investment in the form of equity participations and shares are Cyprus, the Netherlands, Romania, France and the United Kingdom.

On the other hand, if taking into account the component of debt instruments, the Russian Federation is the largest investor in the national economy (with a stock of USD 869 million at the end of 2019).

Figure 4 **Inward FDI stocks as of 31-Dec 2019, by main countries**  
(mil. USD)



\*stocks calculated according to the balance-sheet value, distribution by countries based on the direct investor

Source: NBM, International Accounts of the Republic of Moldova and authors' calculations

### 1.3 FDI: Moldova's regional performance

International benchmarking is an essential part of the successful evaluation and development of new FDI policies. Understanding how other countries have managed to attract FDI can provide valuable contributions and guidance for the effective implementation of policies in Moldova.

To evaluate Moldova's performance, the following countries were selected for comparison with Moldova: Romania, Ukraine, Russian Federation, Armenia, Georgia, Albania, Bosnia and Herzegovina (BiH), Montenegro, Macedonia, Estonia, Latvia, Lithuania and Slovakia.

All these countries are competing for Moldova in the race to attract FDI. They are comparable, to some extent, with Moldova for at least one of the following reasons: size of the population or economy, political and economic context, size of the internal market, stage of economic development and recent history.

#### Number of 'Greenfield' FDI projects announced

Most FDI globally is represented by *Greenfield* projects. Therefore, the annual *Greenfield* projects are a key indicator of FDI competitiveness for all countries.

Between 2011 and 2019, Moldova carried out an average of 7 *Greenfield* projects per year, similar to the performance of Albania and Montenegro. Other comparable countries have carried out 2-8 times more such projects in the same period. Moldova lags behind EU countries of similar size and, more importantly, other small states with economies in transition or states of the former Soviet Union (Armenia and Georgia).

Since 2003, the manufacturing industry has been the main target of *Greenfield* foreign investment in Moldova, both in terms of the number of projects and capital investments. This is also the case for the production of automotive and electrical components, where German and Japanese companies were the most active investors, according to the *Greenfield fDi Markets* investment monitor. *Greenfield* FDI in Moldovan production has created approximately 11,174 jobs since January 2014, through 16 projects, valued at an estimated total of USD 767 million.

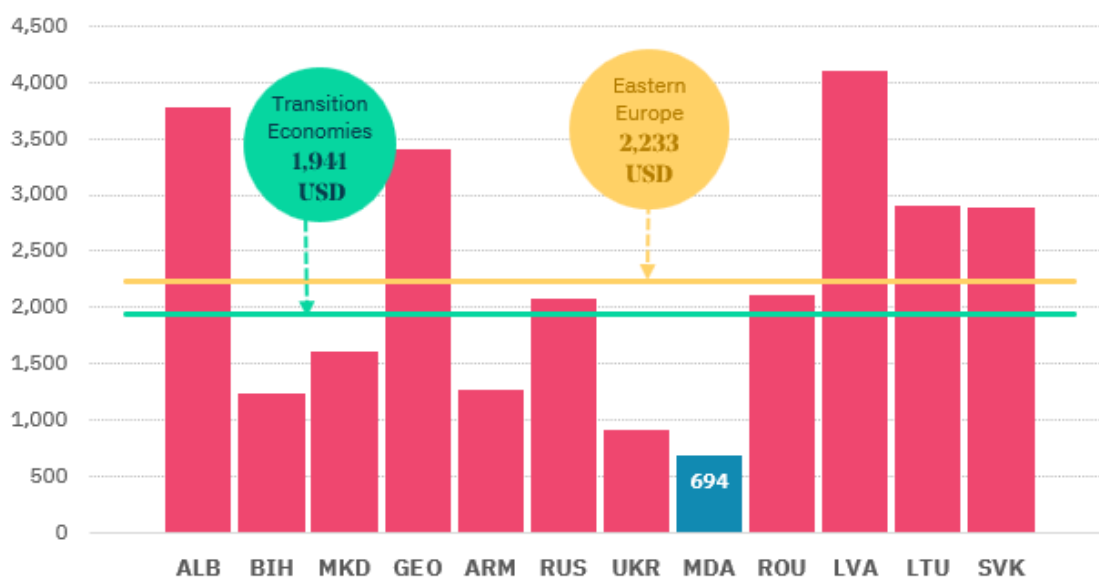
**It should be noted, however, that the above investments have had a limited impact on domestic production, due to low technological sophistication and limited productivity, as well as weak integration of local companies into the value chains of FDI enterprises.**

#### FDI inflows per capita between 2010-2019

In the last decade, the evolution of comparable countries in attracting FDI has been very different and has depended, in essence, on the economic potential, natural resources and the speed and efficiency of economic reforms of states.

In this context, the most effective proved to be the Baltic States, along with Slovakia, Albania and Georgia. In these states, the cumulative FDI inflows per capita between 2010 and 2019 was in the segment 2,900 - 4,100 USD per capita (Figure 5).

Figure 5 **FDI inflow (cumulative) per capita: Moldova vs. other comparable countries (2010-2019), (USD per capita)**



Source: UNCTADSTAT

The result of the Republic of Moldova is the weakest among the reference countries, with a cumulative FDI inflows of only 694 USD per capita, well below the average of economies in transition and those in Eastern Europe, given that the investment activity showed signs of activation in 2018 and 2019.

### Share of FDI inflows in GDP

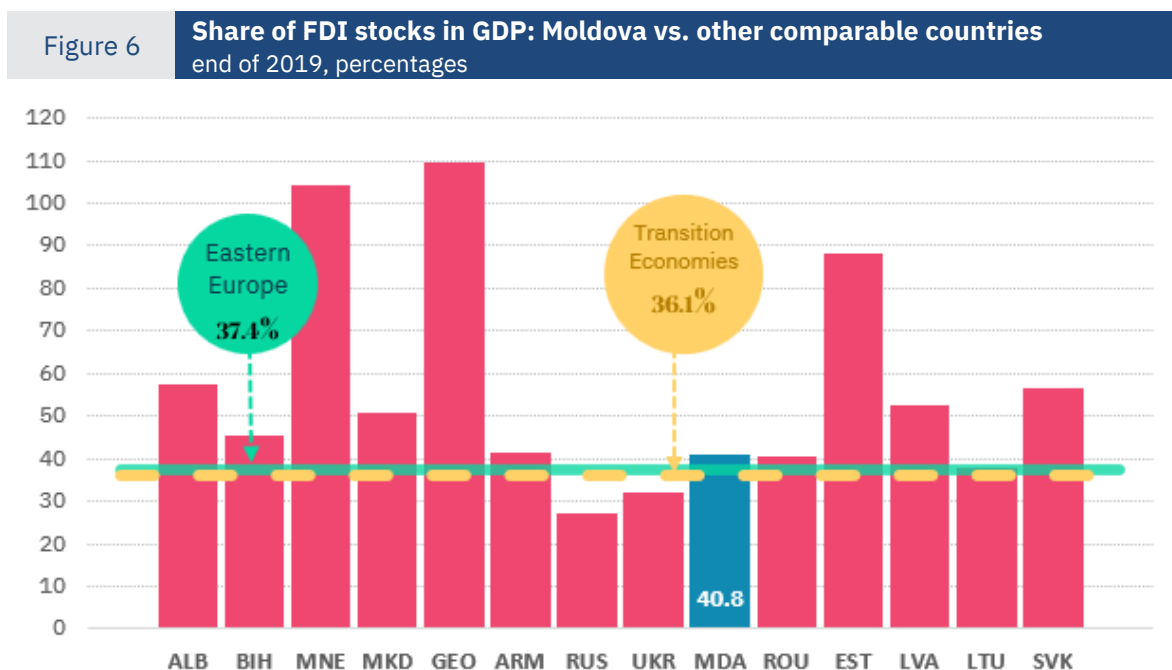
According to the indicator of the FDI inflows weighted to gross domestic product (GDP), the Republic of Moldova, compared to other countries, positioned quite well, with a share of 5% in 2019 and 2.72% in 2018<sup>1</sup> - values above the average recorded in Eastern Europe or countries with economies in transition. This, however, was due to higher FDI inflows in the last 2 years, but also to a low level of GDP. Moldova has the lowest GDP per capita of all comparable countries. Due to the relatively low GDP, but also to the volatility of the FDI inflow in Moldova, this indicator must be analysed carefully. For this reason, other indicators for international comparison must be taken into account.

<sup>1</sup> According to NBM data, this indicator represented 4.2% in 2019 and 2.5% in 2018.

## FDI stocks per capita & share in GDP

The degree of penetration of foreign capital in the economy is highlighted in a suggestive way by the level of FDI stocks per capita. Empirical data on this indicator reveal strong discrepancies between the comparable states, and the Republic of Moldova has a low level of this indicator (USD 1,185 per capita). Of all the comparable countries, only Ukraine has a lower level (USD 1,112 per capita). This indicator should increase almost 2.5 times to reach the average of the economies in transition and about 3.6 times to reach the average level of Eastern European states.

The comparison of the FDI stocks with GDP (Figure 6) shows a slightly more favourable picture. The stocks of FDI in USD accounted for about 40% of GDP in 2019, above the average of economies in transition and those in Eastern Europe.



Source: UNCTADSTAT

**The assessment of the FDI stocks in Moldova is, depending on the method, quite low compared to the comparable states. Therefore, there is plenty of room for improvement in policies and practices to attract FDI.**

## Chapter 2

# FDI enterprises vs. local private and public enterprises

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The efficiency of FDI enterprises was analysed and compared to that of local capital enterprises based on data offered by the National Bureau of Statistics (NBS) and in accordance with the NBS concept on identifying FDI enterprises<sup>2</sup>.

### Number of 100% foreign-owned enterprises increases, while the one of mixed enterprises (with foreign capital) decreases

According to NBS data, in 2019, the number of reporting enterprises was 56,714<sup>3</sup>. The majority was held by local private enterprises, with a share of 90.4%. **FDI enterprises accounted for 7.5% of the total number of reporting entities (for comparison: 8.2% in 2010), of which 4.6% - foreign-owned enterprises and 2.9% - mixed enterprises (with foreign capital).** Public enterprises represent the minority in the number of enterprises in the Republic of Moldova - 2.2% (of which 2.1% - public enterprises and 0.1% - mixed (public and private) companies).

According to NBS data, between 2010 and 2019, the total number of Moldovan enterprises, regardless of their ownership, had a general upward trend. The 2015 financial crisis led to a temporary decrease in the number of enterprises, after which it started growing again. Most affected by the crisis were the local private enterprises, their number decreasing by 2,430 units (- 5.1%) compared to the previous year. **FDI enterprises were affected much less by the crisis**, their number decreasing by 83 units (or 1.9%) compared to 2014. The number of public enterprises continued to grow during 2010-2019 (Figure 7).

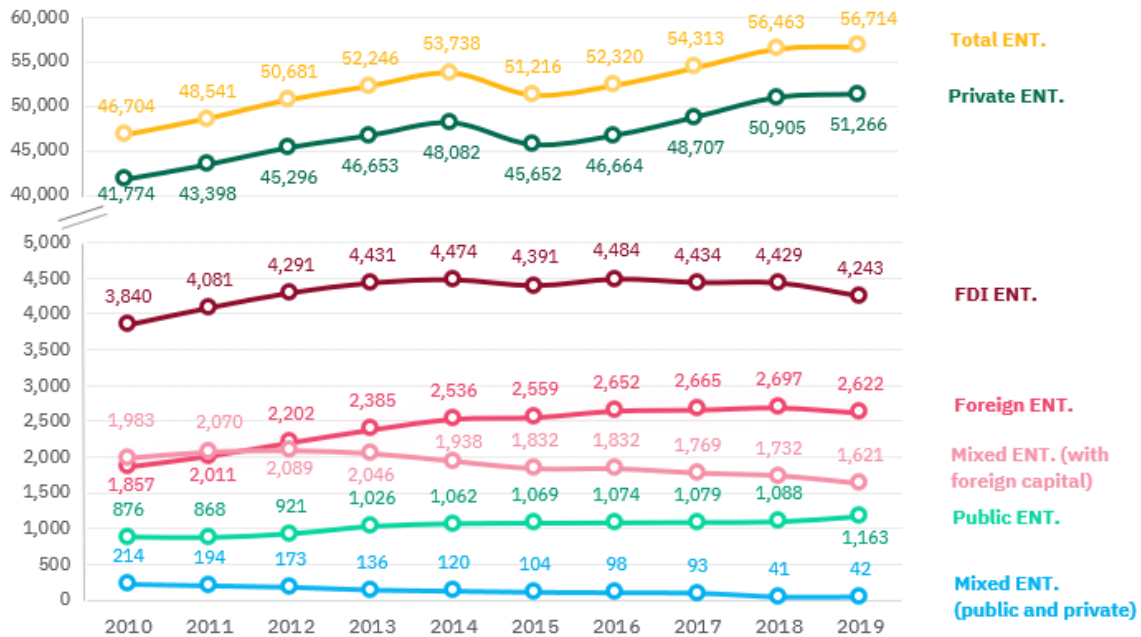
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<sup>2</sup> According to the NBS definition, FDI enterprises are identified depending on the form of ownership and include foreign-owned enterprises (whose share of foreign capital is 100%) and joint ventures (whose share of foreign capital is between 0% and 100%).

<sup>3</sup> Entities, except non-for-profit organizations, banks, insurance companies, savings and citizen loan associations.

Figure 7

**Evolution of the number of enterprises during 2010-2019, according to the forms of ownership (units)**



Source: NBS data

### Average number of employees

**FDI enterprises had an average of 21.2 employees in 2019.**

Local private enterprises accounted for 62% of the total number of employees in the enterprises. In public enterprises and mixed (public and private) companies about 21.8% of the total number of employees were active, and in enterprises with FDI - about 16.2% (11.4% in foreign-owned enterprises and 4.8% in mixed companies (with foreign capital).

**In 2019, a Moldovan company, regardless of its form of ownership, employed on average 9.7 people.** Public enterprises and enterprises with public capital participation are the most numerous, with an average number of employees of 99-100 people. FDI enterprises had an average workforce of 21.2 people in 2019. **Local private enterprises have the smallest average number of employees, with 6.7 people in 2019, this being also one of the factors that make them more vulnerable and littler resistant to various shocks.**

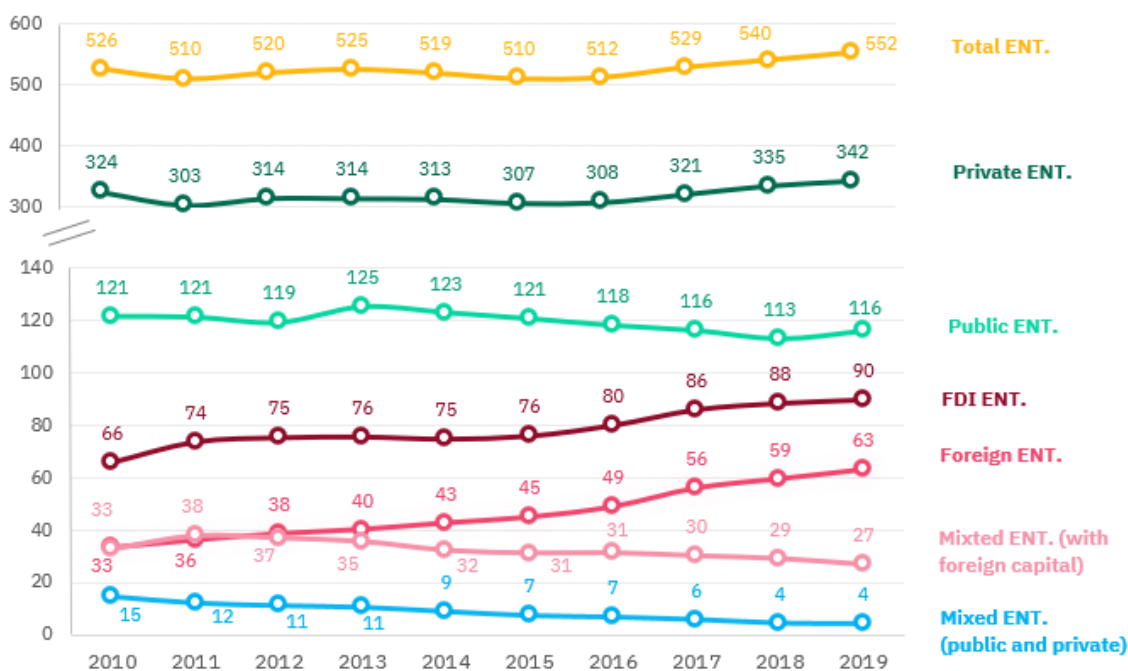
During 2010-2019, the average number of employees in enterprises in the Republic of Moldova had a very slight growth trend, from 526 thousand employees to 552 thousand, with a Compound Annual Growth Rate (CAGR) of 0.5% (Figure 8). This trend was dictated,

in turn, by the slightly increasing evolution of the average number of employees in private companies (with a CAGR of 0.6%).

During this period, a significant reduction in the number of employees in mixed (public and private) companies was registered, with a CAGR of 13.1%. This evolution is due to the significant reduction of the number of mixed (public and private) companies in the last 10 years, from about 200 to about 40, a phenomenon that occurred against the background of the processes of reorganization and privatization of these categories of enterprises. A more moderate reduction in the number of employees was registered in public enterprises.

**The number of employees in FDI enterprises increased between 2010 and 2019 from 66 to 90 thousand people.** In the segment of FDI enterprises, an interesting evolution can be noted, namely the increase in the number of employees exclusively at the expense of foreign-owned enterprises (with a CAGR of 7.4%). On the other hand, the number of mixed companies (with foreign capital) and their employees decreased with a CAGR of about 2% in the last 10 years.

Figure 8 Evolution of the average number of employees in enterprises with different forms of ownership during 2010-2019 (thousand people)



Source: NBS data

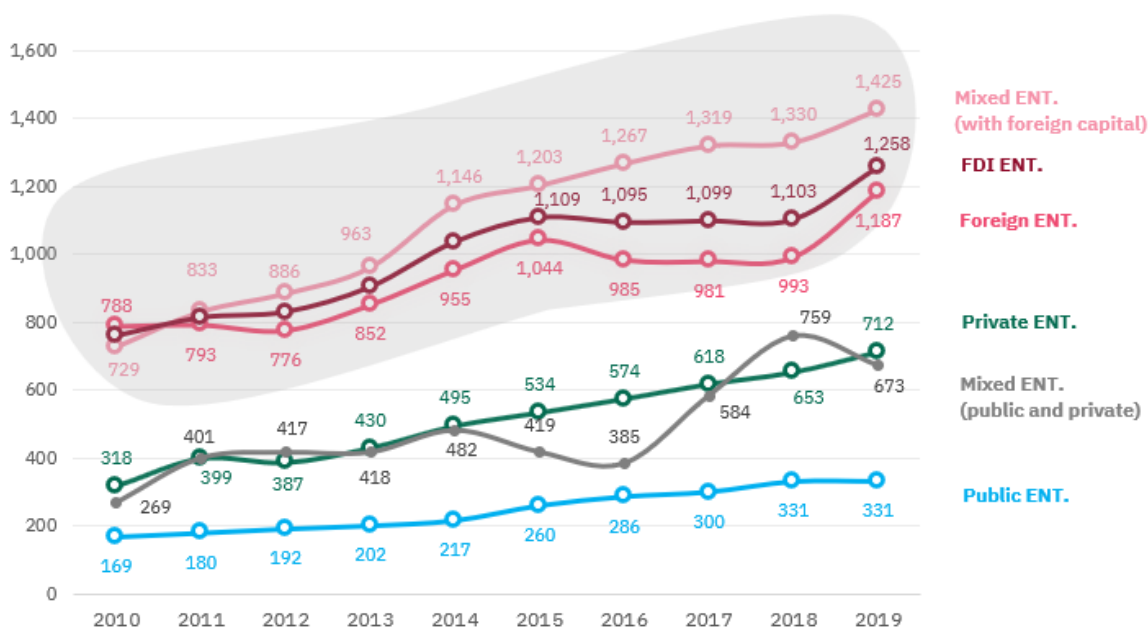
The crises of 2008-2010 and 2015 inevitably affected the economy, by reducing the total number of enterprises and employees. However, in these circumstances, **foreign-owned enterprises were the only ones to grow in both numbers and staff, demonstrating better resilience and increased capacity to overcome these shocks.**

## Analysis of sales revenue

In 2019, the Moldovan reporting enterprises achieved a cumulative turnover (sales revenue) of MDL 397.9 billion or 12% more compared to 2018. Of the total value of sales revenue in 2019, about 61.3% were obtained by local private enterprises; 28.4% - by FDI enterprises (including 18.8% by foreign-owned enterprises and 9.6% by mixed companies (with foreign participation) and 10.3% - by enterprises, which are wholly or partially owned by the state.

### FDI enterprises are twice as more productive as local private enterprises.

Figure 9 Sales revenue sales per 1 employee in enterprises with different forms of ownership during 2010-2019 (MDL thousand)



Source: NBS data

Over the last 10 years, mixed companies, with foreign capital participation, have registered the highest labour productivity (1,425 thousand lei per employee in 2019), with sustained increases each year. In 2019, foreign-owned enterprises reported a turnover per employee of about 1,187 thousand lei.

Local enterprises achieve labour productivity almost twice as low as FDI enterprises, and this practically coincides with the average level in the country. A similar level of labour productivity has been reached in joint ventures with public capital participation, a feature of them in the last 5 years being a strong oscillation, in both directions, from one year to another.

Despite the fact that labour productivity in public enterprises increased steadily over the entire period 2010-2019, the value of the sales revenue indicator per 1 employee continues to be the lowest.

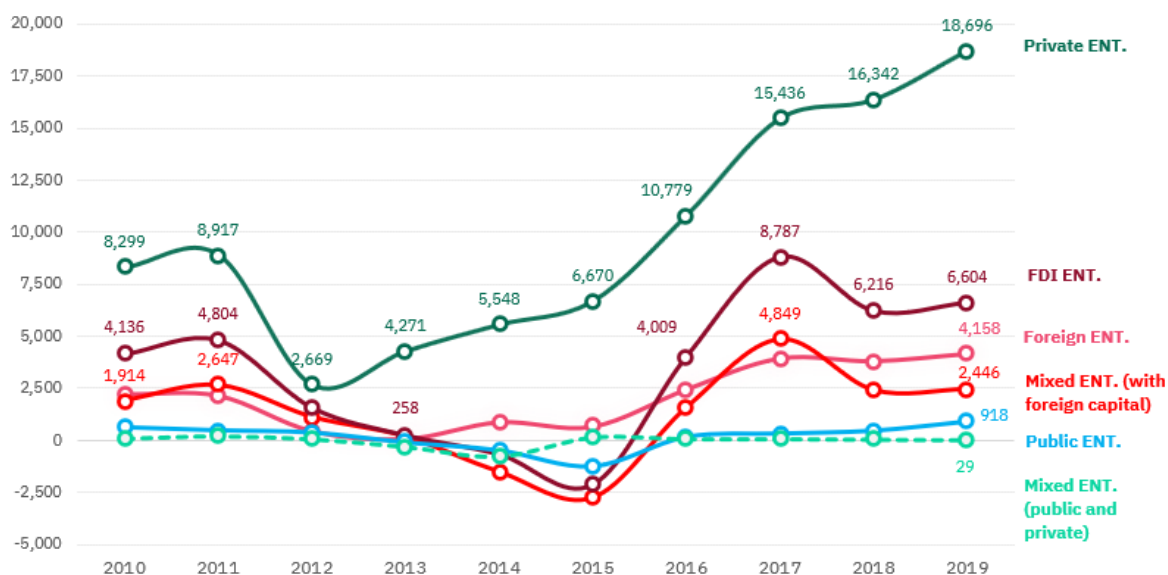
FDI enterprises have demonstrated higher labour productivity compared to local enterprises, both in the economy as a whole and in most economic sectors.

### Analysis of the profit (loss) before tax indicator

According to 2019 results, Moldovan enterprises, regardless of their form of ownership, obtained a profit before tax of about MDL 26.2 billion. Of the total profit, 71.2% belongs to local private enterprises, 25.2% - to FDI enterprises (of which 15.8% - to foreign-owned enterprises and 9.3% - to mixed companies, with foreign capital), 3.5% - to public enterprises and 0.1% - to mixed (public and private) companies.

Analysing the evolution of profits before tax in the last 10 years, we can distinguish 2 periods with diametrically opposite evolutions. Thus, during 2010-2015, the profits before tax of all enterprises, regardless of their form of ownership, had a general downward trend, with some categories of enterprises - the mixed (public and local) companies, public enterprises and mixed enterprises, with foreign capital participation - even falling in the red area, of losses, between 2013 and 2015. Since 2016, all business segments have obtained cumulative profit before tax, with constantly increasing developments in the case of private, foreign and public enterprises and oscillating developments in the case of other enterprises (Figure 10).

**Figure 10 Profit (loss) before tax of enterprises with different forms of ownership during 2010-2019 (MDL millions)**

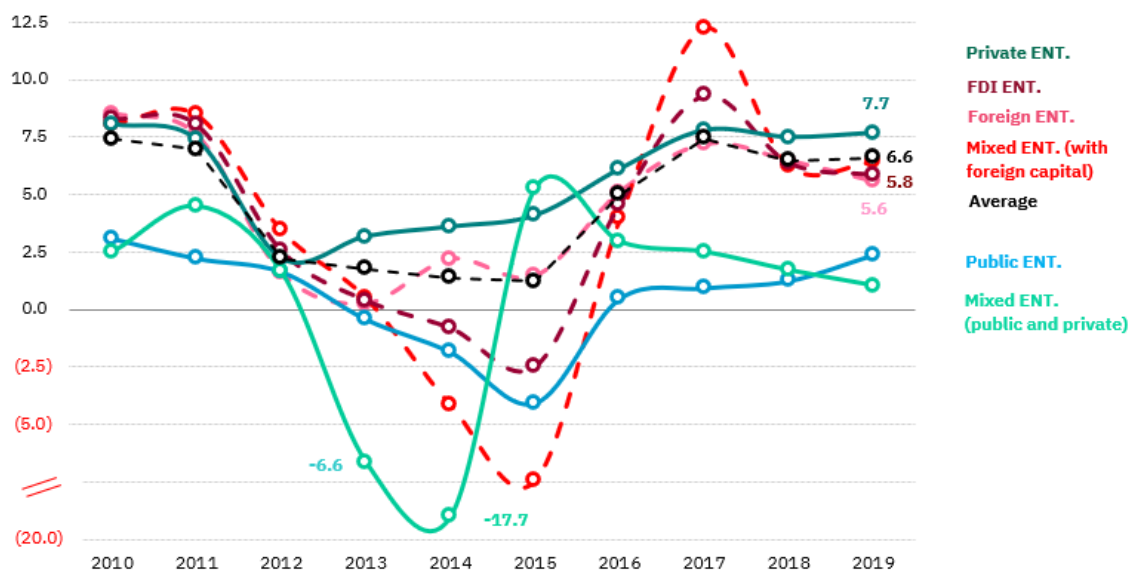


Source: NBS data

The average value of the Return on Sales (ROS) of Moldovan enterprises, regardless of ownership, was 6.6% in 2019.

Figure 11

**Return on sales of enterprises with different forms of ownership during 2010-2019 (percentages)**



Source: NBS data

In the case of FDI enterprises, ROS was lower compared to the average level (5.8%). In mixed companies (with foreign capital) this indicator was 6.4%, and in foreign-owned ones - 5.6%. The relatively low value of this indicator for FDI enterprises is conditioned by the decrease in 2018 of the profit before tax of this group of enterprises and by the slow pace of profit growth in 2019.

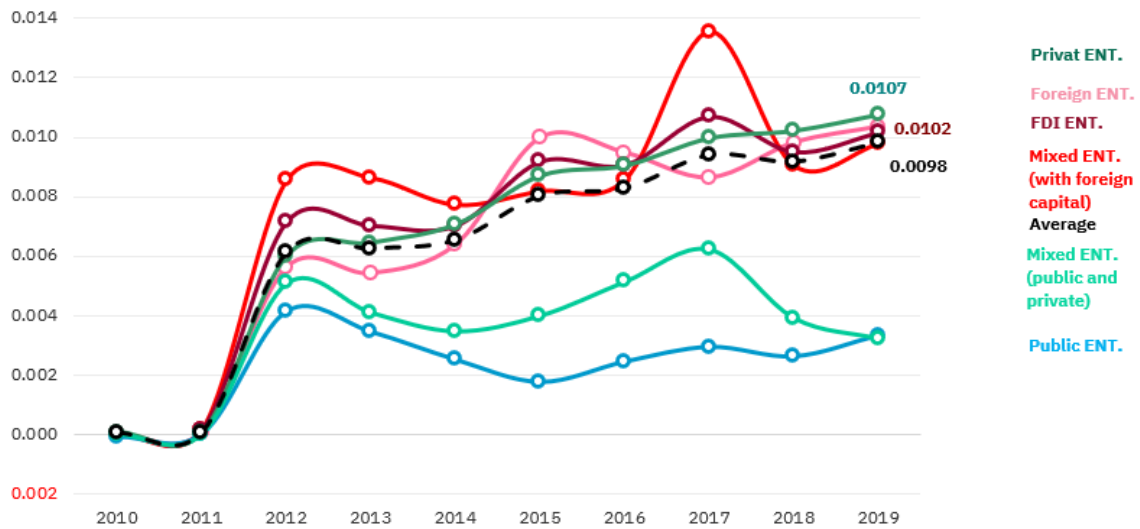
### Analysis of income tax expenses

The contribution of enterprises to the economic development of the country is also reflected in the amounts of taxes paid. Thus, in 2019, of the total amount of income tax paid by enterprises in the Republic of Moldova, 67.1% belonged to local private enterprises. The share of FDI enterprises constituted 29.4% in the total income tax, of which 9.5% belong to enterprises with foreign capital participation (mixed) and 19.9% - to enterprises with 100% foreign capital. The lowest share of income tax was paid by public enterprises (3.3%) and enterprises with public capital participation (0.2%).

The comparison of income tax expenses rates to MDL 1 sales revenue for enterprises with different forms of ownership in 2019 shows that the respective indicators for private enterprises and FDI enterprises are approximately at the same level, exceeding the average indicator in the country. For enterprises with public capital participation, the respective indicator was three times lower.

Figure 12

**Income tax expenses rate to MDL 1 sales revenue for enterprises with different forms of ownership during 2010-2019 (MDL)**



Source: NBS data

## Labour costs: the main components

### a. Analysis of labour remuneration expenses

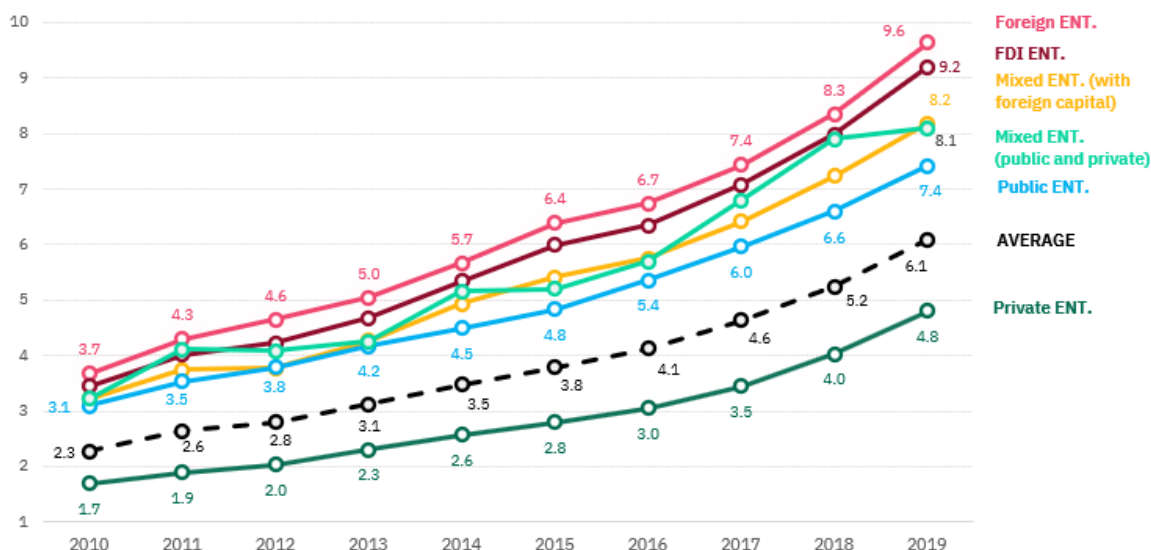
#### Salaries 2 times higher for employees in FDI enterprises

The average level of labour remuneration expenses per 1 employee was 6.1 thousand lei in 2019. **The average total monthly amount of labour remuneration of an employee in FDI enterprises exceeds approximately 1.5 times the average in the Republic of Moldova and amounted to 9.2 thousand lei in 2019 (9.6 thousand lei for foreign-owned enterprises and 8.2 thousand lei for mixed companies, with foreign capital).**

Also, the relatively high level of labour remuneration characterizes the mixed enterprises, with public capital participation: 8.1 thousand lei in 2019. Here, the indexation of salaries takes place approximately every 2 years.

Figure 13

### Evolution of monthly expenses for labour remuneration per 1 employee in enterprises with different forms of ownership during 2010-2019 (MDL thousand)



Source: NBS data

The lowest labour remuneration was registered at local private enterprises: 4.8 thousand lei in 2019, which is 1.3 times lower than the average level in the country and 2 times lower compared to FDI enterprises.

#### b. Health insurance premium (contribution), paid by the employer for employees<sup>4</sup>

(Indirect) expenses related to mandatory health insurance premiums paid by employers for the employees are directly correlated with the expenses for work remuneration<sup>5</sup>.

**In 2019, FDI enterprises paid 341.2 million Moldovan lei (24.1% of the total in the economy) in mandatory health insurance premiums. Of these, almost 250 million Moldovan lei were paid by foreign companies (17.6%) and 91.5 million Moldovan lei (6.5%) – by mixed companies, with foreign capital.**

The medium level of yearly expenses on mandatory health insurance per 1 employee, paid by the employer for employees, amounted to 2.6 thousand Moldovan lei in 2019. The maximum value of this indicator was recorded for foreign companies (4.0 thousand

<sup>4</sup> As of January 1, 2021, the mandatory health insurance premiums are paid fully by the employee. In turn, the employer has the responsibility to fully pay the contribution to the pension fund.

<sup>5</sup> Since the NBS provides data on the structure of expenses related to the workforce only for (i) public enterprises and (ii) other categories, as well as per types of activities, the authors have calculated indirectly the mandatory health insurance premiums and the employers' contribution to the employees' social insurance fund, based on the data regarding the structure of expenses related to the workforce and remuneration of the employees of enterprises based on the type of ownership.

Moldovan lei per year per 1 employee). Overall, **in the case of FDI enterprises, yearly expenses related to mandatory health insurance premiums per 1 employee amounted to 3.8 thousand Moldovan lei in 2019 – 1.5 times above the medium level or 1.8 times higher compared to local private companies.**

### **c. The compulsory Social Security Contribution (SSC) applicable to employers**

(Indirect) expenses related to employers' contributions to the social fund are also correlated with the expenses with remuneration of work.

**In 2019, FDI enterprises paid a total amount of 1.4 billion Moldovan lei to the social fund (23.9% of the total), including 1.02 billion Moldovan lei (17.6%) paid by foreign companies and 0.4 billion Moldovan lei (6.4%) by mixed companies, with foreign capital ownership.**

The medium level of yearly expenses related to SSC paid by the employers per 1 employee amounted to 10.5 thousand Moldovan lei in 2019. The maximum value of this indicator was recorded again in the case of foreign companies (16.2 thousand Moldovan lei per year per 1 employee). Overall, in case of FDI enterprises, yearly expenses related to SSC paid by employers per 1 employee amounted to 15.5 thousand Moldovan lei in 2019, which is 1.5 times above the medium level. Also, a fairly high level of payments to the social fund per 1 employee has been registered by local companies with mixed ownership (public-private) (14.3 thousand Moldovan lei) and public enterprises (13.2 thousand Moldovan lei). The lowest contribution to the social fund per 1 employee was recorded by local private companies (8.2 thousand Moldovan lei), which is linked to the low level of remuneration of work in the respective group of companies.

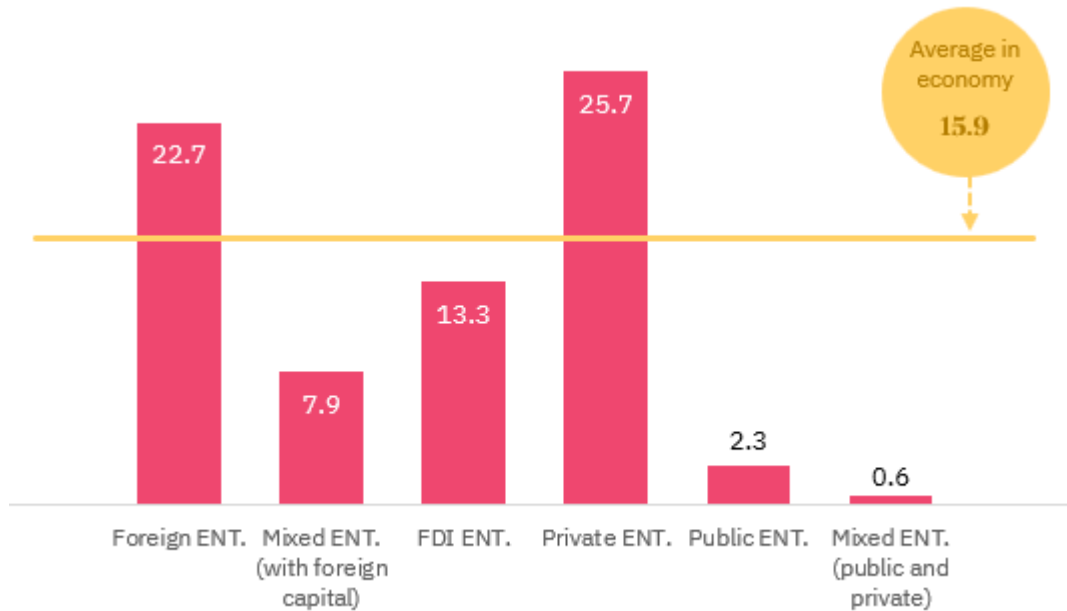
### **Fixed asset turnover ratio**

FDI enterprises own 27.4% of the fixed assets of all enterprises operating in the Republic of Moldova (including 15.1% - foreign-owned enterprises and 12.3% - mixed companies, with foreign capital).

*The fixed asset turnover ratio* (calculated as the ratio of net profit to fixed assets) depends largely on the sector in which the enterprise operates. For capital-intensive activities (such as manufacturing, electricity production and supply, etc.) this indicator is lower. For service sector businesses, which do not require large capital investments and investments in working capital, the turnover ratio is higher.

Thus, local private enterprises, with an important share in sectors such as trade and HoReCa, recorded the best fixed asset turnover ratio in 2019 (25.7% vs. average level of 15.9%).

Figure 14

**Fixed asset turnover ratio of enterprises with different forms of ownership in 2019 (percentages)**

Source: Calculated based on NBS data

In the case of FDI enterprises, with an important presence in sectors such as manufacturing, information and communications, the ratio was 13.3% (including for foreign-owned enterprises – 22.7% and for mixed companies, with foreign capital – 7.9%).

The lowest fixed asset turnover ratio was recorded in public enterprises, with a significant presence in sectors such as transport, production and supply of electricity and heat, water distribution: 2.3% in the case of public enterprises and 0.6% to enterprises with public capital participation.

# Chapter 3

## Impact of FDI on the economy of the Republic of Moldova

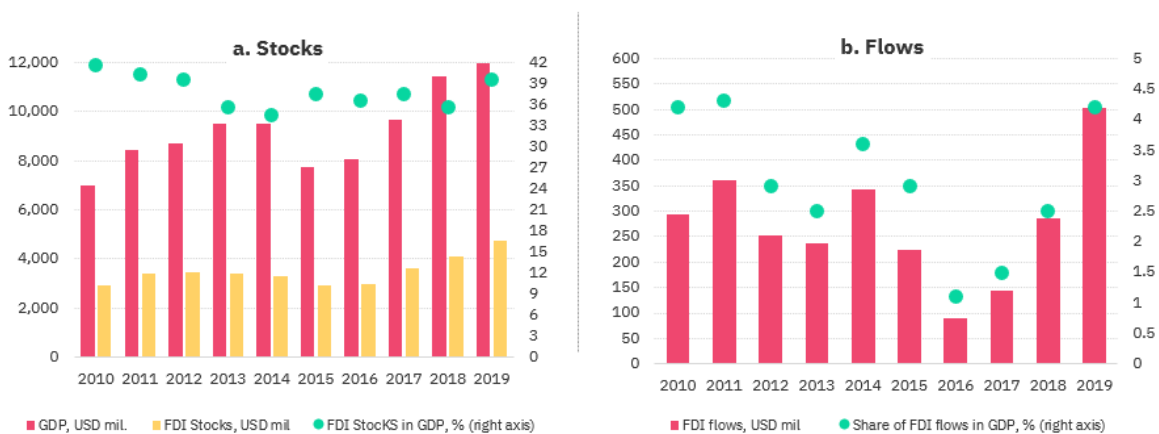
### Contribution of FDI enterprises to GDP

Participation in GDP formation is one of the indicators of the FDI impact on the economy of the Republic of Moldova. According to NBM data, in the analysed period 2010-2019, the share of FDI flows in GDP fluctuated quite a lot: the highest value of 4.3% was recorded in 2011, the lowest - 1.1% - in 2016. In 2019, the share of FDI flows in GDP was 4.2% (Figure 15).

The highest share of FDI stocks in GDP (41.7%) was registered in 2010, then, during 2011-2014, there was a decrease of this indicator to the minimum value of 34.4%. In 2019, the share of FDI stocks in GDP was 39.6%. That indicator is quite low compared to the comparable states, which reflects the country's existing potential to attract FDI.

Figure 15

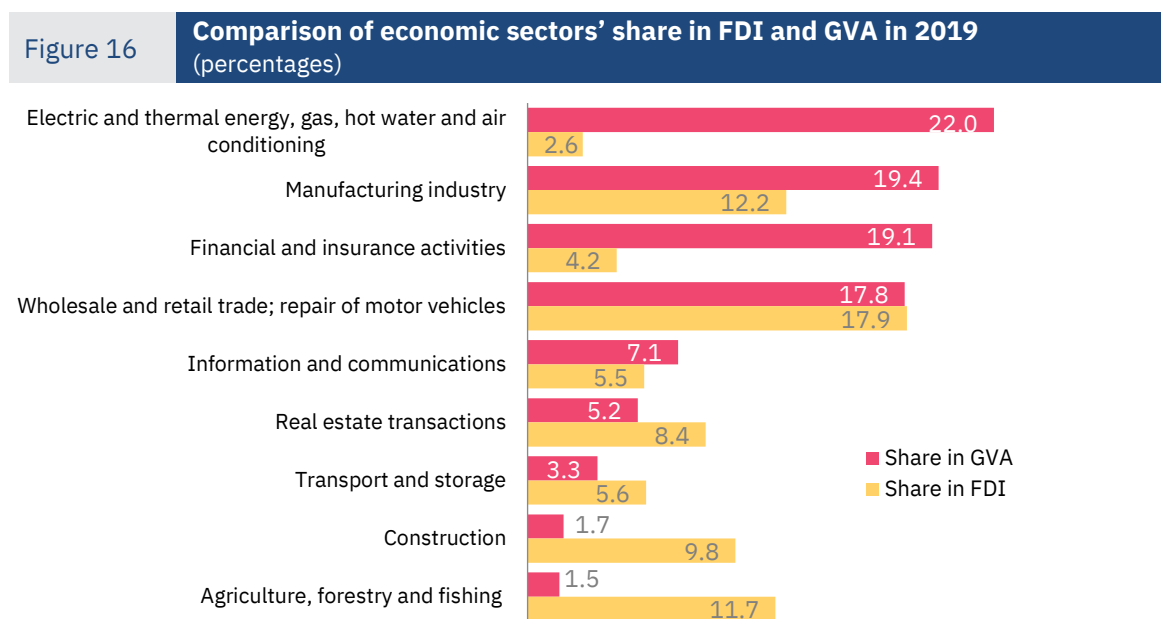
Share of FDI stocks and flows in GDP, 2010-2019



Source: NBM, International Accounts of the Republic of Moldova

## FDI distribution by sectors of economy (types of activity)

According to NBM data, in 2019, FDIs are present in almost all economic sectors (types of activity). Therefore, 97.3% of all FDIs in the Republic of Moldova in 2019 were concentrated in nine types of activity, unevenly distributed (Figure 16). The largest share of FDI is present in such sectors as ‘Production and supply of electricity and heat, gas, hot water and air conditioning’ (22.0%), ‘Manufacturing’ (19.4%), ‘Financial and insurance activities’ (19.1%) and ‘Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles’ (17.8%).



Source: NBM data (Coordinated Direct Investment Survey), NBS

At the same time, of the respective types of activity, only the manufacturing industry and the wholesale and retail trade are characterized by quite high shares in the formation of gross value added (GVA). Other sectors with a high share of added value, such as agriculture, construction, real estate transactions are less attractive to foreign investors.

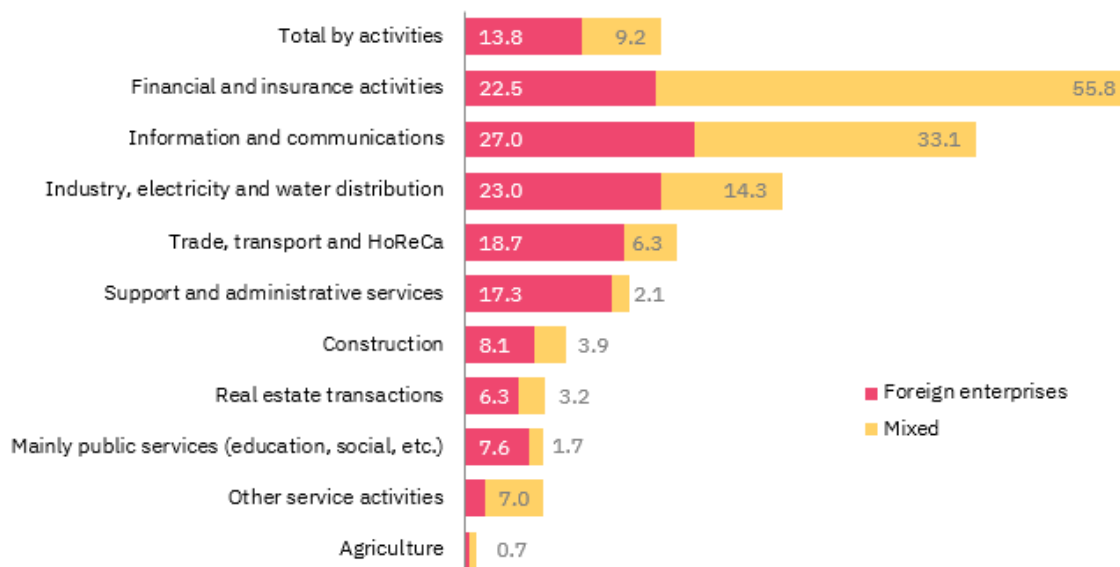
**Thus, the sectors of greatest interest to foreign investors are not necessarily the sectors with the highest GVA in the economy, the decisions of foreign investors to enter the Moldovan market are based on more reasons than pure financial interest.**

## Share of FDI enterprises by sectors of economy by gross value added

FDI enterprises (foreign and mixed) create 23% gross value added overall in the economy, of which 13.8% - foreign-owned enterprises and 9.2% - mixed companies, with foreign capital.

The distribution of value added of FDI enterprises (foreign and mixed, with foreign participation) by economic sectors reveals that they have the largest contribution to the formation of value added in the sectors such as financial and insurance activities (by 78.3%, of which 2/3 belong to joint ventures), information and communications, with a share of 60.1%, industry, electricity and water distribution, with a share of 37.3% and trade, transport and HoReCa sectors, with a 1/4 share of the total.

Figure 17 **Share of FDI enterprises by economic sectors by gross value added in 2019** (percentages)



Source: NBS data

### Share of FDI enterprises in the number of economic agents

**In the last 10 years, the share of FDI enterprises has decreased from 8.2% in 2010 to 7.5% in 2019. This evolution has been caused exclusively by the significant (dramatic) reduction in the number of mixed companies, with foreign capital.**

If 10 years ago the number of mixed companies (with foreign participation) was close to that of enterprises with one hundred percent foreign capital (about 2,000), in 2019, their number decreased to about 1,600. Thus, the share of mixed enterprises (with foreign capital) reached 2.9% in 2019 (from 4.2% in 2010).

Regarding the companies with one hundred percent foreign capital, their number increased from about 2,000, 10 years ago, to about 2,600-2,700 during 2018-2019, and their share increased in total from 4% in 2010 to 4.6% in 2019.

Table 1	Evolution of the share of FDI enterprises in the total number of enterprises during 2010-2019 (percentages)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Foreign-owned enterprises	4.0	4.1	4.3	4.6	4.7	5.0	5.1	4.9	4.8	4.6
Mixed enterprises (with foreign capital)	4.2	4.3	4.1	3.9	3.6	3.6	3.5	3.3	3.1	2.9
<b>Total FDI enterprises</b>	<b>8.2</b>	<b>8.4</b>	<b>8.5</b>	<b>8.5</b>	<b>8.3</b>	<b>8.6</b>	<b>8.6</b>	<b>8.2</b>	<b>7.8</b>	<b>7.5</b>

Source: NBS data

### Share of FDI enterprises in employment

**The share of workforce employed in FDI enterprises increased during 2010-2019 from 12.5% in 2010 to 16.3% in 2019. This evolution occurred exclusively due to the increase in the number of employees in 100% foreign-owned enterprises.**

The decrease in the share of employees in mixed companies (with foreign participation) occurred at a slower pace than the decrease in the share of the number of enterprises. And, conversely, the share of employees of foreign-owned enterprises has grown faster than the share of the number of enterprises.

Table 2	Evolution of the share of FDI enterprises in the total number of employees during 2010-2019 (percentages)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Foreign-owned enterprises	6.3	7.1	7.4	7.6	8.2	8.8	9.5	10.6	11.0	11.4
Mixed enterprises (with foreign capital)	6.2	7.4	7.1	6.7	6.2	6.1	6.1	5.7	5.4	4.8
<b>Total FDI enterprises</b>	<b>12.5</b>	<b>14.4</b>	<b>14.5</b>	<b>14.4</b>	<b>14.4</b>	<b>14.9</b>	<b>15.6</b>	<b>16.3</b>	<b>16.4</b>	<b>16.3</b>

Source: NBS data

### Share of FDI enterprises in sales revenue (productivity)

During 2010-2019, the share of sales revenue generated by FDI enterprises significantly exceeded the share of their employees in total. This indicates a higher level of labour productivity of these enterprises. So, in 2019, 16.3% of employees achieved 28.4% of total sales revenues per economy.

Table 3	Evolution of the share of FDI enterprises in the total volume of sales revenue during 2010-2019 (percentages)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Foreign-owned enterprises	14.7	13.7	14.1	14.7	15.5	16.6	16.0	16.6	16.6	18.8
Mixed enterprises (with foreign capital)	13.4	15.1	15.4	14.6	14.0	13.2	13.1	12.0	10.8	9.6
<b>Total FDI enterprises</b>	<b>28.1</b>	<b>28.8</b>	<b>29.5</b>	<b>29.3</b>	<b>29.4</b>	<b>29.8</b>	<b>29.1</b>	<b>28.6</b>	<b>27.4</b>	<b>28.4</b>

Source: NBS data

### Share of FDI enterprises in the volume of corporate income tax expenses

FDI enterprises significantly contribute to the formation of the budget by paying taxes, in particular income tax. During 2010-2019, the share of income tax paid by this group of enterprises varied from 12.4% (year 2010) to 56.8% (year 2011). In recent years, this indicator has declined slightly due to the increase in the amount of income tax paid by enterprises with other forms of ownership. In 2019, FDI enterprises paid 29.4% of the income tax accumulated to the budget.

Table 4	Evolution of the share of FDI enterprises in the total volume of income tax expenses during 2010-2019 (percentages)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Foreign-owned enterprises	5.6	19.8	13.0	12.7	15.1	20.6	18.3	15.3	17.8	19.9
Mixed enterprises (with foreign capital)	6.7	37.0	21.5	20.2	16.5	13.5	13.6	17.3	10.7	9.5
<b>Total FDI enterprises</b>	<b>12.4</b>	<b>56.8</b>	<b>34.5</b>	<b>33.0</b>	<b>31.7</b>	<b>34.2</b>	<b>31.9</b>	<b>32.5</b>	<b>28.4</b>	<b>29.4</b>

Source: NBS data

### Share of FDI enterprises in the labour remuneration

The share of FDI enterprises in the total volume of labour remuneration expenses for employees increased from 18.9% in 2010 to 24.6% in 2019.

Table 5	Evolution of the share of FDI enterprises in the total volume of labour remuneration expenses during 2010-2019 (percentages)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Foreign-owned enterprises	10.2	11.5	12.3	12.3	13.4	14.8	15.5	17.0	17.5	18.1
Mixed enterprises (with foreign capital)	8.7	10.4	9.6	9.2	8.8	8.7	8.5	7.9	7.4	6.5
<b>Total FDI enterprises</b>	<b>18.9</b>	<b>21.9</b>	<b>21.9</b>	<b>21.5</b>	<b>22.1</b>	<b>23.5</b>	<b>24.0</b>	<b>24.9</b>	<b>24.9</b>	<b>24.6</b>

Source: NBS data

The average monthly amount of remuneration of an employee's work in FDI enterprises is approximately 1.5 higher than the average in the Republic of Moldova and amounted to 9.2 thousand lei in 2019.

### The share of FDI enterprises in the volume of fixed assets

FDI enterprises significantly contribute to the creation of fixed assets. In 2019, they owned 27.4% of fixed assets, both for industrial and social purposes. The share of fixed assets in FDI enterprises has varied slightly in the last 10 years, with values covered by the segment 27-30%.

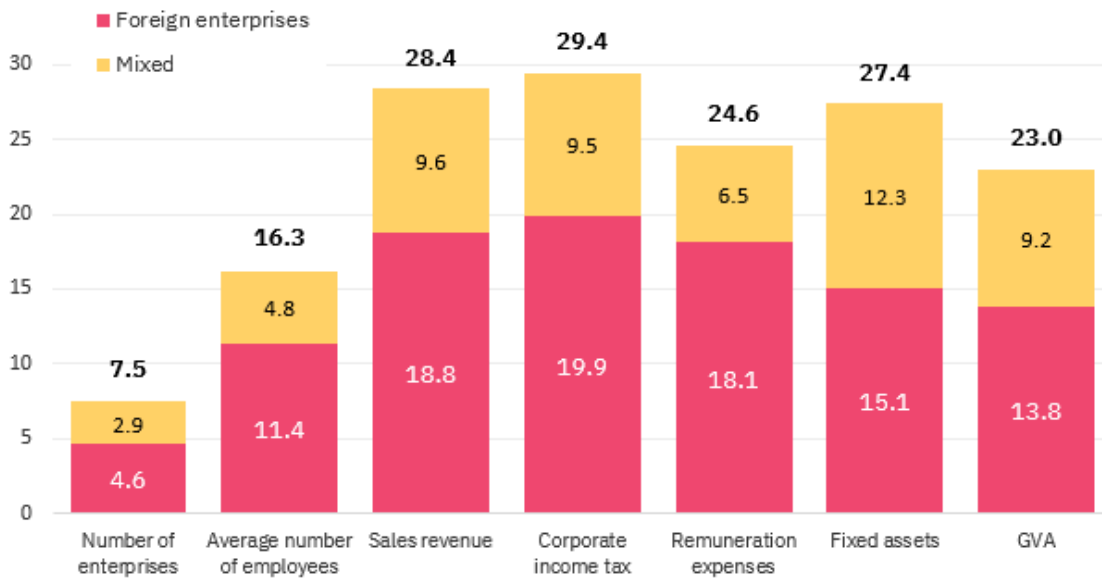
**Table 6 Evolution of the share of FDI enterprises in the total volume of fixed assets during 2010-2019 (percentages)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Foreign-owned enterprises	10.6	10.9	10.6	11.3	12.4	13.6	14.2	14.3	14.9	15.1
Mixed enterprises (with foreign capital)	18.7	19.2	19.1	18.0	15.0	14.2	13.7	13.3	12.3	12.3
<b>Total FDI enterprises</b>	<b>29.3</b>	<b>30.1</b>	<b>29.7</b>	<b>29.3</b>	<b>27.4</b>	<b>27.8</b>	<b>27.8</b>	<b>27.6</b>	<b>27.2</b>	<b>27.4</b>

Source: NBS data

In conclusion, it can be stated with certainty that foreign-owned enterprises and mixed companies (with foreign capital) have a significant contribution to the economic and social development of Moldova, which is manifested by a series of indicators reflected in **Figure 18**.

**Figure 18 Impact of FDI enterprises on the economy of the Republic of Moldova (percentages in total)**



Note: The share of FDI companies to total social contributions (compulsory health insurance and compulsory state SSC) is almost identical to their share in the total remuneration expenses.

Source: NBS data

# Chapter 4

## Business linkages: survey results

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### 4.1 Profile of the interviewed enterprises

The analysis of practices used for the integration in the local and international production and services value chains of local enterprises, performed by FDI enterprises, and their impact on the national economy was based on the interview of 101 FDI enterprises (100% foreign-owned enterprises, and mixed enterprises, with the participation of foreign capital between 0% and 100%).

Foreign-owned enterprises interviewed are located throughout the country, most of them in Chisinau. The impact of these enterprises on the national economy is significant. During their activity in the Republic of Moldova, they invested over USD 2.7 billion and currently provide about 32.3 thousand jobs (5.8% of total employees in the economy).

In order to have as representative a sample as possible, different enterprises were approached, both by the size of the business and by the experience of conducting business in Moldova. Thus, of all the enterprises that agreed to participate in the survey, most (38%) have between 50-249 employees and an operating experience in Moldova of over 10 years (63%).

The 101 companies interviewed mainly represent the priority sectors identified in various policy documents, but also other sectors with an important presence in the Republic of Moldova.

Most enterprises operate in sectors like the food and agriculture industry (28%), TAFL (14%) and the category of other sectors (which includes companies in energy, health, pharmacy, transport & storage, HoReCa, tourism, etc.).

Of the enterprises surveyed, the absolute majority (72%) operate under the general conditions. The other enterprises are residents of free economic zones (17%), industrial parks (7%), and IT parks (4%).

About half of respondents (49%) indicated EU countries as the main market. At the same time, the local market is the most important market for 40% of companies, and 11% of respondents are mainly focused on other markets (including CIS).

Figure 19

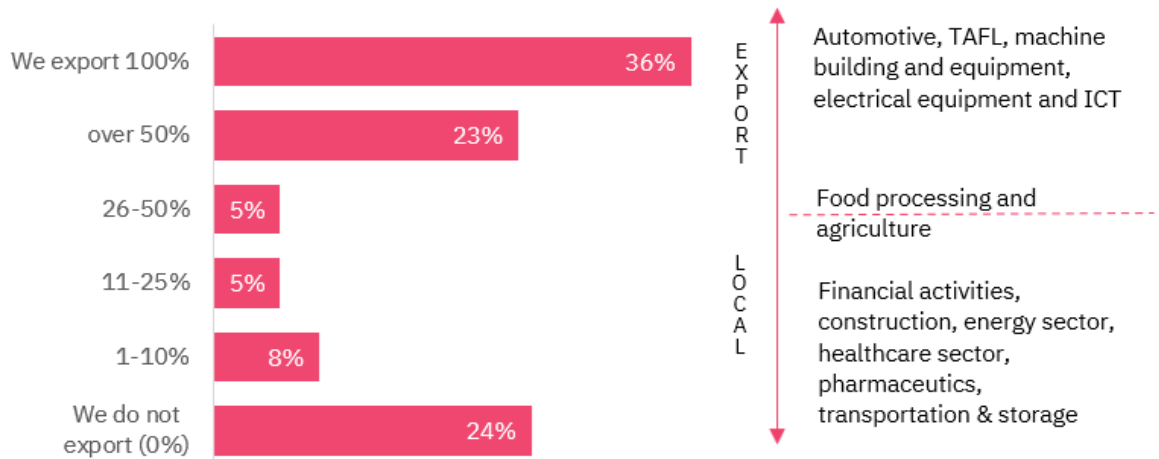
**Interviewed enterprises' main market**



Asked to indicate the estimated percentage of export turnover, 36% of enterprises mentioned that they work exclusively for export and another 23% indicated that over 50% of their turnover is due to exports. At the same time, 24% of enterprises stated that they serve only the local market (they do not export at all), and 18% mentioned that exports represent between 1% and 50% of turnover.

Figure 20

**Percentage of total sales exported abroad**



The responses of the interviewed enterprises clearly delimit the export-oriented industries from those focused on the local market. Thus, the strongly export-oriented industries, with over 50% of the export turnover, are:

- ☑ *Automotive, TAFL (manuf. and prod. of textiles, clothing and footwear), manufacture of machinery and equipment, electrical and ICT equipment).*

On the other hand, the strongly local market-oriented industries, with over 50% of the local market sales turnover, are:

- ☑ Financial activities, construction, energy, health, pharmacy, transport and storage.

In the case of the food industry and agriculture, there is a balanced ratio between companies oriented towards serving the local market and those focused on exports (about 43% vs. 57%).

## 4.2 Current situation: linkages with local suppliers

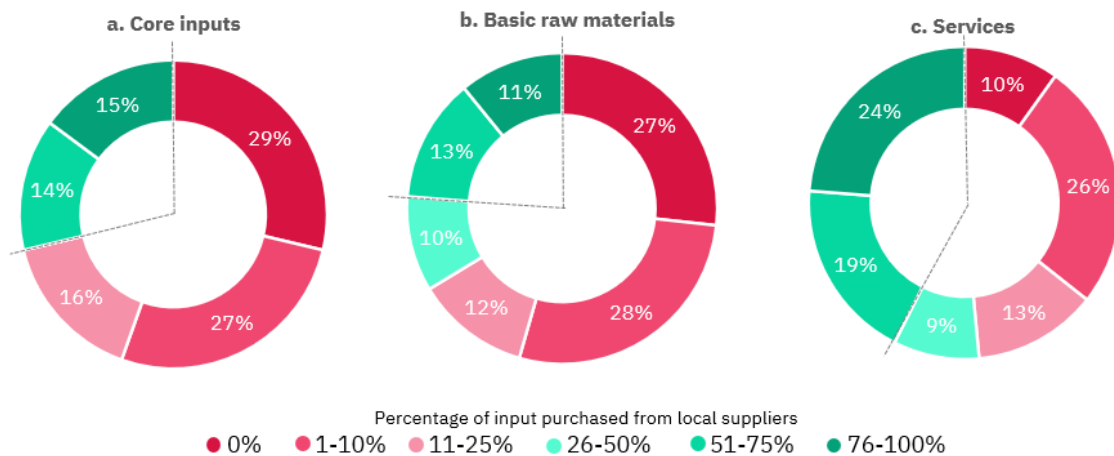
### Poor integration of local suppliers in the foreign-owned enterprises supply chains

Data show that **29% of the surveyed companies do not purchase core inputs on the local market, and in the case of 27% this share does not exceed 10%. Only 29% of the companies participating in the survey claimed that the share of core inputs purchased locally is over 50%.**

The situation with the purchase of basic raw materials (inputs) on the local market is practically similar to that of the core inputs. In the case of **28% of companies, the share of purchases of basic raw materials on the local market does not exceed 10%, and 27% of companies reported that they do not purchase this type of input in the Republic of Moldova.**

**Only 24% of the responding companies indicated that the share of basic raw inputs purchased from local suppliers exceeded 50%.**

Figure 21 **Structure of local supplies of foreign-owned enterprises, by volumes purchased and types of inputs (percentages of interviewed enterprises)**



The connection with local suppliers is a bit better when it comes to contracting services. Thus, **43% of enterprises indicated that the local market is the main source of purchase of various services, covering over 50% of the needs of these enterprises.** At the same time, **for 26% of enterprises, this share does not exceed 10%, and in the case of another 10%, this type of input is not purchased on the local market.**

### Higher penetration of local inputs in agri-business and financial sectors

However, the detailed results show that the situation differs substantially depending on the sector. Thus, the best result is attested among foreign-owned enterprises, which operate in the financial field – 80% of them purchase a large part of *core* inputs and various services on the local market, while 60% of them satisfy over 50% of the need for ancillary inputs with the help of local suppliers.

In the *Agrifood* sector, where the availability of local resources was largely the reason for foreign investors to come to Moldova, half of the surveyed enterprises operating in industries such as agriculture and food acquire between 51% - 100 % of core inputs on the local market. At the same time, the share of enterprises that purchase mostly ancillary inputs and various services on the local market is 36% and 43%, respectively.

Enterprises operating in areas such as *automotive*, ICT, trade, electrical equipment, trade, BPO activities and other fields, remain poorly covered by local inputs, and enterprises operating in the field of construction, TAFL, machine and equipment manufacturing are in the red area.

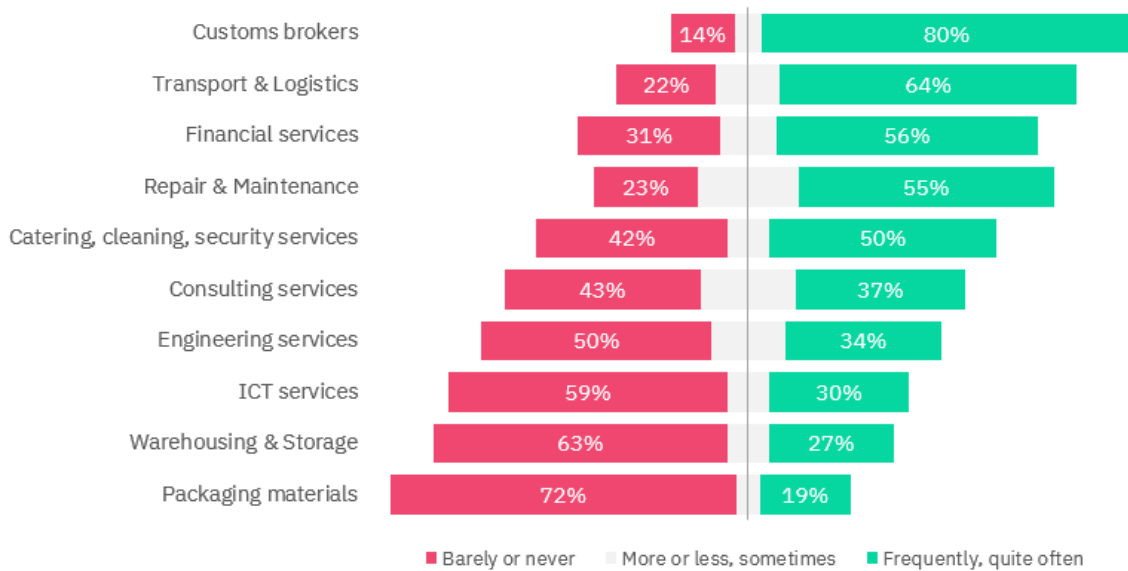
### Local customs brokerage services and transport & logistics – most popular among FDI enterprises

According to the enterprises participating in the survey, the customs brokerage services, offered by local suppliers, are most popular among foreign-owned enterprises (80%), followed by transport & logistics services (64%), financial services (56%), repair & maintenance services (55%).

On the other hand, foreign-owned enterprises perceive as very unlikely the transfer to local companies of packaging processes (72%), storage and maintenance services (63%), ICT services (almost 59%), engineering services (50%).

Figure 22

**Business support services offered by local specialized companies, contracted by foreign-owned enterprises**



### 4.3 Identifying local suppliers

Although the structure of local supply of foreign-owned companies by volume purchased and types of inputs is not at its best, **71% of enterprises mentioned that increasing this share is a matter of priority**, while 29% of enterprises said that the local market is not seen as a source of supply.

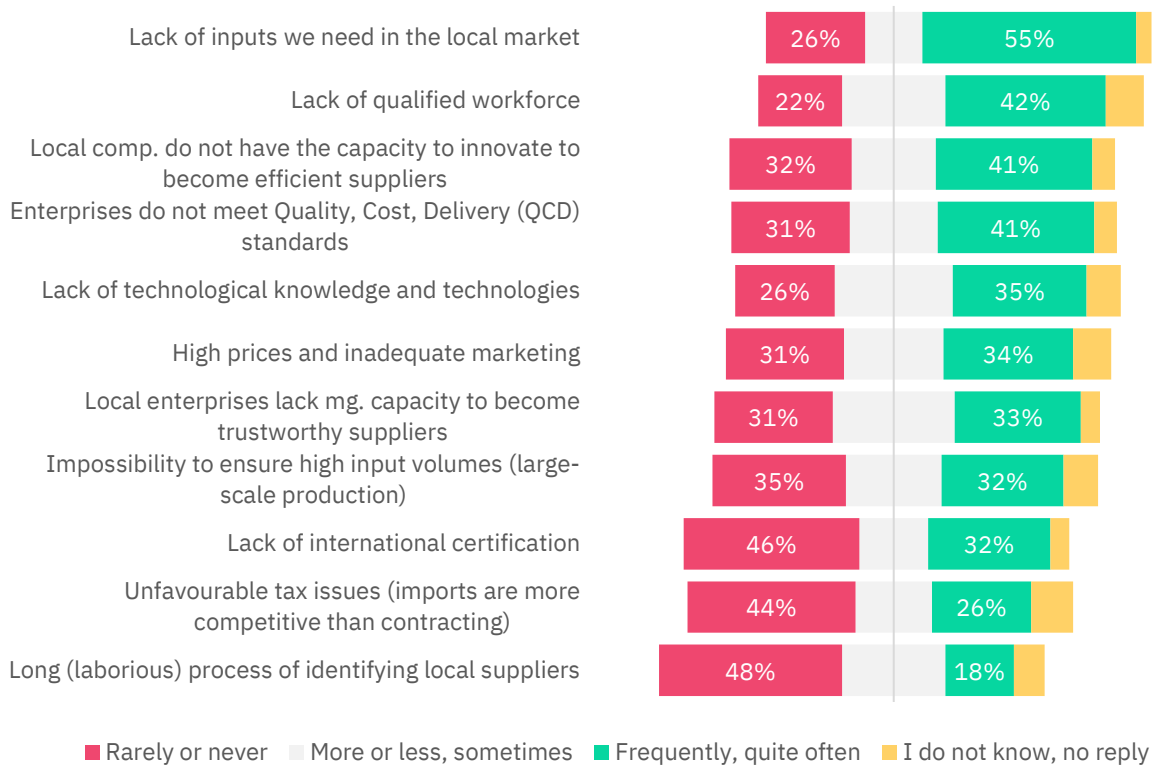
#### Lack of inputs - barrier number 1

Most of the enterprises surveyed (55%) mentioned that the lack of inputs they need in the local market is the barrier number one.

Other problematic issues are the lack of workforce (42%), local enterprises lack innovation capabilities to become efficient suppliers and do not meet Quality, Cost, Delivery (QCD) standards – both with 41% of responses.

Figure 23

**Factors preventing extension of local supply**



The fact that 9 aspects obtained a score between 32% and 55% demonstrates that FDI enterprises face a set of complex problems when it comes to interacting with potential local suppliers.

The results of the survey also showed that there is a group of foreign-owned enterprises (between 4% and 11%) that do not know if the issues presented in the following figure are barriers to expanding local supplies, which indicates that they are either inexperienced in terms of collaboration with local suppliers or do not consider the local market as a source of procurement of the necessary inputs.

**Minimum requirements for local suppliers**

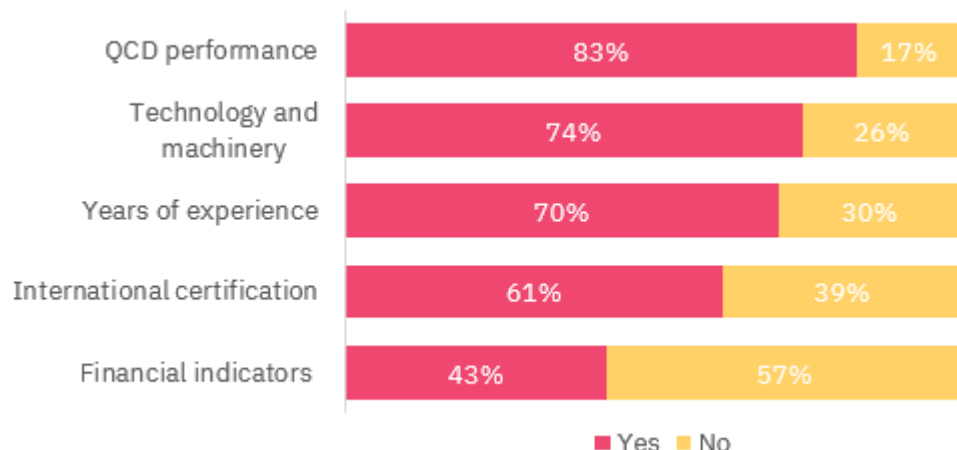
From the perspective of the existence of minimum requirements for local SMEs, most foreign-owned enterprises stated that they have criteria for selecting local suppliers based on QCD performance, technologies and machinery used (equipment and tools), experience of the local enterprise and international certifications.

At the same time, over 57% of respondents reported that the financial performance (e.g. equity, assets, turnover, etc.) of the local enterprise is not a critical requirement. Most likely, according to the interviewed enterprises, once a local company meets the minimum

requirements mentioned above, it automatically falls into the category of financially stable and reliable companies.

Figure 24

**Existence of minimum requirements from foreign-owned enterprises for potential local suppliers**



Several enterprises state that they have not developed a well-defined set of minimum criteria/requirements, but indisputably, local suppliers that are well positioned in terms of the indicators/requirements mentioned in the figure above will always take priority over others.

**Search history begins with *Internet search***

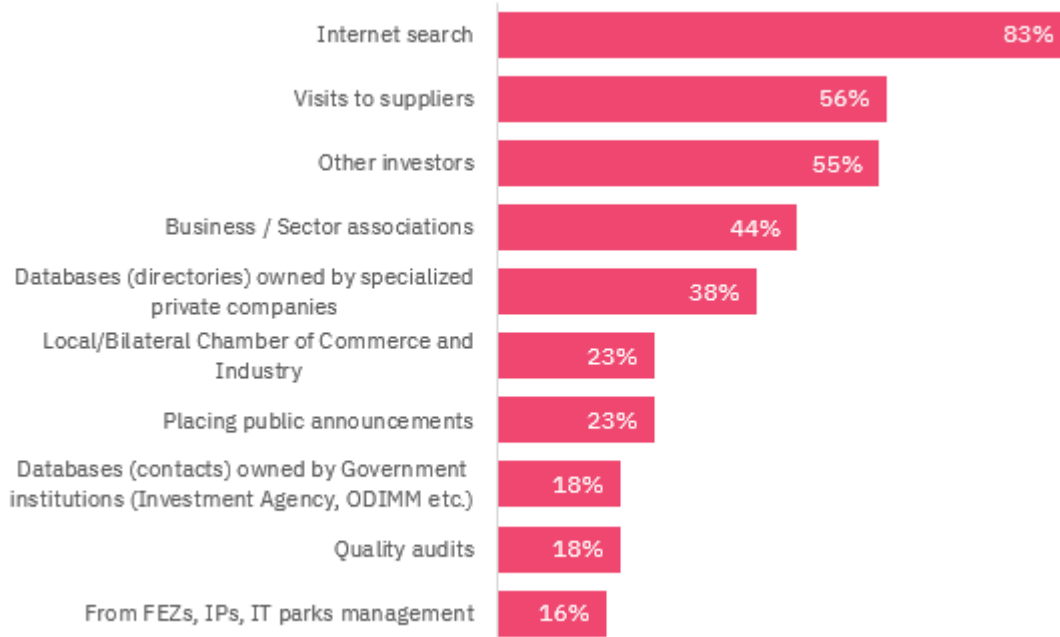
The answers of the interviewed enterprises regarding the main sources of information for the identification of local suppliers show us that they use various information channels.

The tool that enterprises use the most to begin the process of identifying potential suppliers is Internet searches (83%), followed by visits to suppliers (56%) and recommendations received from other investors (55%).

A less popular solution among respondents refers to: recommendations from the management of FEZs, IPs, IT parks (16%), government databases (e.g. Investment Agency, ODIMM, etc.) - 18%, quality audits (18%), calling the local/bilateral CCI or placing public announcements (23% each), according to the details in the following figure.

Figure 25

**Main sources of information for identifying potential local suppliers** (percentage of interviewed enterprises)

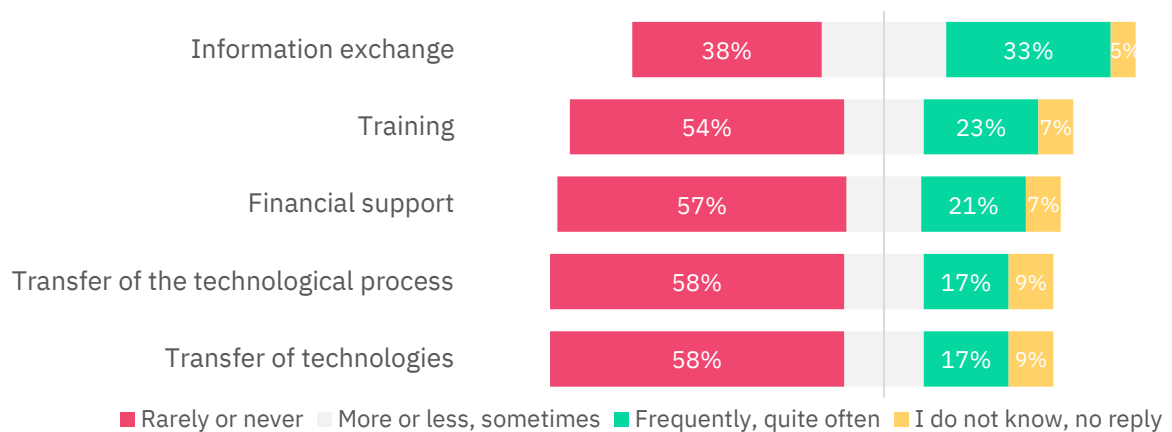


**In-depth and advanced forms of support - a very rare practice in Moldova**

The exchange of information is the most popular form of support offered to local suppliers, mentioned by 33% of the interviewed enterprises. **Forms of support that characterize a deeper and more advanced integration of local suppliers, such as the transfer of the technological process** (including the supply of equipment and machinery, technical support, counselling on operations and quality, etc.) and the transfer of technologies (e.g. transfer of know-how, transfer of product models, collaboration in research and development) **are very uncommon practices. Only 17% of respondents mentioned that they offer such support.**

Figure 26

**Forms of support foreign-owned enterprises offered to local suppliers over the last 2-3 years**

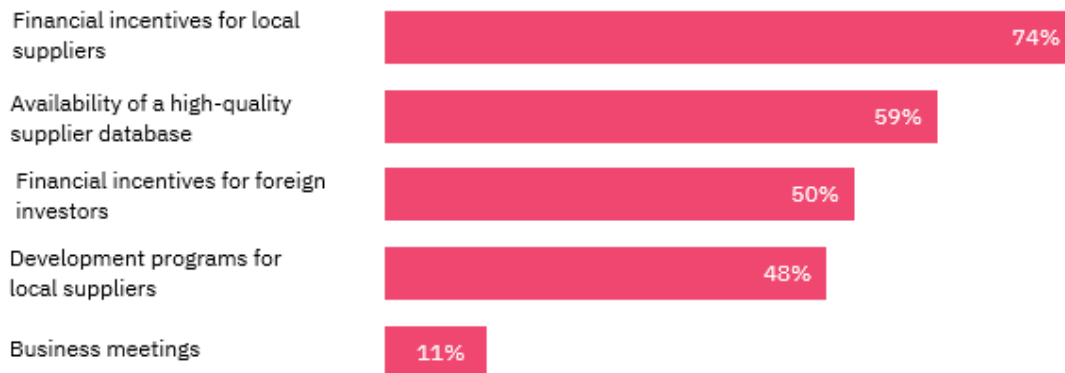


## 4.4 Government support

The analysis of answers provided by the interviewed enterprises shows that 54% of them did not discuss with any state-owned organization regarding the development of partnerships with local enterprises, while 46% of enterprises claimed that such discussions took place.

Figure 27

### Forms of support required by the public sector to improve business ties with local SMEs



At the same time, **most enterprises (74%) mentioned that the most effective way to boost business relations between FDI and local suppliers would be the state to offer financial incentives to local suppliers (especially investing in the modernization of production infrastructure)**. Almost 60% of respondents noted the importance of the availability of a high-quality database of local suppliers. Also, half of the surveyed enterprises claim that financial incentives for foreign investors could encourage local supply, and 48% of respondents believe that coming up with local supplier development programs is necessary.

When asked about the **availability of foreign-owned enterprises to work in partnership with state institutions in local supplier development programs – the vast majority of companies (80%) agreed.**

Also, the enterprises participating in the survey had the opportunity to comment on the most efficient and realistic, in their opinion, policies that need to be promoted and implemented by state institutions in order to increase the supply of local enterprises and their competitiveness. Thus, most of the times, foreign-owned enterprises suggested to the Government of the Republic of Moldova to take the following actions:

*Tax incentives for innovation and technology:*

- ☑ Providing support by granting exemptions/fiscal incentives for local suppliers for investments made in research-development-innovation;
- ☑ Ensuring access of local suppliers to efficient and modern technologies (equipment, know-how, etc.);
- ☑ Providing state financial support to local suppliers for the implementation of new technologies;
- ☑ Subsidizing local enterprises taking over technologies in the field of *eco* technical solutions (internationally certified).

*Simplified fiscal/customs procedures:*

- ☑ Simplifying import-export procedures (including cancelling the ecological import tax), as well as better VAT refund/compensation procedures;
- ☑ Eliminating customs clearance when accessing FEZ for goods provided by local enterprises;
- ☑ Eliminating taxes in the first years of activity of local enterprises.

*Simplified access to financing:*

- ☑ Ensuring access of local suppliers to financing (and support from the Government by guaranteeing these financings);
- ☑ Simplifying access of local suppliers to international grants and financing resources;
- ☑ Providing state financial support in the international certification of local enterprises.

*Educational and training aspects:*

- ☑ Promoting dual education;
- ☑ Developing qualified staff for local suppliers (various educational projects in accordance with real market requirements).

*State control:*

- ☑ Removing control barriers of state-owned bodies.

*Promoted government programs:*

- ☑ The current local supplier development program for the *automotive* industry needs to be promoted and expanded.

## Chapter 5

# Policy proposals to promote FDI and enhance their impact on the inclusive and sustainable development of the economy of the Republic of Moldova

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Aspects related to the promotion (attraction and retention) of FDI and the inclusive and sustainable development of the economy of the Republic of Moldova are closely correlated, and the results of statistical data analysis and survey conclusions, described in previous chapters of this study, confirm their interdependence. They also highlight the **extremely important role of FDI enterprises in the national economy**, including from the **perspective of developing sectors able to generate high added value**.

The desire to create favourable conditions for attracting FDI and developing foreign-owned enterprises, but also to strengthen their linkages with local enterprises (especially SMEs) becomes even more important in the context of aligning the Republic of Moldova with the 2030 Agenda for Sustainable Development (2030 Global Agenda). The principles and targets of this agenda (especially those considered to be accelerators of the development) are to be transposed, in the immediate future, into the national strategic planning framework for the same time horizon. These include **sustainable and inclusive development**, based on high value-added sectors, which capitalize on the local potential of **smart specialization**, the widespread adoption of modern innovations and technologies, digitalization, greening the economy and consumption, etc.

Ensuring a favourable framework for attracting and developing FDI projects as an indispensable premise for sustainable and inclusive development is also important from the perspective of increasing the attractiveness of the Republic of Moldova in a regional context – given the fierce competition between countries for such projects. A crucial role in this ‘equation’ with many factors belongs to the **quality of public policies** targeting the investment process, **the attractiveness and efficiency of interventions / policy tools applied to stimulate FDI**, as well as **the level of performance of dedicated institutions**.

In this regard, it is important that the process of developing and implementing the national policy framework for FDI takes into consideration international best practices, but also be innovative, participatory and adaptable to the ever-changing regional and global environment.

In developing public policy proposals focused on promoting (attracting and maintaining) FDI and increasing their impact on the inclusive and sustainable economic development of the Republic of Moldova, the consultant took into account the conclusions of this study (including the results of the survey of FDI enterprises), the principles and approaches of the 2030 Global Agenda – partially transposed in the draft National Development Strategy ‘Moldova 2030’ (NDS Moldova 2030), but also by the recommendations of the *Policy Framework for Investment Promotion*<sup>6</sup>, developed by the OECD (OECD Policy Framework).

The results of the most recent relevant local and international studies were also considered. Such studies include *Business Climate in the Republic of Moldova. Perception of foreign-owned enterprises*<sup>7</sup> (BIS, 2019) and the study on *Investment Prospects in Eastern Partner Countries*<sup>8</sup> (OECD, 2020). In addition, the consultant studied the updated version of the *2021 White Paper* project, developed by the Foreign Investor Association of Moldova (FIA).

The OECD policy framework operates with the concept of a **favourable investment climate** and provides a set of detailed recommendations to governments on developing the **policy mix**, the main objective of which is **to mobilize private investment** that supports steady economic growth and sustainable development meant to contribute to the economic and social well-being of the people.

Applying the concept of favourable investment climate with reference to the Republic of Moldova allows us to outline a policy framework, aiming at the following objectives (priority directions) as **determinants for attracting FDI**, but also **for the economic development of the country**:

- Improving business environment (regulatory framework);
- Developing human capital and better governance of the labour market;
- Promoting fair competition and streamlining markets, including by streamlining the state's presence in competitive local markets;
- Boosting technology transfer, innovation and digitalization;
- Improving physical connectivity and safe mobility;
- Increasing accessibility, quality and reliability of digital services;
- Strengthening human resilience to critical vulnerabilities.

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<sup>6</sup> <https://www.oecd.org/investment/pfi.htm>

<sup>7</sup> The Study was elaborated for the Moldovan Investment Agency (Client).

<sup>8</sup> <https://www.oecd.org/investment/Investment-perspectives-in-Eastern-Partner-countries.pdf>

The consultant's conclusions regarding the priority directions of Moldova's policy in ensuring an investment climate favourable to attracting and maintaining FDI correlate with the content of the draft *White Paper 2021/Proposals of foreign investors to improve the investment climate in Moldova*<sup>9</sup> – subject to methodological differences.

In order to avoid duplication and overlap between the recommendations of foreign investors mentioned above and the policy proposals in this Report, which pursue the same objective, the consultant relied on the principle of complementarity and focused mainly on policy elements and institutional issues aimed at promoting FDI and increasing their impact on the economy of the Republic of Moldova – realizing the importance of solutions proposed by the *FIA White Paper* (e.g. with reference to Justice Reform, Tax Legislation, etc.) for attracting and maintaining FDI.

Thus, in order to fully capitalize on the potential/maximize the impact of the presence of FDI enterprises on the competitiveness and sustainable and inclusive economic development of the Republic of Moldova, in addition to those aiming at the investment climate, dedicated policies are required **to connect local enterprises to global value chains**. They are to be organically interspersed with policies aimed at **developing (including internationalising) the local entrepreneurial sector** – an indispensable premise for the local absorption and adaptation of modern technologies and know-how, cooperation with foreign-owned enterprises (including TNCs) and increasing international competitiveness of the country.

From the perspective of achieving the policy objectives mentioned above, no less important are the **institutional aspects**, especially the efficiency of specialized state structures, which are responsible for implementing policies – Moldovan Investment Agency (MIA) and the Organization for SME Development (ODIMM) in the case of the Republic of Moldova. It is also vital for this purpose to build the **ecosystem to promote FDI and increase the country's economic competitiveness** - the framework for collaboration (at central and local level) of specialized public institutions with partner organizations in the public, associative and private sectors (including FDI enterprises), the education sector, the field of research and development, innovation and technology transfer, etc.

International studies on investment promotion agencies suggest that countries considered successful have achieved economic and social transformation **by aligning their specialized structures and working methods with best practices**.

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<sup>9</sup> 2021 *FIA White Paper* addresses the components of the investment climate, respectively comes with policy recommendations based on pre-established themes/blocks of issues, mainly with emphasis on the legislative/normative framework governing certain priority sectors/sensitive areas (e.g. Justice Reform; Tax legislation; Labour relations/Labour code; Waste management; Digitization of the economy; Medicine and Pharmaceuticals; Land subjects, etc.).

Based on global and national development policy priorities, the conclusions of the mentioned studies and international best practices, the results of the analysis carried out in this research, as well as the OECD recommendations, the consultant comes with a set of proposals to promote FDI and increase their impact on the economy of the Republic of Moldova, divided into 2 compartments, namely (i) improving the investment climate and (ii) ensuring an institutional framework of good practices.

## 5.1 Improving investment climate

### Improving business environment (regulatory framework):

- Assessing the impact of the previous stages of the reform of the regulatory and control framework of entrepreneurial activity and making it more dynamic, based on the EU concept of *Smart Regulation*; Focusing on the most critical constraints for starting a business (taking into account the specifics of FDI business) and increasing competitiveness (including internationalization) of the private sector, including with regard to (i) authorization/licensing of economic activities, (ii) connections to basic public utilities (electricity, water and sewage), (iii) building permits, (iv) procedures for cross-border trade (customs, phytosanitary and veterinary, etc.) and certification of new equipment/technology (including plant varieties and animal breeds), (v) procedures for reorganization, insolvency (restructuring) and liquidation of businesses, etc.
- Strengthening the normative and institutional framework, empowering the public, associative and private sector with competences in order to fully and qualitatively implement the Regulatory Impact Assessment (RIA) – both at the stage of elaboration and approval (adoption) of legislative and normative acts containing new regulations (*ex-ante* analysis), as well as during their implementation (periodic interim and *ex-post* evaluation from the perspective of review, etc.).
- Creating normative and institutional premises and fully capitalizing on the potential of digital tools for simplifying and streamlining the business registration and authorization system; Ensuring the framework of resources necessary (i) for the full operation of the Automated Information System for the Management and Issuance of Permissive Acts and (ii) for the creation and operation of the Single Integrated Register of online registration of entities.
- Creating regulatory and institutional measures for the implementation of efficient mechanisms that would make more responsible the central public authorities with regulatory and control functions, and strengthening by the stakeholders of instruments monitoring the implementation of reforms that have direct impact on the business environment; Extending the reform of permissive acts and implementing the one-stop shop solution at the level of local public administrations.

- Defining the performance indicators (rating evaluation) – from the perspective of reducing the administrative burden on the private sector, for each state control body, including by co-opting the private and the associative sector; Aligning the system of motivation of staff working in bodies with state control functions to the performance criteria (rating of the control institution) from the perspective of friendly interaction with the private sector.

### **Developing human capital and a better labour market governance:**

- Re-assessing curriculum in colleges and universities, as well as entrepreneurship training modules in the existing private sector development assistance programs, in order to adapt them to the stricter requirements of strategic and organizational management for productivity growth and internationalization of enterprises, including with regard to (i) corporate finance (including attracting local and international investment and financing, restructuring and reorganizing businesses), (ii) change management (innovation and technology transfer, climate change, green and digital transition, circular economy and bio-economy, etc.), (iii) risk management, (iv) quality infrastructure, (v) marketing and export techniques on international markets, etc.
- Developing and ensuring the conditions for the implementation of a long-term agenda of permanent updating of vocational training programs, strengthening for this purpose the interaction (communication) with private sector enterprises, including FDI enterprises and their associations; Ensuring integration of ICT skills for a modern society and economy in the lifelong learning process.
- Providing information-consultative support and financial incentives to enterprises (including FDI ones) to promote the implementation of the principles of dual education (partnerships between the private sector and the education system) in the process of vocational-technical and higher education.
- Developing and implementing a complex set of tools to promote adult education, including further and retraining, supported by financial incentive tools (e.g. deductions from the basic taxable amount) for investment in education.
- Continuously improving capacities for the development, monitoring and evaluation of employment policy (including labour market forecast), as well as for the provision of quality services and relevant active employment measures, adjusted to real needs (current) of enterprises (including FDI ones); Strengthening, for this purpose, the system of communication and collaboration with the private sector.

### Promoting fair competition and streamlining markets:

- Systematizing and re-assessing all financial incentives granted from public funds – through the perspective of state aid legislation, in order to make them more transparent, uniform and more efficient.
- Aligning the private sector incentive system with the country's strategic priorities (such as smart specialization) and international best practices, recommended by the OECD; Switching to incentives based on cost coverage (such as tax deductions and/or subsidizing the cost of financing certain investments to increase the competitiveness of enterprises), accelerated depreciation of assets, etc.
- Ensuring the regulatory and institutional framework for the creation and efficient functioning of the mechanism of record-keeping, monitoring and permanent assessment of the support measures granted in the form of tax incentives; Establishing, permanently updating and providing public access to the Register of tax and customs incentives.
- Improving collaboration of ministries and government agencies, as well as representative associations of the private sector, with the Competition Council and other institutions specialized in the process of identifying and annihilating anti-competitive arrangements.
- Strengthening the legislative and institutional framework for collaboration between public institutions and the private sector, in order to eliminate conflicts of interest, present in the process of realization by the state of functions related to the development of public policies and their implementation (e.g. authorization of certain economic activities and/or the control of regulated prices, conformity assessment, etc.) simultaneously with the operation (through SoMEs and autonomous companies) on the competitive markets and the provision of public services against payment.
- Re-considering the normative framework in force in order to eliminate the existing discriminatory norms and practices on the land market, which restrict the right to sell-purchase agricultural land for resident legal entities of the Republic of Moldova with foreign capital (in whole or in part); Establishing a transparent and equitable mechanism for regulating land relations, which would allow the exploitation of the potential of FDI to contribute to increasing competition and efficiency in the agricultural land market, productivity and sustainability of income in the agri-food chain.
- Radically reforming the framework for regulating entrepreneurial activity in the patent system, in order to eliminate its harmful impact on fair competition in competitive markets (e.g. trade in industrial goods and food) and the integrity of budgetary earnings.

- Developing and implementing a program (complex set of policy instruments) dedicated to encouraging formal employment, focused on (i) studying, identifying and using behavioural factors to reduce motivations for informal employment, (ii) developing tax and labour law instruments for discouraging informal employment, (iii) stimulating the formal employment of young people and re-employment after a break (facilitator regulation of the first contract).

### **Rationalizing the state's presence on competitive local markets**

- Consolidating the normative and institutional framework meant to make the processes of restructuring, reorganizing and privatizing state-owned and municipal enterprises (SoMEs) more transparent and dynamic.
- Ensuring normative and institutional premises for the liberalization of markets with more potential to increase competition and efficiency and extension of the practice of using alternative (non-public) mechanisms for providing public services (e.g. in medicine and social assistance, education, IT services, transport, conformity assessment, etc.).
- Strengthening the normative and institutional framework in the field of public-private partnerships, including for capitalizing on the potential of public assets (e.g. their allocation under preferential conditions) in the process of attracting and strategically placing FDI-based *Greenfield* and *Brownfield* projects.
- Expanding the range of goods and services purchased from the private sector and the practices of using digital procurement and open contracting in the public procurement process, providing attractive commercial conditions for economic operators from the perspective of payment conditions.
- Defining, monitoring and permanently evaluating (auditing) and publishing performance indicators for SoMEs and other public service providers (autonomous companies, etc.); Implementing the public control mechanism on the observance of public procurement procedures in the SoMEs activity.
- Professionalizing the management of SoMEs and service providers-public entities, implementing the principles of corporate governance in their management, with the co-optation of the representatives of the associative sector.

### **Boosting the technology transfer, innovation and digitization:**

- Developing and implementing a national public policy planning program for the operationalization of the concept of smart specialization of the national economy (establishing economic sectors/activities able to generate high added value and policy interventions for its capitalization).

- Developing and implementing measures to optimize the institutional framework and resources in order to strengthen the ecosystem for smart specialization in the research-innovation-technology transfer-production chain, including for capitalizing on for this purpose the potential of FDI enterprises.
- Developing and implementing a budget program with innovative financing instruments in order to develop innovation ecosystem (innovation clusters), including to stimulate the creation of innovation *start-ups* and partnerships between enterprises (including local-international chain), as well as between the private sector and the public research and development institutions at national and regional level.
- Evaluating the *SME Digitization Support Tool* - to adjust, capitalize on and transform it into a comprehensive program to facilitate adoption of new technologies and increase the digital capabilities of all enterprises, including by financially stimulating their investments in digitization, developing partnerships with ICT companies and the education system; Developing and implementing targeted budget programs that can be rapidly implemented to ensure digital skills for consumers of goods and services.

#### **Improving physical connectivity and safe mobility:**

- Strengthening the legal and institutional framework and strengthening capacities to ensure strategic planning (in the medium and long run) in the field of road infrastructure, transport and logistics, which would approach in a holistic way all types of transport and would also contribute to facilitating external economic activities.
- Reviewing road transport programs for their interconnection, streamlining regular services and increasing stakeholder access to these services; Developing and implementing the methodology for identification and prioritization of road infrastructure projects at central and local levels, including taking into account the needs of economic operators implementing major investment projects.
- Liberalizing the railway transport services markets, simultaneously with reorganizing the CFM, stimulating the private investments for the diversification of the offer and the increase of the quality of the railway transport services.
- Aligning technical standards and norms for the design, construction and operation of road and transport infrastructure elements to current reliability, durability and resilience requirements.
- Increasing the economic and social impact of investments in road infrastructure and public transport projects by developing and implementing State assistance and support tools to increase the capacity of local suppliers to provide competitive and quality services for the design and execution of rehabilitation works and performance-based maintenance; Financially stimulating the adoption by local suppliers of modern quality management systems.

### **Increasing accessibility, quality and reliability of digital services:**

- Updating the legal, regulatory and fiscal framework for the implementation of the universal service, adapted to the technological progress, the evolution of the electronic communications market and the requirements of the users (beneficiaries).
- Developing and implementing tools to promote and stimulate the use of broadband services in the public sector (administration, education, health and social assistance, culture and other public services) and in private economic activities in rural areas, as a prerequisite for increasing investment attractiveness of the Internet market and stimulating the investment of high-speed broadband fixed and mobile communications service providers throughout the country.
- Ensuring the secondary and complementary regulatory basis, strengthening the regulatory and institutional framework for the full and compliant implementation of legislation on access to property and shared use of infrastructure associated with associated public electronic communications networks, in order to reduce costs for developing the national broadband Internet access network and increasing the level of availability and financial accessibility of those services.

### **Strengthening human resilience to critical vulnerabilities:**

- Strengthening the dialogue and interaction between health authorities and social assistance with research and development institutions and the private sector, stimulating the development of local private capacities for the production of medicines and medical equipment, and the provision of medical and social assistance services.
- Strengthening the IT system and training all stakeholders in the field of health and social care, including in the process of public procurement of medicines and medical devices and the provision of health and social care services.
- Developing and implementing tools for the promotion and economic stimulation of curative and disease prevention activities, healthy eating, healthy lifestyle and improved physical activity for all categories of the population, including financial stimulation of sports and recreational activities (vouchers and/or tax deductions for attending gyms, local tourist and balneotherapy destinations, etc.).

### **Increasing access to financing:**

- Conducting the feasibility study and establishing a Fund for Investments and Enterprise Development, focused on stimulating volume growth, diversifying sources and developing alternative and innovative financing instruments throughout the business life cycle (*seed-working capital-equity*) and capitalized by combining budgetary resources (including results from the privatization of public property) and the funds of development partners.

- Developing and implementing the promotion and incentive tools to capitalize on the potential of international assistance and financing programs (projects) (especially those of the EU), for which private companies operating in the Republic of Moldova are eligible.
- Strengthening the resource framework (budgetary and of development partners) for the financial stimulation of private investments for the implementation of efficient technologies for the production of green energy, new products, materials and substances by capitalizing on the national potential of biomass and other recyclable waste; Encouraging the wider adoption of renewable energy (according to the EU 'Clean Energy for All' principle) and products from the processing of recyclable materials - in all sectors of the economy and in household consumption.
- Analysing and re-evaluating the content of existing financial support programs for private sector development in order to align their eligibility criteria, priorities and measures (instruments) with the principles of the green and circular economy; Financially stimulating the implementation in economic processes of (i) cleaner production technologies from the perspective of carbon emissions, pollution and other environmental risks, recycling and reuse of mining and industrial waste and (ii) measures to adapt to climate change.
- Strengthening the functioning of collateral register, increasing the requirements for and ensuring compliance with the quality of real estate valuation services, in order to stimulate asset-based lending and the wider and more efficient use of restructuring procedures for financial and economic redress of enterprises.
- Ensuring the normative, institutional and financial framework for the creation, efficient functioning and accessibility of the public register of financial statements of companies, meant to contribute to increasing the level of transparency and financial governance of enterprises and to facilitate attracting investments and commercial financing.
- Ensuring the legal, institutional and financial framework for the elaboration and implementation of the 'Second Chance' Support Program for private enterprises in difficulty.

#### **Increasing market access, supporting the development and internationalization of private economic operators:**

- Developing and implementing national policy planning programs to strengthen the national system of food quality and safety infrastructure, focused on connecting it to European rigors and increasing the level of trust of local consumers and international business partners (recognition, accreditation, etc.).

- Ensuring human and financial resources for the development and implementation of a complex set of tools for communication and promotion of quality culture among consumers and economic operators, as well as for stimulating the adoption in the private sector of modern quality management systems and European and international standards.
- Developing and providing the institutional and financial framework for the implementation of a program dedicated to promoting exports and attracting business tourists.
- Developing and strengthening the institutional and financial framework for the implementation on a national scale of a program for the development of local suppliers and integration in the global and regional value chains through FDI projects (LSDP); Evaluating, for this purpose, the results of the *Automotive Local Supplier Development Program*, adjusting and replicating it for other economic sectors/activities with the potential of smart specialization/high value-added generation.
- Providing local and international resources and partnerships to offer technical assistance to local suppliers in the LSDP to (i) assess them according to international requirements, (ii) develop action plans to improve processes, train enterprise staff and (iii) provide financial support for implementation of modernization/compliance programs to the requirements of potential customers in global supply chains.
- Creating an online platform, accessible to stakeholders (especially foreign/FDI enterprises) and adapted to their requirements, in order to centrally store systematized data on local suppliers in various sectors of the national economy.

## 5.2 Good practice institutions

- Extending the policy implementation practices through dedicated budgetary programs (projects) – with defined objectives, goals and requirements and ensuring competencies, at central and local level, in the field of *project management*.
- Strengthening the communication and interaction system, at central and local level, between public institutions for implementing policies with impact on promoting FDI and economic development (Moldovan Investment Agency/MIA, ODIMM, NARD, AIPA, FEZ and IP Administrations, Network of Incubators Business, RDA, etc.), as well as between them and the profile institutions from the associative and the private sector (FIA, EBA, bilateral chambers of commerce, sectoral associations, etc.) - within the ecosystem to promote FDI and increase the country's economic competitiveness.
- Re-evaluating the model of administration, organization and financing of public institutions responsible for capitalizing on the resources allocated to attract FDI and

private sector development – in order to take over the best practices from the organizational and financial model of *project implementation agencies*.

- Expanding the management practices of public institutions with policy implementation functions based on public-private partnerships (with the co-optation of private and associative sector representatives in their corporate governance process) - in order to improve coordination (coherence) and increase the volume of financial resources attracted from public budgets and development partners, as well as to increase the efficiency and relevance of allocated resources.
- Strengthening the organizational management system of the public policy implementation agencies from the perspective of the quality and relevance of the support services offered, professionalization and integrity of the staff.
- Strengthening the capacity of MIA and aligning its operating model/instrumentation with international best practices, with a focus on continuous monitoring of global and regional FDI trends.
- Ensuring the necessary resources to transform MIA into a true *development partner* for existing and potential/new foreign investors, able to operate management systems related to professional relations with them – based on direct and regular (frequent) contacts and permanent dialogue on plans and most sensitive challenges/problems of the concrete FDI enterprises and in the sectors in which they operate.
- Developing MIA's capacities as a provider of informational-consultative support, relevant to the entire life cycle of an investment project (including in the post-investment phase): information and administrative-procedural support with reference to the normative/regulatory framework; identifying and contacting local partners and clients; facilitating the recruitment of key personnel; providing mediation in resolving conflict situations with public institutions, etc.
- Providing MIA with a framework of competencies and communication appropriate to the development of the function of *policy advocacy* – to address and eliminate sectoral/systemic constraints of FDI enterprises.
- Developing continuously the e-government infrastructure and stimulating the full use of its potential for the implementation of digital innovations in the process of implementing public policies aimed at promoting FDI and economic development of the country.
- Establishing the common working and cooperation procedures of the state institutions, responsible for attracting and developing FDI, and the commercial-economic offices of the Republic of Moldova abroad, similar structures of other countries, accredited in the Republic of Moldova.