

STATE REGULATION OF ENTREPRENEURIAL ACTIVITY IN THE REPUBLIC OF MOLDOVA: AN OBSTACLE OR AN ADVANTAGE FOR ENTREPRENEURS?

REGLEMENTAREA DE STAT A ACTIVITĂȚII ANTREPRENORIALE ÎN REPUBLICA MOLDOVA: UN OBSTACOL SAU UN AVANTAJ PENTRU ANTREPRENORI?

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Abstract

The entrepreneurial ecosystem of the Republic of Moldova is still at the stage of formation. The observed trend of growth in the number of small and medium-sized enterprises is not accompanied by a qualitative growth of enterprises. This indicates the underdevelopment of key components of the entrepreneurial ecosystem, one of which is the state regulation of entrepreneurial activity.

The development of the entrepreneurial ecosystem in the country directly depends on the regulatory framework that the state creates for business. The article describes the main directions of the state policy to reduce regulatory pressure on business in the Republic of Moldova, as well as some results of a survey of entrepreneurs to assess the factors of such a component of the entrepreneurial ecosystem, as the regulatory and normative framework. The survey was carried out as part of the applied research project 20.80009.0807.38 „Multidimensional assessment and development of the entrepreneurial ecosystem at the national and regional level in order to boost the SME sector in the Republic of Moldova”, financed from the state budget of the Republic of Moldova, in April-May, 2021.

The results of the survey of entrepreneurs showed that despite the measures taken by the state over the last years to ease the regulatory burden on business, entrepreneurs still consider the legal framework and regulation a serious barrier. So, practically by all evaluated factors, negative evaluations exceed positive ones. Consequently, the state authorities of the Republic of Moldova should continue to implement measures within the framework of the reform of the regulatory framework of entrepreneurial activity with the goal of creating a favorable business climate in the country.

Keywords: Entrepreneurship, normative framework, state regulation, Republic of Moldova

JEL: M38, L26

1. Introduction

Legislation regulating entrepreneurial activity is one of the most important factors determining the state of the entrepreneurial ecosystem. It affects not only the conditions for the development of enterprises, but also economic growth, the level of employment, the investment attractiveness of the country, and other indicators.

In the Republic of Moldova in the late 90s - early 2000s, significant difficulties for doing business were created by a large number of legislative and regulatory acts regulating entrepreneurial activity adopted at the state level, as well as orders from individual ministries and departments that establish their own procedures and rules. According to surveys of entrepreneurs carried out at that time, the main message of small entrepreneurs in relation to the authorities was the following: "We do not expect special support from the authorities, most importantly, stop bothering us!" [1].

Since 2004, the reform of the regulatory framework for entrepreneurial activity has been implemented in Moldova with varying intensity in order to create a favorable business climate. Being introduced by the Government 18 years ago on the basis of [5; 2], the so-called "Guillotine 1" removed unnecessary and unarguable regulations from the point of view of the legislation in force. In 2006, "Guillotine 2" was introduced [6; 3], which continued to apply the same criteria to the drafting of laws. "Guillotine 2" also introduced the process of regulatory impact analysis as a means of designing a smarter regulatory system that balances the social benefits and associated economic costs. "Guillotine 2+" applied to the process of issuing permissive documents was introduced in 2011 by adopting the Law on the regulation by

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authorization of the entrepreneurial activity [8] and Law on the implementation of the one-stop shop in carrying out the activity of an entrepreneur [7]. Also, until 2020, the regulatory reform was implemented on the basis of the Strategy for the reform of the regulatory framework of entrepreneurial activity for 2013-2020 [4].

Actions taken by the state authorities to lower the regulatory burden on entrepreneurs reflected positively on Moldova's position in international rankings. For example, in the Doing Business rating from 2010 to 2020, Moldova rose from 94 to 48 rank, in particular, significant improvements were noted in "Starting a business" (from 77 in 2010 to 13 in 2020), "Trading across Borders" (from 140 in 2010 to 38 in 2020), "Getting Credit" (from 87 in 2010 to 48 in 2020), "Dealing with Construction Permits" (from 161 in 2010 to 156 in 2020) [10; 11]. According to the Worldwide Governance Indicators rating, for the period 2010-2020, Moldova improved its position on Regulatory Quality (from -0.10 to +0.04) [12].

The questioning of entrepreneurs, implemented in the National Institute for Economic Research of Moldova, allowed us to draw conclusions about the real impact of the regulatory and normative framework on the conditions of doing business in the country.

2. Research design and methodology

Within the applied research project 20.80009.0807.38 "Multidimensional assessment and development of the entrepreneurial ecosystem at the national and regional level in order to boost the SME sector in the Republic of Moldova" a methodology was developed and a survey of entrepreneurs was carried out in order to evaluate the components of the entrepreneurial ecosystem, one of which is the regulatory and normative framework. The assessment of the regulatory and normative framework in the Republic of Moldova was intended to address two assigned tasks:

- 1) To assess the impact of its factors on entrepreneurship;
- 2) To assess the trends in these factors over two years (in 2021 compared to 2019).

To solve the first task, the variation of the 5-point Likert-style scale was used, which includes five possible points for evaluating the factors ("Significant obstacle"=-2; "Insignificant obstacle"=-1; "Not an obstacle"=0; "Insignificant incentive (advantage)"=+1; "Significant incentive (advantage)"=+2). To solve the second task, the 3-point scale was used to assess the change of factors: "The situation has not changed" (=0); "The situation has worsened" (=1); "The situation has improved" (=2).

In the framework of our research, the regulatory and normative framework was considered as one of the components of the entrepreneurial ecosystem, which was evaluated by entrepreneurs according to a number of factors. List of factors and sub-factors within the component "The regulatory and normative framework", which was included in the questionnaire for entrepreneurs, is presented in Box 1.

Box 1

Factors and sub-factors of the regulatory and normative framework component, assessed by the entrepreneurs

<u>1) Laws and normative acts, regulating entrepreneurship:</u> <i>The quality of laws and normative acts.</i> <i>Stability of legislation and legislative framework.</i> <i>Access to legislation for entrepreneurs.</i> <u>2) Regulation of the main stages of entrepreneurial activity:</u> <i>Registration of the enterprise:</i> - The complexity of the registration procedure, - Duration of the procedure,	<i>Authorization:</i> - The complexity of the authorization procedure, - Duration of the procedure, - Financial costs. <i>Certification of goods and services:</i> - The complexity of the procedure for obtaining certificates, - Duration of the procedure, - Financial costs. <i>Regulation of export activity:</i> - The complexity of the authorization procedure, - Duration of the procedure, - Financial costs.
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- Financial costs. Introduction of changes in constituent documents, obtaining extracts: - The complexity of the procedures, - Duration of procedures, - Financial costs. Accounting and reporting: - Duration of completion and record of primary documents, - Complexity of accounting records and completing reports, - Duration of the report submission procedure. State control and inspections: - Number of checks during the year, - The duration of the checks, - Financial costs related to controls and inspections, - The legality of carrying out controls and inspections. Business taxation: - Number of taxes and fees, - Amount of taxes and fees paid, - Predictability of changes in the tax system. Liquidation of the enterprise: - The complexity of the liquidation procedure, - Duration of the procedure, - Financial costs. 3) Obtaining licenses, certificates, authorizations for conducting business: Licensing: - Number of types of licensed activity, - The complexity of the procedure for obtaining licenses, - Duration of the procedure, - Financial costs.	Regulation of import activity for production purposes: - The complexity of the authorization procedure, - Duration of the procedure, - Financial costs. 4) Obtaining special authorizations: Construction permits: - Number of authorizations, - The complexity of the authorization procedure, - Duration of the procedure, - Financial costs. Connection to electrical networks: - The complexity of the connection to the electrical networks, - Duration of the procedure, - Financial costs. Equipment certification: - The complexity of the procedure for obtaining certificates, - Duration of the procedure, - Financial costs. 5) The judicial system: Protection of property rights. The ability to properly resolve disputes in court. Independence of the judiciary from influence of: - Politicians, - State officials, - Police. 6) The activity of state officials, involved in the regulation of entrepreneurial activity: Participation of local authorities in supporting businesses. Realization of entrepreneurship support projects, financed by foreign donors. Dependence of the business environment on the change of state officials. Bureaucracy. Corruption.
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Source: own elaboration.

Based on the results of assessing each of the six generalized factors, as well as the sub-factors, we calculated the Coefficient of entrepreneurial ecosystem's assessment (Kee), which shows the weighted average assessment of factors of regulatory and regulatory framework and its sub-factors as well. **Kee** is calculated according to the formula (1):

$$\text{Kee} = \frac{(-2) * \% \text{sign.obst.} + (-1) * \% \text{ins.obst.} + (+1) * \% \text{ins.adv.} + (+2) * \% \text{sign.adv.}}{100\%} \quad (1)$$

where:

- Kee - coefficient of entrepreneurial ecosystem's assessment;
- % sign.obst. - the share of responses, which indicated the significant obstacle;
- % ins.obst. - the share of responses, which indicated the insignificant obstacle;
- % ins.adv. - the share of responses, which indicated the insignificant advantage;
- % sign.adv. - the share of responses, which indicated the significant advantage.

The Coefficient of entrepreneurial ecosystem's assessment changes from „-2” (minimum, if absolutely all respondents indicate significant negative impact of the factor on the development of entrepreneurship) to „+2” (maximum - if absolutely all respondents indicate on significant positive impact of the factor on the development of entrepreneurship). Kee = „0”, if

the number of positive evaluations is equal to the number of negative ones, characterizing the neutral impact of the factor on the development of entrepreneurship.

The questionnaire took place in April-May, 2021. There were 106 entrepreneurs from the micro-, small and medium-sized enterprises sector, participated in the survey. Table 1 provides information about the characteristics of the respondents (as well as enterprises) participating in the survey.

Table 1. Characteristics of the sample

Indicator	Meanings	Share, %
Respondents' characteristics		
Gender	Male	50,9
	Female	49,1
Age	<25 years old	1,9
	25-34 years old	21,7
	35-44 years old	25,5
	45-54 years old	22,6
	55-64 years old	23,6
	>64 years old	4,7
Residence	Urban are	72,6
	Rural area	27,4
Education level	Secondary education	7,5
	Higher education/ vocational studies	92,5
Status at the enterprise	Owner/co-owner	76,4
	Hired Manager	15,1
	Other	8,5
Enterprises' characteristics		
Size	Micro (1-9 pers.)	68,9
	Small (10-49 pers.)	27,4
	Medium (50-249 pers.)	3,8
Types of activity	Agriculture	17,0
	Industry	14,4
	Trade	15,2
	Services	50,0
	Construction	3,4
Activity period	<1 year	1,9
	1-2 years	9,6
	3-5 years	18,3
	>6 years	70,2

Source: own elaboration

3. Results and discussions

Despite the measures taken by the state in recent years to ease the regulatory burden on business, entrepreneurs still consider the legal framework and regulation a serious barrier. Thus, for almost all assessed factors, negative assessments exceed positive ones; the overall evaluation of entrepreneurs proved to be negative (Kee=-0.36) (Figure 1).

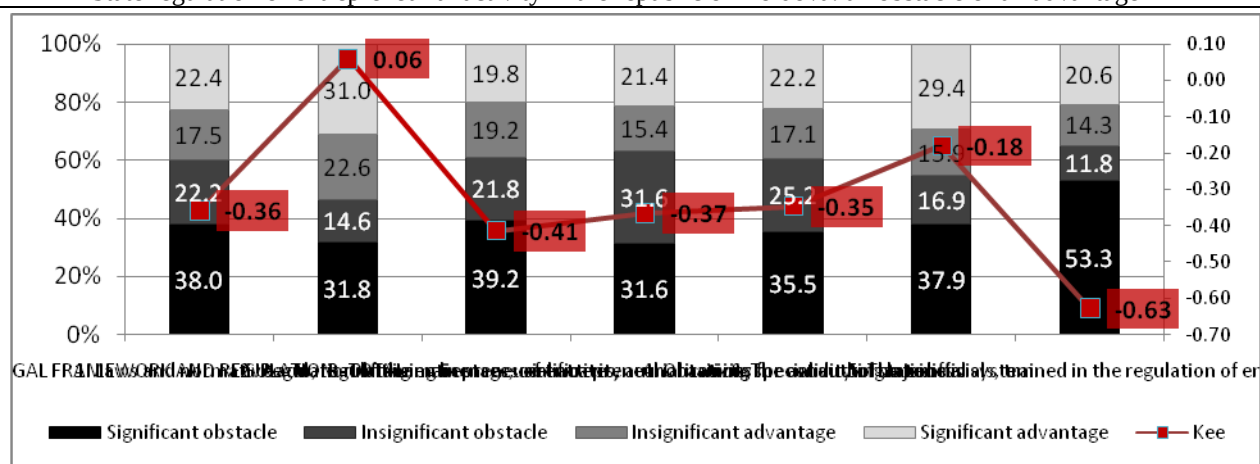


Figure 1. Assessment of the impact of factors of the Legal Framework and Regulation component on the development of entrepreneurship

Source: own elaboration.

For factor 1 "Laws and normative acts, regulating entrepreneurship", entrepreneurs noted the relative ease of Access to legislation (Kee=+0.37), but at the same time, respondents noted shortcomings in the Quality of laws and normative acts (Kee=-0.08) and a weak negative impact on business of situation related to Stability of legislation and legislative framework (Kee=-0.09) (Figure 2).

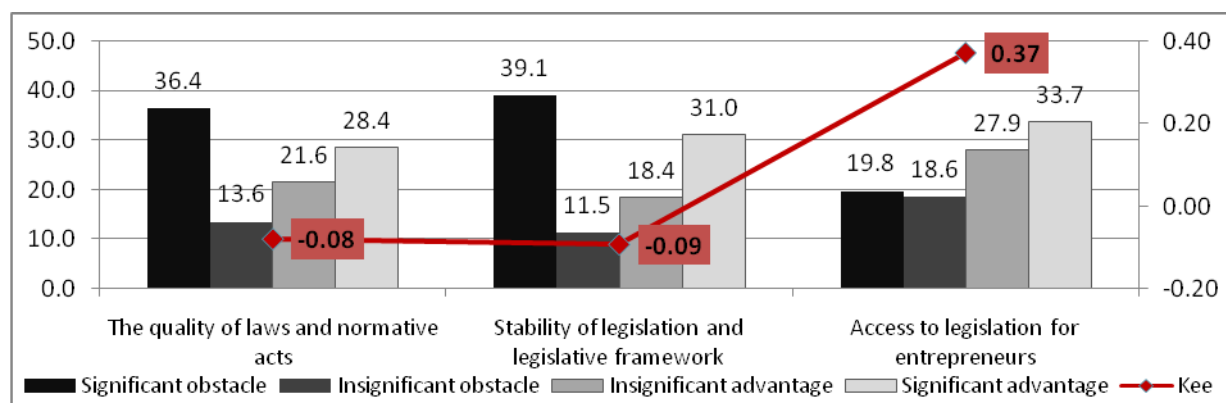


Figure 2. Assessment of Factor 1 "Laws and normative acts, regulating entrepreneurship"

Source: own elaboration.

For factor 2 "Regulation of the main stages of entrepreneurial activity", entrepreneurs noted the relative ease of Registration of the enterprise (Kee=+0.58) and Introduction of changes in constituent documents, obtaining extracts (Kee=+0.10). The greatest difficulty, according to entrepreneurs, is Taxation (Kee=-1.08) and the Liquidation of the enterprise procedure (Kee=-0.96) (Figure 3).

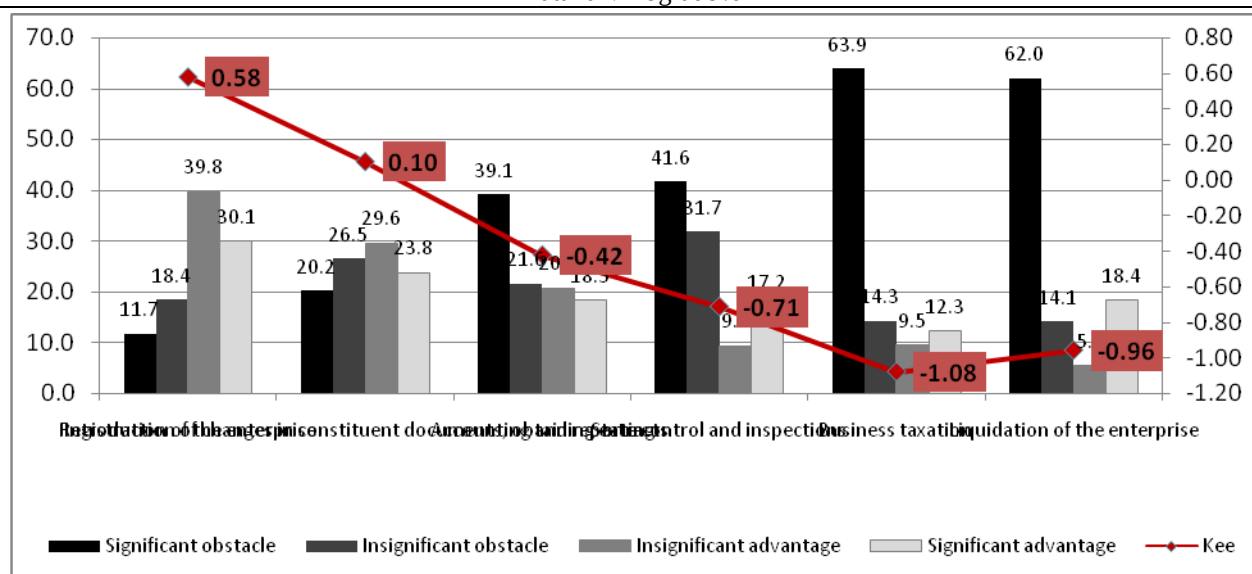


Figure 3. Assessment of Factor 2 "Regulation of the main stages of entrepreneurial activity"
Source: own elaboration.

For factor 3, relatively more of the interviewed entrepreneurs noted that Obtaining licenses, certificates, authorizations for conducting business are an obstacle to business development. At the same time, according to entrepreneurs, the Certification of goods and services procedure (Kee=-0.26) is relatively easier to carry out, and the Regulation of export activity (Kee=-0.51) procedure is relatively more difficult (Figure 4).

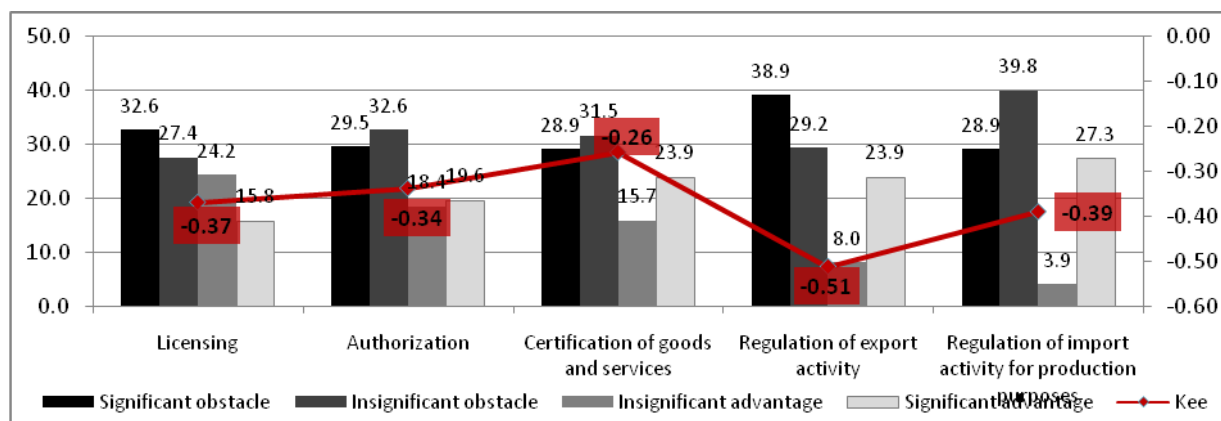


Figure 4. Assessment of Factor 3 "Obtaining licenses, certificates, authorizations for conducting business"
Source: own elaboration.

As for Factor 4 "Obtaining special authorizations", against the backdrop of a predominance of negative assessments, according to entrepreneurs, the situation with Connection to electrical networks (Kee=-0.11) is relatively better (Figure 5).

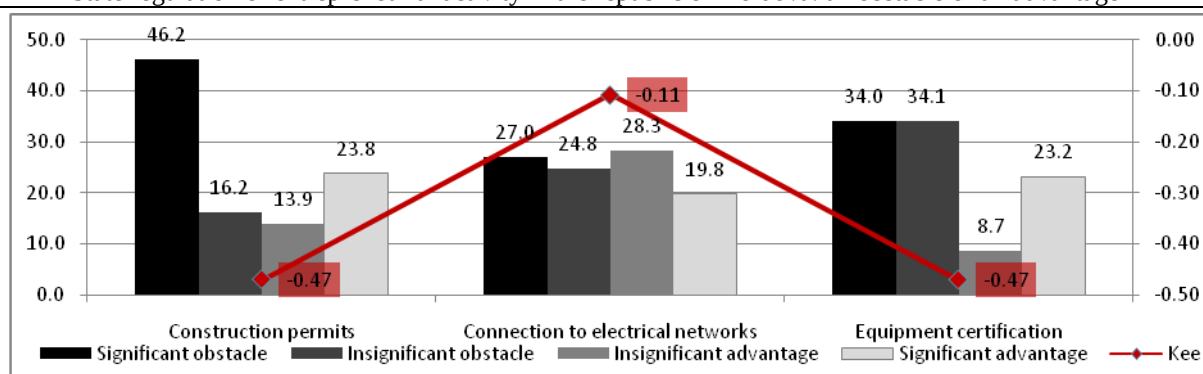


Figure 5. Assessment of Factor 4 "Obtaining special authorizations"

Source: own elaboration.

For factor 5 "The judicial system", according to entrepreneurs, the biggest problem is low Independence of the judiciary from influence of politicians (Kee=-0.24), state officials (Kee=-0.24) and police (Kee=-0.26) (Figure 6).

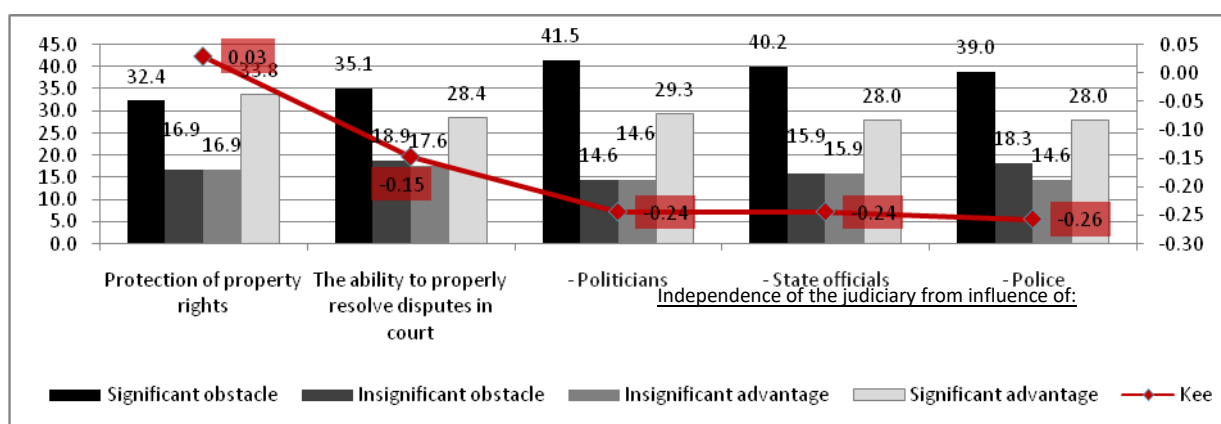


Figure 6. Assessment of Factor 5 "The judicial system"

Source: own elaboration.

The most negative assessment of entrepreneurs was obtained in general for factor 6 "The activity of state officials involved in the regulation of entrepreneurial activity" (Kee=-0.63) due to the extremely negative impact of such sub-factors as "Dependence of the business environment on the change of state officials" (Kee=-0.69), "Bureaucracy" (Kee=-1.31) and "Corruption" (Kee=-1.29) (Figure 7).

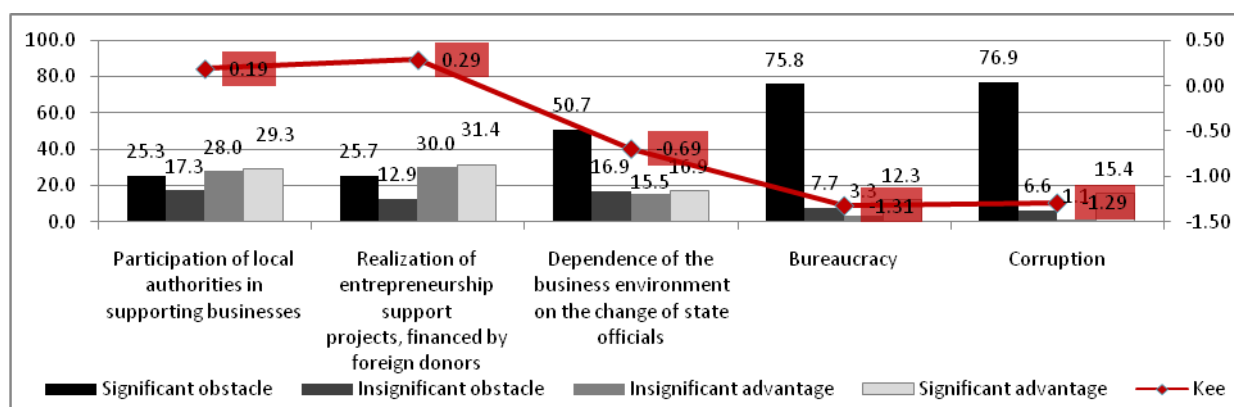


Figure 7. Assessment of Factor 6 "The activity of state officials, involved in the regulation of entrepreneurial activity"

Source: own elaboration.

Also, for this component of the entrepreneurial ecosystem, most entrepreneurs spoke about the deterioration of the situation over the past two years (Figure 8).

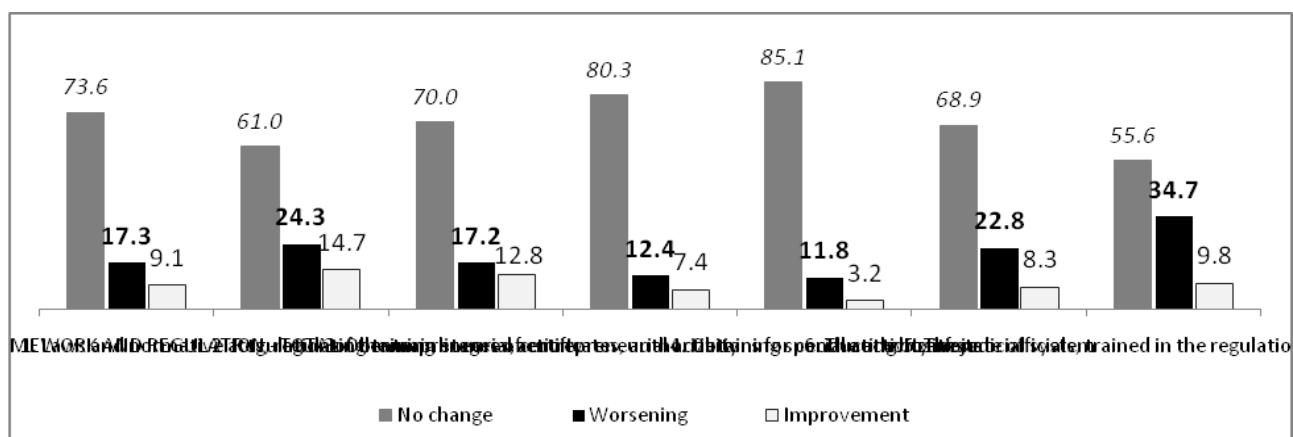


Figure 8. Assessment of the change of factors of the „Legal Framework and Regulation” component over last two years (2019-2020), %

Source: own elaboration

Among the analyzed sub-factors, according to entrepreneurs, only two show a positive trend: „Registration of the enterprise” and “Access to legislation for entrepreneurs”. For the rest of the factors, the answers of the respondents indicate a significant deterioration of the situation.

Conclusions

The results of the survey of entrepreneurs showed that despite the measures taken by the state over the last years to ease the regulatory burden on business, entrepreneurs still consider the legal framework and regulation a serious barrier.

The analysis of the factors of the legal framework and regulation component showed that so far it remains to complex the procedure of liquidation of enterprises; accounting and reporting; costs, related to state control, and inspections within Factor 2. The most significant obstacles for enterprises remain bureaucracy, corruption (within Factor 6), and dependence of the business environment on the change of politicians, state officials and police (within Factor 5).

Among the procedures, which entrepreneurs face in the process of activity, the most positive were evaluated the process of Access of entrepreneurs to legislation (within Factor 1) and Registration of enterprises (within Factor 2).

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