Annex no. 1

To the Decision of the Government of the Republic of Moldova

No 511 of 25 April 2016

National Strategy for Investment Attraction and Export Promotion 2016-2020

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Acronyms

BEEPS - Business Environment and Enterprise Performance Survey
BPO - Business Process Outsourcing
CEFTA - Central European Free-Trade Agreement
CIS – Commonwealth of Independent States
CIT – Corporate Income Tax
CSO – Civil Society Organization
DCFTA – Deep and Comprehensive Free Trade Area
ECA – Europe and Central Asia
EU – European Union
FDI – Foreign Direct Investment
FEZ – Free Economic Zone
FTA – Free Trade Agreement
GDP – Gross Domestic Product
GVA – Gross Value Added
HR – Human Resources
HS – Harmonized System
ICT – Information and Communication Technologies
IP – Industrial park
MFN – Most Favored Nation
MIEPO – Moldovan Investment and Export Promotion Organization
MTBF – Medium Term Budgetary Framework
NDS – National Development Strategy
N/A – Not Applicable
ODIMM – Organization for Developing the Small and Medium Enterprises
R&D - Research and Development
RCA – Revealed Comparative Advantage
RDA – Regional Development Agency
SITC - Standard International Trade Classification
SME – Small and Medium Enterprise
VAT – Value Added Tax
TNC – Transnational Company
UNCTAD - United Nations Conference on Trade and Development
USA – United States of America
VET – Vocational Education and Training

Introduction

1. After a severe transformational recession in 1990s, in the year 2000 the economic growth resumed in the Republic of Moldova. Between 2000 and 2014, the country's GDP grew at an average rate of 5 percent per year. While this rate of growth may seem respectable at first glance, in fact, it barely matches the average growth in Europe and Central Asia (ECA)[1] countries in the same period. This means that, after entering the transition as one of poorest countries in this geographical area and after experiencing a decade-long GDP decline (~65%), the Republic of Moldova stagnated for another one-and-half decade even in terms of converging with the relatively poor ECA countries. Due to structural vulnerabilities, a number of severe energy, economic, climate and trade shocks have made the convergence a more daunting task. The Republic of Moldova's key challenge is, therefore, *not preserving* its economic growth, but rather *significantly speeding it up* and *transitioning to a more balanced, structurally sounder and diversified* economy.

2. A vast body of analyses has been done in the recent decade addressing the binding constraints hindering the economic growth of the Republic of Moldova[2]. What most of these analyses have in common is an utter understanding of the fact that because of the shallow domestic market, an accelerated and sustainable growth of the country's income can only come from developing and diversifying exports. Such an export-oriented development model would harness both the natural advantages of the country and the new trade opportunities offered by the bilateral and multilateral free trade agreements that the Republic of Moldova has signed. However, the technological gap represents a significant structural weakness undermining competitiveness of exports. Under such conditions, a faster and more sustainable growth of more diversified exports is the most credible scenario the country has to pursue in order to reach significant welfare gains over the lifespan of the current generations. In this context, investments, particularly Foreign Direct Investments (FDI), are considered a key tool in launching and catalyzing this growth model. Therefore, the objective of promoting and diversifying exports should correlate with

[1] ECA is a category of countries used by international organizations, especially, the World Bank, and includes: Albania, Armenia, Azerbaidjan, Belarus, Bosnia-Herțegovina, Bulgaria, Georgia, Kazahstan, Kyrgyzstan, Kosovo, Macedonia, Moldova, Muntenegru, Polonia, România, Rusia, Serbia, Tadjikistan, Turkmenistan, Ucraina și Uzbekistan.

[2] Including Inclusiv, Valentin Bozu, Dumitru Caragia and Iurie Gotisan, „Final Analysis of Constraints to Economic Growth. Republic of Moldova", Chisinau, Moldova, 2007, https://assets.mcc.gov/documents/Moldova_CA_withCover.pdf; Ana Popa and Alexandru Oprunenco „Constraints Analysis. Draft", Chisinau, Moldova, 2010, http://expert-grup.org/en/biblioteca/item/download/936_ac3e782874e2a995bef0005c0dc5f73d; World Bank. „Moldova : Opportunities for Accelerated Growth, A Country Economic Memorandum for the Republic of Moldova. Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/8698

the improvement in investment activity. Since domestic companies lack the modern industrial skills and financial resources, the investment activity should be primarily based on FDI (but in no way disadvantaging domestic investments and investors).

3. The investments may be provided both from external and internal sources. The dichotomy "local investment - foreign investment" in no way implies that one would be advantaged over the other in the investment policy, the only variance is that each category meets different needs, has different potential and different role in accelerating and diversifying economic growth. Local investments are important for the development of productive capital in the "traditional" sectors, in which Moldova holds certain technological skills (food industry, alcoholic beverages, clothing, etc.) or which are less attractive to foreign investors because of limited access to key production factors (agriculture). Having an underdeveloped financial sector, the volume of domestic investment resources is rather limited, domestic enterprises lack technological skills to invest in "new" sectors that are promising in terms of productivity, quality, sophistication and structural diversification of economic growth. It is obvious that local investors also explore the potential of new industries; however they do it at a much smaller scale, in terms of the number of jobs created in comparison to companies that come with an experience of several decades, with a complete set of technological skills and secured distribution channels.

4. Foreign investments, especially foreign direct investments (FDI) have an essential role in accelerating investment activity and closing the technological gap. To achieve higher economic growth within the first decade of economic liberalization reforms, the Central and Eastern European countries also relied on attracting foreign investments, although they could rely on a greater volume of domestic financial resources and more advanced technological traditions than Moldova has today. The example of these countries shows that the larger the number of success stories among foreign investors in the initial stages, generates more investment later on, expands access to foreign markets and provides support for technological advancement and structural diversification of exports. Thus, FDI contributes directly to export development by augmenting and structurally diversifying domestic supply and by increasing productivity and creating jobs in the "new" industries. Additionally, FDI has an important collateral effect on exports, even when they are not placed in sectors directly oriented to exports. Thus, foreign investments in the sectors oriented towards domestic market, providing more effective and better quality services or inputs to export-oriented sectors, may substantially contribute to increasing the productivity of the latter. In addition, FDI generates spillover effects on technologies and know-how throughout economy, thus leading to overall increase in productivity, including areas that do not benefit from FDI as much. Thus, besides direct effects, the foreign investments generate a large number of indirect jobs and stimulates the development of entrepreneurial skills, especially when local SMEs become part of the technological chain of companies based on FDI. The combination of these effects leads to achieving higher and more stable incomes and respectively increasing the living standards of the population.

5. The Investment Attraction and Export Promotion Strategy 2016-2020 (hereinafter referred to as "the Strategy") has been designed to contribute to enhancing and structural diversification of Moldovan exports which has traditionally been heavily leaning on several commodities only. More productive and diversified exports will be the key in stabilizing the trade balance, creation of new decent jobs and ensuring sustainable economic development of the country. Investments, particularly FDI and those connecting SMEs to FDI, are herein viewed as the basic instrument for unleashing the country's export potential through new or increased production of products, which until now have not been produced in Moldova at all or have been produced in small quantities only. Therefore, increasing FDI is a fundamental objective of this Strategy. The Strategy will support the implementation of the commitments undertaken by the Government under the Association Agreement with the EU, which emphasizes the essential improvement of the investment climate and enhancing the country's competitiveness on foreign markets. The strategy will help bridge the competitive gap of the country, will boost productivity potential and will change the structure of the economy by reducing the role of unproductive sectors and technologies, thus helping to achieve the development goals set under the National Development Strategy "Moldova 2020" (NDS). Investments (especially FDI) will be the main pillar of this transition by generating goods and services that will directly target foreign markets, by creating new technology chains and deepening the existing ones, as well as by spreading technological knowledge and advanced management expertise even on sectors that are not oriented towards foreign trade or that are not benefiting from FDI.

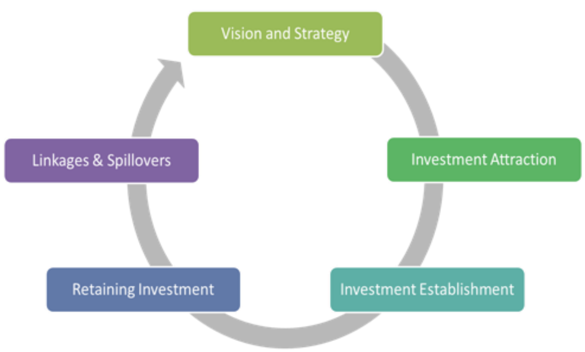
6. Logically and conceptually, the Strategy inter-relates with other development strategies adopted in the Republic of Moldova. Since the quantity and quality of the labor force is extremely important for investment attraction and export promotion, the alleviation of constraints in this area will mostly depend on the implementation of the Strategy for the Development of the Vocational / Technical Education for the period 2013-2020. The development of the FDI-SMEs linkages hinges largely on the implementation of the Strategy for the Development of the SMEs Sector for the period 2012-2020. The security of property rights and the enforcement of the contracts are to be improved as the Strategy for Judicial Sector Reform for the period 2011-2016 takes effect.

7. **The Strategy objective of export development will be met mainly by attracting foreign and domestic investments to export-oriented sectors.** The intervention strategy and the action plan underline the need to significantly enhance the Moldovan business climate and support SME development and their integration. In this way, SMEs will become suppliers of products and services to larger enterprises (including transnational companies), and they also export more profitably own goods and services. Moreover, the Moldovan firms willing to invest and create jobs in the industrial sectors could benefit as well of the facilities and opportunities offered by this Strategy. Without undermining these opportunities, the Strategy concentrates on the clear objective of boosting exports by means of FDI, given the shortages of domestic capital and knowhow, the limited resources, the technological gap and the narrow time span. Additionally, the Strategy targets the domestic investments in the sectors and enterprises that could be easier integrated in the technological chains of the foreign capital companies.

8. **An important feature of the present Strategy is the fact that it targets a small number of industrial sectors, which are the most promising in terms of their FDI attraction, jobs creation and export promotion potential for the next 4-5 years**. These sectors have been identified mainly by analyzing recent FDI trends in the Central and Eastern Europe and in the Republic of Moldova by assessing the Moldovan investment 'absorption' capacities, needs and binding domestic constraints against the regional FDI opportunities, as well as the country's competitive advantages. Thus, there have been identified 6 priority sectors for policies on investment attraction and export promotion: (1) agriculture and food industry; (2) automotive industry; (3) business services especially Business Process Outsourcing (BPO); (4) clothing and footwear industry; (5) electronics industry; (6) Information and Communication Technologies; and (7) production of machinery and its parts.

9. Prioritizing one industry by no means disadvantages the other sectors. The Strategy is based on a realistic approach according to which the country's limited financial and human resources will be used to address the needs of priority sectors where quick results might be expected, especially in terms of jobs' creation. Particularly, MIEPO disposes of scarce resources for consolidating its technical capacities in all economic sectors. For this reason, the future industries which are just emerging as sectors with potentially high impact but currently small and narrow geographical distribution have not been considered as sectors to be targeted and sectors likely to bring quick results. If during the Strategy's implementation other promising sectors emerge, the Strategy will be amended correspondingly. At the same time, the Strategy is clearly oriented towards removing the horizontal constraints that impede the foreign and domestic investments, irrespective of the economic sector.

Figure 1. The FDI lifecycle



Source: "Investment Policy: Navigating Foreign Investment Policy", World Bank Group, 2014.

10. The most important aspect in which the new Strategy differs from the previous one resides in its integrated approach. The FDIs are not seen simply as a set of one-off transactions aiming to lure foreign investors into the country, but as a permanently developing relationship with investors along various stages of the investment lifecycle (Figure 1). The shift in policy thinking this Strategy reflects is that it pursues not only *attraction*, but also *retention* and *development of linkages* of the sectors benefiting of FDI with the rest of the economy, including with SMEs, thereby *maximizing long-term benefits to Moldova* from the investment.

1. Investment attraction and export promotion: key facts and trends

1.1 The main trends in the evolution of exports

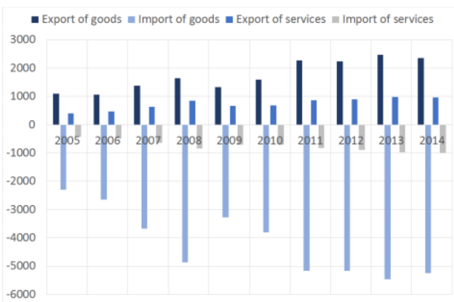
11. Over the last decade, foreign trade in goods has rapidly increased, although exports grew much slower than imports. During 2005-2014, Moldovan exports of goods increased on average by about 10.4% annually, while imports - by about 13.9%, which resulted in absolute increase of deficit in trade of goods (Figure 2). Correlated to GDP, the deficit in trade of goods increased only until 2008, when it reached -54.6%, and then it decreased, in 2009-2014 recording an average of -39.4%. In fact, the negative trade balance risks have been strongly exaggerated, since the flattening of remittance inflows is leading to natural tendency for improvement in trade deficit. Moreover, much of the increase in goods imports is attributed to the phenomenon of intra-industry trade, which is very important in Moldova, where several industrial enterprises operate under external processing services contracts with counter-foreign agents. Grubel-Lloyd Index on the intensity of intra-industry trade3, shows very high rates for a range of goods, exceeding the level of 0.9 for such products as: clothing and clothing accessories; dried vegetables; insulated cables; jerseys, sweaters and the like; measuring, checking and surveillance tools; jackets, coats, overcoats, anoraks and the like; suits and shirts for men; furniture and finishing items; pumps for liquids; vermouth and liqueurs. The bulk of Moldovan intra-industry trade refers to vertical trade, which involves simultaneous export and import of goods belonging to the same commercial category, but at different stages of technological processing. Thus, exploring its current competitive advantages, Moldova intensively imports components of technology-, design- and capital- to incorporate them into ready-for-use products in the final stages, which involve intensive labor force.

12. Trade with services has been little more balanced within the reporting period, showing a positive trade balance at times. Imports have increased by an average annual rate of 11.7% and exports - by 10.7%. The rate of services exports in

[3] Grubel Lloyd index of intra-industry trade is calculated based on the following formula: where Xi denotes exports of product i and Mi - imports. The closer to 1 is the Grubel-Lloyd index, the more intense is intra-industrial trade with product i.

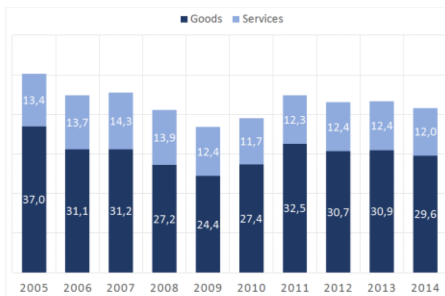
total exports of the Republic of Moldova is atypically high for countries in the region, gravitating around 30% during the reporting period (Figure 3). The share of services in total exports could actually be even higher under the hypothesis that part of declared re-exports of goods (which in 2014 reached 35% of total exports of goods) is, in fact, the value of logistics trade services and transportation services on the Eastern markets, provided to Western partners by Moldovan transport and logistics companies. This important role of services in foreign trade reveals certain comparative advantages of the country (the geographic and linguistic advantage and the trade and visa regimes) that should continue to be consolidated and explored.

Figure 2. Evolution of foreign trade with goods and services of the Republic of Moldova during 2005-2014, million USD.



Source: NBM

Figure 3. Share of exports of goods and services in GDP during 2005-2014, %



Source: calculations made by the authors based on data provided by NBM

13. Moldova is opened to foreign trade, both in terms of results and formal intentions of trade policy. During 2005-2014, the average share of foreign trade (exports plus imports) in GDP was of 128%, but the general trend of Openness to Trade Index was declining. In this period, the trade policies have generally become more favorable for international trade, in terms of both exports and imports. Available data show that in 2013, the average weighted customs tariff on imports was of 10.4% for agricultural products and 2.4% for non-agricultural products. In both cases, data levels are below the global and the regional average[4]. In addition, a series of non-tariff barriers, including informal ones, remain constantly an issue for international trade, namely barriers related to licensing, informal payments, access to transportation etc.

[4] WTO, ITC and UNCTAD, World Tariff Profiles 2015, http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/tariff_profiles15_e.pdf

Over time, some of these barriers became even more critical. According to BEEPS survey, if in 2008 the corruption issue ranked the 6th position in the top concerns of enterprises, in 2013 it migrated to the 2nd position[5]. Licensing and authorization practices have descended from the 15th position in 2008 to the 12th in 2013, whereas customs and trade regulations – from the 14th to the 7th position. Therefore, the downward trend in the share of international trade in GDP is rather due to faster growth of the country's income and the persistence of internal non-tariff barriers, than to the result of deliberate commercial policy. Examining the situation of exports separately, it can be noticed a downward trend of their share in GDP before the financial crisis in 2009, resulting in particular from a stronger compression in the exports of goods, followed by a phase of stability during 2011-2014 (Figure 2). Exports of services being less susceptible to internal and external barriers to trade, showed a more constant evolution than exports of goods and work.

14. Adhering to a number of regional free trade agreements, Moldova essentially improved its access to foreign markets over the last ten years. Deep and Comprehensive Free Trade Area (DCFTA) between Moldova and the EU ensures access to a market of over 500 million consumers, and the multilateral Free Trade Agreement within CIS gives the country another major outlet comprising almost 280 million consumers. The recent signing of Free Trade Agreement with Turkey will result during its implementation in reducing tariffs on the most protected market for Moldovan exports - average applied MFN (Most Favored Nation) tariff for agricultural products and foodstuffs is 42.2% (for certain products it exceeds 200%) and for non-agricultural products - 5.4%.[6] However, the last decade experience shows that the access of Moldovan products on foreign markets is rather limited mostly by non-tariff barriers rather than the tariff ones, particularly by embargoes (the Russian Federation), phytosanitary standards, high private commercial standards (the European Union).

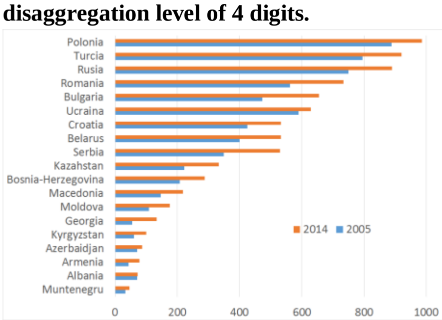
15. Being a small economy, Moldova exports a rather large volume of goods, which is continuously growing. However, export flows show certain instability. At the 4-digit level of disaggregation as classified under HS, in 2014 Moldova registered in the COMTRADE database 757 exported products. Their number decreases to the 176th position if considering only exports exceeding USD 1 million, but even in this

[5] World Bank, „Moldova Investment Climate", 2015, prezentare disponibilă la http://www.un.md/publicdocget/285/.
[6] WTO, World Tariff Profiles 2015, http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/tariff_profiles15_e.pdf.

case the index looks rather respectable in comparison to regional standards (Figure 4). Upon examination of the growth rate of exported products exceeding USD 1 million, it seems that out of the Eastern European countries and Central Asia only Georgia and Armenia overpass Moldova. Within the same period, Moldova considerably expanded its geography of exports, from 83 countries in 2005 to 107 in 2014.

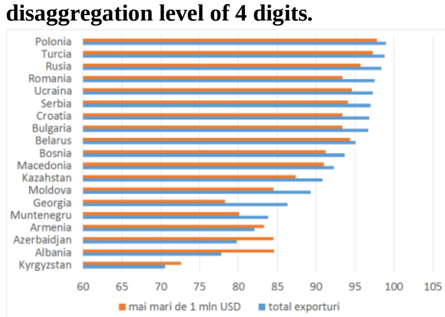
16. The absolute number of items exported by Moldova during 2011-2014 show a clear downward trend, which is a major reason of concern. This phenomenon persists both at the 4 and 6 digit-level of disaggregation, in terms of both the total number of exported goods and number of goods with an export value exceeding the USD 1 million thresholds. Exports survival is an important aspect to be considered under this Strategy: during the years 2004-2014, the probability that a product, once incorporated in the assortment of Moldovan exports, were exported the next year as well was of about 89%, and for exports exceeding USD 1 million it was probability even lower - 85% (Figure 4). This exports "death rate" is not sufficiently compensated by the reverse phenomenon of "birth rate". The probability that a product which was not exported the previous year, will enter the assortment of exports, equals about 75%. The high volatility of exports is generally characteristic to small economies in Eastern Europe and Central Asia, pointing out the instability of domestic supply, increased vulnerability of the economy and a restricted platform for export growth. However, two other small economies, Bosnia-Herzegovina and Macedonia, have registered significantly higher survival rates in exports, suggesting that relatively small economies, relying on the new industries, can successfully adjust to the fluctuations of climate and global markets. It is worth adding that the probability of survival of Moldovan exports on market level is lower than the aggregated one (60%), which already indicated at problems of an entirely different nature and that are related to reduced sustainability of business contacts and, which in turn, are determined by insufficient marketing efforts and quality management. Thus, the probability of survival of Moldovan exports is much higher for products manufactured within the new industries, compared to traditional ones, especially for the ones coming from agriculture and food and beverage industries.

Figure 4. Number of goods exported by ECA countries during 2005 and 2014, according to HS international classification, disaggregation level of 4 digits.



Source: Calculations made by authors based on COMTRADE data.

Figure 5. The probability of exports survival in ECA countries during 2005-2014, according to HS international classification, disaggregation level of 4 digits.



Source: Calculations made by authors based on COMTRADE data.

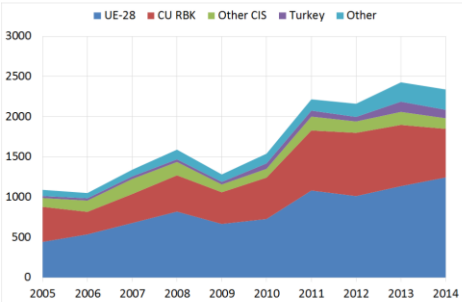
17. During the last 10 years, the export business has undergone significant structural changes. The structure of exports has dramatically changed: if the share of exports to CIS countries has decreased from 50.5% in 2005 to only 31.4% in 2014, the share of exports to the EU increased over the same period of time from 40.6% to 53.3%. This new trend was also visible in domestic exports (total exports minus re-exports). Thus, the share of domestic exports to the EU almost doubled (from 30% in 2005 to 51.8% in 2014), while the share of domestic exports to the CIS, over the same period of time decreased from 63% to only 29.2% (Figure 6 and Figure 7).

18. The geographical re-distribution of exports was due to more opportunities and constraints. On the one hand, the trade relations with the Russian Federation have worsened since the latter applied trade restrictions in 2006, restrictions on wines in 2013 and on fruit, vegetable and processed meat in 2014. On the other hand, the trade with the European Union has got an upward dynamic helped by the entry into force of the Generalized System of Preferences (GSP) in 2006, which expanded into GSP plus in 2007, by the application of Autonomous Trade Preferences (ATP) in 2008 , which culminated in the creation of the Deep and Comprehensive Free Trade Area between Moldova and the European Union after the entry into force of the Association Agreement in September 2014.

Figure 6. Geographical distribution of total

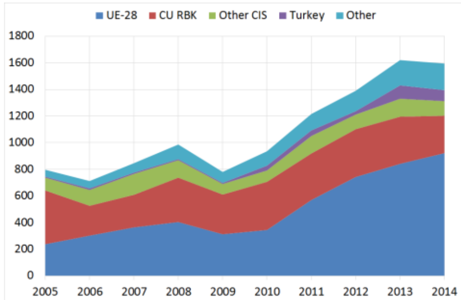
Figure 7. Geographical distribution of total

exports, million US$



Source: Calculations based on NBS data published by UN COMTRADE

exports domestic exports (except re-exports), million US$



Source: Calculations based on NBS data published by UN COMTRADE

19. The evolution of main categories of exported goods has also undergone several changes. If in 2005 the main product categories were represented by beverages, including alcoholic drinks and vinegar, in 2014 they have been mostly replaced by electrical equipment and appliances, which in 2005 were not even included in the top-10 exports. This was mainly due to exports of electrical cables for cars, made by several major companies with foreign investments. Other new product categories of 2014 which were not found in the top-10 exports in 2005 were oilseeds and oleaginous fruits, pharmaceuticals, furniture, bedding, mattresses, pillows and similar products (Table 1). The structure of domestic exports (excluding re-exports) has also significantly changed. Thus, in the top-10 exports in 2014, there were four new categories compared to the year 2005: (1) machinery and electric equipment; (2) oilseeds and oleaginous fruits; (3) furniture; bedding, mattresses, pillows and the like; (4) sugar and sugar preparations; (v) Glass and glassware (Table 2).

Table 1. Top-10 exported products in 2005 and 2014, million US$

Products	2005	Products	2014
Beverages, including alcoholic drinks and vinegar	314,5	Machinery and electric equipment	251,4
Articles of apparel and clothing accessories, not knitted or not crocheted	98,9	Edible fruits; peel of citrus fruit or melons	194,0
Articles of apparel and clothing accessories, knitted or crocheted	71,9	Beverages, including alcoholic drinks and vinegar	193,7
Edible fruits; peel of citrus fruit or melons	60,9	Cereals	181,2
Raw skins (other than fur skins)	60,6	Articles of apparel and clothing accessories, not knitted or not crocheted	162,2

Preparations of vegetables, fruit, nuts	46,5	Oilseeds and oleaginous fruits	154,2
Cereals	43,2	Pharmaceuticals	125,2
Animal or vegetable fats and oils	37,8	Furniture; bedding, mattresses, pillows and the like	112,1
Machinery and mechanical appliances, parts thereof	30,9	Articles of apparel and clothing accessories, knitted or crocheted	109,3
Footwear, gaiters and the like	26,4	Animal or vegetable fats and oils	77,5

Calculations based on NBS data published by UN COMTRADE

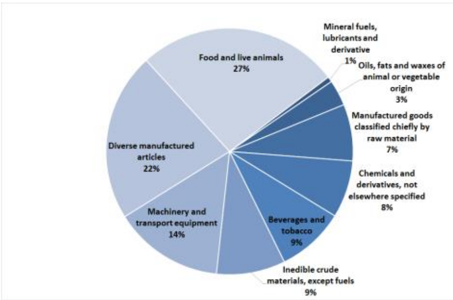
Table 2. Top-10 exported products (excluding re-exports) in 2005 and 2014, million US$

Products	2005	Products	2014
Beverages, including alcoholic drinks and vinegar	314,5	Cereals	180,6
Edible fruits; peel of citrus fruit or melons	50,1	Beverages, including alcoholic drinks and vinegar	178,0
Preparations of vegetables, fruit, nuts	46,5	Machinery and electric equipment	161,3
Cereals	43,2	Oilseeds and oleaginous fruits	153,2
Animal or vegetable fats and oils	37,8	Edible fruits; peel of citrus fruit or melons	152,7
Machinery and mechanical appliances, parts thereof	28,9	Animal or vegetable fats and oils	76,6
Oilseeds and oleaginous fruits	21,3	Furniture; bedding, mattresses, pillows and the like	76,5
Iron and steel	18,2	Preparations of vegetables, fruit, nuts	58,5
Salt; sulphur; earths and stones; plastering materials	17,7	Sugar and sugar preparations	55,5
Articles of apparel and clothing accessories, not knitted or not crocheted	17,6	Glass and glassware	53,6

Source: Calculations based on NBS data published by UN COMTRADE

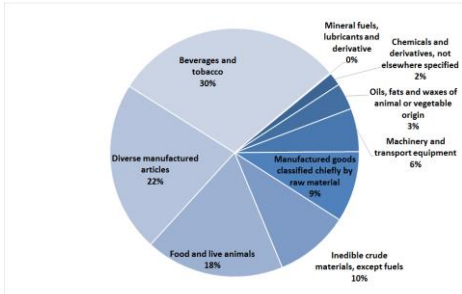
20. Overall, during the last decade the export of industrial products exceeded the export of agricultural ones. Thus, if in 2005 over half (53.4%) of exported products were agro food products, their share decreased to 45.8% in 2014, being surpassed by industrial products. The main export categories are: (1) Food and live animals; (2) diverse manufactured articles; and (3) Machinery and transport equipment. These product categories represented in 2014 approximately 63% of total exports (Figure 8 and Figure 9).

Figure 8. Export structure by main categories (according to SITC) of goods exported in 2014, %



Source: Calculations based on NBS data published by UN COMTRADE

Figure 9. Export structure by main categories (according to SITC) of goods exported in 2005, %



Source: Calculations based on NBS data published by UN COMTRADE;

21. As a result of the trade shocks of 2004-2006 and policy efforts at country level and marketing efforts at company level, Moldovan exports show an assortment diversification. For the 4-digit level of disaggregation as classified under HS, Herfindahl-Hirshman[7] concentration index dropped from an average of about 820 during 2001-2004, to 770 in 2005 and 370 immediately after the 2006 Russian embargo on the export of Moldovan alcoholic beverages. During 2010-2014, the index continued to drop, fluctuating around an average of 245. Such a rapid reduction of the concentration index has never occurred at regional level. Full concentration of exports of goods (at product and country level) indicates a lower value than in 2014 when it was of 137. For comparison, in 2005, the total index of export concentration equaled 425.

22. There have been important changes in the competitiveness of export products. The structural changes at product level and geographical destinations ultimately reveal changes in competitiveness and complexity of Moldovan exports. Table 3 shows that HS85 category "Machinery and electrical and electronic equipment" registered the highest rank in the Revealed Comparative Advantage index (RCA)[8], although it remains below RCA level. The increase of RCA level by 8 times is due to production of cables and electrical and electronic equipment by several

[7] Lower index means higher diversification.

[8] Revealed Comparative Advantage Index (RCA) of the country I for product k is calculated based on the formula ACRk = (Eik / Eit) / (Egk / Egt), where Eik represents the exporting of product k from country i, Eit is the total exports of the country i, Egk represents the exports of product k from all countries, Egt - total exports of all countries. RCA level exceeding the value 1 is a proof of comparative advantages in the respective country relevant for manufacturing the concerned product.

residents of free economic zones. Production of furniture (HS94), sugar and confectionery products (HS17), products made of cereals, flour, starch and milk (HS19), items of stone and glass (HS68-71), vegetable products (HS06-14) and textiles (HS50-60) are groups of products for which domestic manufacturers show a definite competitive advantage over the last decade and whose production enjoys comparative advantages on a global scale. On the other hand, if in 2004-2005 Moldovan enterprises demonstrated certain level of competitiveness in producing meat products (HS16) and ore products (HS25-26), they seem to have lost it, while in case of some products there is not any hope for improvement. Clothing and footwear have also lost competitiveness, but the RCA remains in both cases well above the level. Although wines and alcoholic drinks (HS22) remain competitive on a global scale, producers have lost the enormous competitive margin they enjoyed a decade ago, even before the Russian embargo. Although these benefits are determined largely by the availability of raw materials and excellent agro-climacteric conditions, producers increasingly use technological know-how and modern marketing.

Table 3. Changes in the structure of exports and Revealed Comparative Advantage index (RCA) of export of goods, the level of disaggregation is 2 digits according to HS international classification

HS Groups	Description of products	2004-2005	2013-2014
01-05	Animals and animal products	2,0	1,6
06-14	Products of vegetable origin	9,8	12,5
15	Vegetable and animal oils and fats	11,2	4,8
16	Meat products	0,9	0,0
17	Sugar and confectionery	2,4	7,0
19	Preparations of cereals, flour, milk	0,8	2,0
20	Fruit and vegetable products	13,2	8,5
18,21	Other food products	0,5	1,0
22	Beverages	46,9	15,1
24	Tobacco products	4,0	3,8
25-27	Ore products	4,3	0,9
28-38	Chemical products	10,2	9,0
39-40	Plastic and rubber products	0,2	0,5
41-43	Leather and leather products	19,4	2,4
44-47	Wood and wood products	0,3	0,8
48-49	Paper, cardboard, polygraphic materials	0,5	0,8
50-60	Textiles, carpets	7,0	8,7
61-63	Clothing	5,9	4,9
64-67	Footwear, umbrellas, hats	3,5	2,0

68-71	Stone and glass items	2,3	5,1
72-81	Metal and metal items	0,7	0,6
84	Machinery and mechanical equipment	0,2	0,2
85	Machinery, electrical and electronic equipment	0,1	0,8
86-89	Equipment, transport equipment and spare parts thereof	0,4	0,2
90	Optical, measuring, medical instruments etc.	0,2	0,5
91-92	Watches, musical instruments	0,1	0,1
94	Furniture	0,8	3,6
95-99	Miscellaneous items	1,2	0,4

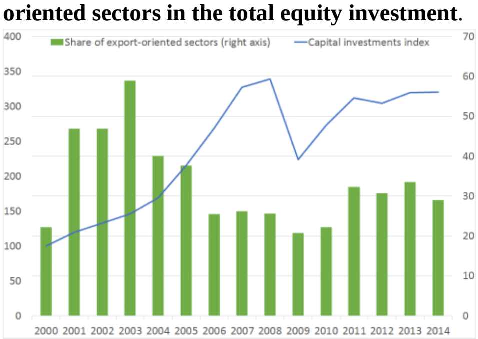
Source: Calculations based on NBS data published by UN COMTRADE

1.2 The role of investments for export development. Investments in Moldova and the world

23. Since 2000, capital investments in Moldova have increased, but the export-oriented sectors have lagged behind the others. Overall, the annual capital investment in 2014 was 3.2 times higher than in 2000 (Figure 10). The financial crisis in 2009 had a strong impact on investment, disrupting the increasing trend of 2001-2008. Investments did not return to the pre-crisis level, which indicates that the expansion of domestic production capacity is stagnating. In addition, in the last 3-4 years, only 30% of investments were placed in areas directly oriented to export of goods. As Figure 11 shows, the financial crisis in 2009 seems to have had a greater impact on investments of foreign owned enterprises or companies with foreign capital. Although the share of local investments increased compared to the pre-crisis level, the role of public investment (by the State with the support of donors or state funded) continued to increase.

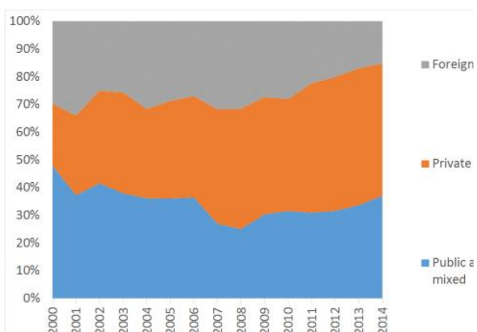
24. Investments have played a key role in exports promotion. Investments have a major role in the expansion of the country's production capacity and export supply. According to the estimates made by the authors of this Strategy, during 2001-2014, every 1 US dollar invested annually in the productive capital of exporting economic activities generated an average of USD 0.49 exports in the following year. In particular, one dollar invested annually in agriculture was associated with an increase in annual export income of about USD 0.57, and in the food and beverage industry – approximately USD 0.19. The data provided by statistics is not detailed enough, but it helps identifying specific sectors in which investments generate new export capabilities faster. Thus, contrary to agriculture and food industry, one US dollar invested in the production of technical equipment and precision and optical medical devices, generated USD 14.5 exports. However, in this industry the low comparison effect is disproportionately high. In the electrical machinery and devices industry (particularly, wiring and basic electric circuits), the relevant indicator is of about USD 5.1, in the chemical industry – USD 3.53 (but in this case, the re-export share is particularly high), clothing – approximately USD 3.7, footwear - approximately USD 1.8. In fact, all sectors which had rapidly generated exports developed in the last years thanks to foreign investments, either covered or not by actual investment capital by foreign investors / limited partners (e.g. light industry). The fact that some of these sectors did not exist in the past (e.g. production of wires for the automotive industry) or that they were in very bad condition (e.g. precision devices industry) suggests that foreign investment has also an essential role in increasing the general level of sophistication of Moldovan exports and it shows the need to intensify efforts in attracting foreign investments in Moldova.

Figure 10. Evolution of equity investments (year 2000 = 100%) and the share of export oriented sectors in the total equity investment.



Source: Calculations based on NBS and NBM data. .

Figure 11. Structure of investments by type of ownership, % of total equity investment.



Source: Calculations based on NBS and NBM data.

25. Moldova is fortunate to be located in the most appropriate area in terms of possibilities for attracting foreign investments. The global volume of FDI decreased in 2014 by 16% compared to 2013, reaching USD 1.23 trillion, mostly due to a fragile phenomenon of world economic recovery and to the uncertainty of investment policies and the intensification of geopolitical risks[9]. However, despite the world economy slowdown and the decline in global FDI inflows, the European

[9] UNCTAD, World Investment Report, Genera, 2015, p.2.

continent has attracted in 2014 about USD 305 billion investments and funds, 36% more than in 2013. Thus, Europe managed to convince more investors that it was the right place and moment to invest. More importantly, 59% of investors believe that the attractiveness of the EU will improve over the next 5 years[10]. Moldova could benefit the most from these trends if applying an optimal mix of investment policies.

26. In South-East Europe, foreign investors mostly targeted manufacturing. In contrast to previous years, when the largest share of FDI flows was directed to the financial, construction and real estate industries, foreign investors targeted in 2014 manufacturing, buoyed on competitive production costs and access to EU markets. In South-East Europe, the FDI flows remained flat at US$4.7 billion.[11] The Republic of Moldova's share of the inward FDI has, however, been very low – between 2013 and 2015, the Republic of Moldova outperformed only Albania[12].

Table 4. Top 10 FDI sectors, by number of projects, Europe (2013-2014)

Sector	2013	2014	Share (2014), %	Change, %
Software	**510**	**646**	**15**	27
Business services	**483**	**365**	**8**	-24
Machinery and equipment	**308**	**300**	**7**	-3
Automotive	**244**	**287**	**7**	18
Food	158	226	5	43
Financial intermediation	156	214	5	37
Chemicals	167	188	4	13
Pharmaceuticals	141	165	4	17
Electrical	116	163	4	41
Plastic and rubber	124	146	3	18
Others	1,550	1,641	38	6
Total	**3,957**	**4,341**	100	10

Source: E&Y Investment Monitor 2015

Note: the number of investment projects above includes both greenfield/brownfield investment as well as privatization and mergers and acquisitions

Table 5. Top 10 FDI sectors, by jobs, Europe (2013-2014)

Sector	2013	2014	Share (2014)	% change
Automotive	**47,962**	**45,755**	**25**	-5
Software	**12,946**	**19,088**	**10**	47
Machinery and equipment	**8,265**	**13,341**	**7**	61
Business services	**12,807**	**10,042**	**5**	-22
Food	4,297	9,408	5	119

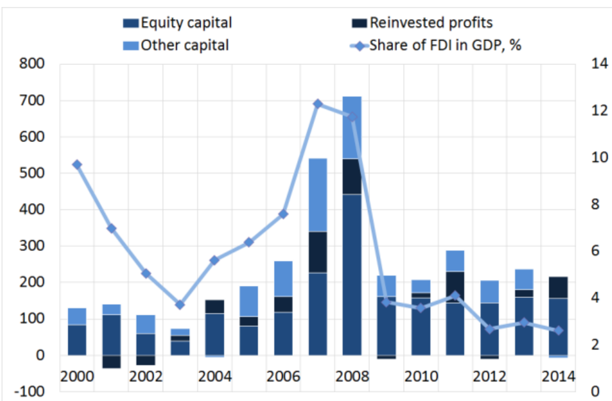
[10] Ernst & Young, Investment Monitor, 2015.
[11] World Investment Report 2015 (UNCTAD), p.67.
[12] Cross border Investment Monitor 2014, fDiMarkets.com

Pharmaceuticals	2,557	9,009	5	252
Electrical	6,714	7,755	4	16
Retail	9,429	7,536	4	-20
Plastic and rubber	8,653	5,816	3	-33
Other transport services	5,689	4,579	2	-20
Others	46,964	53,254	29	13
Total	**166,283**	**185,583**	100	12

Source: E&Y Investment Monitor 2015

27. **The Republic of Moldova has traditionally struggled in attracting FDI**. Although the stock of FDI increased from USD 448.8 million in 2000 to USD 3.61 billion in 2014, the FDI inflows were highly volatile. After the economic crisis of 2009, the FDI inflows into the Republic of Moldova did not yet recover to the pre-crisis levels. The peak of net FDI inflows of almost USD 711 million reached in 2008 has been chiefly determined by market-seeking FDIs, targeting retail trade and financial sectors. A structural peculiarity of the FDI in Moldova is related to the fact that the FDI inflows have always been mostly reliant on equity capital, with modest share of reinvested profits – a symptom of overwhelming dominance of market-seeking rather than efficiency-seeking investment (Figure 12).

Figure 12. FDI inflows, USD million

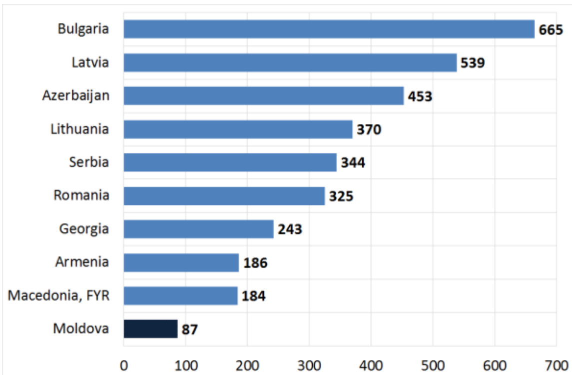


Source: NBM;

28. **The Republic of Moldova underperformed in terms of FDI inflows in comparison with other countries in the region**. The level of average net inflows of FDI per capita for the period 2005-2014 is estimated at about 87 USD, being one of the lowest compared to the region (Figure 13). Given the scarcity and high costs of domestic capital, such a low level of FDI undermines the competitiveness and the

sustainable development of the country. The country has also attracted little greenfield investment[13]. On average, the Republic of Moldova attracted annually only US$65 per capita of greenfield FDI (Table 6), while the average value in the comparator countries was US$357[14].

Figure 13. Net inflows of FDI per capita, USD, period 2005-2014



Source: Authors' calculations based on WB data;

Table 6. Average annual value of greenfield FDI projects per capita (2010-2014)

	Total value of FDI projects 2010-2014 (mil US$)	**Average value of FDI projects per year (mil US$)**	**Number of inhabitants**	**Average annual value of FDI projects per capita (US$)**
Albania	772	154.4	2894475	53.3
Bulgaria	14233	2845	7226291	393.6
Croatia	7446	1489	4236400	351.5
Macedonia FYR	3966	793.2	2108434	376.2
Moldova	**1169**	**233.8**	**3566400**	**65.6**
Montenegro	2901	580.2	621800	933.1
Romania	42519	8504	19910995	427.1
Serbia	19538	3908	7129428	548.1
Ukraine	15751	3150	45362900	69.4
Average				**357.6**

*Source: World Investment Report 2015 (UNCTAD), *World Development Indicators 2014 (World Bank), CzechINVENT's calculations;*

[13] Greenfield investments are investments in the construction of new industrial units. Brownfield investments are the investments in modernizing/developing existing industrial units.
[14] The group of comparable countries consist of countries that are either direct competitors to Moldova for efficiency seeking FDI (Romania, Macedonia FYR, Ukraine and Serbia) or belong to the comparator South-East Europe region (Albania, Bulgaria, Croatia, Montenegro).

29. Moldova's export-oriented services have been of interest to foreign investors. Business services[15] and software development are sectors where international FDI demand has been very strong in the past decade. They are top two sectors in terms of new FDI projects in Europe and generated close to 40.000 jobs in 2014 alone. They are already well established in the Republic of Moldova. The IT services' share in country's total exports is one of the highest in the region (2.1%), the total value of offshoring / nearshoring services reached approximately US$56 million in 2013, and is expected to grow at a compound annual growth rate of 14.5 percent to approximately double in size by 2018.[16] There are more than 500 companies in the industry, recently foreign investors have set up 15 business services and IT centers in the country. The Government actively promotes the ICT sector; in 2013, it approved National Strategy for information society development "Digital Moldova 2020".

30. The apparel and footwear industries have offered opportunities for non-equity investment. Within the past decade, apparel and footwear products have become one of the largest export items in the Republic of Moldova, growing in value from almost US$87.3 million in 2000 to US$363.6 million in 2014. Currently, the exports of apparel and footwear constitute about 16% of total exports of goods, over 90% of which being re-exports. Hence, the industry has benefited from the proximity and access to the European markets, and the worldwide tendency for the continuous search of competitive locations. Within Europe, this has fostered the relocation of selected industry's operations to cheaper locations in transition economies, including the Republic of Moldova, where orders from the EU clients can be met within shorter deadlines. The apparel and footwear industries have a large potential that needs to be explored further, given the regional tendencies and the competitive advantages of Moldova.

31. A brand new sector - automotive industry – has emerged in the Republic of Moldova due to the FDI. In fact, automotive industry is one of the top four sectors in Europe in terms of number of new FDI projects. This is also a sector creating most FDI-related jobs in Europe - an annual basis, close to 50,000 new jobs are created in automotive industry.[17] Moldova has already attracted a few automotive industry

[15] Business services is a general term that describes work that supports a business but does not produce a tangible commodity, for instance IT service, procurement, shipping, HR service, finance, etc. Business services (sometimes also called business process outsourcing / BPO) are typically categorized into back office outsourcing (internal business functions, e.g. HR, accounting) and front office outsourcing (customer-related functions, e.g. contact service center). Business services contracted outside a company's country are called offshore outsourcing (or nearshore outsourcing in case the services are outsourced to a neighboring country).
[16] Competitiveness Assessment of Moldovan IT Services Industry, GIZ 2014.
[17] Ernst & Young Investment Monitor 2015

companies (e.g. German Draexlmaier, US Lear Corporation, Austrian Gebauer & Griller, Italian Confezioni Andrea Covercar, non-equity investment of German Leoni in Introscop). The contribution of automotive industry exports to total exports accounted to around 8 percent in 2014.

32. FEZs have played a key role in attracting mobile FDI. Almost all FDI in the automotive sector have been located in the Free Economic Zones. Moldova currently has seven FEZ, located all over the country's regions, with a total number of 161 residents employing 6620 people[18], however, some of these FEZs lack residents in the export-oriented industries and services. There is also an international free port (village of Giurgiulesti, Cahul rayon, South region) and airport (town of Marculesti, Floresti rayon, the North region), with legal statuses similar to FEZ. The total investment made by FEZ residents over the entire period of their existence exceeds USD 210 million. Based on evidence from other countries (Czech Republic, Hungary, Poland, Slovakia), FEZs or industrial zones play a very significant role in attracting mobile FDI as they allow foreign and domestic investors to build their production or service facilities within a reasonable time frame and at reasonable costs. The development of the most efficient and attractive FEZs and municipal/regional industrial zones will therefore continue.

1.3. Identifying appropriate types of investments for Moldova

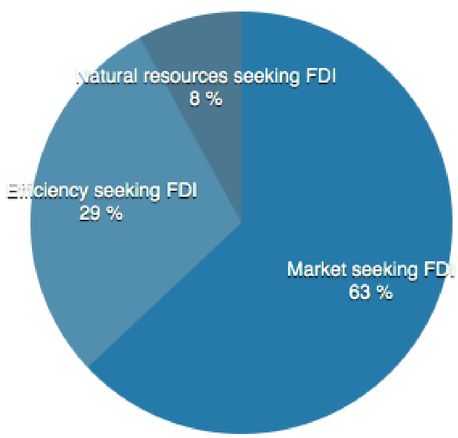
33. FDI is an important vehicle for connecting domestic economy to the international economy by fostering opportunities for local companies to integrate into global value chains. In today's world, more goods and services reach consumers through sales by foreign affiliates than by trade alone. In 2014 more than 890,000 foreign affiliates had assets worth US$102 trillion and sold more than US$36 trillion worth of goods and services, with a value added of more than US$7.9 trillion.[19] FDI and trade are thus inextricably interrelated through the international production networks in cross-border value chains. This development presents new opportunities for greater integration into global value chains for all countries, including Republic of Moldova.

[18] Ministry of Economy of the Republic of Moldova, "Main results of the activity of the Free Economic Zones in 2014", http://www.mec.gov.md/sites/default/files/document/attachments/zel.docx.
[19] UNCTAD, World Investment Report 2015 (Geneva: UNCTAD), p.18.

34. These benefits however are neither automatic nor guaranteed. First, the growing competition for FDI among countries means that host countries need to implement the most effective strategies to attract and retain FDI, while ensuring and maximizing its contribution to the country's development objectives. Second, different kinds of FDI have unique characteristics, and their potential to generate various economic, social, and environmental impacts differs.

35. In order to design appropriate interventions, it is important to adopt a clear FDI typology in this Strategy and to focus the country's resources on export-generating FDI. The simplest and the most relevant investment typology includes three types of investments – natural resource-seeking FDI, market-seeking FDI and efficiency-seeking FDI - with corresponding structure for the Republic of Moldova shown in the Figure 14[20].

Figure 14. Types of FDI, paid-up capital stock in Moldova (as of 31.12.2014)



Source: Authors' calculations based on NBM and NBS data

36. Natural resource-seeking FDI occurs when an investor seeks to secure access to certain natural resources that are located in the host country. Investors look for physical resources, such as land, oil, minerals, raw materials or agricultural

[20] This taxonomy is largely based on Dunning, John H. 1993. "Multinational enterprises and the global economy". Wokingham, England : Addison-Wesley, with the key difference that we have included the cheap labor as motive for efficiency seeking FDI rather than resource seeking.

products. Given the Republic of Moldova's limited natural resources endowment, decrepit agricultural infrastructure and legal ban on sales of agricultural land to non-residents, the natural resource-seeking FDI have been traditionally very small and concentrated in very few industries that underwent privatization (e.g. cement, gypsum or sugar production industries). Resource-seeking FDI is directly related to exports, but leaves the country vulnerable to commodity price swings. This Strategy recognizes the importance of attracting natural resource-seeking FDI, especially considering that some Moldovan agricultural goods have revealed high competitive advantages (walnuts, table grapes, grape seed oil, cherries and peaches). Therefore, it is necessary to eliminate the critical constraints in attracting large-scale FDI into agricultural sector: the ban on land sales to non-residents, fragmented ownership of land and other production facilities, dilapidated irrigation infrastructure and the extremely low labor productivity (30 percent of the national average) – are likely to persist over the implementation period of this Strategy. It is also necessary to mention that the entry barriers for FDI in the agricultural sector undermine the investment attractiveness in the downstream agrifood industries (e.g. food or beverages industries). The restriction for foreign investors to hold property rights on agricultural land complicates a lot the process of assuring quality and safety of raw material used for the production of final goods, which have to conform to rather strict international quality standards. Although the political constraints are rather severe, the Government is committed to identifying long-term solutions for alleviating or eliminating critical constraints related to FDI in agriculture and food industry, including solutions to better promote the current legal alternatives, such as long-term lease agreements and creation of joint ventures and partnerships. However, in the near future the agricultural sector shall chiefly develop based on the local investments and possibly based on financial support by external development partners (World Bank, EBRD, EIB). Nevertheless, there is a series of opportunities for placement of relatively small amounts of private FDI in activities related to agriculture, particularly in the provision of a large variety of services for agriculture (mechanical works, first-hand processing, consulting and agricultural extension services, payments services related to agriculture, logistics, post-harvest storage and processing). In addition, as stated under the National Strategy for Agricultural and Rural Development 2014-2020, there is great potential to attract higher amounts of FDI in the wine industry, livestock sector and processing of agricultural products.

37. **Market-seeking FDI involves investment motivated by the potential to deliver goods and services to customers within the host country and as such it is determined by the size and characteristics of the domestic market**. The direct intervention capacity of the government in promoting this type of investment is rather limited (at least in short term) since the domestic market is limited too. Therefore the Government of the Republic of Moldova will encourage the market-seeking FDI by addressing the horizontal constraints, strengthening the property rights, removing domestic barriers to trade and ensuring a proper competition framework. It is estimated that up to 63 % of cumulative investment inflows during 2009-2013 was market-seeking (Figure 14), mostly comprising non-tradable services (e.g. banking, warehousing, professional services, transportation). While dominant, these investments have limited direct impact on export capacity of the Republic of Moldova. However, the market-seeking FDI indirectly raise the efficiency in other industries using the services of the market-seeking FDI as technologic inputs into production. For this reason, the market-seeking FDI are further welcome to Moldova. Many of the market-seeking FDI entered the Republic of Moldova as a result of the privatization process. As some state-owned enterprises in the telecommunications, tobacco, air transport services and other sectors are yet to be privatized, the Government of the Republic of Moldova expects additional FDI to come as market-seeking ones. However, considering the market value of the to-be-privatized assets, it is likely that the share of the market-seeking FDI will decline in the future and the country will be attracting bigger shares of other types of FDI.

38. **At the same time, the entry of some foreign investors can lead to the appearance of new markets.** Some FDIs which typologically are market-seeking may actually follow suppliers or customers that have already built foreign production facilities in a certain country. While attracting primary market-seeking FDI is not the key objective of the presented strategy, secondary market-seeking FDI is (i.e. spillover FDI induced by efficiency-seeking FDI already located in Moldova). Some relevant examples, for instance, Gebauer & Griller that followed its customer Draexlmaier to Moldova, is a prime example of investment that needs to be encouraged in the future as part of the country's effort to maximize economic benefits of FDI. In addition, due to its affinity with Romania, Moldova has a chance to attract suppliers of large investment projects located in Romania, such as Ford, Renault, or Samsung.

39. Efficiency-seeking FDI are generally export-oriented, and occur where the investor seeks to increase cost-efficiency of production by taking advantage of factors that improve the competitiveness of the enterprise. The investment driven by cheaper labor force is included in this category. The small share of efficiency-seeking investment (e.g. manufacturing goods, for instance, in electronics or automotive industry) in total FDI suggests that the Republic of Moldova has not fully succeeded in leveraging regional/global value chains and in securing preferential access to international markets. The small share of efficiency-seeking investment also suggests that country's FDI performance so far has not been aligned with the Republic of Moldova's development vision targeting exports, technology transfers and higher skilled jobs and with building a knowledge based economy as provided by the NDS "Moldova 2020".

40. Different types of investment bring different benefits, opportunities and challenges. A strategy is about reaching desirable ends with available means; it is also about choosing to do some things and not others. As long as the "Moldova 2020" NDS calls for developing export industries and attracting investment that contributes to export, it inevitably calls for investment that seeks to increase cost efficiency of production by taking advantage of factors that improve the competitiveness of the enterprise, i.e. efficiency-seeking FDI. At the same time, the Strategy aims at developing domestic investments in SMEs that supply inputs to foreign companies with efficiency-seeking FDI.

2. FDI attraction and exports promotion: key problems and challenges

2.1. Key factors attracting FDIs

41. Existing literature on motives why a certain company would carry out an international production strategy shows that this process involves two stages[21]. At the first stage, the firm decides among various alternatives it has for internationalizing its production and the decision may not necessarily result in FDI. For instance, when a firm wants to take advantage of low-cost foreign labor, it can

[21] Chiara Franco, Francesco Rentocchini and Giuseppe Vittucci Marzetti, "Why do firms invest abroad? An analysis of the motives underlying Foreign Direct Investments", August 2008.

resort either to FDI or simply to international outsourcing, without necessarily making an investment. The outward processing agreements under which many Moldovan firms provide processing services to their foreign customers is typical example of international strategy without FDI per se: the German company Leoni works under such an arrangement with the Moldovan company Introscop; the same model persists in the garment and footwear industry. At the second stage, the location choice is made regarding the hosting country, which involves assessment of 'hard' assets the country offers, production factors, and incentives and of its institutional environment.

42. Efficiency-driven FDI often look for acquisition of production factors and assets that are not directly transferable through market transactions. These factors and assets may include the following: available, flexible and cheap labor force, investment incentives, agglomeration economies due to geographical closeness to other markets or technological clusters, valuable technological knowledge in the hosting country, developed basic and industrial infrastructure, education infrastructure and digital infrastructure. In case when companies relocate from some other countries, then there should be also some degree of technological closeness between the sending and hosting country.[22]

43. Different aspects weight differently in the investors' decision to settle in a certain country. However, the labor seems to be the most important factor, especially in services area. In case of manufacturing, the transportation costs and capital costs come closely on the second and, accordingly, the third ranks (Table 7).

Table 7. Relative significance of key location-sensitive cost factors, %

	Manufacturing Sector	**Services Sector**
Labor costs	**44 - 60**	**74 - 90**
Salaries and wages	*31 - 42*	*52 - 64*
Statutory plans	*5 - 7*	*9 - 11*
Other benefits	*7 - 10*	*13 - 16*
Facility costs (office, factory leasing)	**2 - 6**	**4 - 16**
Transportation costs (road, sea, air)	**7 - 24**	**n/a**
Utility costs (electricity, gas)	**2 - 8**	**1 - 1**
Cost of capital (depreciation, financing)	**9 - 21**	**0 - 7**
Taxes	**6 - 14**	**2 -10**
Income taxes	*4 - 11*	*0 - 11*
Property taxes	*1 - 3*	*0 - 0*
Other taxes	*0 - 1*	*0 - 1*

[22] Idem.

Source: Competitive Alternatives, KPMG's Guide to International Business Location Costs, 2014;

44. The policy framework for FDI represents the second broad set of factors that may influence localization decision. Other conditions being equal, investors will prefer countries with higher quality of governance, better enforceability of contracts, better protection of property rights, less corruption and red tape, more stable politically and economically. The post-investment services may also be important for an ex-ante assessment of the feasibility of the investment, and this may include everything related to aftercare, linkage developments, litigation solution mechanisms etc.

2.2. Production Factors and Assets provided by the Republic of Moldova to international investors

Labor

45. Labor costs are one of the key sources of Moldova's competitiveness. Labor costs represent the most significant group of cost factors for efficiency-seeking FDI and include salaries and wages, employer-paid statutory plans, and other employees' benefits. With average monthly net wage of just 261€ (2014)[23], Moldova provides access to the pool of one of the most cost-effective labor in Europe.

46. However, the costs advantage is not permanent, and there is a shortage of qualified labor force in the Republic of Moldova. In the World Bank – EBRD Business Environment and Enterprise Performance Survey 2013 the problem of skills and education of workforce fared as the third most severe problem affecting the business environment (it was mentioned on the fourth place in the 2008 Survey). One of the main manifestations of the poorly qualified labor force is the low productivity. Despite the fact that the labor costs are one of the key sources of Moldova's competitiveness, the country lags behind its Central European countries as well as behind the South-Eastern European competitors in physical productivity factors (actual hours worked, specific workplace training, physical productivity of workers). Since the labor costs are inevitably going to grow in the future, Moldova will need to address the issue of low physical productivity factors to maintain its human resources

[23] Calculations based on the National Bureau of Statistics data on average wage in Moldova's economic sectors, http://www.statistica.md/category.php?l=ro&idc=452&.

competitive edge. Limited availability of skilled (and in some parts of Moldova, of unskilled) labor is a great barrier to FDI.

47. Poor skills development and instability of workforce are the main challenges for attracting FDI in the most promising economic sectors. For instance, the number of IT graduates in Moldova (between 1,800 and 2,000 per year)[24] would be mostly sufficient for the existing needs of the IT industry, but the percentage of technically qualified individuals is very low. This is because the education system's vocational curricula does not match IT industry requirements.[25] In addition to suffering from a depleted HR pool, most IT companies consider the rate of employable fresh graduates from IT-related faculties and colleges to be too low, and the training period required for such graduates to be too long (longer than the European average). As a consequence, investors in the IT field keep their operations in Moldova small, despite the fiscal incentives offered[26], or they relocate to neighboring countries, which are often more expensive but have larger pools of employable graduates. Hence, in the short and medium-term, Moldova needs to consider types of FDI and non – equity investments, which may come to the country and provide training as part of their business model. In the long-run, Moldova has to concentrate its efforts on producing ready to employ professionals, in cooperation with the faculties and the companies in order to shorten the six months average training period. The nascent automotive industry also has suffered because of the qualified labor shortages, forcing the industry seek closer ties with the educational sector in order to launch joint training programs.

48. Procedures for hiring foreign workers remain burdensome. Despite some progress registered in the last few years, hiring foreign workers is time-consuming and costly. In order to be employed in Moldova, the foreign workers need to obtain a long-stay visa (12 months) and residence and work permit. Additionally, it is necessary to obtain the approval from the National Employment Agency (can take about 30 days or even more) and a notification from the Migration Policy Department (can take about 60 days or even more). Usually, these institutions have a large discretion in requesting various kinds of documents that increase the duration and costs of hiring foreign workers. Given the shortage of domestic labor force often

[24] Competitive Assessment of Moldovan IT Services Industry, USAID CEED II Moldova (2014)
[25] Ibid.
[26] In the ICT sector, the taxable income is considered only the monthly income not exceeding 2 monthly average salaries in the economy forecasted for the concerned year. The monthly income higher than 2 monthly average salaries in the economy forecasted for the concerned year is considered taxable income.

invoked by firms, coupled with a bleak demographic and migration outlook, these regulatory rigidities will put increasing pressures on companies wishing to invest and expand their activity in Moldova.

Industrial facilities and utilities costs

49. In Moldova, there is an insufficiency of adequately equipped investment sites. Countries characterized by uncertain economic and political environment can rely more on attracting mobile foreign direct investment which require low installation costs in case of a need / opportunity for resettlement in another country, rather than on stable FDI, which rely on delivery of local inputs and the undisputable labor advantages. Unfortunately, Moldova remains a country where a large number of foreign companies are reluctant about investing in construction sites, preferring to invest only in equipment in order to ensure the possibility of fast mobilization and relocation. To attract these mobile FDI, the country should provide ready-to-use industrial halls. The rental prices of the available investment sites are not lower compared to the region countries (table 8). Another problem is that the location of certain industrial land and industrial facilities does not meet investors' demands, mainly due to inadequate labor supply within the site's labor catchment area, but often also due to poor quality of access roads. Given the lengthy and sometimes cumbersome process of obtaining from the local public administration of construction permits, in conjunction with investors' preference for rental of already existing industrial premises, the country is about to face a shortage of internationally competitive industrial land and industrial facilities.

Table 8. Rental price for industrial spaces

	Rental price. EUR/m^2
Moldova	3-4
Romania	3.5-4.0
Serbia	4-5
Bulgaria	2.5-3.8

Source: Introduction to the Automotive Sector in Moldova, Invest in Moldova 2014, Industrial Rents Map (www.colliers.com/en-gb/emea/insights/interactive-rents-map), Colliers International, 2015

50. Problem of shortage of investment sites is aggravated by the high costs and burdensome procedures of their construction. In addition to the number of procedures and time required for obtaining a construction permit, investors are generally unwilling to bear additional fixed costs associated with construction of a production hall in a business environment that is perceived to carry high business risk. Even if the company decides to finance the construction, the costs of financing are higher than in the neighboring competing locations (e.g. Romania). Evidence of lost investment due to limited supply of ready-to-use industrial facilities in the past supports this claim. State's intervention to bridge this market failure and support development of design-build-lease facilities seems utterly necessary.

51. Utility costs are comparable with comparator countries in the region. Utility costs usually represent only 2-8% of total production costs in manufacturing, yet they can be the breaking point during site's selection process. Moldova's current utility costs are competitive with comparator countries, yet do not represent a significant comparative advantage of the country as they oscillate around regional average and are not significantly lower than in the comparator countries (Table 9). The inflation pressures in 2015-2016 are likely to reduce even more the advantage of utilities costs or to turn into disadvantage.

Table 9. Utility costs (electricity, gas, water) (2012-2014)

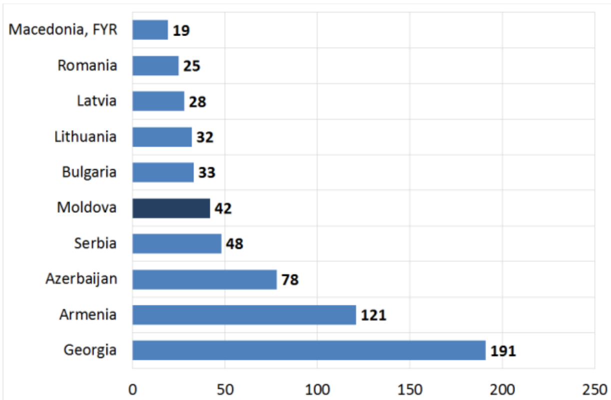
	Moldova	Albania	Macedonia	Romania
Electricity (EUR/kWh)	**0.13**	0.12	0.06	0.081
Water (EUR/m^3)	**0.726**	0.64	0.54	N/A
Sewerage (EUR/m^3)	**0.586**	N/A	0.38	N/A
Gas (EUR/m^3)	**0.33**	0.31	0.55	0.31

Source: Introduction to Automotive Sector (Republic of Moldova), Invest in Moldova, 2014, National Plan on Economic Zones in Kosovo, 2014, Half-yearly electricity and gas prices, EUROSTAT, 2014

Tax policies and tax administration

52. The Republic of Moldova implements a relatively mild income tax. Corporate Income Tax in Moldova (CIT) is 12 percent, equally applied to all companies irrespective of origin of capital. This level is one of the lowest in the region (only Armenia, Bulgaria and Macedonia have a lower CIT – 10 percent). Still, the fiscal advantage is not so obvious in the case of tax administration: it takes, on average, 42 hours to pay the CIT, which is longer than Bulgaria, Lithuania, Latvia, Romania and Macedonia (Figure 15).

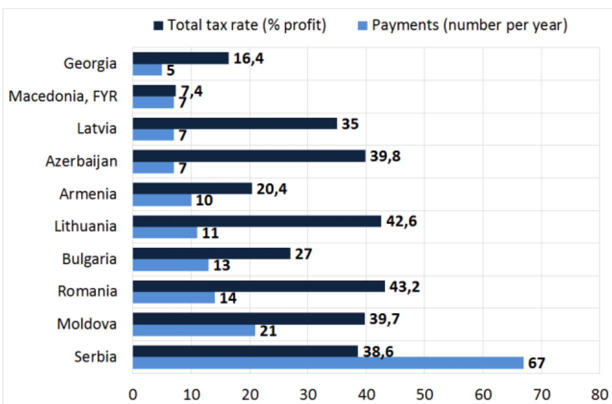
Figure 15. Average time to pay the Corporate Income Tax, hours



Source: Doing Business 2015, World Bank

53. However, whereas the CIT level is relatively low, the total fiscal burden is above the average. The overall tax burden (share in profits of total tax rate) in Moldova and the number of fiscal procedures are rather high compared to other countries in the region (Figure 16).

Figure 16. Fiscal burden and number of fiscal payments per year



Source: Doing Business 2015, World Bank;

54. Apart from high fiscal burden and poor fiscal administration, a major issue is related to the unpredictability of the fiscal legislation. Particularly, the Tax Code lacks a set of provisions that would foster the stability of the legislation: clear rules regulating the procedures of “advanced tax rulings”, guarantees ensuring certain period of fiscal stability (5-10 years depending on the investment volumes), principle that amendments to tax policies enter legal force after certain period of time (e.g. 12 months from the time they were published) and the principle of non-retroactivity of new fiscal regulations. Moreover, the VAT refund procedures are not fully aligned to EU’s Sixth Directive, making this process highly time consuming.

55. Another sensitive problem is related to the fragmented and interpretable provisions about tax deductibility. These gaps led to frequent cases of litigation between investors and fiscal authorities, which are usually problematic due to lack of a unified source of data, clarifications and decisions regarding the previous fiscal litigations and disputes.

Investments incentives

56. In Moldova, there are many incentives aimed at attracting FDI. Thus, some sectorial incentives are applied in the IT sector and agriculture. Particularly, IT companies benefit of labor cost facilities: the personal income tax and the social security contributions applied to wages earned by workers in the IT industry are calculated from the income capped at two national average forecasted salaries. In the agricultural sector, the spectrum of incentives is larger. Thus, a subsidy fund supports lending to farmers, insurance in agriculture, investments in agricultural technology and equipment and technological innovations in the sector. Additionally, there are some fiscal incentives: VAT exemptions for services provided by agricultural cooperatives or their members (if at least 75% of the value of these services satisfy several criteria); the farmers pay a preferential 7% income tax (12% for the rest of the firms); employers from the agricultural sector pay a preferential social security contribution of 16% (23% for the rest of employers).

57. Additional incentives to invest are applied to the residents of Free Economic Zones, International Port Giurgiulesti and Industrial Parks. Under the Law on Free Economic Zones (FEZ), upon approval of new laws worsening the condition of FEZ residents in terms of customs regime, tax incentives and other regimes as provided under the laws relating to free zones, FEZ residents are entitled to act under the provisions of the laws which were in force before the date of approval of the new laws, for a period of 10 years but not exceeding the operation term of the respective free economic zone. For investments in fixed assets of over USD 200 million, FEZ residents enjoy a 20 years protection against any new laws that worsen the operation conditions. FEZ residents with over USD 1 million investments, benefit of a 3-year exemption from the CIT for the income obtained from exports to outside the customs territory of the Republic of Moldova (this exemption is extended to 5 years for investments of over USD 5 million). These periods are too short for investments which will have high start-up costs in the first years due to construction of new buildings or expensive reconstruction of existing buildings for their operations – such investment projects will create only minimal net profit in the first years of starting their production in Moldova and will therefore not benefit from the 3-year or 5-year exemption from the CIT. Other fiscal incentives consist of 50% reduction of the taxable income, 25% reduction at the payment of the income tax and zero rate VAT on goods supplied to/from the FEZ. Still, the most important incentives driving the big investors into FEZ are: 1) fiscal incentives, especially associated with fast fiscal procedures and zero VAT and 2) fast customs clearing procedures that take place right on the territory of the FEZ. Incentives to IP residents include preferential changing the destination of the agricultural land, alienation free of charge or bailment of public property goods to the managing enterprise, preferential privatization within IP, preferential rental price for the public property land and less state controls. Moreover, according to a survey conducted among investors based in Moldova, the special economic zones were assigned to only 0.8 points from maximum 2 points according to the importance to invest[27].

58. Other tax incentives for investments are applied horizontally. Particularly, the expenses for research and development, expenses for employee transportation, meals and professional studies are deductible for CIT purposes. Additionally, the imports or procurement of equipment that is included into the firm's equity capital are VAT free and VAT refund for capital investments. Special incentives to SMEs are applied in the form of reduced tax rate of 3% on the income from operating activity obtained in the reported fiscal period. There are also incentives for the import of raw materials used to produce goods intended for export[28]. However, the entire system of incentives is complicated and not sufficiently clear. Thus, it is not perceived by investors as an important determinant on the decision to invest in Moldova. According to a survey conducted among investors based in Moldova, company tax

[27] "Survey on Foreign Investors in Republic of Moldova", Magenta Consulting, 2013

[28] The producing economic agents are entitled to request the extension of the payment due date for VAT and customs taxes, for the period of the production cycle, but no longer than 180 days, for raw material, materials, accessories, primary packaging and imported completion items that are used for the exclusive manufacturing of goods intended for export.

incentives were assigned to 0.2 points from maximum 2 points according to the importance to invest[29]. Additionally, competitor countries offer equally or even more attractive incentives than Moldova (Table 10).

Table 10. Overview of investment incentives available in the comparator countries (2014)

	Croatia	Bulgaria	Macedonia	Romania	Serbia	Hungary	Moldova
Non-fiscal incentives							
- Regional	✓			✓	✓	✓	
- Job creation	✓	✓		✓	✓	✓	
- Training	✓	✓		✓	✓	✓	
- Sector based	✓						✓
- Investment in equipment	✓		✓		✓		
Fiscal incentives							
Income tax relief							
- depending on the amount of investment			✓		✓	✓	
- for job creation	✓	✓	✓		✓	✓	✓
- related to industry	✓	✓		✓		✓	✓
- depending on the category of enterprise	✓						
- depending on region		✓					
Statutory charges relief							
- maintaining number of jobs			✓		✓	✓	
- employing people of certain age / disabled people		✓		✓			
- employing unemployed people	✓	✓	✓	✓	✓		
- employing fresh graduates				✓			
- related to industry						✓	✓
Capital contributions relief					✓		✓

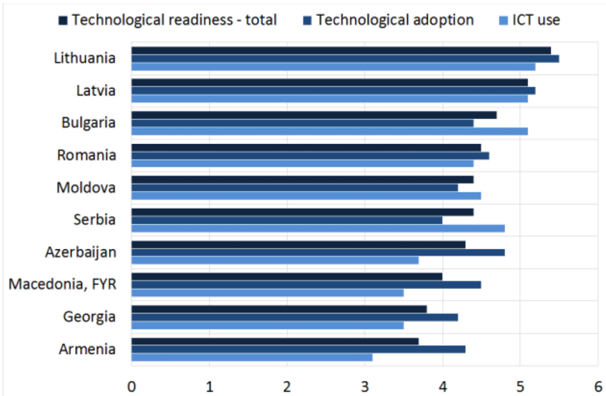
Source: The best practices on financial facilities for investment attraction, PwC 2014

Digital technologies

59. The Republic of Moldova is ready to use digital technologies but is not in a hurry of using them. According to the Global Competitiveness Report 2014-2015, Moldova is ranked 51st out of 144 countries according to technological readiness, outpacing such countries as Serbia, Azerbaijan or Macedonia (Figure 17). The main advantage is related to high ICT use, due to the decent quality of internet.

[29] "Survey on Foreign Investors in Republic of Moldova", Magenta Consulting, 2013

Figure 17. Technological readiness indicators, 1-7 (best)

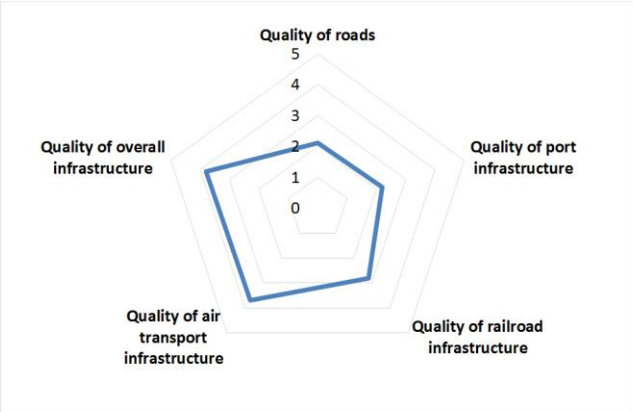


Source: Global Competitiveness Report 2014-2015;

Transport infrastructure and logistics

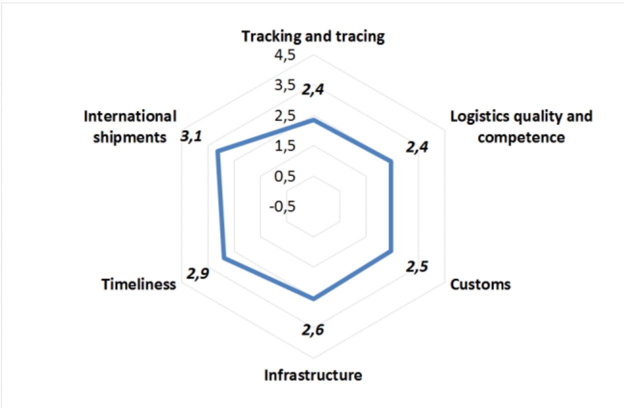
60. Most of the infrastructure needs substantial modernization and currently it represents one of the most important bottlenecks for country's development. Overall, Moldova is ranked 118th from 144 countries according to the quality of transport infrastructure from the Global Competitiveness Report 2014-2015, the worst score being registered by the roads infrastructure and the best score – by the air transport infrastructure (Figure 18). This problem is magnified by poorly developed logistical services and logistical infrastructure. In the World Bank Logistical Performance Index 2014, the Republic of Moldova is ranked 94th out of 160 countries, the most problematic areas being the slow and inefficient tracking and tracing, low logistics quality and competence and fragmented and highly bureaucratic procedures operated by the state control authorities located at the border (Figure 19).

Figure 18. Transport infrastructure 1-7 (best)



Source: Global Competitiveness Report 2014-2015

Figure 19. Logistical Performance Index 2014, by key elements



Source: World Bank

61. Quality of roads is the biggest problem. About 47% of national roads and 80% of local roads need rehabilitation. Taking into account that 64% of the total volume of transported goods is conducted on the road, this culprit significantly increases the costs of domestic and foreign trade and undermines the competitiveness of Moldovan companies.

62. Quality of transport infrastructure in the direction where the exports will be shipped is one of important points in decision-making process of potential

investors. Furthermore, should Moldova succeed in attracting significant amount of export-oriented FDI, the current road system might get quickly overwhelmed by the resulting truck traffic, which will significantly contribute to a further deterioration of roads in target areas. The quality of the road system also influences the mobility of labor – improvements to the transportation infrastructure would therefore also partly contribute to alleviation of the skills shortage.

63. Quality of port infrastructure is another major issue. Moldova has only one river port that connects the country to the Black Sea (through Danube River) – port of Giurgiulesti. It contains a large and modernized network of infrastructure units (e.g. product and grain terminals, general cargo and container terminal, free zone, logistics, lease and consulting services, 14-kilometer railway link to Romania). However, the port is poorly linked with the capital city and the rest of the country due to weak road and railway infrastructure. This is one of the reasons why only 2% of total goods' transports are conducted using the fluvial transport.

64. The air transport infrastructure is in better shape compared to roads, ports and railways. Moldova joined the Common European Aviation Space, which, to some extent, increased the competition among air companies, decreased the prices and fueled the international passenger traffic. Still, the air transport remains quite costly and inconvenient for cargo transportation, whereas the international airports from Balti and Marculesti are poorly developed.

2.3. The Institutional Environment

65. The legal framework and the institutional framework of the Republic of Moldova are inadequate for investment attraction and export promotion. There are important gaps in the legislation itself, as well as with its enforcement, due to inadequate economic governance, weak institutions, low business culture, as well as political and macroeconomic instability and unpredictability of the business climate. Moreover, the business regulatory framework does not provide effective and clear guarantees for investors: there is no institute of Investment Agreement, which would provide more clarity for both parties' rights and responsibilities; there are no mechanisms for settlement of taxing issues (e.g. advanced tax ruling) and there is no clear mechanism for investor grievances. Foreign investors entering the Republic of Moldova are likely to be more sensitive to any investment climate deficiencies given the nature of the mobile FDI location selection process and fierce international competition for FDI nowadays.

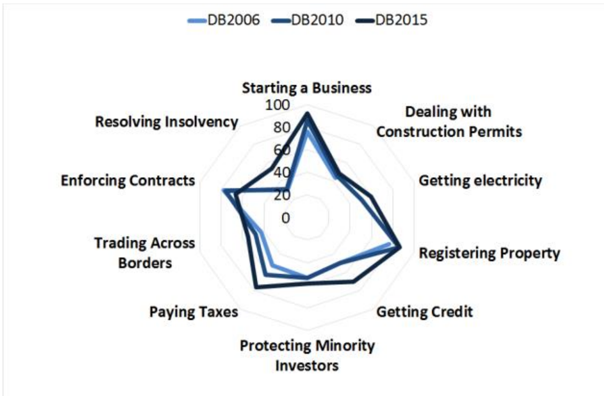
66. Despite visible improvements registered by the Republic of Moldova during the last 10 years, the business climate remains one of the weakest in the region. It significantly undermines country's endeavor to spur the competitiveness by attracting investments for export promotion and makes Republic of Moldova lose the regional competition for investments. Ultimately, it leads to poorer economic opportunities and lower living standards for the population.

67. A major issue is related to the large number of state inspections, as well as their discretionary character. Particularly, many investors complain about the fact that many public institutions abuse of their rights to conduct state inspections, by intervening into the activity of firms without clear reasons or any justification documents.[30] Moreover, often the state inspectors require various documents that create additional direct and opportunity costs and consumes time of investors, as Moldova lacks a unified system of electronic registries that ensures access to state inspections to the necessary information and documents about the firms under control.

68. There are a number of very problematic areas in the business regulatory environment affecting the business conditions. These are "Dealing with Construction Permits", "Resolving Insolvency", "Trading Across Borders", "Protecting Minority Investors" and "Getting Electricity", where the distance to frontier, according to Doing Business report, is below 60 percent (Figure 20). These specific weaknesses of the domestic business climate directly undermine the key objective of investment attraction and export promotion. Particularly, difficult procedures established by the local public administration to obtain the construction permits (which takes about 247 days), discourage the greenfield investments. Poor protection of minority investors and lengthy procedures for resolving insolvency also undermine the confidence of investors, especially of foreign ones.

[30] Economic Council, meeting of October 8, 2015: http://www.gov.md/en/content/economic-council-moldovan-prime-minister-approaches-state-inspections

Figure 20. Ease of Doing Business, main components, distance to frontier, percent

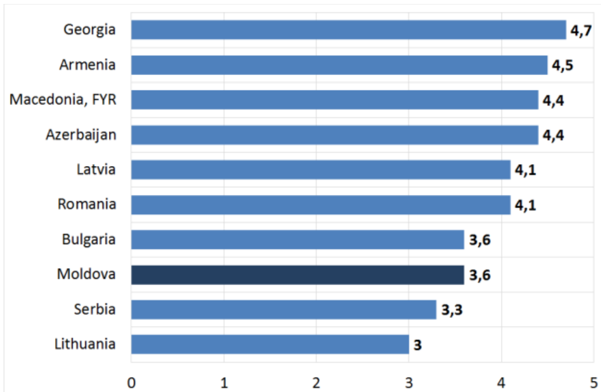


Source: World Bank;

Labor policies

69. Inflexible labor market conditions make the problem of labor shortages even less tractable. According to the employers' perception, the labor legislation remains rigid and far from full transition to the free market principles. The recently launched White Book 2015 of the Foreign Investors' Association of Moldova emphasizes the urgent need for enhancing the labor legislation. Particularly, the Labor Code is too rigid in the case of dismissals and often can hamper the restructuring of enterprises. It has unclear stipulations about overtime work, part-time employment, conflict of interests, and overall is not fully adjusted to the peculiarities of the modern principles of employment. As a result, there is a negative perception among firms about the reliability of the labor legislation. In the 2014-2015 Global Competitiveness Index, the Republic of Moldova ranked 93rd out of 144 countries according to the rigidity of hiring and firing practices (Figure 21).

Figure 21. Hiring and firing practices 1-7 (best)



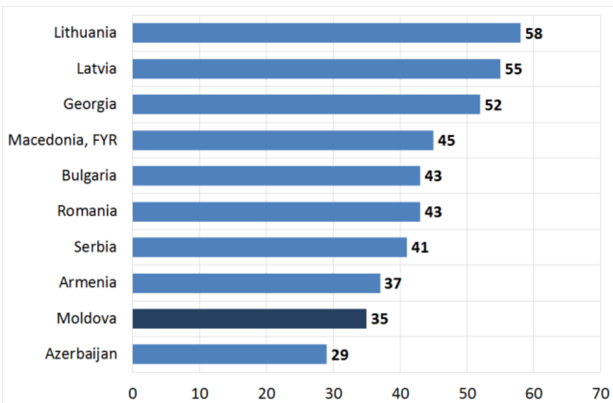
Source: Global Competitiveness Report 2014-2015;

70. There is a weak correlation between the educational system supply and employers' demand for skills. This problem is especially relevant for the VET system and is caused by the lack of incentives and opportunities for the private sector to contribute more actively to the formation of the education curricula, occupational standards and provision of practical training. Particularly, the Sectorial Committees that were set up in order to define the occupational standards have an unclear mandate and there is not enough institutional and budgetary support for to ensure their effective functioning. As a result, Moldova does not have up-to-date occupational standards for most economic activities (including those export-oriented). Additionally, the private sector is not engaged in the regular evaluation of relevance and quality of studies, as well as in regular review and update of the technical specifications, norms and standards in education (especially the VET system).

Quality of governance

71. Low public governance and weak institutions has been always one of the biggest constraints for enterprise development in the Republic of Moldova. According to the Global Competitiveness Report 2014-2015, top-3 most problematic factors for doing business are directly related to public governance and institutions: 1. corruption; 2. policy instability; 3. inefficient government bureaucracy. Corruption is a critical issue hampering significantly the investment attractiveness of the Republic of Moldova. Compared to other region countries, the Republic of Moldova registers one of the worst scores of the Corruption Perception Index developed by the Transparency International, being ranked 103rd out of 174 countries (Figure 22). There is empirical evidence that corruption negatively affects the country's ability to attract FDI as it works as a tax on profits: the costs of doing business raises and the expected investment profitability decreases.[31] Corruption also increases the business climate uncertainty; it results from one of the several factors, such as excessive bureaucracy, high discretion in the formulation and implementation of policies, inefficiency and slowness of the legal system, low wages in the civil service and lower degree of economic freedom. Several of these factors are, unfortunately, omnipresent in Moldova.

Figure 22. Corruption Perception Index, score (scale 1-100, lower score means worse situation)



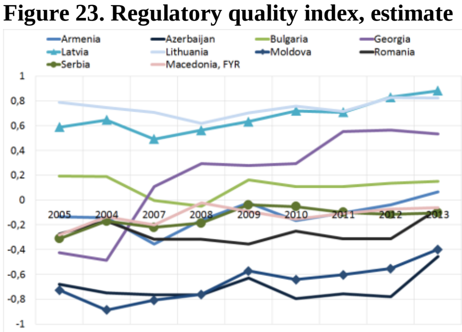
Source: Transparency International;

72. Over the recent decade, Moldova progressed modestly compared to other countries in the region for the quality of governance. The regulatory quality index and the government effectiveness index, estimated by the World Bank, remained one of the lowest among the comparable countries, outpacing only Azerbaijan. The largest, and growing, discrepancy is against Lithuania, Latvia and Georgia (Figure 23 and Figure 24). Hence, whereas the regulatory reformed marginally improved the life of existing investors, it did not make Moldova much more attractive for potential

[31] Castro C, Nunes P.: Does Corruption inhibit Foreign Direct Investment?, Revista de Ciencia Política, vol. 51, N°1, 2013 (pp. 61-83).

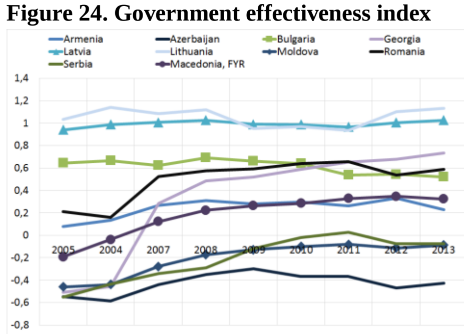
investors. In addition, the recent bank fraud brought out the issue of moral hazard that negatively impacts business climate in the country.

Figure 23. Regulatory quality index, estimate



Source: World Bank

Figure 24. Government effectiveness index



Source: World Bank

73. Low transparency of the decision-making process is another culprit. Despite the fact that the legal framework ensuring the decision-making transparency is in place and is appropriate, its enforcement is a major issue. For example, in 2013, an estimate share of 47 percent of all policy topics discussed by all ministries did not comply with the legal requirements on decision-making transparency. Budgetary transparency is a particular issue: according to the Budgetary Transparency Index 2014, Moldova scored 59 points out of a maximum of 100, which qualifies as "low transparency". Besides hampering accountability and internal governance of state institutions, low transparency undermines their credibility for the population and firms[32].

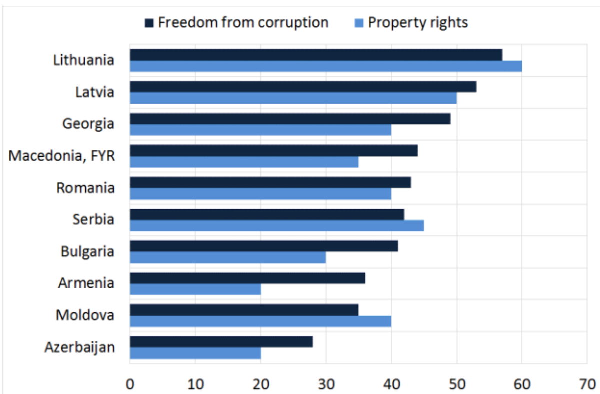
74. The deficiencies related to the rule of law, fuel the uncertainty in terms of enforcing the laws aimed at protecting investors' rights. Particularly, the institutional framework in this area is fragmented, weak and unstable. The key problems are: the government lacks a powerful institution that would promote strategic investment project, there is no institution of Investment Ombudsman that would protect the investors from eventual abusive laws and regulations and would facilitate the resolving of investment disputes and the mechanism of resolving investment grievances is weak or almost non-existent. As a result, investors'

[32] "Dialogue to help strengthen capacities and build effective institutions for Post 2015 agenda", UNDP Moldova and Expert-Grup, 2014

confidence about the domestic business climate and, in particular, about the mechanisms of prevention and solving investment disputes, is very low[33].

75. Weak protection of the property rights makes the investors vulnerable to perpetrations and abuses. The 2015 Index of Economic Freedom, elaborated by The Heritage Foundation, states that the rule of law in Moldova is undermined by high corruption and low protection of property rights. Moldova earned one of the lowest scores in the region according to the rule of law components of the index: freedom of corruption and property rights (Figure 25).

Figure 25. Property rights and freedom from corruption indexes, 2015 Index of Economic Freedom



Source: The Heritage Foundation;

Customs administration

76. Since 2013, the Customs' Service saw significant reforms related to the cross-border trade. According to the "Doing Business 2016", the Republic of Moldova holds 33 place, being situated between Finland and USA, which had a significant contribution to country's overall ranking.

77. During the recent years, the key reforms related to customs administration are as follows:

1) In 2014, the amendments to the Customs Code have introduced the status of Authorized Economic Operator, which gives quicker access to certain

[33] World Bank (2015), Workshop about the investment climate in the Republic of Moldova, April 9, 2015

simplified customs procedures and in some cases the right to 'fast-track' shipments through Customs safety and security procedure.

2) In order to ease the trading across borders, the Government of Moldova issued a Decree on May 20, 2015, which reduced the number of documents required for the customs clearance from 9 documents to export and 11 documents to import to only 3 mandatory documents for both exports and imports.

3) Along with the reduction of verifications at custom clearance of goods, following the EU practices, there was developed and modernized ex-post control of external economic transactions. It ensured the transfer of customs control from the customs clearance to ex-post control.

4) Another recent modification is implementation of the blue lane customs channel as a form of simplified procedure that is to speed the release of goods from Customs control and to facilitate external trade. The Blue Lane is a customs channel that enables the immediate validation of customs declaration and the deferment of customs control for credible economic operators – whose transactions neither pose a high risk of fraud, nor require physical control of goods.

5) Launce on the 1st of March 2014 of electronic customs' clearance for export, and on the 1st of March 2015 – of electronic import procedure.

78. Despite the reforms implemented during the last years, the customs procedures are perceived as burdensome by many firms operating export/import operations. According to the Global Competitiveness Report for 2015-2016, Moldova was ranked 84th (out of 144 countries) according to the „Burden of customs procedures" indicator. It was evaluated by firms with 3.7 points out of 7 points maximum[34], remaining at the same level as in the previous year. Hence, the reforms implemented during the last 2-3 years by the Customs Office were not reflected yet on companies' perceptions.

[34] Date of data collection or release: 1st September 2015; www.weforum.org/gcr

Agency for FDI attraction and export promotion

79. The Moldovan Investment and Export Promotion Organization (MIEPO) is the key public institution that coordinates the implementation of the Government policy in competitiveness enhancement, investment attraction and export promotion. Since 2006, MIEPO has undergone several reorganizations, the most recent one being in 2014, when MIEPO adjusted its charter in line with the best practices. Nevertheless, the agency operates without a strong short, medium and long term vision and goals, underpinned by a sustainable strategy and structure. Development of a new institutional strategy for MIEPO is one the top urgent priorities for the agency.[35]

80. The agency continues to face important governance issues. MIEPO is managed by an Executive Director appointed by the Minister of Economy and it reports to the Coordination Council of MIEPO activity, created based on the Ministry of Economy Decision no. 30 of 10.03.2014. According to the Decision of the Government of the Republic of Moldova no. 109 of 12.02.2014 "regarding the Investment Attraction and Export Promotion Organization", the Coordination Council is comprised of 13 members: six public sector representatives, six private sector representatives and the Minister of Economy – Chair of the Council. The Council has not, however, proved to be an effective management mechanism that steers MIEPO as a full service investment promotion agency. Consequently, MIEPO is seen as a marketing support unit that fails to act in full accordance with its mandate. Some of the Coordination Council members are in conflict of interest as they also sit in the Administration Council of the budget for the implementation of the "Export Promotion" program, created by the Ministry of Economy Decision no. 144 of 15.08.2011 that allocates funds for export promotion activities and compete for the same source of funding with MIEPO.

81. MIEPO does not have a strong enough mandate in investment attraction and export promotion. Although it is indeed tasked to have an export promotion role, there are several other agencies with the same role. Unclear export promotion mandate impacts on agency's external profile and its credibility with the private sector companies and drains MIEPO's already limited financial and human resources. At the

[35] In August 2015 Ministry of Economy commissioned under the World Bank Competitiveness Enhancement Project development of the institutional strategy for MIEPO. This project run in parallel with development of this Strategy and both teams had shared their outputs to coordinate and maximize the impact of both documents.

same time MIEPO's mandate includes "competitiveness enhancement", yet competitiveness is a major topic that is outside the responsibilities of an investment and export promotion agency and future institutional strategies and structures should recognize this.

82. Another MIEPO's problem is related to its low institutional capacities. Its annual budget is slightly more than MDL 5 million lei (of which the operating budget is about 30 percent) and it covers both investment and export promotion functions. The budget has been effectively stagnating and is approximately 25% lower in 2015 than it was in 2012.[36] The budget of MIEPO for country's promotion is considerably lower than the average and median budgets of similar institutions in comparison countries: the average budget of agencies for attracting investments in low-income countries reaches USD 548 thousand, and the median budget - USD 287 thousand. In countries with middle-income, the average budget of agencies for attracting investments is USD 1.237 million, with the median budget up to USD 570 thousand. Given that most agencies in the region, responsible for investment promotion, consolidated their organizational structures, currently MIEPO is facing a strong international competition. In 2015 staff is comprised of 10 employees who are to cover both investment and export promotion functions. Because of small size, the labor division inside the organization is not efficient: the staff members are responsible for several tasks at a time and there is no dedicated specialist responsible for investment attraction or export promotion only. Salaries and benefits are not competitive with the private sector which impacts on low staff retention and leads to a chronic lack of sector knowledge and key marketing and selling skills. No average unit cost per FDI project performance indicators are in place that would demonstrate the efficiency with which MIEPO delivers impact through the number of FDI projects attracted to Moldova with MIEPO involvement against total input costs. Additionally, MIEPO charter does not provide for a mandatory performance assessment of the institution by an external counterpart.

83. Certain critical FDI promotion functions are missing at MIEPO, in particular aftercare services. Given current financial and organizational constraints at MIEPO, the agency is unable to fulfil one of the core functions of investment

[36] MIEPO promotional budget is considerably lower than average and even median IPA budgets of comparator countries: average IPA budget for low income countries runs at 548 000 USD (median budget at 287 000 USD); average IPA budget for middle income countries stands at 1,237 mil USD (median budget at 570 000 USD). Source: Morisset J., Andrews-Johnson, K.: The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment, FIAS Occasional Paper 16, 2004, p. 15. Since then numerous IPAs have emerged and strengthened their organisation structures – nowadays MIEPO is facing a very strong international competition.

promotion, that of aftercare. Evidence suggests that several existing foreign investors in the country could easily expand their operation, develop downstream linkages or generate other spillover effects (e.g. investors in automotive or BPO industries) if provided support and meaningful encouragement from the government side. Established investors are a "captive audience" and it is up to MIEPO to reap the benefits of the foreign companies already established in Moldova. Introduction of aftercare and support to reinvestment is MIEPO's immediate future priority area for action, next to reviving the investment outreach function. .

84. As MIEPO does not have a direct market presence in foreign markets, it is in need of close cooperation with other entities that can act as a proxy. This concerns in particular cooperation between MIEPO and Moldovan foreign missions abroad where currently the links are not strong enough to lead to tangible results. In selected countries where there is high investment potential in target sectors, the cooperation needs to be close, informal and operational. Moldova's economic diplomacy staff needs supply of both information materials as well as investment promotion know-how in order to deliver results.

85. MIEPO's low external profile results in investors often looking elsewhere for investment facilitation services. Most notably, the donor-funded project "Advise to Prime-minister on Economic Development" at the Prime Minister's Office undertakes several investment promotion functions (including, for instance, investor targeting, aftercare and support to FDI linkages) that are typically provided by a national investment promotion agency. Even though both intermediaries have established good working relations, from the investor's view the institutional set up may seem fragmented and overlapping, which further undermines MIEPO's profile. Notwithstanding these potential functional overlaps, MIEPO's main operational constrains stem from poor funding and weak institutional set-up.

86. To sum up, Moldova may offer a number of advantages to potential FDI as part of their international strategies. At the same time, a number of weaknesses are holding back attraction of more investment projects. The FDI attraction strategy will concentrate on eliminating or alleviating the most binding constraints while harnessing the country strengths. A number of opportunities and risks are also to be considered along this way (Table 11).

Table 11. Attraction of efficiency-seeking FDI to Moldova: a country SWOT analysis

STRENGHTS	WEAKNESSES
• Favorable ratio between productivity and wages in the manufacturing industries and exports-oriented services; • Multi-linguistic population; • Recent reforms implemented by the Customs Office aimed at diminishing the duration, costs and number of required documents for customs' clearance procedures. • Favorable geographical positioning in relation to EU, Russia, Middle East and Central Asia; • Proximity to the CIS and export tradition to its markets; • Preferential visa regimes with CIS, EU, USA, Canada, Israel and other countries; • Free trade access to EU, Turkey, SEE and CIS markets; • 47 bilateral agreements on double taxation avoidance; • 40 bilateral agreements on FDI protection; • Internationally competitive corporate income rate; • Availability of investment attraction instruments (FEZ, industrial parks); • Availability of designated industrial sites in FEZ and industrial parks; • Large development potential of the software industry and export-oriented services; • Large development potential of the automotive, textiles and electronics industries; • Tax exemptions for large investments in free economic zones and industrial parks; • Horizontal tax exemptions and facilities for R&D, transportation, meals and vocational education for employees; • VAT exemption for the import or procurement of equipment that is included into the equity capital of the firm.	• Shortage of medium and highly qualified labor force, especially in rural areas; • Low percentage of technically qualified graduates; • Vocational curricula not meeting labor market needs; • Inflexible labor employment policy; • Investors' uncertainty related to the fiscal and customs' treatment. • Rigid immigration policy and improper procedures enforced by immigration authorities; • Weak investment promotion agency due to insufficient financing; • Unclear division of institutional competences in FDI attraction; • Poor state of physical infrastructure, especially of roads; • High costs of logistical services; • Shortage of adequately equipped investment sites, as well as high costs for building industrial sites; • Relatively high total fiscal burden (total taxes as a share of net income) compared to region countries; • Cumbersome procedures related to obtaining from local public administration of construction permits and the distributor's approval for connecting to electricity; • Low quality of governance (corruption, lack of transparency in decision-making, weak protection of property rights) generating high risks for entrepreneurial activities; • Scarce sources of domestic raw materials; • Fragmented domestic market with agricultural products and low reliability of stable supply, both in quantity and quality.
OPPORTUNITIES	**THREATS**
• Geographical closeness and lack of linguistic barriers offering the possibility of integration in the technological chains of FDI firms located in Romania (especially Iasi) and Ukraine	• Further macroeconomic instability coupled with weak domestic financial sector could substantially raise the Moldova country-risk and costs of financing FDI;

(especially Odessa); • Rising global and regional demand for business services and software development; • Increasing delocalization trends of Central European firms in automotive industry, garment and footwear industry, and electronics; • The process of European integration offering multiple opportunities for developing the institutions and competences in the FDI attraction domain; • The implementation of the Association Agreement could facilitate the international trade and tackle the competition issues. • Liberalization of the trade in services, movement of personnel and companies establishment as part of the DCFTA will improve efficiency of the export-oriented services in Moldova; • Following the automotive industry-establishment pattern, the growing production costs in the established and emerging markets may bring about FDI opportunities in sectors which would be completely new for Moldova. • Privatization of some of the state-owned enterprises may present opportunities also for attraction of efficiency-seeking FDI; • Proceeds from privatization can be used for financing the building of ready-to-use industrial halls; • The International Free Airport Marculesti (status of FEZ) offers the opportunity to invest in production of higher-value added goods to be supplied just-in-time to foreign customers;	• Budgetary risks and poor fiscal discipline may limit the country's fiscal space for improving and maintaining a consistent system of FDI facilities; • Prolonged or escalating domestic political instability can scare new FDI away from Moldova; • Existing FDI leaving Moldova following unsettled investment disputes can damage the international image of the country; • Acceleration of labor force migration can further impact negatively the availability and cost of labor; • Inflation pressures could undermine in long-term the cost-competitiveness of Moldova; • Economic recession in Russia and fragile economic growth in EU can reduce demand for Moldovan exports; • Security instability in Ukraine and risks of conflict extension can further worsen Moldova's country risk profile and FDI financing costs; • Unsettled Transnistrian conflict and the risk of new regional separatisms can further worsen Moldova's country risk profile and FDI financing costs; • Trade barriers on the Russian market for imports for Moldova and the risk of their extension can undermine Moldova's attractiveness for FDI targeting Russian market.

Source: authors' elaboration;

3. Strategic vision

87. The Association Agreement with EU will make Moldova more open for foreign trade, by removing the tariff and non-tariff barriers to trade. According to empirical estimations, in case of full implementation Agreement's provisions, it will boost the Moldovan GDP by 6.4%, provide more and better-paid jobs and facilitate the diversification of the national economy[37]. However, key preconditions for tapping the benefits of this Association Agreement are related to attracting FDI. Therefore, the Moldovan Government committed to a set of ambitious institutional

[37] "Quo Vadis Moldova: European Integration, Euro-Asian Integration or Status Quo?", Expert-Grup, 2013

modernization reforms, aimed at enhancing the investment climate, better enforcing the property rights, ensuring a better predictability and other key ingredients that would encourage the investors to come to Moldova. This Strategy, being part of the Government's commitments within the DCFTA Implementation Roadmap, builds on these objectives.

88. With a right mix of investment policies and incentives adopted by the Republic of Moldova, by 2020 the investments will become a key driver of economic growth and of exports enhancing and diversification. By creating new jobs, enabling a shift from lower to higher value added jobs and by imparting skills and knowledge through transfers and spillovers to the workforce and local firms, investments will greatly contribute to the overall structural transformation and modernization of the Republic of Moldova.

89. Export-oriented manufacturing and internationally traded services will be major sources of new FDI projects. Generally, in transition countries the services sector still plays only a small part in inward FDI. Yet Software, Business Services, Machinery and Auto Components and Assembly are the sectors that generate most FDI projects (Table 4) and jobs in Europe (Table 5). These sectors also represent a unique opportunity for attracting other forms of investment than FDI, such as non-equity investment (outsourcing, licensing, and franchising). They are also sectors where Moldova has already attracted investment and where FDI attraction potential exists. Therefore, Moldova will continue focusing on these export-oriented and labor-intensive projects. This is especially timely taking into account the fact that the FDI inflows into former contenders from Central Europe (Czech Republic, Hungary, Poland) have slowed and the current challengers for these projects are found in South-Eastern Europe[38]. Another sector, which has been very attractive in case of the Republic of Moldova, is garment and footwear production. The Republic of Moldova will continue focusing on such labor-intensive and export-oriented sectors. They are especially attractive amid slowing flows of FDI projects in these sectors in the Central European countries (Czech Republic, Hungary, Poland), as well as increasing competition with South-Eastern European countries.

[38] For instance, Romania draws 10,892 jobs in 2014, up 77%. Serbia falls back to 5,104 new jobs, Slovakia remains a contender and Bulgaria is attracting more interest, though it needs further reforms and better infrastructure. Source: Ernst & Young Investment Monitor 2015, p. 18.

Priority sector selection - scoring matrix

90. Based on the data on trends in FDI flows and Moldovan export and situation in different sectors of Moldovan economy, a matrix was developed to select which sectors have the highest potential for substantial increase of Moldovan export, as well as attracting investment into production or service.

91. The sector selection was based on six criteria (the sector selection results are presented in Table 12)**:**

1. Investment attractiveness of the sector – number of FDI projects 2013-2014. Top 10 sectors, scale 10 – 1, according to the number of projects (10 = highest number, 1 = lowest number) from the top 10 sectors. Source of data: Table 4.

2. Job creation potential of the sector – number of new jobs created 2013-2014. Top 10 – scale 10 – 1, according to the number of jobs created (10 = highest number, 1 = lowest number) from the top 10 sectors. Source of data: table 5.

3. Track record of FDI in Moldova (10 = Many projects; 5 = Some projects; 0 = few or none projects. Source of data: own research based on data from Moldovan National Bank.

4. Track record of Moldovan export (10 = strong; 5 = moderate; 1 = poor). Source of data: table 1, year 2014 only.

5. Revealed Comparative Advantage Index (16 = major increase; 8 = moderate increase; 4 = no change; 2 = moderate decrease; 1 = major decrease). Source of data: table 3.

6. Barriers to Moldovan export: tariff and non-tariff ones (10 = low barriers; 0 = high barriers). Source of data: own research.

Table 12. Scoring matrix

	Investment attractiveness	**Job creation**	**Track record in FDI**	**Track record in export**	**RCA index**	**Barriers to export**	**Total**
Software / ICT	**10**	**9**	**10**	**5**	**-**	**10**	**44**
Automotive	**7**	**10**	**10**	**5**	**0**	**10**	**42**

Business services	**9**	**7**	**5**	**5**	**-**	**10**	**36**
Machinery products and parts	**8**	**8**	**0**	**5**	**5**	**10**	**36**
Textiles and clothing	**0**	**0**	**10**	**10**	**5**	**10**	**35**
Electrical equipment, electronics	**2**	**4**	**5**	**5**	**5**	**10**	**31**
Food processing and beverages	**6**	**6**	**10**	**10**	**-10**	**0**	**22**
Wood processing	0	0	0	5	5	10	20
Pharmaceuticals	3	5	0	1	-	10	19
Rubber and plastics	1	2	0	1	5	10	19
Furniture	0	0	0	1	5	10	16
Leather products	0	0	0	10	-5	10	15
Financial intermediation	5	0	5	1	-	0	11
Other transport equipment	0	0	0	1	-	10	11
Mining	0	0	0	1	-	10	10
Energy generation and distribution	0	0	0	1	-	10	10
Chemicals	4	0	0	1	-5	10	10
Non-metallic mineral products	0	0	0	1	-	10	10
Agriculture	0	0	0	10	-5	0	5
Retail	0	3	0	1	-	0	4
Transportation services	0	1	0	1	-	0	2
Metallurgy	0	0	0	1	-10	10	1

Source: Authors' estimations

92. As a result, seven priority sectors were identified

Table 13. Description of the identified seven priority sectors

No.	Identified sector	Comment
1	Software / ICT	This sector achieved the highest scoring as it ranks among top sectors for FDI and job creation in Europe, and Moldova has also attracted a number of projects in this sector. Moldova has comparative advantages of educated labour (both in ICT and languages) and price of labour. Another big advantage of this sector is that its outputs are exported online, thereby discounting one of the biggest obstacles for Moldova´s exports: long distance from key markets.
2	Automotive industry	This sector scored high due to the high number of FDI projects and new jobs created in Europe, and the strong track record of several already existing foreign direct investments in Moldova. The probability of attracting a car production project is low, but the probability of attracting projects of manufacturing car components for export to car manufacturing or car assembly plants in Central and Eastern Europe is high. Based on the track record and Moldova´s labour price competitiveness, labour intensive projects such as

		production of automotive textiles (seat covers) or cable assembly might be expected to come first and create a high number of jobs in Moldova, as it happened in other countries in Central and Eastern Europe in the past 20 years.
3	Business services / BPO	This sector, which includes call centres and other business process outsourcing activities, has the potential to play a similar role as the ICT sector – Moldova has the comparative advantages of young educated labour, foreign language skills, and reasonable labour costs. As with software/ICT, outputs/services are delivered to customers via ICT networks, avoiding lengthy and costly transportation to customers. There are already first examples of these investment in Moldova.
4	Machinery products and parts	This sector recorded an increase in the volume of exports and ranks among the top sectors in Europe in foreign direct investment and new job creation.
5	Production of textile products, clothing and shoes	These sectors does not rank among top sectors in foreign investment and creation of new jobs in Europe, but it is a traditional sector in Moldova and Moldova has comparative advantages of skilled labour and labour cost competitiveness. The price competitiveness is likely to diminish in the long-term perspective, but for the short-term and most probably also the medium-term perspective, this is still a sector which can create a high number of new jobs in Moldova.
6	Electrical equipment	This sector does not rank among top sectors in foreign investment and creation of new jobs in Europe, but there is a high number of electrical equipment/electronics manufacturing and assembly factories in Central and Eastern Europe, which are potential customers for companies producing components for electronics products or electrical equipment. Geographical proximity of Moldova to these potential customers and its labour price competitiveness might counterbalance cost competitiveness of Asian competition. Also, as labour costs in Central and Eastern Europe will keep on increasing, it might be expected that come of the producers located there might consider relocating to countries offering lower costs of production, such as Moldova.
7	Food processing and agriculture	This sector did not score high in the matrix: although it has been one of the top export sectors in Moldova and the country has attracted investment into this sector, its track record in FDI and job creation in Europe is not so strong and, most importantly, the volume of exported goods and the sector´s share in Moldovan exports has been falling and there are significant non-tariff barriers which might be a significant

		obstacle to increase in Moldovan export of agrifood products. There are existing investments in this sector in Moldova, but they were made in the era of privatisation. The study mentioned earlier provides evidence that the majority of foreign investments into this sector are in the form of privatisation of state enterprises or private mergers and acquisitions. The former option is already closed and the second option is unlikely to create a high number of new jobs or increase significantly Moldovan exports, at least in the short-term. Small domestic market and fragmentation of domestic supply might prove to be barriers discouraging potential foreign investors from making investments in Moldova. Nevertheless, because of the importance of agriculture and food processing for Moldovan economy, the sector should be included among the priority sectors, especially for export promotion.

Source: Authors' estimations

93. Moldova's business services and software development market is internationally competitive and the competitive edge can be further developed. Moldova has good telecommunication infrastructure, including competitive internet bandwidth, adequate supply of office space, competitive labor costs as well as language skills. While English language proficiency among graduates is lower than in other SEE countries, French proficiency is much higher, meaning Moldova could easily follow Romania's example to become a primary supplier to French-speaking countries. Moreover, Russian is widely spoken and still used at all levels of state and society, with around half of the population speaking the primary language of the CIS.[39]

94. The export of services including IT, research and development (R&D), and business process outsourcing (BPO) from Moldova was valued at approximately $959 million in 2014. R&D/engineering services and BPO are currently less popular than IT services in Moldova, together accounting for less than 25 percent of total IT services exports. However, BPO is expected to develop quicker than the rest of the activities (especially in the customer care/call center) because it is the easier to outsource and demand is rapidly increasing, both from companies who have done this internally and from companies who are just setting up such activities, not to mention the fact that it usually does not require high qualification.[40] Given the labor pool limitations Moldova will focus on attracting investment in operations with high value added activities (such as analysis & design and software development and testing) or

[39] Competitiveness Assessment of Moldovan IT Services Industry, GIZ 2014.
[41] Authors' calculations based on NBS data for 2014.

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low volume activities (web development and basic coding, small to mid-size BPO services) that do not require a high headcount.

95. Automotive industry - the main source of new jobs in Europe and key focus of Moldova's investment promotion. Automotive industry is one of the top four sectors in Europe in terms of number of new FDI projects. In general, this is a sector which creates through FDI the most jobs in Europe, about 50.000 new jobs are created annually in the automotive industry. Moldova has already attracted a few automotive industry companies (e.g. German Draexlmaier, US Lear Corporation, Austrian Gebauer & Griller, Italian Confezioni Andrea Covercar), and the contribution of automotive spare parts production to GDP accounted for 4 percent in 2014.[41] Yet, the country is internationally competitive in further accommodating automotive industry FDI and other non-equity investment.

96. Production of textile products, clothing and shoes industries will remain important beneficiaries of FDI, both equity and non-equity. These are also the industries in which local firms are strong enough to become suppliers to foreign companies through various non-equity forms of investment (namely outsourcing). In these manufacturing branches, Moldova could follow the examples of Romania or Albania that successfully promoted their domestic garment and footwear industries to foreign investors (mostly of Italian and French origin) via the promotion of exports of garment and footwear industries.

97. FDI potential also exists in the electronics industry, considering that the skills required for electronics production are interlinked with skills required for the IT sector and automotive spare parts production. Therefore, better education benefiting the latter two activities will have a positive spillover effect on electronics production. The geographical spread of electronics production could also play in favor of Moldova: in the world of transition, the industry started taking its roots in the Czech Republic, Hungary and Poland. As capacity requirements increased, and cost-efficiency became an issue, they started moving East, especially to Romania. Moldova would be a next logical target, especially if it can offer better access to consumer markets (e.g. via the DCFTA to the EU). Professional investment promotion would be essential to promote this sector.

[41] Authors' calculations based on NBS data for 2014.

98. The agricultural sector and the food industry can become a major source of employment and a feasible source of improving the living standards in rural areas. Moldova has excellent climate conditions for developing a modern and competitive agriculture, namely the moderate continental climate with short and relatively warm winters, and long and warm summers. Thus, in terms of food and beverages, the obvious competitive advantage is the abundance of raw materials - fruit, vegetables and grains. The problem of fragmented supply has to be targeted, however. Also, the geo-economic location of the Republic of Moldova should be taken into consideration since the location of Turkey across the Black Sea could provide an opportunity for additional quantities of raw materials for the agrifood sector (mainly during low season). At the same time, Moldova has a significant potential in organic production. The agricultural legislation has already been harmonized with EU requirements, such as regulations on the principles and methods of processing organic food, inspection and certification in the field of organic food, import and export. The surfaces of agro food products in Moldova, certified as organic farming, and the number of certified producers of ecological products is permanently growing since 2000, revealing the large potential Moldova has in this sector. In the short term, the Government will aim at attracting FDI in economic activities oriented to providing various services to farmers.

99. While these sectors are regarded as priority, this does not mean that FDI in other sectors will be discouraged or neglected. Opposite to that, the interventions envisaged as part of this Strategy will exert positive effects on FDI on all other sectors. Moreover, the Strategy targets explicitly development of the links between the companies / sectors benefiting of FDI and those not directly benefiting, as well as enhancement of the FDI spillover effects across the entire economy. Also, in addition to sectors promoted as sectors with high investment potential, further sectors may be promoted as export sectors, using different marketing strategies.

100. The main goal of the Strategy is to explore rapidly the export potential of the Republic of Moldova, mainly by attracting foreign investments. It will allow closing Moldova's technological gap and contributing to the creation of more decent and productive jobs in the key export-oriented sectors, such as business process outsourcing, machinery and electrical equipment for the automotive industry, electronic industry, garment and footwear industry, software development, agriculture and food industry. These sectors were identified based on a number of criteria, including the importance of the industry for job creation, the growth potential of the industry, proved competitive advantage and / or the need to develop some industries generating technologically intensive products and contributing to the growth of exports. The Strategy regards FDI as the main turnkey used to achieve these development ends. A growing number of FDI projects in the period 2015-2020 will be a testimony of the effective attraction, establishment, retention and development of the FDI in export-oriented activities. The Strategy thus envisages to consolidate the comparative advantages and the institutional capacities necessary to effectively attract new investors, to provide necessary support and care in the post-investment phase for existing investors, to ensure development of technological linkages between FDI and local companies and to enable the positive spillover effects from the sectors benefiting of the FDI into the rest of the economy.

101. As a result of the implementation of this Strategy, the volume of FDI attracted by the Republic of Moldova will growth progressively, reaching the cumulative value of USD 260 million by 2020. Recently, the country has annually attracted on average only US$65 per capita of greenfield FDI (Table 1), while the average value in the comparator countries was US$357. In the long-run (about 10 years), the Republic of Moldova has both ambition and potential to catch up with its competitors and increase the average value of FDI projects per year to US$350. In absolute figures, this would mean a target of US$1250 mil. However, given the existing investment climate impediments and constraints that need to be removed and the need to consolidate the capacities of the national agency for investment attraction and export promotion, this strategy aims at a more realistic mid-term target (2020).

4. Intervention strategy

102. The intervention strategy is a systematic plan of action consciously adapted in an attempt to address the key investment climate deficiencies described in Chapter 2 (Key problems and challenges) and to support measures leading to achievement of targets defined in Chapter 3 (Strategic vision).

103. The intervention strategy entails measures under six areas of intervention (Objectives):

1) Objective A: *Fostering the key elements of the business regulatory framework that would enable the investment attraction, retention and development, as well as export promotion*.

2) Objective B: *Improving the workforce development system for the priority export-oriented sectors.*

3) Objective C: *Increasing the quality of the critical industrial, transport and trade facilitation infrastructure servicing export-oriented sectors*.

4) Objective D: *Maximizing economic and development benefits of FDI by building linkages with local economy and strengthening location competitiveness.*

5) Objective E: *Increasing the export capacities of domestic producers*.

6) Objective F: *Capacity building of specialized institutions in investment attraction, retention and linkages development*.

104. Objective A. Fostering the key elements of the business regulatory framework that would enable the investment attraction, retention and development, as well as export promotion includes five sub-objectives:

A1	Preventing and effectively solving investment disputes
A2	Enhancing the fiscal and customs' policies and their administration
A3	Increasing businesses' trust in the state and fostering transparency in business-state relations.
A4	Strengthening the statistical framework regarding the investment and export activities
A5	Acceleration the implementation of the Strategy for reforming the business regulatory framework for 2013-2020.

105. Sub-objective "A1 – preventing and effectively solving investment disputes" includes measures that will strengthen Moldova's investment climate. While foreign companies have equal access to domestic courts for dispute settlements and the Law on Investments in Entrepreneurial Activity allows recourse to arbitration with the agreement of the parties under a range of international rules, foreign investors do not see the court system fair, impartial and uncorrupted[42]. Firms prefer to avoid the courts whenever possible, due to the overwhelmingly low level of trust in the court system. Creation of the council for promoting large investment projects, introduction of Investor Grievance Mechanism, Investment Agreement and putting in place a formal mechanism for servicing investors and resolving their issues can serve as a powerful instrument to restore investor confidence. Sub-objective A1 includes the following measures:

1) Undertake a screening of the national legislation with the aim of removing the sources of grievances' risks;
2) Based on the screening, elaborate and implement the the Action Plan for removing the legal loopholes, and its continuous updating;
3) Create the Council for promoting large investment projects (according to the Law no. 182/2010 regarding the industrial parks);
4) Include in the Law no. 81 of 18.03.2004 regarding investments into the entrepreneurial activity the concept of Investment Agreement between the Government and Investor, aimed at clearly defining of rights, obligations and investment facilities for the investment projects that are considered strategic for the national economy (investments that could have a tangible positive impact on the economy by addressing the key macroeconomic problems of the country;
5) Elaborate an electronic investors' help desk, with full information about the mechanisms for submitting the grievances, solving the disputes, as well as the relevant legal framework.

106. Sub-objective "A2 – Enhancing the fiscal and customs' policies and their administration" is a direct response to frequent cases of litigations between foreign investors and state tax/customs authorities and includes:

1) Elaborate proposals for diminishing the fiscal burden on the private sector and on expenditures during the fiscal and customs' administration;
2) Include in the fiscal legislation of the concept of "advanced tax rulings" that will be elaborated by the fiscal authority at the request of entrepreneurs;

[42] World Bank (2015), Moldova Investment Climate Workshop on April 9, 2015

3) Introduce in the Fiscal Code a guarantee ensuring 5 years of fiscal stability[43] for export-oriented investment projects for which initial investment exceeds the USD 5 million threshold. During the period of this guarantee, the investor will be protected against any modification of the Fiscal Code that might hamper its financial position (e.g. increase in fiscal pressure, complication of the fiscal administration or increasing the duration of VAT refund).
4) Accelerate the process on refunding VAT on exports, by aligning refund procedures with EU's Sixth Directive and by allowing compensating the VAT credits offered by exporters to the state with other fiscal debts.
5) Implement and promote modern customs procedures that would facilitate the foreign trade and ensure the security of the international supply chain.

107. Sub-objective "A3 – Increasing businesses' trust in the state and fostering transparency in business-state relations" deals with improving investment climate in areas of inspections, permitting and licensing (see section 2.3 of the Strategy).[44] Measures included into this objective include:

1) Increase transparency of state controls and provide companies with clear information on the purpose of verification, compliance requirements, corrective measures and sanctions applied. Reduction of the number of state controls that are not covered by the Law no. 131 of 08/06/2012 regarding state control of the entrepreneurial activity.
2) Elaboration of a mechanism of increasing the accountability of inspectors, aimed at conducting inspection without exceeding the their areas of competences;
3) Developing the system of electronic registries, informational systems and interoperability of information systems within public institutions in order to ensure access of inspectors to companies' documents via a unified electronic register.
4) Implementing the principle of tacit approval for all permits, licenses, certificates and any other documents that regulate entrepreneurial activity.
5) Conducting periodic surveys among investors and exporters, with a special focus on the priority sectors, about the key constraints they are facing and perception about recent changes in the business regulatory framework.

[43] Guarantee that, during the mentioned period, the government will not implement any modifications into the fiscal code that would worsen the position of the investor (e.g. increase the fiscal pressure, complicate the fiscal administration process, lengthen the procedures of VAT refund, etc.).
[44] Based on Doing Business Report 2015, Business Environment and Enterprise Performance Survey 2013 and Cost of Doing Business 2014.

108. Sub-objective "A4 - Strengthening the statistical framework regarding the investment and export activities, and promoting evidence-based policies" addresses issues of economic data and statistics availability and reliability. As identified by the Investment Attraction and Export Promotion Strategy 2006-2015 review, the previous strategic planning documents suffered from a lack of performance targets as well as reporting processes and robust statistical data and evidence. The proposed measures below remedy this situation:

1) Developing the collaboration between the Ministry of Economy, MIEPO, National Bank of Moldova and the National Bureau of Statistics that would facilitate a smoother exchange of data on investments and foreign trade among institutions.
2) Elaborate the software for collecting, verification, publishing, validating and transmitting the data about FDI statistics, disaggregated by development regions.

109. Sub-objective "A5 – Acceleration of the implementation of the Strategy for reforming the business regulatory framework for 2013-2020" highlight issues in the area of business regulatory framework (cf. section 2.3 of the Strategy) that improve investment climate by introducing more transparent, predictable and explicit regulatory provisions limiting state capture, namely:

1) Elaborate and promote the proposals to adopt as a general rule the principle that amendments to tax policies enter legal force after at least 6 months from the time they were published;
2) Apply, at a large scale, IT solutions on fiscal reporting that will include possibility of tracing documents and that will ensure communication between companies and tax officials.
3) Implement one-stop shop connected in real-time to the electronic system, which will be able to track the movement of documents among state institutions and public servants.

110. Objective B: Improving the workforce development system for the priority export-oriented sectors includes three sub-objectives:

B1	Accelerate the implementation of key provisions from the Strategy for Developing the Vocational/Technical Education 2013-2020 and of other measures aimed at developing the labour force in the priority sectors
B2	Modernize labor legislation and economic migration legislation.
B3	Introduce a system of incentives for training and retraining of new employees

111. Sub-objective "B1 – Accelerate the implementation of key provisions from the Strategy for Developing the Vocational/Technical Education 2013-2020 and of other measures aimed at developing the labor force in the priority sectors" includes measures that address the issue of a weak correlation between the educational system supply and investors' demand for skills, in particular in the field of technical and vocational education and training (see section 66 of the Strategy). The proposed measures include:

1) Adopt and implement an effective public communication strategy involving opinion leaders and high-level officials, in order to restore the social prestige of vocational-technical education;

2) Define a clear legal status of Sector-level Committees for vocational training in the Republic of Moldova; improve the Committees regulatory and legislative framework and ensure their financing from the state budget;

3) Accelerate the process of establishing Sector-level Committees for specializations that are relevant for the Strategy priority sectors;

4) Ensure an effective, short-term and results-oriented process to develop occupational and educational standards for the Strategy priority sectors;

5) Identify and develop Excellence Centers for professional training in fields of specialization related to the Strategy priority sectors;

6) Conduct periodic external evaluation of relevance and quality in the vocational education field and in the school-to-work transition process;

7) Assess the labor market needs in order to elaborate the enrolment and study plans in the vocational schools and colleges;

8) Develop technological foresight studies and evaluate their medium- and long-term implications for professional skills;

9) Ensure professional practical training for instructors, who provide training in the vocational schools covering Strategy priority sectors;

10) Review and update, with the participation of employees, the technical specifications, norms and standards used in the field of vocational education;

11) Ensure financing the updating and modernization of the technologies and industrial equipment used for training purposes in VET schools specialized in priority sectors.

12) Accelerate the shift to dual model of vocational education in fields relevant for the Strategy priority sectors;

112. Sub-objective "B2 – Modernize labour legislation and economic migration legislation" addresses some of the labour market regulatory rigidities that negatively impact on labour cost and labour availability as identified by investors. Rigidities, such as restrictions on working hours, hiring and firing rules, or stringent social protection mechanisms disadvantage Moldova in already severally challenged international competition where many countries operate more efficiently and have a more business-friendly climate. Proposed measures include:

1) Amend the labor legislation within the social dialogue in the way that the right balance is ensured between the interests of employers and employees. The priority interventions should be focused on fixed-term employment contracts, trial period, contract termination, employee's resignation, apprenticeship contract, working trips, staff leasing, transfer, outsourcing and relocation, vacations, benefits, compensation of additional hours and others;

2) Review and streamline the aspects of immigration legislation regulating the invitation, employment and continuation of employment of highly qualified foreign specialists;

3) Adopt risks-based control, screening and monitoring procedures in the activity of bodies enforcing the immigration policy;

113. Sub-objective "B3 – Introduce a system of incentives for training and retraining of new employees" addresses issues identified in section Investment incentives of the Strategy and include:

1) Implement a system of grants for job creation and/or professional training of employees, based on such criteria as: number of jobs created, unemployment rate in the given region of investment and other impact criteria that should be approved latter on.

2) Defining and implementing a system of recognition of informal and non-formal education of employees;

3) Evaluating the relevance and quality of the training services provided within the Program of Professional Training, administered by the National Employment Agency and its adjustment to the needs of the priority sectors;

4) Integrating the policy measures for developing the labour force for export-oriented agricultural companies into the action plan of the Subsidies' Fund for Agriculture.

114. Objective C. Increasing the quality of the critical industrial, transport and trade facilitation infrastructure servicing export-oriented sectors includes two sub-objectives:

C1	Development of industrial facilities
C2	Further development the infrastructure (including the nonmaterial one) for supporting the investments and exports

115. Measures proposed under **sub-objective "C1 – Development of industrial facilities"** address the issue of insufficiency of adequately equipped investment sites identified by the Strategy in section Industrial facilities and utilities costs, and include:

1) Examining the opportunity to provide tax incentives to companies investing in development of industrial facilities (income tax exemption to equal the volume of investment);

2) Continuous updating of the MIEPO database on available land and industrial sites;

3) Evaluate the opportunity to amendment the law on privatization to ensure that at least part of the income from privatization operations is transferred to a special fund to finance the industrial infrastructure development program;

4) Attracting foreign financial assistance (including preferential loans) aimed at developing the industrial infrastructure;

5) Initiate the program for constructing investment sites and granting financial assistance to investors that build ready to use investment sites.

116. Sub-objective "C2 – Further development the infrastructure (including the nonmaterial one) for supporting the investments and exports" tackles some of the existing shortcomings of the existing FEZs and include:

1) Improve the legislation regulating the activity of FEZs and IPs, in order to support the process of their creation and development
2) Evaluate the impact and relevance of existing Free Economic Zones, industrial parks, technological and research parks, ICT parks and adjusting the legal framework for their activity in line with the industrial and regional development needs.
3) Examining the opportunity to modify the legal framework by concentrating into one law all provisions that regulate activity of free economic zones.
4) Support the creation and development of FEZs, IPs, clusters, technological scientific parks, as instruments to attract investments and promote exports;
5) Creation of ICT parks, with parameters that correlate with the industry needs;

6) Provide methodological support to the administrators of FEZs and IPs with the purpose to enhance their management and efficiency;
7) Strictly verify that companies respect the environmental protection standards, natural resources protection, energy security and energy efficiency norms; adopt binding time-framework and provide support programs for regularization of the existing activities.

117. Objective D. Maximizing economic and development benefits of FDI by building linkages with local economy and strengthening location competitiveness includes two sub-objectives:

D1	Developing a more attractive system of investment stimulation
D2	Strengthen the links between FDI and the rest of the economy.

118. Sub-objective "D1 – Developing a more attractive system of investment stimulation" aims at improving Moldova's international competitiveness by introducing new or more effective investment incentives (fiscal or financial) as identified in section Investment incentives of the Strategy. These include:

1) Evaluate periodically the effectiveness of existing schemes of investment incentives (sectoral ones, the ones available in Free Economic Zones and Industrial Parks, energy efficiency incentives, and others), their attractiveness in comparison with competing countries and their contribution to Moldova's competitiveness in target sectors.
2) Based on the assessment results and cost-benefit analysis, design and implement a new scheme of incentives that minimizes wasteful practices and maximizes their promotional effect on investments.

119. Sub-objective "D2 – Strengthen the links between FDI and the rest of the economy" targets measures that will help embed FDI into Moldovan economy, increase local content and act as a catalyst for FDI spillover effects. As many of these measures imply certain direct or indirect financial support to exporting companies, they will be implemented following the provisions of the Law on state aid[45]:

1) Introduce and institutionalize a pilot-program for developing Moldovan suppliers, which will provide support to Moldovan companies in obtaining quality certificates (e.g. ISO, VDA, QS), training of their management in securing orders from foreign companies, and securing low-cost financing for purchasing technology and improving sales and marketing skills;

2) Regularly organize FDI-SMEs matching events attended by both existing and potential investors;

3) Adopt international standards of professional services provided to local and foreign investors (audit, accounting, engineering, architecture) and effective liberalization of trade in services under the Association Agreement between Moldova and the EU;

4) Assess of the level of technological readiness of SMEs / clusters at local and regional level and the potential to develop connections between the existing and potential investors; identifying critical technological constraints and adopting a program of targeted support for technological development of potential suppliers;

5) Elaborate personalized offers to domestic and foreign strategic investors aimed at attracting and/or maintaining them within the Republic of Moldova during its location/relocation, based on the permanent analysis of the location trends in the region (Romania, Slovakia, Bulgaria, Macedonia, Ukraine, Belarus, Russia).

6) Analyze the priority sectors in order to identify sub-sectors with the largest potential to attract investments and promote exports;

7) Elaborate and promote proposals for investment attraction and export promotion for each identified sub-sector from the priority sectors.

120. Objective E. Increasing the export capacities of domestic producers includes two sub-objectives:

[45] Law no. 139 of 15.06.12 on State Aid

E1	Developing instruments of financial support for exporters
E2	Development of informational tools to support exporters and enhance joint action capacity

121. Sub-objective "E1 – Developing instruments of financial support for exporters" addresses the export needs of domestic companies and MIEPO's and ODIMM's role in export promotion. As in the case of other measures with financial implications, these measures will be implemented following the provisions of the Law on state aid[46] and will include:

1) Development, institutionalization and funding of a permanent program for the development of Moldovan exporters in order to facilitate (including my means of co-financing or investments), innovations, acquisition of technologies and access to business consulting by providing co-financing for technology acquisition, improvement of sale and marketing skills, improvement and ensuring product quality etc;

2) Increasing the capitalization of the SMEs Guarantee Fund and diversification of its portfolio with lending products designed for companies working in the priority sectors.

122. Sub-objective "E2 – Development of informational tools to support exporters and enhance joint action capacity" deals with measures that strengthen provision of state provided (or state funded) services to Moldovan exporters and includes:

1) Development of a consistent program of national and external events organized by MIEPO aiming at promoting national exporters;
2) Elaboration of regular studies on market assessment under DCFTA provisions and rendering qualitative information services for exporters from priority sectors;
3) Promotion by MIEPO of relevant informational tools among domestic exporters;

[46] Ibid

4) Develop and implement a program to promote exporters (communication of success stories, export national award, exporter's forum, etc.);
5) Elaborate and implement a permanent program for the development of exports management capacity (Exporters Academy);
6) Enhance visibility of industrial associations and unions, groups of manufacturers and exporters; support international exchange of experience for their beneficiaries / members; facilitate trips of consultants and experts to Moldova for raising the level of training and technological skills of their members;
7) Facilitate the establishment of export consortia in the priority sectors.

123. Objective F. Capacity building of specialized institutions in investment attraction, retention and linkages development includes two sub-objectives:

F1	Transformation of MIEPO into an agency that is effective and highly professional in attracting investments and promoting exports
F2	Strengthen the "economic diplomacy" in the field of FDI promotion

124. Sub-objective **"F1 - Transformation of MIEPO into an agency that is effective and highly professional in promoting investments"** addresses the key organizational weaknesses of MIEPO as identified by this Strategy (see section "Agency for FDI attraction and export promotion"), in particular its mandate, legal status, strategic planning and capacities. The proposed measures include:

1) Elaborate and adopt the Institutional Development Strategy of MIEPO;
2) Ensure adequate funding for MIEPO in the context of the implementation of its Institutional Development Strategy, in order to ensure an efficient implementation of its mandate;
3) Increase the efficiency of MIEPO by reforming it according to its Institutional Development Strategy;

4) Increase the efficiency of the Coordination Council of MIEPO and of the Administration Council of the budget for the implementation of the “Export Promotion” Program;

5) Develop and ensure financing for a professional development program for MIEPO team (including providing training in investment promotion best practices and organization of study tours to comparator countries that have been successful in attracting FDI) in the following aspects:

   - Benefits of FDI for the country, region, municipality;
   - Expectations of potential foreign investors
   - Gather necessary information to potential investors
   - Present information to potential investors
   - Promoting the country and the investment opportunities to potential investors
   - Carry out studies requested by potential investors
   - Prepare and organize visits by potential investors
   - Project management
   - Public Relations in the FDI field
   - Maintenance services.

6) Develop the aftercare function at MIEPO and build capacities that are necessary for identification and promotion of linkages between FDI and local companies.

7) Increase the visibility of MIEPO as an investment attraction and export promotion national agency, by running institutional communication campaigns.

125. Sub-objective **“F2 – Strengthen the “economic diplomacy” in the field of FDI promotion”** provides remedies to Moldova’s past weak investment outreach performance in key target markets and proposes measures that use the existing networks of “economic diplomats” and make them more effective in the field of investment promotion. These measures include:

1) Develop and implement an Action Plan for enhancing the economic diplomacy based on the following key elements: reviewing the procedure on appointment and working methods of Commercial Attaches, creation of a fund available for

embassies to finance promotional activities in priority countries, revision of the geographic distribution and number of Commercial Attaches and establishment of performance indicators thereof.

2) Organize annual economic / commercial trainings for all Moldovan diplomatic representatives abroad to provide relevant and updated information about Moldova's comparative advantages, main sectors and to ensure effective mediation services;

3) Identify five target-countries for intensification of country promotion activities as a destination for investments. Conduct information and promotion campaigns focused on the identified five countries. The activities will include: organization of investment forums, participation at exhibition dedicated to promotion and attraction of investments, conducting information and PR campaigns of the country as a destination for investments through mass-media, organizing/facilitating networking visits between the Moldovan producers and those from the identified five countries, etc.;

4) Identify target-markets for exports with ensuring the operational presence of economic diplomacy on their territories (MIEPO representatives abroad/ economic attaches/ local consultants).

5. Impact and estimated costs

126. Given that this Strategy targets to accelerate economic development of Moldova, the expected impact therein relates primarily to the country's economic performance. Two direct impact grids were established: MIEPO grid and the grid of reforms. MIEPO grid includes impact indicators that directly depend on MIEPO efforts as the national agency for investment attraction and export promotion. This grid contains the number of new and ongoing projects that were extended as a result of measures implemented by MIEPO within this Strategy, the number of new jobs, investments in priority sectors and new exports generated by these projects. For these impact indicators, MIEPO will serve as the main data source. In this regard, the institution will establish/develop the necessary contacts with the investors' community and become an entry gate for the potential investors. In addition, MIEPO will develop its cooperation with the National Bureau of Statistics and the National Bank of Moldova.

127. Given the imperative strengthening of MIEPO's institutional framework and capacity, there have been set relatively modest targets for the impact indices. By 2020, based on MIEPO direct efforts and assistance programs for MIEPO, at least 50 investment projects in the priority sectors will be attracted and / or extended. About 10 thousand direct jobs shall be created within the projects and other 4-5 thousand within the SMEs providing goods and services to investment projects. The total investment allocated under the new and extended investment projects will reach about USD 250 million by 2020. The share of new exports generated by these projects shall reach USD 210 million.

128. The grid of reforms contains indicators that refer to the expected impact of institutional and policy reforms and infrastructure improvements that shall have horizontal influence on all export industries. In particular, they include country's scores and rankings in the relevant international ratings.

Table 14. Interim and final targets of impact indicators, grid of reforms

	2015 baseline	**2016**	**2018**	**2020**	**Source**
Number of days to obtain a Construction Permit	276	200	150	150	DB
Number of procedures for obtaining a Construction Permit	27	20	12	12	DB
Costs related to obtaining a Construction Permit, % of the standard deposit on construction	0,7	0,7	2,0	2,0	DB
Number of days for connecting to the electricity grid	113	110	80	80	DB
Number of procedures for connecting to the electricity grid	7	7	5	5	DB
Costs related to obtaining a Construction Permit, % of average income per capita	778	750	400	200	DB
Number of annual tax payments	21	21	10	10	DB
Time spent on fiscal payments, hours / year	186	186	150	100	DB
Total tax charges,% of profit	40,2	40,2	35	35	DB
Time spent for customs duties and documentation procedures for export operations, hours	51	45	15	15	DB
Time spent for customs duties and documentation procedures for import operations, hours	5	5	4	4	DB
Logistics performance indices	2,65	2,78	3,05	3,67	LPI
Ranking by customs service efficiency	2,55	3,0	3,25	3,5	LPI
Ranking by infrastructure quality	2,55	2,65	2,75	3,0	LPI
Ranking by international transport	3,14	3,2	3,3	3,5	LPI
Ranking by logistics skills	2,44	2,6	3,0	4,0	LPI
Ranking by geographical location	2,35	2,6	3,0	4,0	LPI
Ranking by opportunities	2,89	2,6	3,0	4,0	LPI
Relevant indices in the Index of Economic Freedom					

Property Rights Index	40,0	45,0	55,0	65,0	HF
Freedom from Corruption Index	35,0	40,0	55,0	65,0	HF
Labor Freedom Index	40,6	45,0	55,0	65,0	HF

Notes: DB – World Bank ranking "Doing Business"; LPI – World Bank Logistics Performance Index, HF – Heritage Foundation; ME – Ministry of Economy;
Sources: sources indicated in the last column for 2015; projections made by authors.

129. In addition, the Strategy targets a series of result indicators concerning the national economy. These result indicators relate to the total investment share, total exports of goods and services and employment, as indicated in Table 15. The result indicators will be calculated by the Ministry of Economy with the support of the NBS, NBM, MIEPO research institutions and other relevant parties.

Table 15. Interim and final targets of the result indicators

	2014 (Baseline)	**2016**	**2018**	**2020**	**Source**
Real GDP, %	100	100	110	122	NBS
Gross fixed capital formation / GDP, %	24,5	25,6	28,0	28,0	NBS
Net annual inflow of FDI, USD millions	200	200	300	380	NBM
Net annual inflow of FDI, % of GDP	2,5	2,5	3,4	3,9	ME, based on data provided by NBM
Exports of goods, USD billion	2,339	2,310	2,624	3,002	NBS
Exports of services, USD billion	0,958	960,9	1,106	1,275	NBM
Trade deficit, % of GDP	-37,4	-36,8	-35,4	-33,4	ME, based on data provided by NBS and NBM
Employment rate, %	39,6	39,6	39,9	40,3	NBS
Unemployment rate, %	3,9	3,8	3,2	2,2	NBS

Sources: projections made by authors

130. Investment and exports promotion is a function of public interest that governments use to achieve economic development. Therefore, investment promotion activities (including MIEPO operation) need a realistic and steady budget. Investment promotion is not self-sustainable, although economic and financial outcome may be rather significant for the host country. The reforms meant to improve the investment climate under the Strategy should not inflict additional pressure on existing public budget. Technical expertise on the reforms to be formulated and implemented should be supported by donor funded projects on the basis of ad hoc decisions.

131. The total costs estimated for implementing the Strategy action plan for the entire period (2016-2020) are preliminary estimated at MDL 164.3 million

covered from the foreign technical and financial assistance, and MDL 1.9 million covered from the state budget. At this moment, it is impossible to estimate the costs of full implementation of the Strategy, because the costs of implementing some actions will be determined after the approval of other related programs, action plans and mechanisms. Taking into account the 5-year period of Strategy implementation (2016-2020), the volume of necessary resources is reasonable and is unlikely to threaten the budgetary stability of the country. Moreover, over half of the planned measures (41 out of the total of 80 actions) do not imply any additional financial costs and can be implemented with own resources of the responsible institutions. Additionally, all actions with major budgetary impact are planned for the period 2018-2020, when the budgetary constraints will not be so pressing.

132. As a result of successful implementation of the Strategy, tax revenue shall exceed the total cost several times. According to authors' estimates, growth in exports in the amount of 1 USD equals 0.61 USD tax revenue. Therefore, only investment projects that are planned to be attracted by MIEPO and targeted at approximately USD 380 million for the years 2015-2020 (cumulatively), shall increase the state budget with approximately USD 232 million, in the form of tax revenue, which shall exceed the costs for implementing the Strategy by six times. In addition, the state budget could cash in approximately MDL 455 million income taxes based on the jobs created after Strategy implementation, whereas other MDL 1.4 billion could be paid in the budgets of the National Social Insurance House and The National Health Insurance House as social and health insurance contributions, until 2020.

6. Monitoring and evaluation

133. The Competitiveness Council shall monitor the implementation of the Strategy. Given the need to ensure increased financial and technical efficiency, this institutional arrangement is optimal. Its operation is sustainable for the near future and clearly correlates with the Council mandate. The Ministry of Economy will be key institution within the Council, ensuring meetings thereof with the necessary materials, having, in particular, an emphasis on the implementation of the Strategy Action Plan by the responsible authorities.

134. The monitoring methodology shall ensure transparent reporting. Progress shall be assessed individually (compared to previous year) and cumulatively (compared to 2015). The Ministry of Economy shall collect key indicators and data from the authorities responsible for Strategy implementation and estimate progress concerning the implementation of the Action Plan. Each responsible authority under the Action Plan, shall submit by 31 January a detailed institutional implementation report, according to a standard reporting form developed by the Ministry of Economy, for the previous year, which shall cover the actions and indicators falling under its responsibility. The institutional report shall cover two aspects, descriptive information on the implementation of the Action Plan, and analytical argumentation concerning the implementation barriers and proposals to update the Action Plan, as appropriate.

135. The Ministry of Economy shall draft annually a monitoring report, based on the institutional reports received. Besides the implementation progress, this report shall provide implementing authorities with specific proposals to remedy deficiencies, to ensure proper implementation of the Strategy. In addition, the Annual Monitoring Report shall propose amendments to the basic elements of the Strategy. The amendments shall also address the potential methodological changes in the statistical indicators that impact the levels of reference or interim targets established for Strategy progress and impact indicators. Subsequently, the preliminary version of the draft Annual Monitoring Report shall be submitted for consultations to the Competitiveness Council that shall examine achievements, obstacles and amendments proposed under the Report. After reaching a consensus within the Council, the Annual Monitoring Report shall be submitted to the Government for approval by the 31st of March.

136. Upon drafting the Annual Monitoring Report, the Ministry of Economy shall apply a simple but solid quantitative approach. Based on the institutional reports and the assessment by the Ministry of Economy, the implementation stage of each measure under the Action Plan shall be evaluated using a scale of three levels, as follows:

- The action has not been implemented **-** 0 points;
- The action has been partially implemented **-** 1 point;
- The action has been fully implemented **-** 2 points.

137. **The measures, whose implementation term has been planned to start in the future, shall not be included in the evaluation.** The measures, whose implementation term has expired, shall continue to be evaluated. The annual index on the Implementation of the Action Plan shall be calculated based on the simple average of the points awarded to each measure and expressed as a percentage of the ratio between the total number of the points accumulated and the maximum points (152 points) (Table 16). All measures, sub-objectives and objectives in the Action Plan have equal weight in calculating the average. The Annual Monitoring Report shall also cover the progress in implementing the Action Plan in the view of the sub-objectives, objectives and the overall Plan.

Table 16. The Evaluation grid for the implementation of the Action Plan - number of measures per objectives / sub-objectives and maximum number of points that may be awarded within the monitoring

Objectives / sub-objectives	Total number of measures under the Action Plan	Maximum number of points
Objective A: Fostering the key elements of the business regulatory framework that would enable the investment attraction, retention and development, as well as export promotion	20	40
A1. Preventing and effectively solving investment disputes	*5*	*10*
A2. Enhancing the fiscal and customs' policies and their administration	*5*	*10*
A3. Increasing businesses' trust in the state and fostering transparency in business-state relations	*5*	*10*
A4. Strengthening the statistical framework regarding the investment and export activities	*2*	*4*
A5. Acceleration of the implementation of the Strategy for reforming the business regulatory framework for 2013-2020	*3*	*6*
Objective B: Improving the workforce development system for export-oriented sectors	19	38
B1. Accelerate the implementation of key provisions from the Strategy for Developing the Vocational/Technical Education 2013-2020 and of other measures aimed at labor force development in the priority sectors	*12*	*24*
B2. Modernize labor legislation and economic migration legislation	*3*	*6*
B3. Introduce a system of incentives for training and retraining of new employees	*4*	*8*
Objective C: Increasing the quality of the critical industrial, transport and trade facilitation infrastructure servicing export-oriented sectors	12	24
C1. Development of industrial infrastructure.	*5*	*10*
C2. Further development the infrastructure (including the nonmaterial one) for supporting the investments and exports	*7*	*14*
Objective D: Maximizing economic and development benefits of FDI by building linkages with local economy and strengthening location competitiveness	9	18

D1. Developing a more attractive system of investment stimulation	*2*	*4*
D2. Strengthen the links between FDI and the rest of the economy	*7*	*14*
Objective E: Increasing the export capacities of domestic producers	9	18
E1. Developing instruments of financial support for exporters	2	4
E2. Development of informational tools to support exporters and enhance joint action capacity	7	14
Objective F: Capacity building of specialized institutions in investment attraction, retention and linkages development	10	20
F1. Transformation of MIEPO into an agency that is effective and highly professional in attracting investments and promoting exports	*7*	*14*
F2. Strengthen the "economic diplomacy" in the field of FDI promotion	*4*	*8*
Total	**80**	**160**

138. At the end of each year of implementation, the Ministry of Economy, with the support of MIEPO and in collaboration with the National Bureau of Statistics and the National Bank of Moldova will collect data concerning the direct impact and outcome indicators. Based on this data, the Ministry of Economy shall assess the actual impact of the direct indicators compared to the target level and shall determine their progress based on the approximation of planned indices.

139. The impact of the Strategy on the national economy will be estimated based on a methodology developed by the National Institute of Economic Research and approved by the Council, which, with the support of development partners, shall conduct an interim evaluation (in 2018) and a final evaluation of the implementation of Strategy in 2021. Additionally, based on the Council's decision, on demand, the Ministry of Economy together with the National Institute of Economic Research will elaborate additional analyses regarding eventual issues arisen during the implementation of the Strategy. Each evaluation shall conclude with an assessment report. Any separate opinion of the authors or the Ministry of Economy / MIEPO related to the implementation of the Strategy shall be explicitly included in the evaluation reports. The Evaluation Reports will be based on the Institutional Reports and the Annual Monitoring Reports, but shall address the achievement of major objectives, progress and impact indicators, rather than individual measures set out in the Action Plan. The draft reports shall be consulted within the Competition Council with the participation of a large group of relevant stakeholders, such as investors associations, labor unions, academia, relevant NGOs and analytical centers. Subsequently, evaluation reports shall be submitted to the Government for final approval. The Ministry of Economy shall ensure adequate media coverage to broadcast the findings of the evaluations.

140. The monitoring and evaluation process of the Strategy involves several institutions that will need to communicate and coordinate closely. The key institutions involved and their core responsibilities:

a. *Competitiveness Council*

   i. The main institution responsible for monitoring the implementation of the Strategy;

   ii. Analyses and approves the Annual Monitoring Reports, which will be presented afterwards to the Government for approval by 31st of March;

   iii. Analyses and approves the methodology for estimating the impact of the Strategy on the national economy.

b. *Ministry of Economy*

   i. Key institution from the Competition Council; ensures the organization of meetings of the Council, focused on the implementation of the Strategy;

   ii. Collects the key indicators and data regarding the implementation of the Strategy from the responsible institutions and estimates the progress in implementing the Strategy;

   iii. Elaborates the Annual Monitoring Report;

   iv. With the support of MIEPO, NBS and NBM, collects data about the impact and result indicators;

   v. Elaborates, together with the NIER, additional analyses regarding various issues related to the implementation of the Strategy.

c. *National Institute of Economic Research*

   i. Elaborates the methodology for estimating the impact of the Strategy;

ii. Elaborates the intermediary (by 2018) and final (by 2021) evaluation of the Strategy impact.

d. *Other responsible institutions:*

i. Submission by 31st of January of a detailed report about the progress in implementing the Strategy (only relevant parts for each institutions).

Annex 1
of the National Strategy for Investment Attraction
and Export Promotion 2016-2020

ACTION PLAN FOR THE IMPLEMENTATION OF THE STRATEGY

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
A. Fostering the key elements of the business regulatory framework that would enable the investment attraction, retention and development, as well as export promotion								
A1. Preventing and effective solving investment disputes								
1.	Undertake a screening of the national legislation with the aim of removing the sources of grievances' risks	50 man-days of consulting services.	Ministry of Economy, MIEPO	Ministry of Finances, Ministry of Justice.	2016	150,000	Donor support.	The assessment conducted.
2.	Based on the screening, elaborate and implement the the Action Plan for removing the legal loopholes, and its continuous updating	50 man-days of consulting services.	Ministry of Economy, MIEPO	Ministry of Finances, Ministry of Justice.	2016-2020	150,000	Donor support.	The roadmap elaborated and approved by the Government by the end of 2016.
3.	Create the Council for promoting large investment projects (according to the Law no. 182/2010 regarding the industrial parks)	In-house human resources.	Ministry of Economy	MIEPO, private sector representatives	2016	No additional costs.	N/A	The Council created and functional.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
4.	Include in the Law no. 81 of 18.03.2004 regarding investments into the entrepreneurial activity the concept of Investment Agreement between the Government and Investor, aimed at clearly defining of rights, obligations and investment facilities for the investment projects that are considered strategic for the national economy (investments that could have a tangible positive impact on the economy by addressing the key macroeconomic problems of the country	30 man-days of consulting services for adjusting the legislation.	Ministry of Economy	MIEPO, Ministry of Justice, private sector representatives	2016	90,000	Donor support	The concept of Investment Agreement properly incorporated into the Law on Investments in the Entrepreneurial Activity.
5.	Elaborate an electronic investors' help desk, with full information about the mechanisms for submitting the grievances, solving the disputes, as well as the relevant legal framework.	50 man-days of consulting services for creation of the online investors' help desk. Technical support from a specialized IT company.	MIEPO	Ministry of Economy, Ministry of Justice, private sector representatives	2018	650,000	Donor support	Online investors' help desk created. Minimum 1500 unique page visitors per year.
A2. Enhancing the fiscal and customs' policies and their administration								
6.	Elaborate proposals for diminishing the fiscal burden on the private sector and on expenditures during the fiscal and customs' administration	In-house human resources	Ministry of Economy	Ministry of Finances, private sector representatives	2016-2020	No additional costs.	N/A	Proposals elaborated.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
7.	Include in the fiscal legislation of the concept of “advanced tax rulings” that will be elaborated by the fiscal authority at the request of entrepreneurs	In-house human resources	Ministry of Finances	Ministry of Economy, private sector representatives	2017	No additional costs.	N/A	The concept of “advanced tax rulings” included into the Fiscal Code.
8.	Introduce in the Fiscal Code a guarantee ensuring 5 years of fiscal stability for export-oriented investment projects for which initial investment exceeds the USD 5 million threshold. The clause will enter into force in the quarter when the volume of investments exceeds the mentioned threshold	In-house human resources	Ministry of Finances	Ministry of Economy, private sector representatives	2017	No additional costs.	N/A	Fiscal stability clause included into the Fiscal Code
9.	Accelerate the process on refunding VAT on exports, by aligning refund procedures with EU’s Sixth Directive and by allowing compensating the VAT credits offered by exporters to the state with other fiscal debts	In-house human resources	Ministry of Finances	Ministry of Economy, private sector representatives	2017	No additional costs.	N/A	VAT refund procedures aligned with EU’s Sixth Directive and properly enforced.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
10.	Implement and promote modern customs procedures that would facilitate the foreign trade and ensure the security of the international supply chain.	100 man-days of consulting.	Ministry of Finances, Customs Office	Ministry of Economy, private sector representatives	2018	600,000	Donor support.	Customs bureaus optimized in Chisinau; Increased rapidity of customs' procedures; the IT infrastructure for customs' procedures updated.
A3. Increasing businesses' trust in the state and fostering transparency in business-state relations								
11.	Increase transparency of state controls and provide companies with clear information on the purpose of verification, compliance requirements, corrective measures and sanctions applied. Reduction of the number of state controls that are not covered by the Law no. 131 of 08/06/2012 regarding state control of the entrepreneurial activity	100 man-days of consulting.	Ministry of Economy, Ministry of Finances, Ministry of Justice.	State Chancellery, Ministry of Internal Affairs, National Anticorruption Center.	2017	300,000	Donor support.	The mechanism elaborated and enforced.
12.	Elaboration of a mechanism of increasing the accountability of inspectors, aimed at conducting inspection without exceeding the their areas of competences	100 man-days of consulting	Ministry of Economy	Relevant ministries.	2017	300,000	Donor support.	The mechanism elaborated and enforced.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
13.	Developing the system of electronic registries, informational systems and interoperability of information systems within public institutions in order to ensure access of inspectors to companies' documents via a unified electronic register	100 man-days of consulting	Ministry of Information Technologies and Communication	Relevant ministries.	2018	1,000,000	Donor support.	Functional system of electronic registries.
14.	Implementing the principle of tacit approval for all permits, licenses, certificates and any other documents that regulate entrepreneurial activity	150 man-days of consulting	Ministry of Justice; Ministry of Finances.	Relevant ministries.	2018	450,000	Donor support	Mechanism of tacit approval, elaborated and implemented.
15.	Conducting periodic surveys among investors and exporters, with a special focus on the priority sectors, about the key constraints they are facing and perception about recent changes in the business regulatory framework.	Specialized company	MIEPO	Ministry of Economy, private sector representatives	2017-2020	600,000	Donor support	2 representative survey per year; 2 reports on the survey results elaborated and published per year.
A4. Strengthening the statistical framework regarding the investment and export activities, and promoting evidence-based policies in this area								

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
16.	Developing the collaboration between the Ministry of Economy, MIEPO, National Bank of Moldova and the National Bureau of Statistics that would facilitate a smoother exchange of data on investments and foreign trade among institutions	In-house human resources	Ministry of Economy.	National Bureau of Statistics; National Bank of Moldova; MIEPO	Starting from 2016	No additional costs.	N/A	Memorandum of cooperation between the National Bureau of Statistics, National Bank of Moldova and the Ministry of Economy, signed and entered into force.
17.	Elaborate the software for collecting, verification, publishing, validating and transmitting the data about FDI statistics, disaggregated by development regions.	150 man-days of consulting	National Bank of Moldova	National Bureau of Statistics; Ministry of Economy; MIEPO	Starting from 2017	450,000	Donor support	Terms of reference for the creation of the software elaborated; Created software.
A5. Acceleration of the implementation of the Strategy for reforming the business regulatory framework for 2013-2020								
18.	Elaborate and promote the proposals to adopt as a general rule the principle that amendments to tax policies enter legal force after at least 6 months from the time they were published	In-house human resources	Ministry of Finances	Ministry of Economy, private sector representatives	2016	No additional costs.	N/A	Customs' Code modified accordingly.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
19.	Apply, at a large scale, IT solutions on fiscal reporting that will include possibility of tracing documents and that will ensure communication between companies and tax officials	In-house human resources.	Ministry of Finances	Ministry of Economy, private sector representatives	2017	No additional costs.	N/A	IT solutions to fiscal reporting applied. Electronic tracing of documents implemented.
20.	Implement one-stop shop connected in real-time to the electronic system, which will be able to track the movement of documents among state institutions and public servants.	In-house human resources.	Ministry of Economy	Relevant ministries, private sector representatives	2018	No additional costs.	N/A	Number of permissive documents issued through the one-stop shop.
B: Improving the workforce development system for export-oriented sectors								
B1. Accelerate the implementation of key provisions from the Strategy for Developing the Vocational/Technical Education 2013-2020 and of other measures aimed at labor force development in the priority sectors								
21.	Adopt and implement an effective public communication strategy involving opinion leaders and high-level officials, in order to restore the social prestige of vocational-technical education	In-house human resources.	Ministry of Education	Ministry of Labor, Social Protection and Family; relevant CSOs; private sector representatives.	2016-2018	No additional costs.	N/A	Communication strategy implemented.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
22.	Define a clear legal status of Sector-level Committees for vocational training in the Republic of Moldova; improve the Committees regulatory and legislative framework and ensure their financing from the state budget	In-house human resources.	Ministry of Labor, Social Protection and Family.	Ministry of Education; relevant CSOs; private sector representatives.	2016	No additional costs.	N/A	Legal status of the Sector-level Committees improved.
23.	Accelerate the process of establishing Sector-level Committees for specializations that are relevant for the Strategy priority sectors	In-house human resources.	Ministry of Labor, Social Protection and Family.	Ministry of Education; relevant CSOs; private sector representatives.	2016	No additional costs.	N/A	Functional Sector-level Committees created in the priority sectors; Activity reports of five functional Sector-level Committees.
24.	Developing occupational and educational standards for the Strategy priority sectors	In-house human resources.	Ministry of Labor, Social Protection and Family	Relevant ministries; relevant CSOs; private sector representatives.	2016-2018	No additional costs.	N/A	Occupational standards defined for the Strategy priority sectors (2016); Full set of occupational standards for all industries (2017).

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
25.	Institute and develop Excellence Centers for professional training in fields of specialization related to the Strategy priority sectors	In-house human resources.	Ministry of Education	Relevant ministries; relevant CSOs; private sector representatives.	2016-2018	No additional costs.	N/A	10 Excellence Centers established.
26.	Conduct periodic external evaluation of relevance and quality in the vocational education field and in the school-to-work transition process	100 man-days of consulting	Ministry of Education	Ministry of Economy; Ministry of Labor, Social Protection and Family	2016, 2018, 2020	300,000	Donor support	Three reports on evaluation results and recommendations for eliminating the identified issues.
27.	Assess the labor market needs in order to elaborate the enrolment and study plans in the vocational schools and colleges	In-house human resources.	Ministry of Education	Ministry of Economy; Ministry of Labor, Social Protection and Family	Starting from 2016	No additional costs.	N/A	Labor market needs assessment conducted.
28.	Develop technological foresight studies and evaluate their medium- and long-term implications for professional skills	150 man-days of consulting for the development of studies.	Ministry of Economy	Ministry of Labor, Social Protection and Family; Ministry of Education; private sector representatives.	Starting from 2017	450,000	Donor support.	3 technological foresight studies developed in 2016, 2018 and 2020.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
29.	Ensure professional practical training for instructors, who provide training in the vocational schools covering Strategy priority sectors	In-house human resources.	Ministry of Education	Ministry of Economy; private sector representatives.	2017-2020	400,000	State budget.	100 instructors trained per year.
30.	Review and update, with the participation of employees, the technical specifications, norms and standards used in the field of vocational education	In-house human resources.	Ministry of Education	Ministry of Economy; private sector representatives.	2017	No additional costs.	N/A	100% of all technical specifications, norms and standards used in the field of vocational education updated.
31.	Continue the modernization of the technologies and industrial equipment used for training purposes in VET schools specialized in priority sectors	In-house human resources.	Ministry of Education	Ministry of Finances; Ministry of Labor, Social Protection and Family; Ministry of Education	Starting with 2018	The costs will be estimated within the elaboration of the MTBF 2017-2019	State budget	Number of VET schools sufficiently equipped.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
32.	Accelerate the shift to dual model of vocational education in fields relevant for the Strategy priority sectors.	In-house human resources.	Ministry of Education;	Ministry of Economy; Ministry of Labor, Social Protection and Family; Chamber of Commerce and Industry; private sector	2017	No additional costs.	N/A	Legal framework for the implementation of the concept of dual VET system elaborated.
B2. Modernize labor legislation and economic migration legislation.								
33.	Amend the labor legislation within the social dialogue in the way that the right balance is ensured between the interests of employers and employees.	In-house human resources.	Ministry of Labor, Social Protection and Family	Ministry of Economy; Ministry of Education; private sector	2017	300,000	Donor support	Corresponding adjustments to the labor legislation.
34.	Review and streamline the aspects of immigration legislation regulating the invitation, employment and continuation of employment of highly qualified foreign specialists	In-house human resources.	Ministry of Labor, Social Protection and Family	Ministry of Economy; private sector	2016	No additional costs.	N/A	Corresponding adjustments to the labor legislation.
35.	Adopt risks-based control, screening and monitoring procedures in the activity of bodies enforcing the immigration policy.	In-house human resources	Ministry of Internal Affairs;	Ministry of Labor, Social Protection and Family; Ministry of Economy; private sector	2017	No additional costs.	N/A	Control and monitoring procedures implemented.
B3. Introduce a system of incentives for training and retraining of new employees								

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
36.	Implement a system of grants for job creation and/or professional training of employees, based on such criteria as: number of jobs created, unemployment rate in the given region of investment and other impact criteria that should be approved latter on	In-house human resources.	Ministry of Economy; Ministry of Education.	Relevant ministries.	2018	No additional costs.	N/A	Concept of the incentives' system elaborated.
37.	Defining and implementing a system of recognition of informal and non-formal education of employees	50 man-days of consulting services.	Ministry of Education;	Ministry of Economy; National Employment Agency	2017	150,000	Donor support.	Concept of the program created; Informal and non-formal education recognized through relevant legal amendments.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
38.	Evaluating the relevance and quality of the training services provided within the Program of Professional Training, administered by the National Employment Agency and its adjustment to the needs of the priority sectors	100 man-days of consulting services.	Ministry of Education; Ministry of Labor, Social Protection and Family	National Employment Agency.	2016	300,000	Donor support	Evaluation conducted. Program of Professional Training of the Labour Employment Agency adjusted based on the evaluation recommendations.
39.	Integrating the policy measures for developing the labour force for export-oriented agricultural companies into the action plan of the Subsidies' Fund for Agriculture.	In-house human resources.	Ministry of Agriculture and Food Industry	Ministry of Economy; Ministry of Education.	2017	No additional costs.	N/A	Measures for developing the labour force for export-oriented agricultural companies integrated into the action plan of the Subsidies' Fund
C. Increasing the quality of the critical industrial, transport and trade facilitation infrastructure servicing export-oriented sectors								
C1. Development of industrial facilities								

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
40.	Examining the opportunity to provide tax incentives to companies investing in development of industrial facilities (income tax exemption to equal the volume of investment)	In-house human resources.	Ministry of Economy	Ministry of Finance	2016	No additional costs.	N/A	Regulatory Impact Assessment about the opportunity to provide tax incentives to companies investing in development of industrial facilities.
41.	Continuous updating of the MIEPO database on available land and industrial sites	In-house human resources	MIEPO	Ministry of Economy; Local public administration;	2016-2020	No additional costs.	N/A	Database periodically updated.
42.	Evaluate the opportunity to amendment the law on privatization to ensure that at least part of the income from privatization operations is transferred to a special fund to finance the industrial infrastructure development program	In-house human resources	Ministry of Economy	Ministry of Finance	2017	No additional costs.	N/A	Evaluation conducted; Proposals elaborated and promoted.
43.	Attracting foreign financial assistance (including preferential loans) aimed at developing the industrial infrastructure	20 man-days of consulting services	State Chancellery; Ministry of Finance	Ministry of Economy; Ministry of Agriculture and Food Industry	2016-2020	No additional costs.	N/A	Volume of attracted financial assistance

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
44.	Initiate the program for constructing investment sites and granting financial assistance to investors that build ready to use investment sites.	In-house human resources	Ministry of Economy; Ministry of Finance	Ministry of Agriculture and Food Industry; Ministry of Constructions and Regional Development	2016-2020	100,000,000	Donor support	Area of functional investment sites; Number of jobs created.
C2. Further development of export and investment supporting infrastructure (including non-material infrastructure)								
45.	Improve the legislation regulating the activity of FEZs and IPs, in order to support the process of their creation and development	In house human resources.	Ministry of Economy	MIEPO, FEZs, IPs	2016	No additional costs.	N/A	Legal framework about FEZs and IPs improved.
46.	Evaluate the impact and relevance of existing Free Economic Zones, industrial parks, technological and research parks, ICT parks and adjusting the legal framework for their activity in line with the industrial and regional development needs	In house human resources.	Ministry of Economy	MIEPO, FEZs, RDAs, municipalities, donors	2016	No additional costs.	N/A	Impact and relevance assessed; Conclusions and recommendations elaborated.
47.	Examining the opportunity to modify the legal framework by concentrating into one law all provisions that regulate activity of free economic zones	In house human resources.	Ministry of Economy	MIEPO, FEZs	2017	No additional costs.	N/A	Recommendations elaborated.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
48.	Support the creation and development of FEZs, IPs, clusters, technological scientific parks, as instruments to attract investments and promote exports	In house human resources.	Ministry of Economy	MIEPO, FEZs, IPs, RDAs, local authorities, donors	2016-2020	The costs will be estimated based on the potential projects that will be proposed.	Regional development fund, private investors, other sources.	Number of FEZs, IPs, clusters, scientific and technological parks created/developed.
49.	Creation of ICT parks, with parameters that correlate with the industry needs	100 man-days of consulting services	Ministry of Information Technology and Communications	Ministry of Economy; MIEPO	2017-2020	2,000,000	Donor support	1 park created by 2018; 2 parks created by 2020.
50.	Provide methodological support to the administrators of FEZs and IPs with the purpose to enhance their management and efficiency	In house human resources.	Ministry of Economy	MIEPO, FEZs, IPs, RDAs, local authorities, donors	2016-2020	No additional costs.	N/A	Number of administrators trained; Number of FEZs and IPs benefitting of improved management.
51.	Strictly verify that companies respect the environmental protection standards, natural resources protection, energy security and energy efficiency norms; adopt binding time-framework and provide support programs for regularization of the existing activities.	In house human resources.	Ministry of Economy; Ministry of Environment.	MIEPO, Energy State Inspectorate, FEZs and IPs	Starting with 2016	No additional costs.	N/A	Two inspections per year; Terms of inspections approved and published.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
D. Maximizing economic and development benefits of FDI by building linkages with local economy and strengthening location competitiveness								
D1. Developing a more attractive system of investment stimulation								
52.	Evaluate periodically the effectiveness of existing schemes of investment incentives (sectoral ones, the ones available in Free Economic Zones and Industrial Parks, energy efficiency incentives, and others) and their attractiveness in comparison with competing countries.	100 man-days of consulting	Ministry of Economy.	Ministry of Finance.	2016, 2018, 2020	300.000	Donor support	Assessments conducted in 2016, 2018, 2020.
53.	Based on the assessment results and cost-benefit analysis, design a new scheme of incentives that minimizes wasteful practices and maximizes their promotional effect on investments.	30 man-day of consulting services	Ministry of Economy	Ministry of Economy; Ministry of Finances; Ministry of Labor, Social Protection and Family; Local public authorities.	2017	90,000	Donor support	Proposals of investment incentives elaborated and implemented.
D2. Strengthen the links between FDI and the rest of the economy								
54.	Introduce and institutionalize a pilot-program for developing Moldovan suppliers, which will provide support to Moldovan companies in obtaining quality certificates (e.g. ISO, VDA, QS), training of their management in securing orders from foreign companies, and securing low-cost financing for purchasing technology and improving sales and marketing skills	50 man-days of consulting services	MIEPO	Chamber of Commerce and Industry, Ministry of Economy, ODIMM	Starting from 2018.	2,000,000	Donor support	Program initiated. Minimum 100 direct beneficiaries per year.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
55.	Regularly organize FDI-SMEs matching events attended by both existing and potential investors	In house human resources.	MIEPO	Chamber of Commerce and Industry, bilateral chambers, embassies of the Republic of Moldova abroad	2016-2020	200,000	Donor support	At least one event per year
56.	Adopt international standards of professional services provided to local and foreign investors (audit, accounting, engineering, architecture) and effective liberalization of trade in services under the Association Agreement between Moldova and the EU	100 man-days of consulting services	Relevant ministries	Private sector representatives; representatives of associations of professional services	2016-2018	300,000	Donor support	At least one event organized per year
57.	Assess of the level of technological readiness of SMEs / clusters at local and regional level and the potential to develop connections between the existing and potential investors; identifying critical technological constraints and adopting a program of targeted support for technological development of potential suppliers	100 man-days of consulting services	ODIMM	Ministry of Economy; MIEPO	2016	300,000	Donor support	Technological readiness assessment conducted; Proposals to eliminate critical technological constraints adopted.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
58.	Elaborate personalized proposals to domestic and foreign strategic investors aimed at attracting and/or maintaining them within the Republic of Moldova during its location/relocation, based on the permanent analysis of the location trends in the region (Romania, Slovakia, Bulgaria, Macedonia, Ukraine, Belarus, Russia)	In house human resources.	MIEPO	Chamber of Commerce and Industry; Embassies of the Republic of Moldova abroad.	2016-2020	No additional costs.	N/A	Analysis for identification of potential investors elaborated; Proposals elaborated.
59.	Analyze the priority sectors in order to identify sub-sectors with the largest potential to attract investments and promote exports.	In house human resources.	MIEPO	Ministry of Economy; ODIMM	2016	No additional costs.	N/A	Priority sector analysis elaborated; Sub-sectors identified.
60.	Elaborate and implement proposals for attracting investments and promoting exports in each identified sub-sector	In house human resources.	MIEPO	Relevant ministries; ODIMM	Starting with 2016	No additional costs.	N/A	Proposals elaborated and implemented.
E. Increasing the export capacities of domestic producers								
E1. Developing instruments of financial support for exporters								
61.	Development, institutionalization and funding of a permanent program for the development of Moldovan exporters in order to facilitate (including my means of co-financing or investments), innovations, acquisition of technologies and access to business consulting by providing co-financing for technology acquisition, improvement of sale and marketing skills, improvement and ensuring product quality etc;	50 days of consulting services	MIEPO	Ministry of Economy; Chamber of Commerce and Industry; ODIMM	Starting from 2018	7,000,000	Donor support.	The program initiated. Number of direct beneficiaries of the program.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
62.	Increase the capitalization of the SMEs Guarantee Fund and diversification of its portfolio with lending products designed for companies working in the priority sectors	In house human resources	ODIMM	Ministry of Economy; MIEPO.	2016-2018	45,000,000	Donor support.	SMEs Guarantee Fund capitalized with MDL 15 million per year during the period 2016-2018.
E2. Development of informational tools to support exporters and enhance joint action capacity								
63.	Development of a consistent program of national and external events organized by MIEPO aiming at promoting national exporters	In house human resources	MIEPO	Ministry of Foreign Affairs and European Integration; Chamber of Commerce and Industry and Industry; Embassies of the Republic of Moldova abroad.	2016-2020	No additional costs.	N/A	Program elaborated.
64.	Elaboration of regular studies on market assessment under DCFTA provisions and rendering qualitative information services for exporters from priority sectors	In house human resources	MIEPO	Ministry of Economy.	2016-2020	No additional costs	N/A	1 study per year; exporters informed about the conclusions of the report.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
65.	Promotion by MIEPO of relevant informational tools among domestic exporters	In house human resources	MIEPO	Ministry of Economy.	2016-2020	No additional costs	N/A	At least 200 direct beneficiaries per year.
66.	Develop and implement a program to promote exporters (communication of success stories, export national award, exporter's forum, etc.)	In house human resources	MIEPO	Ministry of Economy.	2018-2020	The costs will be estimated after the Program approval	Donor support.	Program elaborated and implemented; Number of beneficiaries.
67.	Elaborate and implement a permanent program for the development of exports management capacity (Exporters Academy)	In house human resources	MIEPO	Ministry of Economy.	2018-2020	The costs will be estimated after the Program approval	Donor support.	Program elaborated and implemented; Number of beneficiaries.
68.	Enhance visibility of industrial associations and unions, groups of manufacturers and exporters; support international exchange of experience for their beneficiaries / members; facilitate trips of consultants and experts to Moldova for raising the level of training and technological skills of their members	In house human resources	MIEPO	Ministry of Economy.	2016-2020	No additional costs	N/A	At least 200 direct beneficiaries per year (both associations and firms).
69.	Facilitate the establishment of export consortia in the priority sectors.	In house human resources	MIEPO	Ministry of Economy.	2016-2020	No additional costs	N/A	Number of consultations provided.
F. Capacity building of specialized institutions in investment attraction, retention and linkages development								
F1. Transformation of MIEPO into an agency that is effective and highly professional in attracting investments and promoting exports								

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
70.	Elaborate and adopt the Institutional Development Strategy of MIEPO	In house human resources. The Strategy being currently elaborated within a project supported by the World Bank	MIEPO	Ministry of Economy.	2016	No additional costs	N/A	Institutional Development Strategy of MIEPO elaborated and approved by the Government by the end of 2016
71.	Ensure adequate funding for MIEPO in the context of the implementation of its Institutional Development Strategy, in order to ensure an efficient implementation of its mandate	In-house human resources.	Ministry of Finance	Ministry of Economy	2017-2020	The cost will be estimated within the elaboration of the MTBF for 2017-2019	State budget	MIEPO budget capitalized with the necessary amount for the implementation of its Institutional Development Strategy.
72.	Increase the efficiency of MIEPO by reforming it according to its Institutional Development Strategy	In-house human resources.	Ministry of Economy	MIEPO	2016-2020	The cost will be estimated based on the Institutional Development Strategy	State budget	Reformed MIEPO.
73.	Increase the efficiency of the Coordination Council of MIEPO and of the Administration Council of the budget for the implementation of the "Export Promotion" Program	In-house human resources.	Ministry of Economy	MIEPO	2016	No additional costs.	N/A	Councils' efficiency enhanced.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
74.	Develop and ensure financing for a professional development program for MIEPO team (including providing training in investment promotion best practices and organization of study tours to comparator countries that have been successful in attracting FDI)	In-house human resources.	MIEPO	Ministry of Economy; Ministry of Finances; donors	2017-2020	500.000	Donor support	Professional development program elaborated and implemented.
75.	Develop the aftercare function at MIEPO and build capacities that are necessary for identification and promotion of linkages between FDI and local companies	90 man-days of consulting services.	MIEPO	Ministry of Economy, Ministry of Finance, donors	Starting with 2017	The cost will be estimated based on the Institutional Development Strategy	Donor support	Database of FDI projects developed, aftercare strategy prepared and endorsed by the Board.
76.	Increase the visibility of MIEPO as an investment attraction and export promotion national agency, by running institutional communication campaigns.	In-house human resources.	MIEPO	Ministry of Economy	2016-2020	No additional costs.	N/A	Number of foreign investors attracted; Number of export contracts signed.
E2. Strengthen the "economic diplomacy" in the field of FDI promotion								

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
77.	Develop and implement an Action Plan for enhancing the economic diplomacy based on the following key elements: reviewing the procedure on appointment and working methods of Commercial Attaches, creation of a fund available for embassies to finance promotional activities in priority countries, revision of the geographic distribution and number of Commercial Attaches and establishment of performance indicators thereof	100 man-days of consulting services.	MIEPO; Ministry of Foreign Affairs and European Integration.	Ministry of Economy,	2018-2020	The cost will be estimated after the elaboration of the Action Plan	State budget.	Action Plan elaborated and implemented by 2018. Annual evaluation of the Action Plan starting from 2018.
78.	Organize annual economic / commercial trainings for all Moldovan diplomatic representatives abroad to provide relevant and updated information about Moldova's comparative advantages, main sectors and to ensure effective mediation services	Trainers invited from relevant institutions (ITC, CBI, etc.).	MIEPO	Ministry of Foreign Affairs and European Integration; Ministry of Economy	2017-2020	400.000	State budget	Annual trainings organized.

No.	General objectives/specific objectives/actions	Necessary resources, approximation	Responsible for implementation	Partners	Implementation deadline	Estimated costs, MDL (for the entire period of implementation)	Financing sources	Performance indicators
1	2	3	4	5	6	7	8	9
79.	Identify five target-countries for intensification of country promotion activities as a destination for investments. Conduct information and promotion campaigns focused on the identified five countries.	In-house human resources.	MIEPO	Ministry of Foreign Affairs and European Integration; Ministry of Economy	2018-2020	1,500,000	State budget	Five target-countries identified; Number of potential investment projects increased by at least 100% (year 1) and 50% in each consecutive year.
80.	Identify target-markets for exports with ensuring the operational presence of economic diplomacy on their territories (MIEPO representatives abroad/ economic attaches/ local consultants).	In-house human resources.	MIEPO	Ministry of Foreign Affairs and European Integration; Ministry of Economy	2017-2020	No additional costs.	N/A	Target-markets for exports identified; Number of signed contracts.