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# Entrepreneurship in the Republic of Moldova. Challenges and Recommendations.

## **Abstract**

This paper aims to analyze the challenges of entrepreneurship in the Republic of Moldova, including the special regions of Transnistria and Gagauzia. The main methodology of data collection used throughout this paper is qualitative semi-structured interviews with entrepreneurs, legislators, foundations, and investors in the various fields. Where relevant, data from the neighboring countries Romania and Ukraine will be used. Additionally, the research is supported by data, literature reviews and academic papers that provide a more macro-level perspective about the economic situation of Moldova.

The research is based on the hypothesis that Moldova's human development index (HDI) could in fact be low due to the country's business ecosystem, more specifically, due to its entrepreneurial challenges. Based on the information collected, the study identified challenges and potential solutions throughout four main sections: Education (Migration, Skills mismatch), Policy and Regulation, Financing (Distrust of banks, Corruption) and Geography.

Some common themes explored revolve around the unifying the Moldovan society around the fight against corruption, building stronger regional ties and creating startup-friendly policies for high potential industries.

## **Keywords**

Moldova | Transnistria | Gagauzia | entrepreneurship | education | finance | policy | challenges

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# 1. INTRODUCTION

## 1.1. Context

Even though the Republic of Moldova became independent on August 27th 1991, there has been a significant socio political and cultural rift within the region. The research looks at the potential of closing the gap through entrepreneurial development in Moldova.

The Republic of Moldova and Romania both started from the same HDI level in 1989, however, at the moment, according to the United Nations, the Republic of Moldova ranks 112 out of 188 countries and territories in Human Development Index (HDI), meanwhile Romania ranks 52nd, Ukraine ranks 90th, Russia ranks 49th.

## 1.2. The HDI Index

	<b>Moldova</b>	<b>Romania</b>	<b>Ukraine</b>	<b>Russia</b>
<i>Rank</i>	<i>(112)</i>	<i>(52)</i>	<i>(88)</i>	<i>(49)</i>
<b>Life expectancy at birth</b>	71.7	75.6	72.1	71.2
<b>Expected years of schooling</b>	11.6	14.3	15.0	15.5
<b>Mean years of schooling</b>	11.6	11.0	11.3	12.0
<b>Gross national income (GNI) (per capita) (2011 PPP \$)<sup>1</sup></b>	5,554	22,646	8,130	24,233
<b>HDI Index</b>	<b>0.700</b>	<b>0.811</b>	<b>0.751</b>	<b>0.816</b>

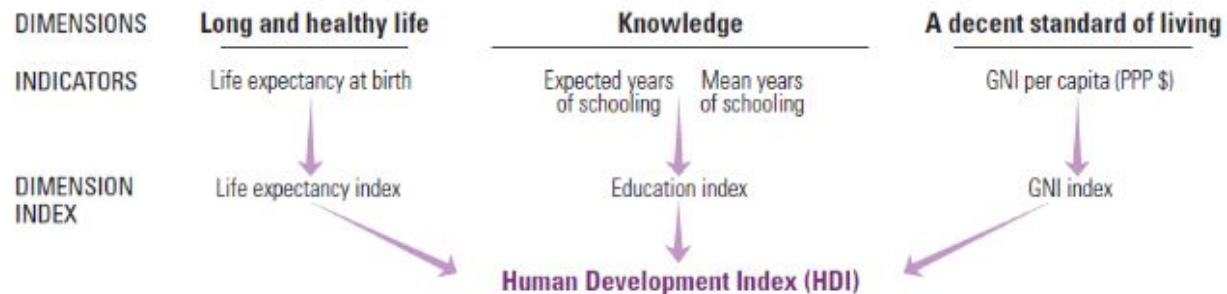
Looking at the different dimensions that compound the HDI Index, Moldova's issue stands among the Gross National Income per capita (GNI). GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI per capita is gross national income divided by mid-year population.<sup>2</sup> This discovery

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<sup>1</sup>"Human Development Reports." | Human Development Reports. Accessed August 09, 2019.  
<http://hdr.undp.org/en/composite/HDI>.

<sup>2</sup>"Definitions." UNICEF. Accessed August 09, 2019.  
[https://www.unicef.org/infobycountry/stats\\_popup7.html](https://www.unicef.org/infobycountry/stats_popup7.html).

informed the study's hypothesis that Moldova's index could in fact be so low due to the country's business ecosystem, more specifically, due to its entrepreneurial challenges.



### 1.3. Transnistria, the frozen conflict zone between Moldova and Ukraine

In 1990–1991, Soviet Union's military armies left the territories of the Eastern European countries which they protected. Some of these countries were independent (East Germany, Poland, Czech Republic, Hungary), some of them were part of the Soviet Union (Latvia, Lithuania, Estonia, the Moldavian Republic). There was one exception, the Russian 14th Army never left Moldavian territory reasoning that they protect the citizens of the **Pridnestrovian Moldavian Republic (Transnistria)**. The conflict escalated into short periods of armed violence. So, now the oldest frozen conflict zone is a Russian army captive between two countries (Ukraine and Moldova).



From the Moldavian officials' point of view, Transnistria is not an independent region, but a part of the republic. Within the Moldavian Republic there is only one officially recognized autonomous region, Gagauzia.

The surface is 4,163 square kilometers, the population is 469,000 (2018), and the most important city and capital is Tiraspol.<sup>3</sup> The inter-ethnic language spoken is Russian. Transnistria has many of the features of an independent state including its own government, money (Transnistrian ruble), institutions, army, newspapers, car registration numbers and TV channels. Although the region has its own passport, it can only be used for identification within the borders, because the country and its ID are not recognized for international travel.<sup>4</sup>

#### **1.4. The autonomous region of Gagauzia**

Gagauzia, officially the Autonomous Territorial Unit of Gagauzia, is an autonomous region located in the South-Western part of the Republic of Moldova, inhabited mostly by Gagauz people, who are primarily Christian Orthodox Turkic-speaking people (Gagauz language). The surface is 1,830 square kilometers, the population is about 135,000 people<sup>5</sup>, and the most important city and capital is Comrat. The region borders Ukraine, and it is fragmented in scattered villages alongside a central body. Gagauzia has its own symbolism: the flag, emblem and anthem, which are used along with the state symbols of the Republic of Moldova.<sup>6</sup>

Politically, the Gagauzian People's Assembly has law-making powers within its own jurisdiction. This includes laws on education, culture, local development, budgetary and taxation issues,

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<sup>3</sup>"Transnistria." Wikipedia. Accessed August 09, 2019. <https://en.wikipedia.org/wiki/Transnistria>

<sup>4</sup>"Map of Moldova, Transnistria, and Gagauzia." Reconsidering Russia and the Former Soviet Union. July 03, 2014. Accessed August 09, 2019. <https://reconsideringrussia.org/2014/04/04/moldova-and-transnistria-an-overview/moldova-transnistria-gagauzia-map/>

<sup>5</sup>"2014 Moldovan Census." Wikipedia. Accessed August 09, 2019. [https://en.wikipedia.org/wiki/2014\\_Moldovan\\_Census](https://en.wikipedia.org/wiki/2014_Moldovan_Census).

<sup>6</sup>"Legal Code of the Special Legal Status of Gagauz Autonomy." Legal Code of the Special Legal Status of Gagauz Autonomy. Accessed August 09, 2019. <https://gder.md/eng/index.php?do=static&page=pravovaya-baza-ulozhenie-ob-osobom-pravovom-statuse-ato-gagauziya>.

social security, and questions of territorial administration. The highest official of Gagauzia, is the Governor of Gagauzia (Gagauz: Bařkan), currently Mrs. Irina Vlah. The governor has power over all public administrative bodies of Gagauzia and is also a member of the Government of the Republic of Moldova. Permanent executive power in Gagauzia is exercised by the Executive Committee which ensures the application of the laws of the Republic of Moldova as well as those of the Assembly.<sup>7</sup>

The Gagauz Autonomy gives the authority to adopt its own legislation and implement economic reforms in order to stimulate investment in the region. They have adopted regulation in order to encourage entrepreneurial activity on top of the 43 Free Trade Agreements signed by the Republic of Moldova. Most notable reforms have been the Law of Gagauzia on Investment<sup>8</sup> offering incentives for investments over 5 million MDL (285,150 USD) and the establishment of the Free Economic Zone of “Valkanes”.

Leading industries in Gagauzia also include agriculture and food processing, textile, apparel and footwear. However, they have a unique relationship with the Turkish market where they export about 14.8% (2016) of their products.

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<sup>7</sup>"Gagauzia." Wikipedia. Accessed August 09, 2019. <https://en.wikipedia.org/wiki/Gagauzia>.

<sup>8</sup>"The Republic of Moldova Autonomous Territorial Unit of ..." Accessed August 9, 2019. <http://gder.md/eng/uploads/projects/raport-general-eng.pdf>.

## 2. MARKET CONTEXT

*“It takes one year, on average, for a worker in Moldova to produce as much as a worker in Germany produces in 18 days” - The World Bank<sup>9</sup>*

Considered a Lower Middle Income Country by the World Bank, Moldova has the lowest gross domestic product per capita in Europe. GDP broken down by industry: Agriculture: 14.1%, Industry: 21.2%, Services: 64.7%.<sup>10</sup> The Republic of Moldova is perceived as an agrarian country, however, the % of GDP agriculture accounts for has been decreasing steadily since 1995 (when it represented 30%). Within agriculture, the most notable subcategories are:

- *Wine of Moldova*

The wine industry accounts for 3.2% of the Gross Domestic Product and 7.5% of Moldova’s total exports, employing over 250 thousand citizens at the 140 wine companies. Moldova has the biggest density of vineyards in the world – 3.8% of the country’s territory and 7% of the arable land.<sup>11</sup> 90% of production goes towards export, 10% goes towards internal use.

- *Dried fruit* representing 6.4% of all agricultural production.<sup>12</sup>

### 2.1. High Potential Industries

USAid’s Moldova Competitiveness Project (MCP) supports Moldova’s efforts to promote a strong, diverse and export-oriented economy by improving competitiveness and efficiency in key industries. MCP focuses on three areas: Information and Communications Technology (ICT) clustered with creative services and precision engineering; wine production and export clustered

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<sup>9</sup>“Moldova Economic Update,” World Bank, accessed August 09, 2019.

<https://www.worldbank.org/en/country/moldova/brief/moldova-economic-update>.

<sup>10</sup>“Moldova GDP and Economic Data.” Global Finance Magazine. Accessed August 09, 2019.

<https://www.gfmag.com/global-data/country-data/moldova-gdp-country-report>.

<sup>11</sup>“Our Wine Has Been Crafted.” Wine of Moldova. Accessed August 09, 2019.

<http://www.wineofmoldova.com/en/>.

<sup>12</sup> “Analiza Sectorului Agroalimentar” ODIMM, accessed August 09, 2019.

[http://www.odimm.md/files/ro/pdf/publicatii/Analiza\\_Industria\\_agro-alimentar.pdf](http://www.odimm.md/files/ro/pdf/publicatii/Analiza_Industria_agro-alimentar.pdf)



with the tourism sector; and light industry (clustered textiles and apparel and footwear sectors). The project supports these industries to reach a level of maturity that promotes sustainable improvements in the competitiveness of these sectors and provides well-paying and desirable employment—which increases incomes, alleviates poverty and reduces the pressure to leave.<sup>13</sup> This paper supports USAID’s assessment that these three particular segments represent the future, given the right funding and guidance and includes findings from the structured interviews.

### 2.1.1. ICT (Information and Communications Technology)

<b>Moldova</b>		<b>Romania</b>	
<i>ICT Industry Salary</i>		<i>ICT Industry Salary</i>	
Entry Level:	168 USD / month	Entry Level:	780 USD / month <sup>14</sup>
Mean:	897 USD / month <sup>15</sup>	Mean:	1570 USD / month <sup>16</sup>
<i>National Statistics Salary</i>		<i>National Statistics Salary</i>	
Minimum:	149 USD / month <sup>17</sup>	Minimum:	400 USD / month
Mean:	339 USD / month	Mean:	612 USD / month <sup>18</sup>

<sup>13</sup>"Fact Sheet: Moldova Competitiveness Project: Fact Sheet: Moldova." U.S. Agency for International Development. January 17, 2018. Accessed August 09, 2019.

<https://www.usaid.gov/moldova/fact-sheets/fact-sheet-moldova-competitiveness-project>.

<sup>14</sup>"LINKAcademy." Accessed August 09, 2019.

<https://www.link-academy.com/salariile-it-programatorilor-romania>.

<sup>15</sup>"Salariul Mediu în Moldova S-a Majorat." Noi.md. February 27, 2019. Accessed August 09, 2019.

<https://noi.md/md/economie/salariul-mediul-in-moldova-s-a-majorat>.

<sup>16</sup>"Salariul Mediu 2019: Cât Se Mai Dă în IT-ul Românesc, în Medie. Cum Au Crescut Salariile în Construcții." StartupCafe.ro. July 23, 2019. Accessed August 09, 2019.

<https://www.startupcafe.ro/taxe/salariul-mediul-2019-it-construcții-net-brut.htm>.

<sup>17</sup>"Salariul Minim Pe Economie Din R. Moldova, Mai MIC De Trei Ori Decât Cel Plătit în Cea Mai Săracă țară Din UE: Ce Minimum Primește Un Angajat Din Bulgaria, România, Cehia Sau Polonia."

ZiarulNational.md Ultimele știri Din Moldova. Accessed August 09, 2019.

<http://www.ziarulnational.md/salariul-minim-pe-economie-din-r-moldova-mai-mic-de-trei-ori-decat-cel-platit-in-cea-mai-saraca-tara-din-ue-ce-minimum-primeste-un-angajat-din-bulgaria-romania-cehia-sau-polonia/>.

<sup>18</sup> Ibid 14.

The IT industry has been flooded by young professionals. The legal incentives adopted by the region (Law 77/2016<sup>19</sup>) and the creation of Moldova IT Park - a virtual park whose residents only pay a set 7% income tax, the industry has high potential for further development. One challenge for this industry is scaling. Entrepreneurs attempting to enter this industry should focus on cutting edge technology (R&D, AI, automation, augmented reality, tools for increasing productivity, etc.).

### 2.1.2. Light Industry: textiles, apparel, fashion

<b>Moldova</b>		<b>Romania</b>	
<i>Light Industry Salary</i>		<i>Light Industry Salary</i>	
Entry Level:	225 USD / month	Entry Level:	400 USD / month
Mean:	336 to 400 USD / month	Mean:	587 USD / month <sup>20</sup>
<i>National Statistics Salary</i>		<i>National Statistics Salary</i>	
Minimum:	149 USD / month <sup>21</sup>	Minimum:	400 USD / month
Mean:	339 USD / month	Mean:	612 USD / month

This industry is unique because almost 90% of its workers are women. Price, quality, order time, flexibility to produce smaller orders are the main strengths of this industry. Moreover, the proximity to the EU market as well as the CIS Countries (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan) gives companies the possibility to outsource a part of their value chain.

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<sup>19</sup>LEXDB. Accessed August 09, 2019.

<http://lex.justice.md/viewdoc.php?action=view&view=doc&id=365261&lang=1>.

<sup>20</sup>Imbrea, Andra. "Care Sunt Salariile Si Cine Mai Lucreaza in Industria Textila." May 09, 2016. Accessed August 09, 2019.

<https://www.wall-street.ro/articol/Careers/198114/cine-mai-lucreaza-si-cat-se-mai-castiga-in-industria-textila-din-romania.html#gref>.

<sup>21</sup>Ibid 17.

### 2.1.3. Tourism Industry

<b>Moldova</b>	<b>Romania</b>
<i>Industry Salary</i>	<i>Industry Salary</i>
Entry Level: 336 USD / month	Entry Level: 300 - 500 USD / month <sup>22</sup>

Tourism is considered an untapped industry in the region, but it is undeniably an industry globally in demand. The National Statistics Office has not reported more than 15,000 tourists per year in the last 15 years. Most notable tourism activities revolve around wine production and vineyards. Return rate is also nonexistent.

Overall, there are 159 registered<sup>23</sup> accommodation structures in Moldova, out of which 91 are located in the capital, Chisinau. There are only 26 registered guest houses throughout the country. This is the result of an overregulation in the industry and the barriers still in place. One advantage for entrepreneurs looking to enter the industry is that there is no income tax on tourism packages including accommodation for more than 24 hours.

### Conclusion

There are notable differences between the three clusters of industries mentioned above. Countries all over the world are in the race of developing their ICT infrastructures, regardless of the size or location of the country. Moldova is no exception to the rule, sheltering young and smart people. Agriculture represents Moldova's heritage similar to other European countries such as Spain and France, however, it is not the future of development. The worldwide trend of increase in tourism can represent an engine of growth; smaller countries can identify their unique value propositions and encourage adventure and experience travelling.

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<sup>22</sup>"Salariile in Turism Ar Putea Creste in 2019." November 04, 2018. Accessed August 09, 2019. <https://www.wall-street.ro/articol/Careers/236095/hospitality-management-academy-salariile-in-turism-ar-putea-creste-cu-pana-la-20-in-2019.html#gref>.

<sup>23</sup> Agenția Turismului a Republicii Moldova. Accessed August 09, 2019. <http://turism.gov.md/index.php?pag=hotel&opa=Chisinau&l=>.

### 3. STUDY AND METHODOLOGY

#### 3.1. Research Methods

The study presents the current challenges of entrepreneurship in the Republic of Moldova as well as in the region of Transnistria (Pridnestrovian Moldavian Republic) and in the autonomous region of Gagauzia. Each challenge is followed by a set of potential solutions for further development.

The main methodology of data collection used throughout this paper is based upon qualitative interviews with entrepreneurs, foundations, investors, authorities and local experts using a semi-structured method. For a detailed list of the people interviewed and the detailed questions template used, please check APPENDIX A and APPENDIX B.

#### 3.2. Approach

The paper focuses on presenting key findings within three main categories.

(A) Education

(B) Policy and Regulation

(C) Financing

#### 3.3. Itinerary for on-site interviews:

<u>City</u>	<u>Country</u>	<u>Dates</u>
Chisinau	Moldova	June 5-17
Soroca	Moldova	June 13
Comrat	Gagauzia	June 15
Tiraspol	Transnistria	June 17
Bender	Transnistria	June 19
Odessa	Ukraine	June 19-22
Kiev	Ukraine	June 23-30
Bucharest	Romania	July 1- August 1

## 4. NATIONAL KEY FINDINGS

*“no education, no finance, no people” - media entrepreneur*

The paper focuses on analyzing the business ecosystems through the lenses of *education, policy and regulation* and *financing*.

### 4.1. Education

*Initial Assumptions:*

- *Formal education is influenced by the Soviet model.*
- *There is no entrepreneurial education.*

#### 4.1.1. Migration - “Moldova is in the grips of a youth migration crisis” - policy maker

Migration in Moldova came in three phases- first, the parents left, then the grandparents followed and, finally, the kids left. Most recent estimates say that 600,000 to 1 million (or 25% of the population) is currently working abroad.<sup>24</sup> Migration affects the business environment as the region has seen an increasing trend of younger generations preferring to work in Russia (more than 55% of Moldovan migrants in 2014), as well as Western Europe, particularly Italy (more than 15% of Moldovan migrants in 2014)<sup>25</sup> rather than open businesses in the region.

For example, among the 15-29 age group, the unemployment rate is 16.5%, 1.8 times higher than the regional rate of 9.1% (2010). The data reported by National Statistics Office suggests that, in 2010, only 22% of young professionals found a job after graduation and a quarter of them left the job due to low income, while 17.7% left to find work abroad.

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<sup>24</sup>“Moldova Population 2019.” Accessed August 09, 2019.  
<http://worldpopulationreview.com/countries/moldova-population/>.

<sup>25</sup>“Migration Profile of the Republic of Moldova.” Mission to the Republic of Moldova. Accessed August 09, 2019. <http://www.iom.md/migration-profile-republic-moldova>.

The Ministry of Health, Labor and Social Protection has been prioritizing social responsibility, skills matching and migration as part of their 2030 development strategy.

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**Potential solutions** are:

- Increasing the income of the labor force through policy (the politicians will be happy to announce increases of salaries, but the National Bank will pay attention to inflation; so all salary increases should have a coverage in productivity increase).
- Increasing regional opportunities through initiatives such as:
  - PARE 1+1. For each MDL invested (1 MDL equals 0.056 USD), the government offers help by investing another one, up to 250,000 MDL (14,270 USD). Citizens living abroad only need to come up with a viable business plan and implement it in Moldova.<sup>26</sup>
  - DAR 1+3. With the purpose of developing villages, people from the diaspora can invest in projects alongside the government and strategic partners.<sup>27</sup>

**4.1.2. Skills Mismatch** - *“You can’t become what you don’t see.” - woman entrepreneur*

One of the biggest challenges the region is facing is the mismatch of skills within the workforce. Students as well as employers believe the curriculum is outdated, making it irrelevant for future job prospects. Up to this day, our initial assumption stands: formal education still follows the Soviet model closely. For example, each high school student takes a set 13-15 subjects every semester and is tested for each of them. Each subject can require class attendance from one to five hours per week and they range from Mathematics, Literature, Chemistry, Physical Education, Geography, etc.<sup>28</sup>

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<sup>26</sup> “Programul de Atragere a Remitențelor în Economie (PARE 1+1)” ODIMM. Accessed August 09, 2019. <https://odimm.md/ro/programe-odimm>

<sup>27</sup> “Diaspora Acasa Reuseste: DAR 1+3” Biroul Relații cu Diaspora. Accessed August 09, 2019. <https://brd.gov.md/ro/content/diaspora-acasa-reuseste-dar-13>.

<sup>28</sup> “Curriculum Național - Planul-Cadru pentru învățământul primar, gimnazial și liceal” MINISTERUL EDUCAȚIEI, CULTURII ȘI CERCETĂRII AL REPUBLICII MOLDOVA. Accessed August 09, 2019. [https://mecc.gov.md/sites/default/files/plan-cadru\\_2019-2020\\_web\\_sait.pdf](https://mecc.gov.md/sites/default/files/plan-cadru_2019-2020_web_sait.pdf)

One consequence of the first assumption is that Moldova does not have a system of entrepreneurial education. Without exception, all the entrepreneurs interviewed in the study have had some work experience in Western Europe (and a few even in the United States). Moreover, all of them speak Romanian/Moldovan and Russian languages and, additionally, some speak other languages such as English, Spanish, Italian, Ukrainian, etc. Only a few of the interviewed entrepreneurs had training in the industry or subject in which their business operates.

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Looking into the future, the whole system could benefit from adopting a growth mindset<sup>29</sup> rather than a fixed mindset.

**Potential Solutions** are:

- More collaboration between employers and schools. By implementing volunteer programs and opening up paid internship jobs in various industries.
- Increase support for “learning by doing” initiatives such as a start-up school. USAid made the first steps by funding a robotics programs. Their data shows that children who are exposed to educational robotics are two times more likely to major in science, engineering, or other related STEAM fields in university.<sup>30</sup> Catching interest of youth early on is crucial for development of the entrepreneurial ecosystem of the future.
- Launch partnerships with foreign business schools. Some worldwide examples include the Yale-NUS university in Singapore (a combination of Yale and the National University of Singapore), the MBA program delivered by University Wien in Bucharest, etc.

## 4.2. Policy and Regulation

*Initial Assumptions:*

- *Due to political uncertainty, there is uncertainty in regulation for new businesses.*
- *Outdated (ex-Soviet) policies and regulations are still in use.*

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<sup>29</sup> Dweck, Carol. "What Having a "Growth Mindset" Actually Means." Harvard Business Review. January 13, 2016. Accessed August 09, 2019.

<https://hbr.org/2016/01/what-having-a-growth-mindset-actually-means>.

<sup>30</sup> "Can Robotics Curb Brain Drain in Moldova?" Chemonics International. April 04, 2019. Accessed August 09, 2019. <https://www.chemonics.com/blog/can-robotics-curb-brain-drain-in-moldova/>.

**Policies** are rules made by individuals, groups, companies, and even governments to carry out their plans and reach their goals. Governments change but the general policy of a country stays the same.

**Regulations** are rules restrictive in nature that impose sanctions upon people and companies. A regulation has the effect of a law and is imposed by authorities, in order to make others follow the desired code of conduct.<sup>31</sup>

#### 4.2.1. Regulation

Bureaucracy poses a barrier to the national entrepreneurial development. The 2018 Economic Report of the Prime Minister presents six strategic directions: “Eliminating constraints for entrepreneurial activity”, “Facilitating Cross-Border Trade”, “Stimulating and Maintaining Private Investments”, “Reducing informal employment and “Wage in envelope” phenomenon”, “Improving Moldova’s position in international economic rankings”, “Labor market development”<sup>32</sup>. While these directives sound good on paper, in reality our study shows that there is still a gap between the report and the reported answers of interviewees.

One directive that was seen to completion with help from the World Bank was a comprehensive E-government platform that allows entrepreneurs to access and submit necessary documents and services (such as obtaining online visas, judiciary records, licences, access to a platform for online payments “MPay”, etc).

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#### Potential Solution:

Shifting the focus towards **Startup-friendly Policy**. Creating a Moldovan Start-up Visa.

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<sup>31</sup> "Difference between Policy And Regulations." LinkedIn. Accessed August 09, 2019. <https://www.linkedin.com/pulse/difference-between-policy-regulations-navya-b/>.

<sup>32</sup> “Annual Report 2018.” Economic Council to the Prime Minister. Accessed August 09, 2019. <https://consecn.gov.md/wp-content/uploads/2019/04/Annual-Report-2018.pdf>



- In Estonia the requirement is to spend at least €150 for every month you want to spend in Estonia. This translates to €1800 for a one-year visa.<sup>33</sup>
- In order to qualify for the Latvian Startup Visa: you have to be a founder with an idea for a scalable, innovative business. Moreover, you have to prove you have a financial buffer of €4,560 in your bank account.<sup>34</sup>

Some **suggested further steps** that should be taken:

- Deregulating high potential industries such as tourism.
- Further simplification of border procedures.

#### **4.2.2. Policy - “The law is not functioning” - social entrepreneur**

Across Europe there has been a wave of social enterprise legal developments.<sup>35</sup> In Romania, the Act No. 219/2015 on social enterprise was adopted in July 2015 strengthening and completing previous legal frameworks. In Moldova’s case, a commission of secretaries of state was formed in order to decide which enterprises are social enterprises and which are not. Two years have passed since Law no. 223 defining and regulating Social Entrepreneurship was adopted in November 2017. At the time of the study (June 2019), the council had not met yet. This is one example of an area where, even though a legal environment was built, the law is not functioning yet.

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#### **Potential solution:**

- Carefully recruiting the lawmakers and political decision makers from specialists in the fields with proven records. They can then craft laws keeping an open dialogue with all the stakeholders involved.

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<sup>33</sup> <https://www.startupestonia.ee/visa/eligibility-foreign-founder#eligibilityDocs>

<sup>34</sup> Gifford, Julia “EUStartups.” July 12, 2019. Accessed August 09, 2019. <http://www.eu-startups.com/2019/07/latvias-startup-visa-just-got-a-much-needed-makeover-opening-its-doors-to-more-foreign-founders/>.

<sup>35</sup> “A Wave of Social Enterprise Legal Developments across Europe.” Esela. June 27, 2017. Accessed August 09, 2019. <https://esela.eu/news/wave-social-enterprise-legal-developments-across-europe>.

- For the Social Entrepreneurship example, one solution could be the dismantling of the commission and rather creating clear and fixed criteria to becoming a social enterprise. Moreover, the government could offer further tax relief to NGOs and companies who take the step to become social enterprises.

### 4.3. Financing

#### *Initial Assumptions:*

- *The Moldovan financing system is very weak (1 billion \$ disappeared without a trace).*
- *Western funds are discouraged from operating in Moldova.*

#### 4.3.1. Distrust of Banks

Banking market was shaken down a few years ago by the 1 billion USD stolen, therefore heightened surveillance was established by the National Bank of Moldova.

Overall trust in banks has decreased. The exception in the region is Transnistria, where banks are still regarded as reliable.

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#### Potential Solutions:

- Developing more up-to-date, modern, innovative solutions: micro-credit, digitalisation of banking services and taking a client-oriented approach.
- Encourage multinational banks to enter the Moldovan banking market, in order to implement high standards from their original markets.

#### 4.3.2. Corruption - *“Corruption is highly present in Moldova” - serial entrepreneur*

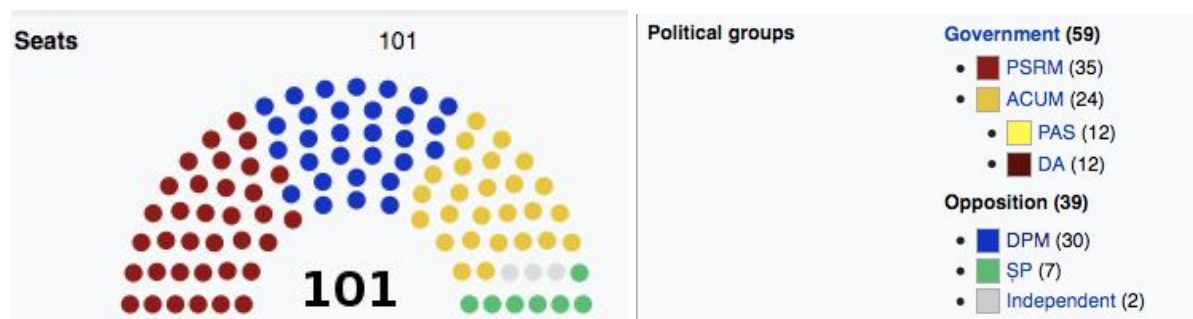
Corruption is highly present in Moldova and actively influences policy, regulation and financing. High corruption is the main reason behind the relatively few international investments the Moldovan start up environment has seen in recent years.

Sector Detail	Moldova	Region Avg.	Income Group Avg.	World Avg.
<b>Corruption</b>				
Economic Freedom of the World: Extra payments/bribes index score (0-10, higher is better)	2.65	5.28	345	4.39
Index of Economic Freedom: Government Integrity component (0-100, least to greatest freedom)	254	55.6	31.3	41.1
Transparency International, Corruption Perceptions Index Score (0-100, higher is less corrupt)	33	574	33.6	42.8
Varieties of Democracy, executive corruption index (0-1, higher is more corrupt)	0.78	0.3	0.57	047
Varieties of Democracy, political corruption index (0-1, higher is more corrupt)	0.8	0.33	0.63	0.51
Varieties of Democracy, public sector corruption index (0-1, higher is more corrupt)	0.77	0.29	0.65	049

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Moreover, accountability is crucial in a politically dispersed country. Anecdotally, 33% of the population has pro European Union views (ACUM), 33% supports pro Russia beliefs (PSRM) and 33% supports the Democratic Party (DPM - the guys who hid the 1 billion dollars).

The current structure of the Parliament of Moldova:



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<sup>36</sup>"IDEA Country Dashboard." Accessed August 09, 2019.

<https://idea.usaid.gov/cd/moldova/democracy-human-rights-and-governance>.

<sup>37</sup>"Parliament of the Republic of Moldova." Wikipedia. Accessed August 09, 2019.

[https://en.wikipedia.org/wiki/Parliament\\_of\\_the\\_Republic\\_of\\_Moldova](https://en.wikipedia.org/wiki/Parliament_of_the_Republic_of_Moldova).

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## Potential Solutions:

- Fighting corruption involves civic engagement. Therefore, the functionality and access of the population to the electronic forums and platforms of legislation is a crucial step.<sup>38</sup>
- Fighting corruption has to be the priority of any ruling party.

While conducting the research in Chisinau, the country went through a political crisis. Protests were staged in front of the Parliament after pro-Russian President Igor Dodon formed a coalition cabinet with a pro-European Union block in order to overthrow the Democrat Party's leadership.<sup>39</sup> For seven days, Moldova had two parallel governments and two presidents until the Democratic Party leadership (accused of numerous corruption acts) resigned from power. The new government led by the pro-European Maia Sandu, a Harvard-educated former World Bank adviser, should prioritize its fight for corruption on all levels: from individual to enterprise. Corruption reporting platforms have to be functioning with the utmost efficiency and implement immediate sanctions for outlaw activity.

## 4.4. Other

### 4.4.1. Geography - *"Moldova cannot survive on its own" - entrepreneur in tourism*

The structured interviews asked the question *"What are the advantages of doing business in Moldova?"*. Almost all the respondents answered that Moldova's geo-political position is its biggest advantage. Geographically, Moldova is located between the EU market and the CIS countries market. Moreover, through Gagauzia, the region keeps a tight connection with Turkey. While the internal market is small, the export opportunities are endless.

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<sup>38</sup>"CARTEA ALBĂ A BUNEI GUVERNĂRI" Accessed August 09, 2019.

[https://expert-grup.org/media/k2/attachments/Carte\\_a\\_Alba\\_a\\_Bunei\\_Guvernari.pdf](https://expert-grup.org/media/k2/attachments/Carte_a_Alba_a_Bunei_Guvernari.pdf)

<sup>39</sup>"Moldova Crisis: Snap Elections Called by Interim President." BBC News. June 10, 2019. Accessed August 09, 2019.

[https://www.bbc.com/news/world-europe-48572304?fbclid=IwAR299sBQjUuqEXttlPClwyohWzSZHYbXbozhiGEZBrD\\_QItEpGfG0yq\\_IbM](https://www.bbc.com/news/world-europe-48572304?fbclid=IwAR299sBQjUuqEXttlPClwyohWzSZHYbXbozhiGEZBrD_QItEpGfG0yq_IbM).

**Moldova cannot survive on its own.** For European investors, Moldova can offer an opening into the Eastern territory. For Eastern investors, Moldova can offer an opening to the European market.

Moldova only has two neighbouring countries (Ukraine and Romania) which share many differences but are united by their distrust of Russia. However, due to its Russian-oriented population, Moldova maintains good business relations with Russia. The international airport of Chisinau, access to the Dnieper and Danube rivers are unique factors that encourage product exports. Following the examples of Switzerland, Luxembourg or Liechtenstein, Moldova should master economic diplomacy.

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**Potential Solutions:**

- Increasing regional connections: Ukraine, Romania (for the Moldovan-speaking population) and Turkey (for Gagauzian population). All the success stories of Moldovan companies have one common denominator - they are export champions. Endava, TransOil, Purcari and many others have managed to grow only after they created channels of distribution across the borders.
- From a policy point of view, one solution could be dismantling the immigration office in order to be more inviting towards foreigners and foreign investments.

## 5. FINDINGS SPECIFIC TO TRANSNISTRIA AND GAGAUZIA

### *Initial Assumptions:*

- *Gagauz language is a barrier as it is a Turkish-language, not Slavic like Ukrainian or Russian, not Latin like Romanian.*
- *There is support from Moscow in Transnistria. Russia pays the salaries of soldiers stationed in Transnistria, the salaries goes into local consumption, local businesses survive.*
- *Economic exchange between Transnistria and the Moldavian Republic is zero. Transnistria can survive with the sole support of Russia.*

### 5.1. English Language

English is the language of business throughout the world. In Transnistria and Gagauzia however, English knowledge levels are really low. In these two regions Russian is the language of education and the common language among people of different ethnicity.

The gagauz businessman should speak: Gagauz language, Moldovan/Romanian (in order to interact with Chisinau authorities), Turkish (for access to the Turkish market), Russian (for access to the Russian market) English (in order to access funding coming from European Union), and Ukrainian (to arrange transportation to the Black Sea ports).

The transnistrian businessman should speak: Russian, Moldovan/Romanian (in order to interact with Chisinau authorities), English (in order to access funding coming from European Union), and Ukrainian (to arrange transportation to the Black Sea ports).

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### Potential Solutions:

- Many of the eastern and northern European Member States were characterised by the fact that learning Russian was compulsory in the past. This situation has changed rapidly after

introducing English language within primary education. In Estonia, Lithuania, Czechia, Bulgaria, Slovakia and Romania English language knowledge among students increased to 69 % - 85 % in 2016, and to more than 90 % in Poland and Latvia.<sup>40</sup> Promoting multilingualism increased the economy's competitiveness and people's mobility and employability. Therefore, it is essential for Gagauzia and Transnistria to increase the offering of English courses and English-teaching initiatives.

- Offer incentives in order to cover the huge need for English teachers, ready to teach to Russian-speaking students.

## **5.2. Gender Balance**

### **In Transnistria**

The research found a shift in the gender balance of the transnistrean society. Historically, this society survived through the salaries of Russian soldiers, creating a gender balance gap. The women were not the driving economic factors in a family. However, more women decided to educate themselves to become linguists or teachers and, as a result learned English. In consequence, they are now in the front line of business avangarde, ready to communicate with foreigners.

### **In Gagauzia**

The governor (the highest position obtained by a Gagauz person) is a woman. People regard with utmost respect this person, in particular, as she serves in the Moldovan government as their advocate and ambassador.

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#### **Suggested further steps:**

- These stories and examples of female success should be shared and replicated.

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<sup>40</sup> "Foreign language learning Statistics" Eurostat. Accessed August 09, 2019.  
<https://ec.europa.eu/eurostat/statistics-explained/pdfscache/1151.pdf>

### 5.3. Additional Challenges of Entrepreneurship in Transnistria

The interviews showed that one of the additional challenges faced by Transnistrian entrepreneurs lays in understanding the **legal structure** of operation. They reported an increased difficulty in getting all the documents ready in order to receive a license.

Similar to Moldova, Transnistria cannot survive on its own. The trade deficit of Transnistria is financed through support from the Russian Federation. In the long-term, in order to grow and prosper Transnistria has to consider **international trade**. In order to do so, Transnistrian entrepreneurs need to register in both Moldova and Pridnestrovian Moldavian Republic and legalize all documents in both countries. This creates a huge barrier for start-ups.

Another notable issue is **the competitive environment** of the region. Elites from Sheriff Enterprises have forged an economic monopoly. They own supermarkets, petrol stations, a phone network, a football club, alcohol factories and even a car dealership.<sup>41</sup> Therefore, depending on the industry entrepreneurs are trying to enter, small businesses might struggle to grow and scale.

Even more than Moldova, Transnistria offers a unique opportunity in the **tourism industry**. The breakaway region still houses many symbols of the USSR, from Lenin statues, streets with communist names, soviet tanks to abandoned factories. There is potential for attracting Russian tourists nostalgic for the Soviet period as well as Western and Eastern European curious young travellers.<sup>42</sup>

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<sup>41</sup>"Freedom Bubbles Away Under Ground in Transnistria." Balkan Insight. May 18, 2018. Accessed August 09, 2019.

<https://balkaninsight.com/2017/11/16/freedom-bubbles-away-under-ground-in-transnistria-11-15-2017/>.

<sup>42</sup> "INCOMING TOURISM IN TRANSNISTRIA" Delia BAR-KOŁELIS. April 2011. Accessed August 09, 2019. [https://www.researchgate.net/publication/266610449\\_INCOMING\\_TOURISM\\_IN\\_TRANSNISTRIA](https://www.researchgate.net/publication/266610449_INCOMING_TOURISM_IN_TRANSNISTRIA)



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**Potential Solutions:**

- Incentivise trade between Transnistria and Chisinau.
- Increase international adventure tourism. Create more regional transportation connections. At the moment, there is only one train from Tiraspol to Odessa and no connection with Romania.
- A widespread use of English language and a good marketing campaign on safety issues, would attract more customers and investors into the region.

## **5.4. Additional Challenges of Entrepreneurship in Gagauzia**

Entrepreneurs in Gagauzia seem to have been forgotten by Chisinau. Even if the current governor (Bashkan) of Gagauzia is an example of smart politician balancing a moderate speech (in line with the limits of autonomy granted by Chisinau) with a firm affirmation for good relationship with all countries involved (Russia, Turkey, Ukraine), the economic authorities from Chisinau often focus their resources in solving the issues of the Moldovan entrepreneurs from the non-autonomous parts of the republic and sometimes disregard the needs expressed by the Gagauz governor. Gagauzia needs the involvement of the Moldavian state to build and maintain the infrastructure: roads, a railway system, ports on the Danube river (such as Giurgiulesti), customs borders with Ukraine (to send the merchandise to the Ukrainian harbour of Ismail that offers access to the Black Sea).

**Tourism** also represents an opportunity for Gagauzia. In 2010, UNESCO stated that the Gagauz language is a language in danger, and the region is currently in the process of applying to join the UNESCO world heritage list. In Comrat, there is a history and ethnography museum, however, there is no translation other than in Russian or Gagauz language.

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**Potential Solutions:**

- Increase support for Gagauzia's economic development. Gagauzia should act as an innovation lab for the Moldavian export. The best place to test the unorthodox programs: elasticity of tax level and collection, effect of English for all, zero bureaucracy for the working foreigners, grants for the start-ups of Moldovans coming back home, etc.
- Promote international programs and projects. For example, Erasmus+ for Entrepreneurs. Mandate the widespread use of English language in museums and launch an international marketing campaign on the uniqueness of the Gagauz culture.

## 6. CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

The study is based on the hypothesis that Moldova's human development index (HDI) could in fact be low due to the country's business ecosystem, more specifically, due to its entrepreneurial challenges.

Due to its geography and size, Moldova has the potential to grow economically. Moldova requires good ties with Ukraine, Romania (as an agent of the European Union) and Russia. The duality of Moldovan identity, Russian versus European stands at the core of some of the Moldovan economic problems. Moreover, Moldova cannot ignore Transnistria and Gagauzia but should rather encourage the economic development of these unique regions.

### Recommendations Summary

Each of the key findings present detailed recommendations at the end of their specific sections.

#### *Education*

- Launch partnerships with foreign business schools bringing curriculum from Western Europe and the United States.
- Encourage the learning of English (the international language of business), especially in the regions of Transnistria and Gagauzia.

#### *Policy and Regulation*

- Simplify the legislation (for import-export, financing and employment of foreigners).
- Shift focus towards Startup-friendly Policies such as creating a Moldovan Start-up Visa.
- Deregulate high potential industries such as tourism.

#### *Financing*

- Unify the Moldovan society around the fight against corruption (the current political alliance is an example of that: pro-Russians agreed to cooperate with pro-European against the thieves). Foreign investments will follow once corruption decreases.

- Continue the digitalisation of the Moldovan society.

#### *Transnistria*

- Similar to Moldova, Transnistria cannot survive on its own. The region requires support in order to develop. A widespread use of English language, a good marketing campaign on safety issues and better infrastructure for tourism and trade would attract more customers and investors into the region.

#### *Gagauzia*

- Support Gagauzia in its economic development. Gagauzia should act as an innovation lab for the Moldavian export. The best place to test the unorthodox programs: elasticity of tax level and collection, effect of English for all, zero bureaucracy for the working foreigners, grants for the start-ups of Moldovans coming back home, etc.

## 7. APPENDIX

### APPENDIX A: Database of People Interviewed (Chronological Order)

1. Artur Gurau, Media Entrepreneur - CEO & Founder Granat, Co-Founder Rockit
2. Roman Ceban, Asociația Oamenilor de Afaceri din Moldova
3. Daniela Frumusachi, JCI Chisinau - Arboretum project
4. Corina Dascalu, Detox Delivery Moldova
5. Anna Gherganova, Head of Employment Policy Department - Ministry of Health, Labor and Social Protection
6. Anghel Pinte, Head of SME Banking at Victoriabank
7. Andrei Rusu, GoAdventure
8. Sergiu Gurau, Eco-Razeni
9. Liza Mamaliga, Dulce Plai
10. Dragalina Gincu, Apicola
11. Doina Nistor, Chief of Party at Moldova Competitiveness Project
12. Xenia Muntean, Planable
13. Victoria Novac, Edujoc
14. VictoriaBank event at Jolly Alon Hotel
15. Alina Andriuță, Angry Business
16. Mihail Samburschi, Sales Manager at Cricova
17. Vlad Suleanschi, Smokehouse
18. Aliona Cravetchi, ODIMM
19. Valentina Stadnic, Moldova IT Park
20. Ivan Ivancev, Head of Foreign Aid Coordination Division
21. Ivan Cambur, Chief Executive at Association of Business People of Gagauzia “NEXT”
22. Christian Gessl, Advisor of the President of the Executive Committee of the ATU Gagauzia on socio-economic affairs
23. Tatiana Sakovych, SMART Language Center Tiraspol
24. Inna Gilak, Chamber of Commerce and Industry of Pridnestrovie
25. Maria Khoroshunova & Dmitri Tokarev, GoTransnistria
26. Sergey Petrenko, CEO & Founder of Terminal 42
27. Alexander Krashov, CEO & Co-Founder of Choicery
28. Alexander Melnichenko, CEO & Co-Founder of First Consulting Factory
29. George Lupascu-Pruna, Accredited Practitioner on Interculturality & Organizational Culture | The Hofstede Insights
30. Jane Klepa, Executive director at 1991 Open Data Incubator
31. Vasile Tofan, Partner at Horizon Capital

## **APPENDIX B: Interview Questions Template**

1. Tell me a few things about yourself.
  - How old are you?
  - Where are you from?
  - Which studies did you complete and where?
  - What languages do you speak?
2. Tell me a few things about your current business/ current position and the company/association.
  - When did you start?
  - How many employees do you have?
  - What's your 2018 net sales? - cifra de afaceri
  - What's your domain?
  - Do you export? Where?
3. Where do you see your business in the next 5 years? What about next year?
4. How does the political environment influence your business?
  - Legislation
  - Government
5. What kind of education would you like to see in your future employees?
6. Where do you get financing from?
7. How does the competition environment look like?
  - Local / national / international
  - Crowded market / a few big competitors / scattered market
8. Advantages and Disadvantages of doing business in the region?
9. Any industries with high potential or trends that you have noticed?

### **Region Specific Questions**

#### ***Transnistria***

10. What are the common problems/challenges of a Transnistrian entrepreneur (on top of the ones a Moldovan entrepreneur has)? Is it harder to be a Transnistrian entrepreneur?

#### ***Gagauzia***

10. Are there differences between the laws in Gagauzia and Moldova? If there are, which?

11. What are the common problems/challenges of a Gagauz entrepreneur (on top of the ones a Moldovan entrepreneur has)? Is it harder to be a Gagauz entrepreneur?