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<b>DEZECHILIBRUL COMER ULUI DINTRE RI LA ETAPA ACTUAL .....</b>	<b>11</b>
<i>Alexandru STRATAN, dr. hab., profesor, INCE</i> <i>Elena ACULAI, dr., conf. cercet., INCE</i> <i>Natalia VINOGRADOVA, dr., conf. cercet., INCE</i>	
<b>EVALUAREA MEDIULUI DE AFACERI ÎN REPUBLICA MOLDOVA: TENDIN E</b> <b>PRINCIPALE I FACTORI DETERMINAN I.....</b>	<b>19</b>
<i>Naji SALEH, dr., Carmel College, Israel</i>	
<b>EFACTELE INTEGR RII TEHNOLOGICE ASUPRA REZULTATELOR</b> <b>PROFESORILOR.....</b>	<b>31</b>
<i>Gheorghe ILIADI, dr. hab., prof. cercet., INCE</i>	
<b>BAZELE CONCEPTUALE ALE PERFEC ION RII REDISTRIBUIRII ECHITABILE CA</b> <b>PREMIS A STABILIT II FINANCIARE A STATULUI.....</b>	<b>36</b>
<i>Bestenigar KARA, drd., Turcia</i> <i>Sedat Hasan KARACAOGLO, manager, Turcia</i> <i>Alexandru GRIBINCEA, dr. hab., prof.univ., ULIM</i>	
<b>GERMANIA I TURCIA – PARTENERI DE PERSPECTIV .....</b>	<b>40</b>
<i>Tudor BAJURA, dr. hab., profesor, INCE</i>	
<b>INDICATORII ACTUALIZA I PRIVIND PIA A FUNCIIAR ÎN REPUBLICA</b> <b>MOLDOVA.....</b>	<b>44</b>
<i>Ewa PŁACZEK, dr., Universitatea de Economie din Katowice, Polonia</i>	
<b>PERSPECTIVE DE DEZVOLTARE A SERVICIILOR LOGISTICE ALE</b> <b>FURNIZORILOR DIN POLONIA.....</b>	<b>49</b>
<i>Victor MOCANU, dr., Institutul de Studii Juridice i Politice, A M</i> <i>Andrei DUMBR VEANU, dr., Institutul de Studii Juridice i Politice, A M</i>	
<b>PREMISELE STRUCTURILOR DE CLAS ÎN REPUBLICA MOLDOVA.....</b>	<b>55</b>
<i>Galina ULIAN, dr. hab., prof. univ., USM</i> <i>Mariana MÎRZAC, dr., conf. univ., USM</i>	
<b>DEP IREA CONSTRÂNGERILOR PRIN PRISMA PREVIZIUNILOR STRATEGICE</b> <b>DE DEZVOLTARE A SISTEMULUI DE SUS INERE I FINAN ARE A BUSINESSULUI</b> <b>MIC I MIJLOCIU.....</b>	<b>61</b>
<i>Yuriy KOZAK, dr.hab., prof.univ., Universitatea Economic Na ional din Odesa</i> <i>Olga ERMAKOVA, dr., conf. univ., Universitatea Economic Na ional din Odesa</i>	
<b>INOVAREA I TRANSFORMAREA POLITICII REGIONALE.....</b>	<b>69</b>
<i>Victor SULA, dr., conf. univ., ASEM</i>	
<b>GESTIUNEA FLUXURILOR MONETARE LA NIVEL DE ÎNTREPRINDERE.....</b>	<b>74</b>

<i>Iulia CAPRIAN, dr., conf., Universitatea de Stat din Moldova</i> <i>Iurie CAPRIAN, masterand, Universitatea de Stat din Moldova</i>	
<b>ROLUL PENALIZĂRII ÎN EDUCAȚIA CONTRIBUABILULUI FISCAL.....</b>	<b>78</b>
<i>Raisa DUSCOV, drd., ULIM</i> <i>Alexandru GRIBINCEA, dr. hab., prof.univ., ULIM</i>	
<b>ECONOMIA ÎNȚIȘĂRII MICI DIN EUROPA, MEMBRE UE.....</b>	<b>85</b>
<i>Dorina CLICHICI, dr., INCE</i> <i>Iulia LUPU, dr., Centru de Cercetări financiare și monetare "V. Slavescu" Academia Română</i>	
<b>GUVERNANȚA CORPORATIVĂ – DETERMINANT AL STABILITĂȚII SISTEMULUI BANCAR AL REPUBLICII MOLDOVA.....</b>	<b>93</b>
<i>Tatiana COLESNICOVA, dr., conf. cercet., INCE</i>	
<b>PIA FINANCIARĂ GLOBALĂ : ANALIZĂ ȘI PERSPECTIVE.....</b>	<b>97</b>
<i>Maxim PECIONCHIN, drd., UIBE, Beijing, China</i> <i>Muhammad USMAN, drd., UIBE, Beijing, China</i>	
<b>IMPORTANȚA DATELOR TWITTER PENTRU PROGNOZAREA FLUCTUAȚIILOR PE PIAȚA DE VALORI.....</b>	<b>105</b>
<i>Igor PRISAC, dr., lector, Universitatea "Divitia Gratiae"</i>	
<b>DINAMICA ECONOMICĂ A REPUBLICII MOLDOVA ÎN CONTEXTUL INTEGRĂRII EUROPENE.....</b>	<b>113</b>
<i>Tatiana MOROI, lector superior, ASEM</i>	
<b>RAȚIONALIZAREA FINANȚĂRII INSTITUȚIILOR MEDICO-SANITARE RAIONALE LA NIVEL SPITALICESC ÎN REPUBLICA MOLDOVA.....</b>	<b>120</b>
<i>Olga TIMOFEI, cercet. t., INCE</i>	
<b>ROLUL SECTORULUI BANCAR ÎN ASIGURAREA STABILITĂȚII FINANCIARE A STATULUI.....</b>	<b>127</b>
<i>Olga PERCINSCHI, drd., ASEM</i>	
<b>ANALIZA PIEȚEI DE ARTĂ DIN REPUBLICA MOLDOVA CU ELEMENTE DE MARKETING INOVATIV (bazat pe interviul autorului).....</b>	<b>134</b>
<i>Viorica CERBUȚĂ, drd., ASEM</i>	
<b>FINANȚAREA DEZVOLTĂRII SECTORULUI ÎNȚIȘĂRIILOR MICI ȘI MIJLOCI.....</b>	<b>139</b>

## CONTENTS

<i>Gatut Luhur BUDIONO, PhD, Professor, University of Pancasila, Indonesia</i> <i>Liliana Temirkhanovna BERDIMURATOVA, PhD, Kazakh-Russia International University, Aktobe, Kazakhstan</i> <i>Jiwa Tribhuana TUNGGADEWI, Magister of Management, University of Pancasila, Indonesia</i>	
<b>THE IMBALANCE OF TRADE AMONG COUNTRIES IN THE WORLD NOWADAYS.....</b>	<b>11</b>
<i>Alexandru STRATAN, PhD, Professor, NIER</i> <i>Elena ACULAI, PhD, Associate Researcher, NIER</i> <i>Natalia VINOGRADOVA, PhD, Associate Researcher, NIER</i>	
<b>ASSESSMENT OF THE BUSINESS ENVIRONMENT IN THE REPUBLIC OF MOLDOVA: KEY TRENDS AND DETERMINING FACTORS.....</b>	<b>19</b>
<i>Naji SALEH, PhD, Carmel College, Israel</i>	
<b>TECHNOLOGY INTEGRATION EFFECTS ON TEACHERS' ACHIEVEMENT.....</b>	<b>31</b>
<i>Gheorghe ILIADI, PhD, Professor Researcher, NIER</i>	
<b>CONCEPTUAL FOUNDATIONS FOR IMPROVING FAIR REDISTRIBUTION AS A PREREQUISITE FOR FINANCIAL STABILITY OF THE STATE.....</b>	<b>36</b>
<i>Bestenigar KARA, PhD Student, Turkey</i> <i>Sedat Hasan KARACAOGLO, Manager, Turcia</i> <i>Alexandru GRIBINCEA, PhD, Professor, ULIM</i>	
<b>GERMANY &amp; TURKEY – A PARTNERSHIP PERSPECTIVE.....</b>	<b>40</b>
<i>Tudor BAJURA, PhD, Professor, NIER</i>	
<b>UPDATED INDICATORS REGARDING THE LAND MARKET IN REPUBLIC OF MOLDOVA.....</b>	<b>44</b>
<i>Ewa PŁACZEK, PhD, University of Economics in Katowice, Poland</i>	
<b>DEVELOPMENT PERSPECTIVES OF LOGISTICS SERVICES PROVIDERS IN POLAND.....</b>	<b>49</b>
<i>Victor MOCANU, PhD, Institute of Juridical and Political Studies, ASM</i> <i>Andrei DUMBR VEANU, PhD, Institute of Juridical and Political Studies, ASM</i>	
<b>PREMISES FOR CLASS STRUCTURES IN THE REPUBLIC OF MOLDOVA.....</b>	<b>55</b>
<i>Galina ULIAN, PhD, Professor, USM</i> <i>Mariana MÎRZAC, PhD, Associate Professor, USM</i>	
<b>WAYS TO OVERCOME THE CONSTRAINTS THROUGH STRATEGIC DEVELOPMENT OF SUPPORT SYSTEM FOR FINANCING SMALL AND MEDIUM BUSINESS.....</b>	<b>61</b>
<i>Yuriy KOZAK, PhD, Professor, Odessa National Economic University</i> <i>Olga IERMAKOVA, PhD, Associate Professor, Odessa National Economic University</i>	
<b>INNOVATION AND REGIONAL POLICY TRANSFORMATION.....</b>	<b>69</b>
<i>Victor SULA, PhD, Associate Professor, ASEM</i>	
<b>CASH FLOWS MANAGEMENT AT THE ENTERPRISE LEVEL.....</b>	<b>74</b>

<i>Iulia CAPRIAN, PhD, Associate Professor, Moldova State University</i> <i>Iurie CAPRIAN, Master, Moldova State University</i>	
<b>ROLE OF TAX PENALTIES IN TAXPAYERS EDUCATION.....</b>	<b>78</b>
<i>Raisa DUSCOV, PhD Student, ULIM</i> <i>Alexandru GRIBINCEA, PhD, Professor, ULIM</i>	
<b>ECONOMY OF THE SMALL COUNTRIES FROM EUROPE, EU MEMBERS.....</b>	<b>85</b>
<i>Dorina CLICHICI, PhD, NIER</i> <i>Iulia LUPU, PhD, Financial and Monetary Research Centre V. Slavescu Romanian Academy</i>	
<b>CORPORATE GOVERNANCE – DETERMINANT OF MOLDOVAN BANKING SYSTEM STABILITY.....</b>	<b>93</b>
<i>Tatiana COLESNICOVA, PhD, Associate Professor, NIER</i>	
<b>THE GLOBAL FINANCIAL MARKET: ANALYSIS AND PERSPECTIVES.....</b>	<b>97</b>
<i>Maxim PECIONCHIN, PhD Candidate, UIBE, Beijing, China</i> <i>Muhammad USMAN, PhD Candidate, UIBE, Beijing, China</i>	
<b>DATA MINING TWITTER TO PREDICT STOCK MARKET MOVEMENTS.....</b>	<b>105</b>
<i>Igor PRISAC, PhD, Lecturer, „Divitia Gratiae” University</i>	
<b>ECONOMIC DYNAMICS OF THE REPUBLIC OF MOLDOVA IN THE CONTEXT OF EUROPEAN INTEGRATION.....</b>	<b>113</b>
<i>Tatiana MOROI, Senior Lecturer, ASEM</i>	
<b>STREAMLINING FINANCING OF THE DISTRICT HEALTHCARE INSTITUTIONS AT THE HOSPITAL LEVEL IN THE REPUBLIC OF MOLDOVA.....</b>	<b>120</b>
<i>Olga TIMOFEI, Scientific Researcher, NIER</i>	
<b>THE ROLE OF BANKING SECTOR FOR STATE’S FINANCIAL STABILITY.....</b>	<b>127</b>
<i>Olga PERCINSCHI, PhD Student, ASEM</i>	
<b>THE ANALYSIS OF THE ART MARKET FROM REPUBLIC OF MOLDOVA WITH INNOVATIVE MARKETING ELEMENTS (based on the author’s interview).....</b>	<b>134</b>
<i>Viorica CERBUSCA, PhD Student, ASEM</i>	
<b>FINANCING SME FUTURE DEVELOPMENT.....</b>	<b>139</b>



, , , , , , , , , , , , , , , .....	11
, , , , , , , , , , - : .....	19
, , , , , .....	31
, , , , , .....	36
KA' A AO O, , , , , , - , ULIM .....	40
, , , , , .....	44
, , , , , .....	49
, , , , , , , , , , .....	55
Ma , , , , , .....	61
, , , , , , , , , , .....	69
, , , , , , ASEM .....	74

, , , , ,	.....	78
, , <i>ULIM</i> , , <i>ULIM</i>	- .....	85
, , , , , -	- .....	93
, , :	.....	97
, , <i>UIBE</i> , , , <i>UIBE</i> , <b>TWITTER</b>	.....	105
, , .....	<i>"Divitia Gratiae"</i> .....	113
, , .....	, <i>ASEM</i> .....	120
, , .....	.....	127
, , <i>ASEM</i> .....	( .....)	134
, , <i>ASEM</i> .....	.....	139

## THE IMBALANCE OF TRADE AMONG COUNTRIES IN THE WORLD NOWADAYS

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*It was the custom of collusion between officials of the State with local and foreign traders to seek personal gain and their allies in the territory of the poor. State officials make laws that provide the opportunity for foreign traders to be able to lend money to the poor state of local merchants to give in exchange for commission. These conditions cause inflation vulnerable because consumptive lifestyle of the community, global competitiveness is weak because it does not have a culture of hard work, creative, and efficient industry.*

**Key words:** *conspiracy, credit, inflation, global competition.*

*Interactiunea dintre func ionarii statului cu comercian ii locali i str ini consta în cautarea unei posibilit i de câ tig personal. Societatea însa nu este destul de solvabila i alia ii lor pe teritoriul celor s raci. Functionarii de stat fac legi care prev d posibilitatea ca comercian ii str ini s poat împrumuta bani pentru starea proast ca comercian ii locali s dea în schimb comision. Aceste condi ii provoac infla ie vulnerabil din cauza stilului de via consumtiv a comunit ii, competitivitatea global este slab , deoarece nu are o cultur de munc grea de crea ie i industrie eficient .*

**Cuvinte cheie:** *conspira ie, credit, infla ie, concuren global .*

**JEL Classification: D41; E31; E51**

**Introduction.** Actually, nowadays there is a trade imbalance between the countries in the world. On the one hand there is a rich country and they have formed their own group for their own interests, so that until now they become a very rich country group in the Northern Earth. On the other hand there is a group of countries that are very poor in the Southern hemisphere and to this day the people in the country are not able to realize that they are living in poverty due to the nature of lazy work culture, furthermore, they are happy to political feuding between nations of their own, so that the nation would fall apart, and were divided politically and culturally by foreign nations; but they do not realize that these conditions are the main weaknesses and even really enjoy the low cultural life patterns.

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Conspiracy of state officials and traders seeking profits, coupled with the rise of conspiracy and official foreign and local traders are very detrimental to the public. Business and social circumstances such political encourage economic conditions and business in poor countries become very bad, they do not have an efficient bulk industry, while agricultural products, mining, trade and other marine also difficult to compete. These conditions will be difficult to poor countries to compete in global trade. In addition, the poor condition of the State's economy is inefficient because too much cheap credit that has fueled high inflation. The state of the economy as it is shows that the foreign party in control of the impoverished country's economy.

The poverty situation in the majority caused by, among others, the businessmen in cooperation with politicians calling the entry of foreign capital that can only be enjoyed by the upper middle class society as a ruler of capital and the capital is only used to make the creation of trading companies and other services rather than building a manufacturing industry that is capable of absorbing more labor. This group only care about the interests of their own group rather than the welfare of society at large that the average is very poor.

This paper intends to give an idea that has been going on business and economic development imbalance between the rich countries in the northern hemisphere and the poor state located in the southern hemisphere. The condition can occur because of a group of rich countries doing business and economic exploitation to poor countries through the intrusion of the influence of money, economic, political and social culture that does not realize at all that they are being exploited by other communities who come from rich countries; they enjoy these conditions because the poor do not care and do not care about the interests of his country communities together but put the interests of the individual. It is hoped this paper is able to give lessons and enlightenment to the poor nations of the world are still willing to pay attention to the welfare of the international community together.

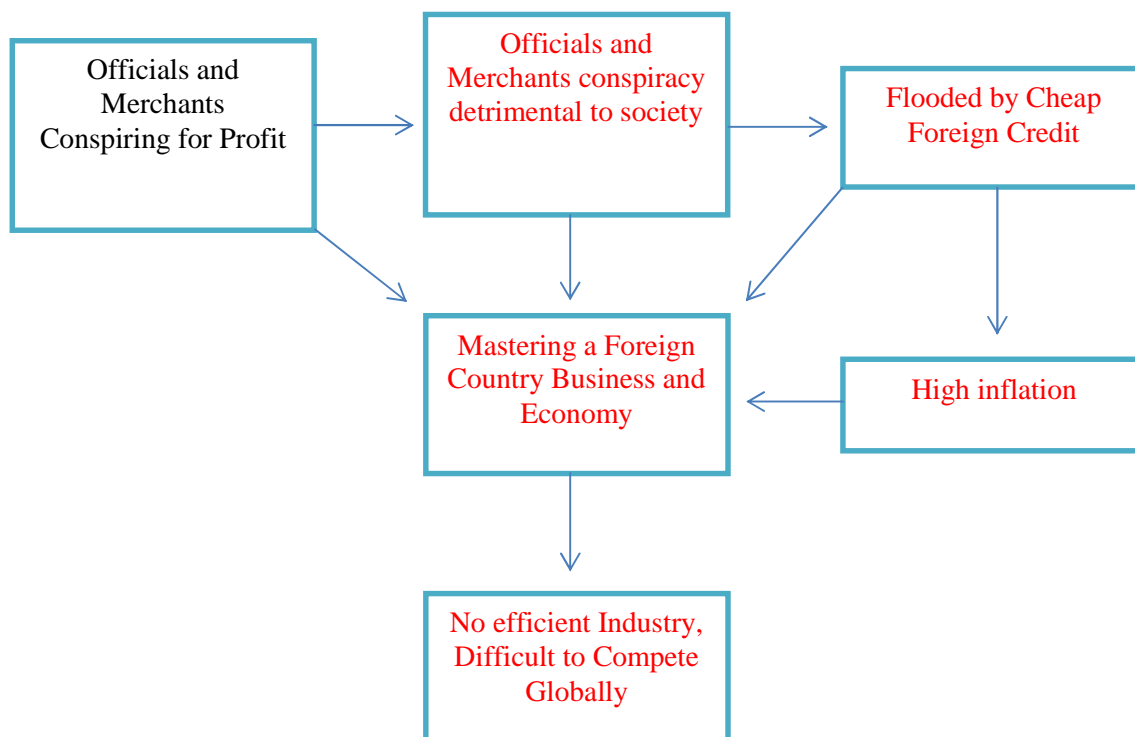


Fig. 1. Conceptual Framework

**Poor Countries That Do Not Have an Efficient Industry Will Not Be Able To Compete**

Most poor countries remain poor communities, it is difficult to develop even more poor and stupid (Lipton, 1977). They were only able to import their consumption needs, but are not able to make their own, even so stupid, they are even proud when importing foreign products despite not being able to make their own. Nations are only able to import is actually a poor nation materially and spiritually; they do not have national pride into a nation that has a high achievement. The condition can occur because of poor knowledge and technology and mentally weak.

Poor countries are mostly agricultural country which can produce, among others, food, livestock, and agroindustrial products by utilizing natural resources, plants and animals. This gives rise to a tendency to make poor countries as State trade. So it can not be separated from the export and import trade services.

Poor countries rich in natural resources, most poor countries do not have the advanced technology to industry; therefore it does not have goods industry, engaged in trade in services and the economy too much do the imports of products because they can not make it alone. How come? Poor state of the nation is a country where the consumer when all countries around the world are concerned about the increasing need for goods and services, high fertility and has been estimated that in future production capacity will be increasingly unable to meet the growing needs of people who are not infinite. Poor countries instead to emphasize the economic activities with high consumption growth. On the other hand, they do not have their own production capabilities.

Consumer behavior to encourage the nation to be a nation of poor countries poor and ignorant, poor technology and poor knowledge (Ahluwalia, et. al, 2012). More and more consumer attitudes nation in poor countries is getting out of control, poor state of the nation as a nation that has always wanted to "spoon-fed" continuously; indoctrinated by western nations. So finally, what is the trend in western countries will trigger high demand poor countries, even though the product is not essential items, but only to the extent of fulfilling desires. This will lead to high demand for products from abroad so that poor countries burdened by high-cost imports; more and more products are imported, the national product must compete with foreign products are cheaper because of mass production, eventually becoming less competitive local products. More foreign products purchased as a higher-quality, local product eventually compete with foreign products. If this situation was allowed to continue, then poor countries will become increasingly poorer countries, stupid and gullible. Poor countries will not be able to make greater industry to compete with foreign nations.

Table 1

### Import and Export of Poor Countries

Content	Sep 2014		Jan-Sep 2014	
	Billion US\$	% MoM	Billion US\$	% YoY
Export	15,28	5,48	132,71	0,93
Oil and Gas	2,62	0,94	23,40	1,45
Non Oil and Gas	12,65	6,48	109,30	0,81
Import	15,55	5,09	134,37	4,26
Oil and Gas	3,65	7,42	33,02	1,82
Non Oil and Gas	11,89	4,39	101,35	5,03
Sep 2014 : Deficit US\$ 0,27 Billion Jan-Sep 2014 : Deficit US\$ 1,66 Billion				
Source : Badan Pusat Statistik, revised by Kementerian Perdagangan Information : Provisional figures				

Some of the figures in Table 1 indicate that the poor state deficit as imports greater than exports. This illustrates the poor state economy does not balance; the figures in the table demonstrate that poor country is a country that is consumptive.

If the governments of poor countries are willing to make policies to help improve the quality of local products, and is able to foster a sense of love for the product in the country, then the people would probably prefer to consume locally made goods. Major problems can arise due to the behavior, excessive consumptive lifestyles in poor countries just proud to buy foreign products than locally made products, it can lead to high demand for foreign products and lead to higher imports of foreign products will be more rampant in poor countries.

#### Cheap Credit and Inflation

Cheap credit that the liquid can result in the emergence of inflation is caused by too much money in circulation (Wijnbergen, 1983). The credits come from borrowing money comes from foreign countries are rich. Inflation driven by the supply side tends to prove that how much amount of foreign money into

the impoverished country. Poor countries recipient of the money because it was believed even proud of obtaining loans not otherwise feel worried that their economy will be controlled by foreigners. From the supply side, there are policies stating that it is not in terms of the demand to be repaired but the supply side. Usually the government implemented a policy of supply side by increasing aggregate supply. In practice, the tax rate cuts will be able to provide incentives for companies to expand or invest capital goods, because they earn a greater after-tax, which can then be spent and the activity of these imports may be able to end up in inflation.

Journal entitled "Credit Policy, Inflation and Growth in a Financially repressed Economy" by Sweder van Wijnbergen indicates that the credit crisis could lead to short-term inflation stagnant. Cutting the real stock of credit shown to cause low steady state capital stock. In this supply-side policies, according to Carles Boix in "Political Parties and the Supply Side of the Economy: The Provision of Physical and Human Capital in Advanced Economies, 1960-90", the configuration of institutional and government intervention influencing economic policies simultaneously. Economic openness does not restrict the choice of supply-side policies.

According to Enrique G. Mendoza and Linda L. Tesar, in their journal entitled "Supply-Side Economics in a Global Economy", the tax reform in the global economy led to cross-border externalities through capital flows in response to consumption and debt securities services, the tax could affect the distribution welfare gains. In class tax rate, profit tax replacing the income tax with a large consumption and the absence of a tax on foreign assets, deviations separating equilibrium monopoly company and not the company to be ignored.

But on the other hand, the policy by increasing the aggregate supply is to make people poorer countries tend to be consumptive. Until finally the consumer behavior is increasingly encouraging people love to shop, can make the amount of money in circulation increased a lot and can result in increased inflation rate.

Table 2

Total Money Supply in developing countries from 1996 to 2013

Year	The Money Supply (Billion)					Currency Vs M2	SUN (Trillion)
	Currency Money	Demand Money	Quasi Money	M1	M2		
1996	22.487	41.602	224.543	64.089	288.632	7,79%	-
1997	28.424	49.919	277.300	78.343	355.643	7,99%	-
1998	41.394	59.803	476.184	101.197	577.381	7,17%	100
1999	58.353	66.280	521.572	124.633	646.205	9,03%	502
2000	72.371	89.815	584.842	162.186	747.028	9,69%	652
2001	76.342	101.389	666.322	177.731	844.053	9,04%	661
2002	80.686	111.253	691.969	191.939	883.908	9,13%	655
2003	94.542	129.257	731.893	223.799	955.692	9,89%	649
2004	109.265	144.553	779.709	253.818	1.033.527	10,57%	662
2005	124.316	157.589	732.364	281.905	1.203.215	10,33%	693
2006	151.009	210.064	837.068	361.073	1.382.074	10,93%	743
2007	183.419	277.423	966.454	460.842	1.643.203	11,16%	803
2008	209.378	257.001	1.136.979	466.379	1.883.851	11,11%	906
2009	226.006	289.818	1.622.055	515.824	2.141.384	10,55%	979
2010	260.194	345.184	1.854.946	605.378	2.469.399	10,54%	1.064
2011	307.760	415.231	2.139.840	722.991	2.877.220	10,70%	1.188
2012	361.967	479.755	2.452.503	841.722	3.304.645	10,95%	1.361
2013	347.204	511.353	2.543.285	858.557	3.413.437	10,17%	1.619
Average						9,82%	

Source: Boix Carles, *Political Parties and the Supply Side of the Economy* (3).

This supply-side policies found better increase national income through the use of resources rather than trying to suppress or relieve economic fluctuations. In coping with inflation and unemployment, supply-side policies offer a new program of tax reduction that may be able to increase the desire to invest. It certainly encourage increased production. Such improvements may also result in a decrease in unemployment and inflation easing.

The main purpose of the supply-side policies are long-term economic growth. This was done to promote full employment and technological change. The purpose of the policy is the supply side in order to program the tax cuts will probably benefit all parties (Mendoza and Tesar: 1998). Workers can earn a



higher after-tax. Governments also receive a total tax revenues which is also greater. Longer working hours increase national output and consequently poor country's economy will flourish.

For now, by looking at the data in Table 2, it can be concluded that poor countries can not compete with the capitalist investors, because its financial condition is very dependent on the supply of money coming from foreign parties. When the amount of imports in poor countries increases, the inflation rate will also increase. It is important that the poor countries should be able to get out of the capitalist environment and poverty as more and behave consumptive, the money supply will be more and more of the transactions carried out and eventually inflation will rise. Countries should implement policies such as monetary policy to regulate the money supply and curb the excessive growth of the money stock. In addition, the policy of increasing interest rates could also encourage people of poor countries to reduce consumptive behavior and encourage them to keep their money in the bank because it will make a profit from the interest rate is raised. In addition, fiscal policy needs to be done to lower tax rates to curb inflation.

### **Foreign Countries Mastering Economy of Poor Countries**

Foreign-controlled economy, foreign capital is very much in circulation State dominate financial sector and progressively increasing in number, ironically, low credit repayment ability and easily distracted by the smooth shocks capital investment world. Poor state always depended on foreign capital to finance domestic investment because funds from local savings are smaller than the need for investment funds. Credit assistance of foreign capital could be a problem. Balance can be a deficit. In addition, many ways for foreigners to assist investment and financial sectors among others, by buying assets in the country or direct investments.

Local savings are very important and much needed by a State to fund development in the country. Poor countries usually have underfunded savings, the reality is that local savings can not meet the investment needs for development and economic growth in the country. So that foreign capital is indispensable to overcome the country's financial problems, it is this condition is like a vicious circle.

Foreign aid is not really a good step to be taken, at some point it will cause a negative impact on the economy of a country. The inability of the State Government financial management can also be a problem later in the future. Many governments of poor countries tend to allocate foreign aid for consumption or provide social assistance to the poor. Without realizing such actions are not worth educating people become good at managing finances and consumption. Worse yet poor State Government has disbursed foreign aid for the purposes of public consumption, so that inflation is on the rise.

Dependency theory school illustrates that whatever the form of foreign aid in the form of loans or investments would damage economic growth in a country generally poor developing countries (Bornschieer, Dunn and Rubinson: 1978). Does not directly damage but gradually downturn could be very damaging. This can occur due to large companies from developed countries to penetrate the economic business with a view to be able to dominate the business and economy of poor countries so that at a time of rich countries can control natural resources and financial resources and human resources in poor countries or a variety of other countries that have received foreign aid. In fact, should the resources that exist in the country which should be optimized to support the national development of each poor country.

By doing so, the people who receive foreign aid actually going to become increasingly difficult and dependence on foreign forever, meanwhile, developed countries that help will be more prosperous, because they can easily take on labor and even natural resources or territory owned by poor countries (Rifai and Alfillail: 2012). The condition is driven by the theory of reciprocation. If this continues – being left to the economic growth will be able to continue to slow down, and will appear economic inequality and income inequality continues to spread in poor countries. The theory shows that poor countries resources are exploited not be compensated in kind with something acquired developed countries. These conditions will increasingly make poor countries worse, depending on the favor of rich countries, furthermore, poverty will continue to dominate. If poor countries are not able to get out of this economic zone of political turmoil, the poor countries will never be an independent state and advanced.

Poor countries during this century is very dependent on foreign capital to finance investment in the country; because funds from the savings is less than the requirement of funds for investment. Dependence on foreign capital makes a poor nation can not maximize production in the country. This condition causes people from poor countries become poorer; include poor knowledge and technology, moreover, lifestyle consumer society complicate the nation's problems. Of course, causing the economy in this nation controlled by foreigners.

To be able to get out of this capitalist zone Poor countries must have a good policy to regulate foreign aid, and do not be lulled will help such funds directly, it will only add to the debt of a country, such as the vicious circle will never drop out of the habit of "debt". While the debt obtained can indeed help finance the construction, but in fact the foreign funds allocated to sectors that are not important to the community such as development banks and malls. The condition is increasingly pushed into the consumer society and the continuous foreign enslaved by gradually mastered all sectors of the economy of poor countries. Poor countries will not be able to go forward because of the low educational community and unwise. Actually, personal self-awareness of cultural change and nationalism will bring people from poor countries to be better.

#### **Economic Colonization in the Present**

Is it the same as a physical colonization compared with colonization in Economics? Physical and economic colonization is basically two different things but have the same goal (Bauer: 1969). The purpose of physical or economic colonialism is to take overall control of the occupied territory. With these objectives the invaders attempt to take all of the potential energy, natural resources that exist in the colonial countries to be moved to the country with the goal of becoming the most powerful country in the world because it has everything it needs.

Over time, poor countries experienced many events that affect the deterioration of economic conditions. Today, in the era of globalization has a lot of foreign companies operating in poor countries, produces electrical goods, clothes, food, including foreign restaurant. Actually this is a form of implementation of economic colonization, where the colonists attempted to colonize poor state economy indirectly. The colonization of today does not require the physical presence of the invaders in a particular territory, and does not need a weapon to dominate other nations in other continents, but only requires money and mass communication which explains that the foreign presence in the region to foster economic growth in the context of the process of globalization the world. Actually economic colonialism deserves to be called neo-colonialism, which means the practice of capitalism, globalization, also the spread of western culture, instead of political and military control directly. Economic globalization indicates that the distance between the state dwindling, even it is not possible boundaries between the state completely lost when the time comes. This facilitates interstate boundary depletion of products from outside the poorer countries to enter into a poor state. In the case of manufactured products, electronics. Foreign companies through advanced product marketing and prestige try to build and change the minds of the public as well as the image of poor countries. Foreign entrepreneurs have a very good ability to determine the segmentation, target market and positioning of products on the market that wants entered. All the strategies used to influence the minds of the poor, so that eventually the people interested in the products offered and make a purchase. This resulted in the emergence of the consumptive nature of society poorer countries. There is always a desire to buy even though the income received is not proportional to the amount of expenditure. Most of the people of poor countries simply want to consume products and advanced prestige but not the slightest thought to produce something, or at least not produce semi-finished goods which have added value. In addition, the growing number of FDI (Foreign Direct Investment) in poor countries also cause high control of FDI to poor countries. This can lead to local businesses hampered its development, because control of the economy largely held by foreign parties.

#### **The Conspiracy of the State Officials and Merchants to Acquire Personal Profit**

It is precisely in times of reform and globalization, officials and foreign traders and local conspired with the capitalists to gain mutual benefit between them. In 1997, the economic conditions of the poor in countries experienced a downturn due to the strengthening of the US dollar continuously. Moreover, the cause of the internal economic crisis is widespread practice of corruption or collusion, corruption and nepotism are rampant that make the economy more fragile foundation.

Basically, collusion between officials and merchants from poor countries with the capitalists on the basis want to enrich themselves and facilitate business access into the markets of poor countries without going through a series of lengthy and complicated process (Sanusi: 2009). To get into the market in a country is not so easy, a lot of things that must be considered and adhered to, including for example the rule of law, social, cultural. In order to simplify and shorten or even negate a series of processes and rules to be followed by foreign investors – to be able to enter the markets of poor countries - then some of them to approach government officials tasked with overseeing the rules that apply it. Foreign investors are giving a sum of money or promising a high position in the company as a bribe so that supervision can be loose so they can come in and set up business in a poor country with ease.



On the other hand, employers want their business to continue to progress without any hindrance. In connection with it, then they do the same work with government officials to make laws that actually can provide great benefits for the traders. Basically, many employers have violated the law but did not appear visible to the public, because supervision is not strict legal rules. That's because the employers to give some money to the officials so that their business can survive and they also expect the protection of the government officials concerned. Thus, the actual violations have been carried out by the employer can be covered. Collusion between officials of the capitalist is certainly very detrimental to the people. This is because both parties are only concerned with the benefits to be gained themselves respectively. The funds obtained from foreign investors, which should be used to create infrastructure across the country, increasing the welfare of the people actually used for the benefit of its own officials and faction. Thus, the level of social inequality between the rich and the poor widened, social welfare was difficult to achieve.

#### **The Collusion between Officials and Traders Detrimental To Society**

Officials and traders colluded to obtain a business commission, while the majority of the people remain ignorant, poor, and the State was not able to do anything about it. How can poor countries which in fact have a wealth of natural resources abundant but people still struggling with ignorance and poverty? Factor is the main cause of human resources; one of which is hidden role that officials colluded with employers to generate commissions for their own benefit. This is a perversion of political economy detrimental to the public; businessmen and politicians have colluded for profit result in making people remain ignorant and poor. Government officials and politicians are supposed to serve the community constituents but instead make people stupid and poor. Officials and traders concerned with their own interests to seek advantage of – magnitude. Officials made the trade licensing import a personal interest and the interest of foreign partners; give permission easily to build a business that is actually detrimental to the public, but foreign profitable.

In the Relation Journal Entrepreneur-Ruler In Democracy: Rent Seeker Employers phenomenon to be Lord (Muhammad), (Maarif: 2008), (Utomo: 2010) in fact this is an old story where traders break through the power, either because of proximity, collusion, as well as a dual role for profit business benefit. Indeed this has been included in the study of political economy since time immemorial. The discussion was held by Anne Krueger. Similar situation has also been discussed in the Journal of Politics and Entrepreneurship, the phenomenon of "Rent Seeking" and "Client Businessmen" on Rice Milling Enterprises Demak in Central Java there is a view of Weber stating that traders who set up his business in poor countries will acquire a security if they take refuge in someone authority. If the attempt is successful and would bring huge profits, the merchant pays a commission as a reward for services rendered officials (Maarif: 2008). In the journal of "Rent Seeking Behavior in Relation Bureaucracy and Business World" by Syamsul Maarif mentioned that it is where the ruler or official receives a gift or reward through power called rent-seeking behavior. It is breaking the oath of office when they are sworn in as state officials. Oath is that they will not receive any compensation on behalf of the office. They had violated the oath of office for the sake of greed personal interests. Officials became collaborators and safety traders to be able to develop their business smoothly and full of personal gain and groups. Even import traders who are able to beat the competition of local products in terms of quality and price, then automatically the people choose a product of higher quality imports for consumption. If the situation is as it is, then the public will continue to be a nation that is ignorant and poor.

**Conclusions.** Physical and economic colonization are two different things but have the same goal. Intended goal is to take over an area, region or country with all the business and economic activities, as well as people who live in it and in full control of the country to take natural resources, human and culture for the benefit of the invaders. If society continues to let the poor state of economic colonization occurred, accustomed to fall asleep consuming foreign products that enter into the Country without ever thinking to be able to produce something, then it is not impossible that poor countries will be far behind the economic growth of countries such as Singapore, Malaysia, Thailand, and Taiwan. To be able to manufacture or produce a product that has added value and can compete, then it needs the person who has the ability to expertise in fields with high productivity to build the country. In addition, there must be support from the Government. Thus, if the requirements are met, then the poor countries can produce products that can compete with foreign products.

State officials are supposed to be in charge of protecting the welfare of society and even collusion with foreign and local businessmen to seek personal gain. These conditions reflect the nation itself and the occupation by foreign nations. Collusion is done by officials and capitalists harm the people in poor

countries. Poverty increases resulting in higher social problems and high crime and even the destruction of native cultures in poorer countries. In addition, infrastructure development is not going well. This shows that the welfare of the people of poor countries has not been achieved. These conditions need to be fixed by the State Government to give a boost to the poor to improve economic systems to be able to compete with other countries in the world.

Politics and business conspiracy is the cause of poverty evenly. The poor remain poor and even poorer because of high inflation arising hurt the poor. They cannot afford their economic needs. In poor countries there has been a conspiracy of business and politics from officials and traders who requested safeguards to launch its business advantages that may adversely affect the welfare of the community. Officials are supposed to connect with the merchant community. They should that be the protectors of the people against the possibility of widespread practice – unfair trade practices.

State officials have already taken the oath to serve and work and social welfare. State official's obligation is to protect the interests of the people of the possibility of actions that may harm the interests of the merchant community. Officials should serve the interests of the community as they have been paid their salaries by the State where the salaries earned money of tax payments drawn from the community.

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**ASSESSMENT OF THE BUSINESS  
ENVIRONMENT IN THE REPUBLIC OF MOLDOVA:  
KEY TRENDS AND DETERMINING FACTORS**

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*Assessment of trends in the business environment is a matter of interest to entrepreneurs, investors and representatives of the public administration, as it allows well-grounded planning of business development, making reasoned decisions about investing and improving purposefully public policies. In the Republic of Moldova, despite the adoption of the necessary legislation, implementation of government programs and the creation of institutions to support business, trends in the business environment are treated contradictorily by businessmen and public servants. International ratings also provide a mixed assessment of changes in the business climate in the country.*

**The purpose** of this article is to highlight the trends of the business environment in the Republic of Moldova, taking into account the specific conditions of the country, based on results of a entrepreneurs survey, using quantitative indicators that allow an unambiguously interpretation of the changes. The methodology designed and implemented by the authors regarding the approach to the evaluation of the business environment is briefly presented. Emphasis is placed on the results of evaluation of the business environment: the main trends and its determining factors. It was revealed the opinion of entrepreneurs regarding the changing in business environment during the period 2011-2013 and the forecast for 2013-2015. The main **conclusions**, including the possibilities of using the obtained results are also presented.

**Key words:** assessment of the business environment, factor of the business environment, policy of entrepreneurship development, emerging market economies.

*Evaluarea tendin elor schimb rii mediului de afaceri prezint interes pentru antreprenori, investitori i reprezentan ii organelor administra iei publice, deoarece permite de a planifica n mod argumentat dezvoltarea afacerilor, de a adopta decizii justificate cu privire la investi ii i de a perfec iona n mod direc ionat politica de stat. n Republica Moldova, n pofida adopt rii legisla iei necesare, implement rii programelor de stat i cre rii institu iilor de sus inere a afacerilor, tendin ele schimb rii mediului de afaceri sunt tractate contradictoriu de c tre antreprenori i func ionarii de stat. Clasamentele interna ionale de asemenea ofer evalu ri neunivoce ale schimb rii climatului de afaceri din ar .*

**Scopul** acestui articol este de a ar ta tendin ele schimb rii mediului de afaceri n Republica Moldova, luând n considerare condi iile specifice ale rii, n baza rezultatelor chestion rii antreprenorilor, cu utilizarea indicatorilor cantitativi, care permit de a interpreta n mod univoc schimb rile. Succint este prezentat **metodologia** abord rii utilizate la evaluarea mediului de afaceri, elaborat i realizat de c tre autorii prezentului articol. Accentul este pus pe rezultatele evalu rii mediului de afaceri – tendin ele principale i factorii determinan i ai acestora. Este identificat **opinia** antreprenorilor referitoare la schimbarea mediului de afaceri n anii 2011-2013 i la prognoza pentru anii 2013-2015. Sunt prezentate principalele **concluzii**, inclusiv posibilit ile de utilizare a rezultatelor ob inute.

**Cuvinte cheie:** evaluarea mediului de afaceri, factorii mediului de afaceri, politica de dezvoltare a antreprenoriatului, rile cu economia de pia emergent .

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2013 . . . . . 2013-2015 . . . . . 2011-

**JEL Classification: K20; L26; L53**

**Introduction.** Development of entrepreneurship depends on a set of conditions, including the business environment – external factors beyond the control of the enterprise. Business environment may create incentives or, conversely, the barriers to entrepreneurial activity. It also affects the rate of economic growth, employment, investment attractiveness and other macroeconomic indicators of the country/region. Therefore, its monitoring is important for both individual companies and investors, as well as for public authorities implementing the economic policy.

In the Republic of Moldova in recent years, directions and measures to improve the environment for entrepreneurship are provided in a number of important policy documents of the Government, particularly in the National Development Strategy „Moldova-2020”, Strategy for the development of small and medium-sized enterprises for 2012-2020, etc. The Government has adopted the Roadmap to remove critical constraints to the business environment for 2013-2014.

However, despite the adoption of legislation, the introduction of targeted public strategies and programs, the creation of institutions to support the business, the trends of the business environment changes are treated inconsistently by entrepreneurs and public servants: the representatives of the government authorities focus on positive changes in the business climate in the country, while entrepreneurs often indicate a worsening of the situation. International ratings aimed at analysing the changes in the business climate, which also involve the Republic of Moldova, give a mixed assessment.

For a more objective and accurate assessment of changes in the business environment, the authors have developed and implemented an approach that takes into account the specific conditions of the Republic of Moldova, based on a survey of the entrepreneurs, using quantitative indicators that allow an unambiguously interpretation of changes. The article summarizes the methodology of the implemented approach. Emphasis is placed on the results of evaluation of the business environment: the main trends and its determining factors. There was revealed the opinion of entrepreneurs regarding the changing in business environment during the period 2011-2013 and it was given the forecast of its changes over the next 2 years. The main conclusions, based on the survey results, including the possibility of using the obtained results are also presented.

### **1. Definition of the business environment and its assessment: a brief literature review**

In the scientific literature [Shaikh, 2009; Wetherly and Otter, 2014], two groups of factors that create the conditions for doing business are emphasized: internal, on which changes the company may influence (controllable factors), and external ones, outside the firm (uncontrollable). Mainly, factors outside the firm lie at the basis of the definitions of the business environment, used in scientific literature [Richman and Copen, 1972; Shaikh, 2009; Prasad, 2010]. For example, Davis and Blomstrom (1966) define the business environment as the aggregate of all conditions, events and influences that surround and affect it. Glueck and Lawrence (1984), also considering the business environment as a set of external factors to the firm, note that they can lead to new opportunities or threats for enterprises.

Regarding the factors that affect the business environment, the most important of them are related to the economic and political situation, legislation, technological and social development, geographical conditions and so forth [Wetherly and Otter, 2014; Shaikh, 2009]. In accordance with the interpretation of the European Commission, the creation of a favourable business environment requires companies to facilitate access to finance, improving legislation, the development of an entrepreneurial culture [Europa, 2014].

The results of studies of the business environment usually have practical application. This may be the development of recommendations to improve policies to address the elimination of the identified barriers [Dubrovskiy and Ustenko, 2005; Moussis, 2011]. The results of evaluation of the business environment facilitate the decision-making process by investors, based on the forecast of business activity in the country / region. For example, the Swedish Trade and Invest Council regularly conducts The Business Climate Survey in different countries among companies with Swedish capital, that do their business there. This helps Swedish companies to develop investment policy [BCS, 2013a; BCS, 2013b]. The known indicators for assessing the business environment (IFO Business Climate Survey, ZEW Economic Sentiment Index, etc.) have the ability to track and predict the economic cycles that also is taken into account by the entities of financial market [Center for Economic Studies, 2014; ZEW, 2014].

Usually, the concept of „business environment” is used referring to the conditions of the business activity on a certain region within the same country, a country or a group of countries. An example of *local study* can serve the conducting for many years of the CEO Survey of Business Climate in Silicon Valley (USA) [Silicon Valley Leadership Group, 2014]. Among the studies of the business environment in *individual countries*, we can distinguish Ifo Business Climate Survey as a key monthly survey that measures the business climate in Germany, as well as the expectations of German firms for the next six months [Center for Economic Studies, 2014]. The German Ifo is a significant economic health indicator for the Euro-zone as a whole. For *comparison of the business environment in different countries*, international rankings are used. The most famous of them are: Doing Business, The Global Competitiveness Index, Index of Economic Freedom.

## 2. Assessment of trends in the business environment in the republic of moldova on the basis of international rankings

Studies carried out in recent years by well-known international organizations and rating agencies provide an opportunity to compare the business environment in a number of countries, including the Republic of Moldova. For example, in accordance with the international rating Doing Business, calculated by the World Bank, Moldova over the last year has improved its business environment, rising to 4 lines up – on the 78th place [IBRD and The World Bank, 2013]. In *The Global Competitiveness Index 2014-2015*, calculated based on the method of the World Economic Forum, Moldova took 82nd place, retaining its position as compared to 2013-2014 [World Economic Forum, 2014]. On *Index of Economic Freedom*, Moldova ranked 110th place in 2014, rising up with 5 positions compared to 2013 [The Heritage Foundation, 2014].

Table 1 illustrates the change in position of the Republic of Moldova in the leading international rankings, with clearly visible various trends in the business environment over the past 3 years.

**Table 1**

**Position of the Republic of Moldova in the international rankings, 2012-2014**

	2014			2013			2012		
	Rank	Change*	No. of countries	Rank	Change*	No. of countries	Rank	Change*	No. of countries
Doing Business	<b>78</b>	+4	189	<b>82</b>	-1	185	<b>81</b>	+18	183
The Global Competitiveness Index	<b>82</b>	0	144	<b>82**</b>	+5	148	<b>87**</b>	+1	144
Index of Economic Freedom	<b>110</b>	+5	178	<b>115</b>	+9	177	<b>124</b>	-4	179

\* Rank change compared with the previous year.

\*\* Rank based on last year's sample.

**Source: Developed by the authors based on the IBRD and The World Bank (2013), World Economic Forum (2014), The Heritage Foundation (2014).**



An ambiguous assessment of changes in the business environment in a particular country, based on the use of well-known international rankings, is caused by the use of different methodologies, as well as the pace of reforms made in other countries. Thus, for a more accurate assessment of the business environment in the Republic of Moldova, along with the results of international comparative studies, it is necessary to use approaches that consider more deeply the peculiarities of the country's development.

### 3. The proposed approach to the assessment of the business environment in the Republic of Moldova: methodology of research

In order to assess the business environment, the authors have developed the method described and tested in the framework of the research project within the National Institute for Economic Research [INCE, 2013]. The proposed method is based on the following *starting positions*: assessment of trends in the business environment is in the focus of the study, which can be detected by the main factors (including sub-factors and indicators) with a quantitative assessment, and are evaluated on the basis of surveys of entrepreneurs.

*Reasoning and selection of the main factors* determining the change in the business environment have been carried out in 3 stages. At the *1st stage*, a provisional list of factors was formed on the basis of the compilation and analysis of the results of projects implemented in Moldova; of studies of international organizations; of discussion of the problems with the Moldovan entrepreneurs in various forums. At the *2nd stage*, the list of pre-selected factors has been clarified during the interviews conducted "face to face" with 25 experts [IEFS, 2009]. At the *3rd stage*, the revised list of factors was proposed for entrepreneurs for the analysis and evaluation. During the survey, entrepreneurs had the opportunity not only to evaluate changes in the business environment, but also to adjust the proposed list of factors. As a result, the following *10 aggregated factors* that significantly affect the business environment were selected:

- I. Regulatory impacts on business.
- II. Infrastructure, access to resources.
- III. Labour resources.
- IV. Laws and regulations governing the business.
- V. Judicial system.
- VI. Development and implementation of innovations.
- VII. Activities of civil servants involved in the regulation of business.
- VIII. The relationship between public authorities and the business community.
- IX. Attractiveness of investing in Moldovan business.
- X. Risks.

All of the selected factors are complex: they were differentiated into sub-factors, for whose quantification 97 indicators were used. For example, for the evaluation of factor "Laws and regulations governing the business" such indicators were used as: the quality of laws, regulating business; compliance between regulations and the adopted laws; stability of the law; entrepreneur's access to legislation.

*The results of processing the questionnaires are presented by 2 groups of indicators:*

- Statistical indicators of relative share (frequencies) that characterize the changes in the factors of the business environment in the analysed period.

- The index of the positive perception of the business environment ( $I_{ma}$ ), reflecting on what percent of the surveyed entrepreneurs pointed to the positive changes in the business environment (relative to the total number of respondents who indicated any changes in the business environment). The index was calculated according to the following formula:

$$I_{ma} = \frac{I_{ma\_plus}}{I_{ma\_plus} + I_{ma\_minus}} \times 100\% \quad (1)$$

in which:

- $I_{ma}$  - index of positive perception of the business environment,
- $I_{ma\_plus}$  - proportion of entrepreneurs that reported the improvement of the business environment,
- $I_{ma\_minus}$  - proportion of entrepreneurs that reported the worsening of the business environment

Theoretically,  $I_{ma}$  may vary from 0 to 100%. At its value from 0 to 50%, there are predominated negative evaluations; from 51 to 100% – positive assessments regarding changes in the business environment. Indices were calculated for each indicator, and then they were compiled and integral indicators were obtained.

#### 4. Assessment of changes in the business environment in the Republic of Moldova: the main results

Assessment of the business environment was carried out in 2013, based on a survey of 304 Moldovan entrepreneurs representing the vast majority of regions of the country [INCE, 2013].

##### 4.1. The overall assessment of changes in the business environment

During the analysed period (2011-2013), in the opinion of a relative majority of entrepreneurs, the business environment has deteriorated: 46.9% of entrepreneurs indicated on the negative trend, and 17.7% – on the improvement of the situation. The index of the positive perception of the business environment ( $I_m$ ) was 27%. That is to say, of all the respondents who indicated a change of business environment, only 27% indicated that these changes were positive. The calculated values reflect more negative changes in the business environment, as compared with the previous period:  $I_m$  decreased by 12 percentage points; the proportion of respondents who reported worsening of the situation, increased from 32,0 to 46,9% (Table no. 2).

**Table 2**

**Changes in the business environment: general trends, %**

Years	Trends in changes of the business environment			The index of a positive perception of the business environment
	Improvement	Worsening	No changes	
2011-2013	17,7	46,9	35,4	27
2009-2011	20,4	32,0	47,6	39

Source: Calculated by authors based on the survey of entrepreneurs, INCE (2013); INCE (2011).

##### 4.2. Trends of the main factors that determine the changes in the business environment

Entrepreneurs, in accordance with the questionnaire, had the opportunity to assess changes of 10 major factors that determine the business environment in the Republic of Moldova. The trend of *improvement* of the business environment has been observed in relation to a single factor; the remaining 9 factors negatively influenced the changes in the business environment.

##### 4.2.1. Factor of positive influence on the change in the business environment

Positive changes in the business environment were determined only by the factor "Infrastructure, access to resources", in which the index of a positive perception of the business environment ( $I_m$ ) was 61%. The positive impact of this factor is due, above all, to the improvement of access to a network of business services (education, information, counselling), as well as to the Internet (Table no. 3).

**Table 3**

**Changes in the business environment: factor "Infrastructure, access to resources" ( $I_m$  50%), %**

Indices	The index of a positive perception of the business environment	Change of the situation in 2013 compared with 2011		
		Improvement	No changes	Worsening
Development of infrastructure, access to resources	61	39,6	34,7	25,7
Access to Internet	93	75,1	19,6	5,3
Access to business services network	86	58,2	32,5	9,3
Access to finance	34	19,7	42,8	37,5

Source: Calculated by authors based on a survey of entrepreneurs, INCE, 2013.

To improve access to the network of business services, training courses offered by the Government for start-ups in all districts of the country (the program GEA) had a positive impact, as well as a number of other government programs, in which the training and consultation is one of the components (PNAET, PARE 1+1). So, Mr. Stefan Sandic attended courses for startup entrepreneurs at the state Organization for the development of small and medium-sized enterprises sector and became the first recipient of the grant of 200 thousand MDL in the project for migrants "PARE 1+1". This has helped him to develop his own business and, according to the businessman, has strengthened the credibility of the state [MyBusiness, 2014b].

In contrast to the improvement of access to the network of business services, entrepreneurs pointed to the worsening of the access to finance ( $I_m = 34\%$ ). Difficult access to finance is confirmed by many studies [INCE, 2011; Philiponner et. al., 2011; IFC and World Bank, 2010], therefore a financial support is an important part of government programs. So, the Program of attracting remittances in economy

“PARE 1+1” provides a non-refundable grant, while to every 1 lei invested from remittances will be added 1 lei from the Program. Within the National Programme for Economic Empowerment of Youth (PNAET), there is provided the obtaining of credits with a non-fundable grant amount. But the number of entrepreneurs who have received financial assistance under these programs is small. It is still difficult and expensive to get loans from commercial banks and microfinance institutions. The most popular sources of funding for small businesses remain those informal from their inner circle: friends, relatives, business partners.

#### 4.2.2. Factors that negatively influenced the change in the business environment

Two factors had the most significant negative impact on the business environment – the judicial system and risks external to the enterprises (Table no. 4).

**Table 4**  
**Changes in the business environment: factors “Judicial system” and “Risks” ( $I_m < 5\%$ ), %**

Indices	The index of a positive perception of the business environment	Change of the situation in 2013 compared with 2011		
		Improvement	No changes	Worsening
<b>Possible risks</b>	<b>4</b>	<b>3,5</b>	<b>16,8</b>	<b>79,7</b>
Country’s exposure to internal conflicts and risks	5	4,2	15,8	79,9
Country’s exposure to external risks	3	2,8	17,8	79,4
<b>Judicial system</b>	<b>4</b>	<b>2,9</b>	<b>24,8</b>	<b>72,3</b>
Confidence of entrepreneurs in the protection of their property rights	5	3,6	28,3	68,1
The ability to quickly and fairly resolve disputes in court	5	3,6	22,7	73,7
Independence of the judicial system from: Police	4	1,9	19,2	78,9
Officials	3	2,3	28,7	69,0
Politicians	2	3,1	25,2	71,7

**Source: Calculated by authors based on a survey of entrepreneurs, INCE, 2013.**

By the “*Risk*” factor, reflecting the exposure of business to economic and political, internal and external conflicts and risks, 79.7% of respondents indicated on the worsening of the situation, and only 3.5% said that the situation has improved.  $I_m$  is critically low, accounting for only 4%. More important for entrepreneurs is the impact of *external* risks, which was determined by the global financial crisis and problems with the exporting of Moldovan goods on foreign markets, especially in Russia, which still remains important for Moldova. *Internal* conflicts and risks associated with political and economic instability in the country also had a negative impact on the business environment. Mainly the analysed period was characterized by a crisis of power associated with loud accusations against the leaders of the country, the resignation of the president and the government, and the repeated attempts of their electing.

Political instability remains important for the Moldovan entrepreneurs over the years (see, for instance, IEFS, 2010). Foreign investors also noted the special importance of this factor. According to Gregory Mereacre, the financial coordinator on Moldova of the company “Mentor Finance”, foreign investors do not tend to significant investments in Moldova, as instability sets a very high risk for investment [ , 2011].

Regarding the factor “*Judicial system*”, the majority of respondents (72.3%) reported its worsening and only 2.9% indicated that the situation has improved;  $I_m$  on this factor accounted for 4%. This index has a negative critical value (5% or less) on all indicators characterizing the judicial system: there is reduced the business confidence in the protection of their property rights; worsens the opportunity to resolve disputes fairly in court; reduced independence of the judiciary from the politicians, officials and police.



Problems in the judicial system of the country, including the spread of corruption, were officially recognized at the highest level. The president of the country N. Timofti stated that in Moldova, many judges take bribes and continue to work, although they need to be punished for this [Smolni chi and Cu u, 2014]. To improve the situation, the Government of the country appealed to the EU member states to send a judge's mission to Moldova to monitor the process of justice.

Below we will consider other factors that also negatively influenced the changes in business environment.

By the factor of "*Laws and regulations governing the business*", the majority of entrepreneurs (52.7%) reported worsening of the situation, and only 12.2% – that the situation has improved;  $I_m$  was 19%. Almost half of employers noted an *improvement* of entrepreneurs' access to the legislation ( $I_m = 48\%$ ), due to a significant improvement in access to the Internet, as mentioned above (Table no. 5).

*Worsening* of laws, to the greatest extent, is related to its instability ( $I_m = 4\%$ ). And although during the analysed period, in the basic laws related to the regulation of business no changes have been made, but the tax laws has worsened considerably. Zero income tax rate for all businesses was cancelled and there was introduced a "privilege" for the most vulnerable groups of micro businesses – taxes on income, regardless of profit existence. And it has played a crucial role in assessing the changes in the legislation as a critical negative (Table no. 5).

Table 5

**Changes in the business environment: factors with the index of a positive perception of the business environment  $I_m$  from 15 to 50%**

Indices	The index of a positive perception of the business environment	Change of the situation in 2013 compared with 2011		
		Improvement	No changes	Worsening
1. The relationship between public authorities and the business community	36	21,2	41,4	37,4
2. Development and implementation of innovations	34	19,4	42,5	38,2
3. Labour resources	29	17,8	38,1	44,1
Activities of civil servants involved in the regulation of business	29	19,2	34,6	46,2
4. Regulatory impacts on business	25	13,1	47,9	39,0
5. Attractiveness of investing in Moldovan business	22	15,2	32,3	52,5
6. Laws and regulations governing the business	19	12,2	35,2	52,7

**Source:** Calculated by authors based on a survey of entrepreneurs, INCE, 2013.

Regarding the factor of "*Attractiveness of investing in Moldovan business*" relative majority of employers (52.5%) reported *worsening* of the situation, and only 15.2% reported an increase in the attractiveness of Moldovan business for investors;  $I_m = 22\%$  (table no.5).

To a greatest extent, the *worsening* in the business environment was related to the investment attractiveness of the Republic of Moldova in comparison with neighbouring countries and the presence of government guarantees for the protection of foreign investments (in both  $I_m$  has a critical low level, accounting for 9%). Adverse changes in the investment attractiveness of Moldova, in comparison with neighbouring countries, may indicate the limitations of the investment in the country and in the future. As part of the deterioration of the situation with respect to "the State guarantees for the protection of foreign investments", probably played a role the cases with large investors, who were charged unjustified claims by the regulatory bodies, which were widely discussed in the media. For example, a company with foreign capital Glass Container Prim in 2007 took advantage of the existing legal privilege, achieving exemption from VAT of imported production equipment when it was included in the authorized capital. In 2012, Chisinau Customs made a verification and decided that the company has to pay VAT and a fine for its late payment in the total amount of 33 million MDL. Investor sued, but in February 2013 it lost the case in front of the Appeals Chamber.

Factor "*Regulatory impacts on business*" included: regulation of the main stages of entrepreneurial activity (company registration, accounting, government inspection and oversight, taxation, business liquidation), as well as obtaining licenses, certificates, permits for various purposes. Of the total number of respondents, 13.1% reported an improvement in the regulatory activities of the state; 39.0% registered the opposite trend;  $I_m = 25\%$ . Taking into consideration the special attention given by the State to the regulatory reform for many years, it is a fairly low rate (Table no.5).

*Positive trends* were noted for the registering of companies and licensing of certain activities. In the case of Registration of Companies ( $I_m = 61\%$ ) the positive role was played by the opening of "single windows". A positive evaluation of licensing ( $I_m = 55\%$ ) is due to reduction in the number of licensed activities and simplification of the process of obtaining a license.

The most *negative changes* in the business environment have been noted, especially in relation to taxation ( $I_m = 6\%$ ). By this procedure, all indicators without exception have a critically low value: the amount and number of paid taxes and mandatory fees; the share of taxes and fees in sales; predictable changes in the tax system. A significant role in such a negative evaluation was played by the already mentioned cancellation of the zero rate of tax on income, as well as the perception of entrepreneurs of any regulatory measures as of primarily fiscal orientation.

Another problem faced by the business is the complexity, cost and duration of the procedure of closing the company ( $I_m = 15\%$ ). President of the State Registration Chamber, Mr. Victor Cebotari, states that the procedure for removal from the State Register is one long lasting 12 months, as required by law. As a result, from more than 170,000 registered economic entities in Moldova, only about 35-40% are active [Alcaz , 2014]. The owners of many of the "inactive" companies probably would close their businesses, if the procedure was easier and cheaper. At the same time, many entrepreneurs would have legalized the business, if they knew that they could close it just as easy as register.

Regarding the factor "*Activities of civil servants involved in the regulation of business*", 46.2% of respondents said that the situation has worsened in 2 years, 19.2% - that the situation has improved;  $I_m = 29\%$  (Table no. 5). The *negative* value of this factor was influenced primarily by bureaucracy and corruption ( $I_m = 10\%$ ) and the dependence of civil servants from political influence ( $I_m = 14\%$ ). The *negative impact of the policy on enterprises activity* was pointed by the chairman of the Association of small business in Moldova Eugene Roscovan. He noted that to some enterprises privileges are granted on political criteria, which clearly is not a normal business environment [ , 2013].

*Improvement* of the situation noted by the majority of respondents, took place only at a part of the participation of regional and local authorities in support of business:  $I_m = 52\%$ . Positive perception of entrepreneurs of district and local government and public administration activities confirms the need for the implementation of regional reform, because even today, in the context of very limited financial and human resources, entrepreneurs feel the support of the regional and local levels of government.

Regarding the factor "*Labour resources*" only 17.8% of entrepreneurs are positive about the changes, 44.1% – negative;  $I_m = 29\%$  (table no.5). Relatively higher proportion of respondents noted a trend of *improving* the business culture of the personnel (including labour discipline, ethics, etc.),  $I_m = 37\%$ .

*Worsening* trend on this factor is determined by the *complexity* of access to the staff of necessary specializations and qualifications. Chairman of the business club "Timpul" Igor Krapivka, clearly identified this problem on the Forum of businessmen in Moldova: "there is a lack of skilled workers, who prefer to go abroad, as well as managers" [Florea, 2013]. This is confirmed by entrepreneurs. For example, the director of a garment enterprise complains that in Moldova it is difficult to find skilled seamstresses and mechanics of equipment, as in specialized schools they are taught on older machines. Therefore for troubleshooting in the modern sewing equipment they have to invite experts from Romania, which at the same time train personnel in the enterprise [MyBusiness, 2014a].

According to the factor "*Development and implementation of innovations*", 38.2% of entrepreneurs said that the situation in the last 2 years has worsened, 19.4% - that it was improved; the index of positive perception of the business environment was 34% (Table no.5).

The most *positive trends* are related to increasing the interest of enterprises in innovation ( $I_m = 48\%$ ). This is very significant because the lack of orientation of Moldovan business innovation development is one of the barriers to increasing the competitiveness of enterprises. Especially because the relatively low level of innovations dominate in the Moldovan SMEs focused on expanding the range of products [Aculai, 2013].

Negative evaluations ( $I_m = 22\%$ ) are marked by entrepreneurs in reducing *state incentives for development and implementation of innovations*. Today, in Moldova, there are already working certain institutions of infrastructure designed to help companies to acquire, develop and implement innovations: Agency for Innovation and Technology Transfer, science and technology parks and innovation incubators. But some of them are still only formally registered, others have already begun to work, but financial support provided by the state, allows them to maintain a very small number of residents. In addition, lack of innovative business development is also an obstacle to the introduction of innovative ideas. For example, in 2010 the Moldovan scientists have invented a new method for constructing nanostructures. But there are no high-tech firms in the country that could use this method [ , 2011].

Regarding the factor *"The relationship between public authorities and the business community"*, 37.4% of businesses felt that the situation has deteriorated in this factor; 21.2% – that it has improved;  $I_m$  was equal to 36% (table no.5).

*Adverse changes* in the relationship between business and the authorities were most often explained by the entrepreneurs by the low consideration of their opinion and taking into account their views in decision-making, as well as a decrease of trust between entrepreneurs and servants of the public administration ( $I_m$  for both indicators = 21%). Both marked reasons are largely due to the *lack of a permanent dialogue between businesses and public authorities*. The weak entrepreneurs' hope for a constructive dialogue with the authorities was mentioned in the information on the forum of business people, organized by the National Confederation of Employers: in 2002, the participant of the Congress of business people threatened that they would close their companies in the event of failure of their claims. In 2003 they enthusiastically offered to establish their own party and set up a commission under the president to fight corruption. In 2013 the National Confederation of Employers modestly suggested the Government to sign a memorandum of cooperation to create an effective system of dialogue between government institutions and business [Florea, X, 2013].

#### 4.3. Forecast on changes in the business environment

During the survey, entrepreneurs were asked to make a forecast of changes in the business environment for 2013-2015. The majority of respondents have positive expectations: 44.1% of the entrepreneurs indicated the improvement of the situation in the future; 34.9% believe that the business environment will deteriorate. The index of a positive perception of the business environment for 2013-2015 was 56%, that is, the forecast index is more than 2 times higher than the analogic indicator, which reflects the actual situation. The excess of the predicted values over the actual index reflects an entrepreneurs' hope to improve the situation. This is a positive signal from the business as positive expectations are more likely to lead to positive results (Table no. 6).

Table 6

Forecast on changes in the business environment for 2013-2015

Trends in the changes of business environment	% respondents
Improvement	44,1
Worsening	34,9
No changes	21,0

Source: Calculated by authors based on a survey of entrepreneurs, INCE, 2013.

#### Main results and conclusions

In the Republic of Moldova trends of the business environment changes are treated inconsistently by the entrepreneurs and public servants; international ratings also provide a mixed assessment. The authors have developed an approach, which aims to uniquely quantify trends in the business environment, given the current conditions of the Republic of Moldova. A questionnaire was prepared and a survey of 304 entrepreneurs from most districts of the country was conducted.

The results showed that during the period under review, in the opinion of most entrepreneurs, the business environment has worsened. Of all the respondents who indicated a change of business environment, only 27% reported improvement. Out of 10 aggregated factors determining the trend of the business environment, an *improvement* was observed only in relation to the factor "Infrastructure, access to resources". The remaining 9 factors were characterized by negative trends.

Synthesis of the answers of Moldovan entrepreneurs led to the conclusion that they are most concerned about the situation in the areas that are not directly related to the development of entrepreneurship policy. This, above all, is the problems of the judicial system, external conflicts / risks, high level of corruption, and others. These problems are systemic ones, affecting all sectors of society, impacting negatively on the entrepreneurship.

Analysis of the factors of the business environment, mainly dependent on the policy of the development of entrepreneurship, showed the primary role of those that affect the current activities of enterprises, primarily on the financial position. This applies not only to access to financial resources, but also to issues related to the regulation of business: financial costs are significant in obtaining any government services. The negative assessment of the legislation as an unstable one, was also associated with an increase in the tax burden.

Despite the fact that in the Republic of Moldova in the framework of public policy many measures are envisaged and implemented to improve the business environment, the majority of entrepreneurs negatively interpret the changes. Analysis of the results from surveys and interviews with entrepreneurs and experts revealed the following reasons for this assessment:

- In recent years, the expectations of entrepreneurs regarding the state support of business have significantly increased. In the 90-s, many entrepreneurs, referring to the role of the state, noted, “do not help us, most important is to not interfere!”. In recent years the situation has changed drastically: entrepreneurs are already aware of the role of government in creating an enabling environment for business development, counting on the support of the Government, but are not satisfied with what is being offered. Unjustified expectations of entrepreneurs generate negative evaluation of changes in the business environment that may be more negative than they are in reality.

- Trust between business and public administration is characterized by a rather low level, largely due to the prolonged negative experiences of their relationship. Lack of trust is compounded by the fact that there is a significant gap between what is promised by representatives of public authorities in the forums or in policy documents, and the real situation. This discrepancy is very irritating for the entrepreneurs. As a result, they do not always properly assess positive changes.

The results of evaluation of the business environment have a practical orientation. They can be used both by the public authorities and the business community.

In particular, *the results of the study can be used by the Government* to argue the priorities of the state policy in the drafting of laws, policies and programs aimed at the development of the business, or when summing up the implemented measures. For example, the implementation of the state program, which provides free education, helped to improve the start-up entrepreneurs' access to business training; opening of the "single window" for business registration has led to facilitate the creation of enterprises; widespread of the Internet had a positive impact on improving access to legislation, etc. As a result, a relatively large proportion of entrepreneurs reacted positively to the noted changes.

At the same time, entrepreneurs have significant claims to many government policies, which for many years are declared by the Government. High and non-reducing level of corruption and bureaucracy, primarily fiscal nature of the controlling bodies, political instability, “telephone” judge-made law, and other negative factors negate the achievements in public policy.

*The results of evaluation of the business environment* are also of interest for individual businesses that can use them in the development of plans for its activities, dialogue with the government, advocacy and lobbying of their interests. Currently, strategies of the business activities of Moldovan entrepreneurs, especially those in the SMEs sector, possess characteristics, caused by the peculiarities of the business environment - its unpredictability and the high risk of adverse changes. Elements of this strategy were identified during the interviews conducted with entrepreneurs. These include: (i) focus on short-term plans to the detriment of strategic activities; (ii) support mainly on their own financial resources, given the limited scope of borrowing; (iii) the availability of reserves (time, money, personnel), because there is a possibility of unpredictable changes in the state, market, corrupt officials, etc.; (iv) the priority of individual work to the detriment of cooperation and association of enterprises. These strategies of Moldovan entrepreneurs protect them from adverse environmental conditions, but significantly slow down the development of the business. The role of these strategies will weaken with the improvement of the business environment and as a result of more positive perception of the changes by the entrepreneurs. Hope exists due to optimistic estimates of Moldovan entrepreneurs on the forecast of the business environment in the coming years.



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**TECHNOLOGY INTEGRATION EFFECTS  
ON TEACHERS' ACHIEVEMENT**

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*This article investigates the effects of technology integration on teachers' achievement. The previous literature in this regard was reviewed and a sample of teachers was chosen from 7-9 grade teachers. The sample consisted of 50 teachers males and females with different years of experience and different number of training courses. The questionnaire included paragraphs about the effect of technology integration on their achievement in school and in teaching. The results showed a great effect of technology integration on teachers' achievement. The results also showed no differences attributed to teacher's gender and that there were differences attributed to teacher's years of experience and number of training courses.*

*The article shows the aspects in which the achievement of teachers was influenced by technology integration.*

**Key words:** *ICT, Teacher's development, technology integration, teacher's achievement.*

*Acest articol investigheaz efectele integrării tehnologiei asupra realizării cadrelor didactice. Literatura de specialitate anterioară în acest sens a revizuit investigarea profesorilor, fiind selectați profesori cu grade diferite. Proba a constat din 50 de profesori bărbați și femei cu vârste diferite, cu experiență diferită și număr diferit de cursuri de formare. Chestionarul a inclus punctele cu privire la efectul de integrare a tehnologiei pe realizarea lor în coală și în procesul de predare. Rezultatele au arătat un efect mare de integrare de tehnologie pe realizarea cadrelor didactice. Rezultatele au reflectat, de asemenea, că nu există diferențe atribuite genului profesorului și că au existat diferențe atribuite anilor profesorilor de experiență și numărul de cursuri de formare. Articolul prezintă aspectele în care realizarea cadrelor didactice a fost influențată de integrarea tehnologiei.*

**Cuvinte cheie:** *TIC, dezvoltare profesorului, integrare de tehnologie, realizarea profesorului.*

**JEL Classification:** I23; O32; O3; O39; M15; M12

**Introduction.** In recent times schools require teachers to obtain a range of effective teaching strategies to meet the needs of their students. Teachers strategies consist of the different teaching approaches and strategies he or she uses to facilitate effective learning by students. Effective teaching requires deep thought about what the teacher is doing and the effects of his or her accomplishments on student social and academic learning. Using a teaching strategy that has a solid theoretical foundation will make the computer a more effective teaching tool (Arends, 2001).

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The three aspects of knowledge as technological, pedagogical, and content knowledge, and the need for teachers to integrate subject-matter knowledge with both technological and pedagogical proficiency are needed for a successful teaching career. Effective teaching is not based on who a teacher is, but on what a teacher does in terms of preparation and applying plans into the teaching-learning environment (Mishra and Koehler, 2006).

Technology integration into the classroom has a major role in creating rich learning and teaching environments. It is clear that the success of the effective use of technology in classrooms highly depends on teachers who are responsible for integrating technology and mentoring using it successfully.

The 2008 National Educational Technology Standards (NETS) for teachers are:

1. Simplify and Motivate Student Learning and Creativity – Teachers use their knowledge of subject matter, teaching and learning, and technology to facilitate experiences that advance student learning, creativity, and innovation in both face-to-face and virtual environments.

2. Plan and Develop Digital-Age Learning Experiences and Assessments – Teachers design, develop, and evaluate authentic learning experiences and assessments incorporating contemporary tools and resources to maximize content learning in context and to develop the knowledge, skills, and attitudes identified in the NETS•S.

3. Model Digital-Age Work and Learning – Teachers exhibit knowledge, skills, and work processes representative of an innovative professional in a global and digital society.

4. Stimulate and Model Digital Citizenship and Responsibility – Teachers understand local and global societal issues and responsibilities in an evolving digital culture and exhibit legal and ethical behavior in their professional practices.

5. Engage in Professional Growth and Leadership – Teachers continuously improve their professional practice, model lifelong learning, and exhibit leadership in their school and professional community by promoting and demonstrating the effective use of digital tools and resources. (<https://sites.google.com/a/capeelizabethschools.org/techplan/home/strategies>).

### 1.1 Purpose

*The purposes of this article are:*

The purpose of this article is to investigate the effect of technology integration on teachers' achievement. It also aims to define this effect and to know the teachers' viewpoints in this regard and the differences between their viewpoints in light of some variables such as gender, years of experience and number of training courses.

### 1.2 Significance

There are not much studies that concentrate on the effect of ICT on the teacher. Many researches have primarily addressed the implications of learning with ICT for students or factors influencing the implementation of ICT by teachers. In this article we are going to obtain more insight into the effect on teachers and his or her changing roles using ICT in teaching.

So, it is necessary to investigate the effect of technology integration on teachers' achievement and to define this effect and to know the teachers' viewpoints in this regard and the differences between their viewpoints in light of some variables such as gender, years of experience and number of training courses.

The results will be important for teachers and principals, in addition to teaching process as a whole.

### 1.3 Definition of Terms

ICT: Information and Communication Technology

Technology integration: the use of technology tools in general content areas in education in order to allow students to apply computer and technology skills to learning and problem-solving.

Teacher achievement: The extent to which teacher has achieved his educational goals.

Professional growth is defined as changes in the performance, knowledge, views, or perceptions of teachers (Ross & Bruce, 2007).

### Literature Review

Ross & Bruce (2007) stated that teachers' role in the classroom can be viewed as a continuum. The teacher as a traditional lecturer and imparter of knowledge in accordance with objectivist views of learning. And the teacher as a coach, observer, and facilitator. This suits the constructivist view of learning. Teaching in pupil-centered learning environments demands a different attitude of the teacher from teaching in traditional instructional settings. Teachers will need to move from providing face-to-face teaching and text-based learning to facilitating individualized, interactive, media-based learning, and learners will need to be empowered to accept far greater responsibility for their own learning.



Angeli & Valanides (2009) indicated that the teacher stimulates the pupils to solve problems by ways of modelling, coaching and scaffolding. Modelling refers to the teacher showing the pupils how to carry out a certain task, while coaching means the teacher is providing feedback while the pupils are carrying out the task, and scaffolding is providing cognitive support with regard to a task the pupils cannot carry out themselves. The teacher's support gradually vanishes ('fading'). The gradual shift from teacher-centered learning to pupil-centered learning is time-consuming and requires skillful teachers.

Clarke & Hollingsworth (2002) concluded there are several roles teachers fill when they are helping children to learn in computer-enriched classrooms. They serve as instructors to children in the use of computers. As children gain more experience, the teacher's role moves to that of a coach. By using computers themselves, teachers can also serve as models to children. Finally, teachers must be critics of computer software, learning to select the best software to enhance children's development. Teachers' role does not change simply by using the computer in the classroom: 'The change occurs only to the extent to which a shift of responsibility to the learners occurs. The more responsibility and freedom is given to the learners, the greater the shift in the teachers' role'. In a study of the use of multimedia in a Dutch secondary school, four multimedia learning environments were implemented in geography education. There was a gradual shift from a structured learning environment, in which pupils were being instructed step by step, to an open-ended learning environment, in which pupils were expected to conduct a small scale research. After the experiment ended, the teachers kept working with these learning environments. However, they skipped some elements of the open-ended learning environments (e.g. a role-play), and added more instructions. It is necessary for teachers to change their teaching style when incorporating ICT in educational practice.

Arends (2001) mentioned that in the assessments of ICT projects in education, teachers report a shift in their role, from the central manager of the learning process towards a facilitator or coach. She states that the most commonly shared theme among studies of the impact of classroom computer use on teachers' roles is that the classroom becomes less teacher-centered. Teachers using computers in their classrooms increasingly see themselves as facilitators of learning rather than as 'authority figures whose job is to instruct knowledge.

Ertmer (2005) reported that the implementation of ICT resulted in the use of 'centers for learning', which allowed the pupils to discover knowledge for themselves, working in small groups. Teachers noted a switch from teacher-centered to student-centered instruction, resulting in the learners becoming more self-motivated and more active.

Teachers observe that their teaching role became more like that of a 'guide' or 'director' when working with ICT. Some studies show that the shift in their role which is often reported by teachers, is not always noticed in the actual behavior of the teacher in the classroom. It was noticed that teachers utilizing interactive videodisc in their classrooms, remained in control of the instruction process, in spite of the supposed shift towards a more pupil-centered learning environment.

Hew & etal (2007). reported that many applications of ICT are incorporated into existing teaching routines, instead of facilitating more pupil-centered learning. Research shows that very often the new 'application' tools are adapted to the teachers' existing style. In this way, teachers teach 'the same things in mainly the same ways that they have been teaching, and then on the side they're sticking computers in'.

Jimoyiannis (2010) conducted a study with regard to the use and the effects of information technology (IT) in education in the United Kingdom, it is concluded that 'teachers using IT often considered that computers were to be used to complement rather than change existing pedagogic practice, whether it be 'traditional' or 'progressive'.

In the study on teachers and technology conducted by the Office of Technology Assessment in the United States of America, The teacher's professional development, it is concluded that ICT can be of use to teachers to enhance their professional development.

Donnelly& etal (2011) concluded that teachers' are evolving towards a new style of teaching when using ICT and that ICT provides teachers with opportunities to broaden their horizons, and communicate with colleagues, as well as other experts all over the world.

Donnelly& etal (2011)stated that a sufficient use of technology in human networks may contribute to the support of critical decision-making of teachers and trainers. Training is another crucial factor in the professional development of the teacher.

The impact of ICT on the teacher's task perception

Marwan & Sweeney (2011) in a study of teachers' views with regard to their use of ICT in educational practice in Ireland, found that teachers felt more motivated and effective in their work as a direct result of using ICT. The use of ICT has been reported to improve the teachers' attitudes towards education.

Teachers reported an increase in job satisfaction, which they attributed to the increase of teacher-to-pupil interaction during the lessons in which multimedia were used. Teachers use technology to support different, more student-centered approaches to instruction, in which students conduct their own scientific inquiries or projects or engage in collaborative activities, and the teacher assumes the role of facilitator or coach were more satisfied in their job.

In a study in which teachers were asked to evaluate the effects of ICT on their work and accomplishment. A majority stated that using the computer made their work more interesting while there was also strong support for the notion that the computer motivated pupils and therefore made a teacher's job easier. Third place in the ranking was support for the proposition that pupils benefited from using ICT. A significant number of teachers also felt that ICT made their teaching more effective while a small number felt that computers made little difference to their work.

Donnelly& etal (2011) included that working with new technology was expected to reduce teaching effort and save teacher time, but that it at the same time increases teaching load. She stated that the teachers involved in ICT implementing became enthusiastic about their teaching and began to work together during weekends in order to prepare and share computer program uses. As a result of using ICT, teachers felt they were able to spend more time with individual pupils instead of managing the whole class. Teachers were more comfortable with students working independently, presented more complex materials, tailored instruction more to individual needs, adopted new roles, and spent less time lecturing.

**Method.** The quantitative method is used to investigate the viewpoints of teachers about the effect of technology integration on teachers' achievement.

1. Participants. The participants were 50 (Grades 7-9) teachers males and females with different years of experience and training courses.

2 Procedure. A questionnaire was handled to 50 teachers of different to answer its paragraphs.

3 Tool. Dear teachers:

This tool is used to measure the effect of technology integration on teachers' achievement.

Pls. answer these questions:

Gender: Male Female

Years of experience: less than 5 5-10 more than 10

No of training courses: less than 3 3-5 more than 5

	Strongly agree	agree	Neutral	Don't agree	Strongly disagree
Computers help me improve my work better .					
Computers make it possible to work more productively.					
Computers can allow me to do more interesting and imaginative work.					
Most things that a computer can be used for I can do just as well myself.					
Computers can enhance the presentation of my work to a degree which justifies the extra effort.					
With computers teachers are acting as coaches instead of as lecturers.					
With technology integration teachers give hints and clues rather than direct answers.					
With technology integration teachers have less control of the lesson content.					
Teachers have more diagnostic and achievement instruments to evaluate the pupils' progress.					

### Results:

1. The results showed that there is a strong effect of technology integration on teachers' achievement as shown by the sample.

2. There were no significant statistical differences between male and female teachers in the effect of technology integration on teachers' achievement.

3. There were significant statistical differences between teachers in the effect of technology integration on teachers' achievement attributed to years of experience in favor of the category 5-10 years .

4. There were significant statistical differences between teachers in the effect of technology integration on teachers' achievement attributed to no of training courses in favor of the category more than 5 training courses.

#### **Recommendations:**

Based on the above findings, the researcher recommend the following:

1. To enlighten teachers about the great effect of technology integration on their achievement.
2. To help teachers to provide a technology environment in their classrooms.
3. To provide technology assistance in the school from which teachers can benefit in implementing technology integration.
4. To provide teachers with training courses about effective use of technology in teaching.
5. To enhance teachers' technology integration abilities and skills by delivering workshops about effective technology integration.
6. To encourage teachers with incentives for outstanding technology integration in their classrooms.

#### **Conclusions:**

There are increasing needs to integrate ICT in schools and the different options in this regard have produced new roles for different sides of educational process. The following may be concluded through revising this article:

- Extracurricular responsibilities of the ICT teachers, decrease their educational efficiencies.
- Technology integration improves teachers' performance.
- Teachers have positive perceptions about ICT teaching and about their subject matter and pedagogical knowledge.
- ICT has a significant effect on the teachers. There are very high levels of achievement reported by teachers, increasing teachers' skills and confidence with ICT, improving teachers' understandings of the role of ICT in teaching and learning.

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**CONCEPTUAL FOUNDATIONS FOR IMPROVING  
FAIR REDISTRIBUTION AS A PREREQUISITE FOR FINANCIAL  
STABILITY OF THE STATE**

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*The article presents a vision concerning relations of equitable redistribution; highlights the main prerequisites for the formation of income inequality and poverty occurrence; indicate the change of approach in supporting the development of measures on the state fair redistribution of income, relying on analysis of the impact of inflation, wage tax policies and price formation. Also in the paper are presented the assessments and recommendations for government concerning poverty in the country and financial stability in the national economy. The conditions and methodical means are simultaneously considered as objective and subjective prerequisites for the use of techniques, methods and scientific approaches in assessing income inequality and generative poverty, so it is recommended to implement them as a subject of profound scientific investigations.*

**Key words:** *income inequality, appearance of poverty, state support for financial stability, techniques, processes and scientific approaches.*

*Articolul prezintă o viziune în domeniul relațiilor de redistribuire echitabilă; evidențiază principalele premise ale formării inegalității veniturilor și a apariției sărăciei; indică asupra schimbărilor de abordare în susținerea dezvoltării măsurilor privind redistribuirea veniturilor echitabile, bazându-se pe analiza impactului inflației, politicilor impozitare de salarizare și formarea preurilor; prezintă evaluări și recomandări de a realiza activitatea guvernului în lupta reală cu sărăcia în asigurarea stabilității financiare în economia națională. Condițiile examinate și mijloacele metodice sunt concomitent premise obiective și subiective de utilizare a tehnicilor, procedurilor și abordărilor științifice în evaluarea inegalității veniturilor și a sărăciei generative, astfel se recomandă a le implementa în calitate de subiect a investigațiilor științifice profunde.*

**Cuvinte cheie:** *inegalitatea veniturilor; apariția sărăciei; susținerea de stat în lupta privind stabilitatea financiară; tehnici, procedee și abordări științifice.*

**JEL Classification: G00; G01; I32; I24**

**Introduction.** Anticipating the issue examination that concerns to the relations of redistribution is necessary to do some preventive concretizations, given the fact that people have different physical, intellectual and aesthetic capacities. High intellectual hereditary and innate capacity of a personality, opposed to disadvantaged in this respect, provides a favorable position and ensures a favorable possibility in the society to achieve higher income from work activity. In addition, some individuals are distinguished from others with different levels of education acquired, training, tastes and desires, and ultimately social

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and psychological qualities of his character: either preparing for his high intellect or entrepreneurship perform functions or to execute unattractive work with small retribution.

As seen, the examined conditions are simultaneously considered objective and subjective assumptions forming unequal income and generative poverty, which also meets the basic aim to study them as a subject of profound scientific investigations.

**The role of state bodies in the fight against poverty.** That is why in these conditions substantially increase the role of state bodies in the fight against poverty, which is placed among the priority goals and cannot be postponed of the state policy. However it appears to be that one of the main functions of government is to develop measures of equitable income redistribution. In most of the countries, including those with developed market relations, state tax systems and transfer programs have indeed possibilities to substantially reduce the degree of inequality in income distribution [7].

According to published analytical materials, reducing unequal income (about 80%) is mainly conditioned by transfer payments, and the other part is done through a wide range of income support programs, which confirms the existence of a real organized activity targeted of the Government in the fight against poverty. These include, firstly, social insurance programs (which partially compensates for loss of earnings in relation to retirement and unemployment temporarily) and state aid program (benefits for persons unable to work or having dependent children). However, if the premiums are funded from reserves created by wage taxes, then the latter are financed from general tax revenues and should be considered state charity programs/ charities.

It is well known that inflation arbitrary "owns those taxes" who receive relatively fixed income funds, and "subsidize" those incomes of whom are changing. In other words, unexpected inflation penalizes savings holders. Finally, unexpected inflation benefits those who receive loans from creditors account. Not surprisingly, the effects of deflation are directly opposite. The overall constant volume of production steadily increases at who's who have a fixed monetary income. Creditors win from borrowers account and for savings holders, as a result of price reductions, increases the purchasing power of their savings. In considering this issue can be made following two completions.

**Firstly** the fact that each family business, a private firm or corporation, the co-owner and beneficiary of the income and financial assets and real estate owner significantly attenuates the impact of inflation on redistribution; for example, if a family has assets with a fixed cost (urgent accounts, bonds and insurance policies), then after the inflation the real value reduces, which can therefore be considered unfair to this family. However, the same inflation will increase the real value of any real estate (house, land) which disposes the family. Therefore, we can realize that as a result of inflation some families simultaneously can gain and lose. From this results that it is necessary to argue the methods or processes and methodological basis to analyze all the consequences before making a conclusion on the fact whether the family condition has worsened or improved as a result of inflation.

**Secondly**, it is necessary to emphasize that the consequences of inflation are arbitrary in the redistribution sphere and they occur regardless of the goals and values of society. Because the inflation has no social conscience, it takes from some and gives to others, be they rich or poor, healthy or sick.

In addition, a similar situation occurs when the actual volume of production is constant in conditions of a full labor employment. Delivering the degree of inflation influence on redistribution in this case allows the selection based on scientifically methodological tools of analysis to identify how certain groups get big gains on others expenses. If the actual volume of production is constant and inflation rate obtained as a result of some groups is higher than other groups will immediately receive a smaller share. However, it should be noted that in practice the volume of production may also vary, depending on fluctuations in the price level, which also reflects on the principles of redistribution.

At present, among researchers these trends contribute to the opinion that maximum efficiency and a full employment of labor is possible only in a certain level, quite modest of the inflation. This view is based on the assumption that levels of national output and employment to a large extent depend on the total expenditure. However, a stable price level ensuring a real volume of production in case of a high level of unemployment receives much less than potential one. If total spending will increase to a such extent that economy will start growing rapidly, then to achieve a higher level of actual volume of production and low unemployment, the society is forced to accept higher prices, to a certain acceptable level of inflation.

However, at a continuous level of spending that will contribute to a higher level of production and a lower level of unemployment, undoubtedly inflation could rise. In other words, it indicates the possibility



and inverse dependence between inflation and unemployment levels, which involves solving the problem through inflation process optimization using maximum allowable limits. So, perhaps there is a balance between productions (including employment), on the one hand, and inflation – on the other. This situation suggests the conclusion regarding the need for reconciliation with some moderate inflation, if the objective is to achieve a high level of output and unemployment.

Under the examined conditions, the state's participation in economic regulation, of the strategy and business development tactics, as basic resource for training socio-economic welfare of the country, as a priority arise the problem of defining scientifically the principles of a fair decision. The state programs relating to the issues of social protection of the population with low incomes as well as the realization of fundamental legislative rules in real competition of small and medium business and the responsibility for their enforcement measures must be discussed and gain public support; for this must be used the media, sociological investigation and referendums. Particular attention in the context of examined reform issues should be given to the fight with economic crimes, improving the judicial system and elaboration of the rules, regulations and measures of anticorruption.

It is necessary to assume the political reformation of the rules and procedures in order to achieve fair and mutual agreement. Undoubtedly, all rules, regulations and recommended procedures must be examined and approved by the government but the practical activity of the state bodies shall be assessed. Thus, from this approach, as the criteria of equity and efficiency of political system is assumed the distribution of economic rules in the political process. Moreover, proponents of the theory of equitable development in production and distribution imply that the state does not determine or modify rules, but finds their compliance or non-compliance. In their view, the state can apply only those sanctions which are approved preventively within constitutional agreement and that state does not create immediate sanctions but only decide. In other words, the theory has developed the thesis regarding the state economic intervention scale, that function on the basis of democratic principles and requires a certain constitutional limitation or by establishing some new rules that are approved constitutional and creating conditions for the development of the production process and its efficient function.

As is known, the scientific development of equitable distribution of income has a long and controversial history, both in science and in practice. Essentially, searching for a response is being done by determination of methodological approach in the distribution of national income and property in a greater or less compliance to their currently existing equity principle.

Discussions on this issue have identified a wide range of views and positions. Supporters of one of the extreme positions shows that greater equity is an important and indispensable prerequisite for the survival and prosperity of the existing system of social relations and prospects of development of efficient economic mechanisms. Supporters of the opposite view, warns that tend to fairness system and lead to serious crisis situations.

Undoubtedly, the exclusive nature of the individual business relations contradict the impartial and equitable distribution of income, not to mention the fact that there are more specific factors that contribute to this inequality. Thus, for example, property owners differ significantly in revenues, while inequality is particularly significant between the owners of financial assets (holders of shares and bonds). Current law of inheritance, gave rise to the lawfulness of enrichment based on existing capital and has intensified the impact of inequality of property possession on the income inequality.

**Conclusions.** It is fundamental the analysis of the main micro indicators in the process of determination of trends and patterns of income redistribution. Among them, firstly, should be referenced the measures of public bodies on optimization the relation between income equality and production efficiency. The society problem focused on a fair and just redistribution of income is to optimize the negative impact of measures taken on economic efficiency. However, without doubt, the system of rewards and receipts of the recommended measures on equalization of living standards and financial status must be focused on stimulating of employment initiative. At the same time, the greatest importance should have social investment in production for the main purpose to stimulate effective development of expanded reproduction process. In other words, an effective system of equitable redistribution of relations should create favorable condition for sustainable economic growth and efficiency to meet the overall goal of the society – financial stability of the state.

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**GERMANY & TURKEY –  
A PARTNERSHIP PERSPECTIVE**

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*The article shortly deals with economic and commercial relations between Turkey, that keeps close regular economic, political and cultural relationship and Germany, which is one of six founding fathers of the European Union. The subject of article has been searched within the following framework: Measurement of commercial relations between export and import between, investment relations between Germany and Turkey, mutual distribution sector.*

**Key words:** trade, export, import, trade balance, advantages.

*Articolul descrie relațiile economice și comerciale dintre Turcia și Germania, care prezintă aproape relații economice, politice și culturale regulate, fiind este unul dintre cei șase fondatori ai Uniunii Europene. Subiectul articolului are ca scop măsurarea relațiilor comerciale, exportul și importul relațiilor de investiții dintre Germania și Turcia, distribuția reciprocă sectorială.*

**Cuvinte cheie:** comerț, export, import, bilanșul comercial, avantaje.

**JEL Classification: F17; F19; F23; F43**

**Introduction.** Diplomatic relations between Turkey and Germany have begun with the opening of embassies mutually in Berlin and Istanbul, which was the capital of the Ottoman Empire in the 18<sup>th</sup> century and have culminated in the development of strong bonds with many facets that include economic, military, cultural and social relations. With the possible accession of Turkey to the European Union, of which Germany is the biggest member, and the existence of a huge Turkish diaspora in Germany, these relations have become more and more intertwined over the decades.

Germany and Turkey have held strong economic ties with one another throughout time. But, the important increase in economic and commercial relations between Germany and Turkey was observed particularly during the last ten years.

Germany was placed first at Turkey's exportation and it was placed third at Turkey's importation; however, Turkey was placed sixth at Germany's exportation and it was placed seventh at Turkey's importation in 2014. Although bilateral trade volume reached 38 billion US in 2014. This case rendered Germany as the largest trade partner of Turkey.

Amount of German investment to Turkey reached 7.8 billion US dollars in the 2002-2014 period, and the number of German companies in Turkey are more than 6 thousand at the moment. Also, the number of Turkish companies in Germany are more than 92,000 and these companies provide employment to approximately 450,000 people and generated revenue of approximately 45 billion euros.

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**The goal of research.** The goal of research is to reveal trade volume, export and import facet, foreign direct investment facet, bilateral relations between Germany and Turkey and to foresee perspective of aforementioned situations.

**The methodology of research.** Statistical methods of analysis, comparison methods, dialectical methods, historical methods and etc. has been used for analyse.

**The research and analysis.** The economic relationship between Germany and Turkey have become closer particularly during the last ten years. As of 2014, annual trade volume between two countries have reached to 38 billion US dollars. This situation rendered Germany as the largest trade partner of Turkey.

According to estimations, number of Turkish entrepreneurs in Germany will increase to 160.000, Turkish companies will provide employment to 720 thousand people, investment volume will rise to 15 billion euro and annual revenues will be approximately 66 billion euro. This case rendered Turkey as one of the then biggest trade partner of Germany till the end of 2014.

**Germany is the biggest trade partner of Turkey.** Germany is one of the founding fathers of the European Union, that has the largest population after Russia in European continent. In terms of economic size Germany is placing first in Europe and third in whole world. Germany has always played a key role in political economical and commercial constitutions in Europe due to its economic power.

Diplomatic relations between Germany and Turkey began with the opening of embassies mutually in both Berlin and Istanbul in 1763 and have more strengthened since the Labour Recruitment Agreement, signed in 1961. However, the number of Turkish citizens in Germany have reached to 4.480.574 and this case also strengthened relationship between two countries.

Since the establishment of diplomatic relations, Germany has become as the most important political, economic and cultural partner of Turkey. Namely, Turkey was the first most preferred country by German tourists in 2014 and number of German tourists got over 5 million. However, tourism is one of the most important inflow, which contributes to state budgets.

German-Turkish relations are tight and close in trade together with tourism. Annual trade volume between two countries have reached to 38 billion US dollars. This situation rendered Germany as the largest trade partner of Turkey (Table 1).

Table 1

General situation about the amount of Turkey-Germany foreign trade

YEAR	EXPORT (Thousand US \$)	IMPORT (Thousand US \$)	BALANCE (Thousand US \$)	VOLUME (Thousand US \$)
2014	7.484.931	9.452.964	-1.968.033	16.937.894
2013	8.745.282	12.515.655	-3.770.373	21.260.938
2012	9.455.050	13.633.888	-4.178.838	23.088.938
2011	9.686.235	14.768.220	-5.081.985	24.454.455
2010	11.993.232	17.539.955	-5.546.723	29.533.187
2009	12.951.755	18.687.197	-5.735.443	31.638.952
2008	9.783.225	14.096.963	-4.313.738	23.880.188
2007	11.479.066	17.549.112	-6.070.047	29.028.178
2006	13.950.825	22.985.567	-9.034.741	36.936.392
2005	13.123.905	21.400.614	-8.276.709	34.524.518
2004	13.696.842	24.182.422	-10.485.579	37.879.264
2003	15.156.028	22.369.253	-7.213.225	37.525.282

Source: Foreign Trade Information System of Ministry of Economy of Turkey.

**Germany took the first place in Turkey's export.** Turkey has lots of bilateral relations in terms of economy and trade with foreign countries. One of them is Germany. Turkey has a tight and close economic and trade relations with Germany. Germany took the first place in Turkey's export and it took the third place in Turkey's import after Russia and China. Furthermore Turkey achieved export to Germany 8.7 billion US dollars in 2004, however Turkey increased this price approximately 60% to 13.7 billion US dollars over the last decade. Also price of Turkish import from Germany was 12.5 billion US dollars in 2004 and this price reached to 24.1 billion US dollars in 2014 [2].

Turkey has always trade balance deficit excluding exceptional years in bilateral trade between Turkey and Germany. Trade balance deficit between Turkey and Germany in 2014 has been realized as 7 billion US dollars.

Solely Germany slid import and production to Central and Eastern Europe and eliminated taxes and quotas intended for these regions at the beginning of 2000s. Turkey has a strong import-export relationship with Germany. Correspondingly Germany's new position affected negatively to Turkey and was observed export growth slowdown till 2003. But in 2014, with the impact of booming global economy due to Asia and United States, that have weak commercial relations with Turkey, export between Germany and Turkey reached to 15 billion US dollars and approximately increased 10.7% considering 2013.

Turkish export to Germany includes 90% of manufactured products and 10% of food and agricultural commodities. Some chemicals, machines and means of transportation are the main industrial products of export. Suitable fibers for waving and cereals are the main agricultural products of export. German export to Turkey includes 98% of manufactured products and 2% of agricultural commodities. Means of road transportation, machines and equipments for industrial utilization, electrified machines and equipments, plastic and plastic goods, machines and equipments producing energy, iron and steel, pharmaceutical products and organic chemical products are main industrial products of German export to Turkey.

**Increase of foreign direct investment inflows to Germany from Turkey.** When we look at sectoral distribution of German companies in Turkey, we can see services and manufacturing industry as the most preferred sectors of investment. Food, confection, chemical products, electrical-electronics, machine production, production of transportation means and supplier industry of transportation means are looming large at manufacturing industry. Although German investors major on subsectors in terms of services such as trade, tourism, communication, banking, and investment financing.

On the other hand Turkish citizens, who went to Germany as "guest worker" in 1960s, have headed towards entrepreneurship, built up business and became as employers particularly since the beginning of 1980s.

Number of Turkish companies in Germany approximately increased three times considering 20 years ago. As of 2013, number of Turkish companies in Germany reached to 92.000 and provided employment to more than 450.000 people and generated revenue more than 45 billion euro. In other words they contribute significantly to German economy. If we look at sectoral distribution of these companies, we see food industry and textile are towering sphere of activity. Also importance of service sector increased more and more [2].

Considering economic position and general wealth structure, Turkey generally has taken a position, that keeps in the foreground to attract investments into the country rather than investing out of country. In this context, foreign direct investment (FDI) inflows to Turkey were 62.503 million US dollars between 2002-2008 years. 3.220 million US dollars of this amount belonged to Germany. German FDI inflows to Turkey were 1.298 million US dollars in 2009, 592 million US dollars in 2010, 605 million US dollars in 2011, 532 million US dollars in 2012, 1.900 million US dollars in 2013 and 693 million US dollars in 2014.

In terms of investment volume Turkey was so far from Germany, as follows Turkey's total FDI inflow to Germany between 2002-2012 period was 1.25 billion US dollars. It was 154 million US dollars in 2013 and this price reached to 178 million US dollars in 2014. Foreign direct investment stock of Turkey to Germany has been approximately 700 million US dollars as of 2011, however, German FDI stock to Turkey is 16.896 billion US dollars [1].

Interests of German investors to Turkey have increased especially since 1980. As a matter of fact only 24 German companies were showing activities till 1980. Solely number of German companies in Turkey rised to 5.573 in 2013 and reached to 6.015 in 2014.

According to estimations, number of Turkish entrepreneurs in Germany will increase to 160.000, Turkish companies will provide employment to 720 thousand people, investment volume will rise to 15 billion euro and annual revenues will be approximately 66 billion euro and Turkey will become one of the ten biggest trade partner of Germany till the end of 2015, if the present trend continues [1].

**Conclusions.** The bilateral economic relations between Germany and Turkish have became closer over the last decade and Germany became as the biggest trade partner of Turkey. Germany took the first place of Turkish exportation and it placed third at Turkish importation. Paralelly Turkey took the sixth place of German exportation and it was placed seventh at German importation. Although the biliteral trade volume reached to 38 billion US in 2014. This case rendered Germany as the largest trade partner of Turkey.

Foreign direct investment inflow of Germany to Turkey reached to 7.8 billion US dollars in 2002-2014 period, however, number of German companies in Turkey are more than 6.000 at the moment. Additionally number of Turkish companies in Germany are more than 92.000 and they provide employment to approximately 450.000 people.

According to estimations, number of Turkish entrepreneurs in Germany will increase to 160.000, Turkish companies will provide employment to 720 thousand people, investment volume will rise to 15 billion euro and annual revenues will be approximately 66 billion euro and Turkey will become one of the ten biggest trade partner of Germany till the end of 2015, if the present trend continues.

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## UPDATED INDICATORS REGARDING THE LAND MARKET IN REPUBLIC OF MOLDOVA

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*Agricultural land is natural base of agriculture production process. With the restoration of market relations in the national economy have been revitalized the main functions of the land market, including the function of distribution and redistribution of agricultural land plots through the transactions of sale (and other kinds of transactions) which should be permanently owned by the most qualified farmers. For achieving this major objective land market are required to be materialized ongoing assessment of trends and pace of development of the local land market.*

*According to the survey, this market since year 2000 show relatively stable growth rates on market prices or annual surfaces as a subject of sale transactions, or general circuit volumes of agricultural land market.*

*Main methods of investigation are forming dynamic lines, qualitative and quantitative analysis, comparison, mathematical modeling etc.*

*As the results can be noted tangible successes of dynamic development of the land market in Moldova, as well as a whole series of drawbacks, whose elimination in time will essentially improve the final results of this fragment of general management mechanism market.*

**Key words:** *land market, market price, cost, number of deals, sales, supply, demand, economic value, the value of nature.*

*Terenurile agricole constituie baza naturală a procesului de producție în sectorul agrar. Odată cu restabilirea relațiilor de piață în cadrul economiei naționale au fost revitalizate funcțiile principale ale pieței funciare, inclusiv funcția de distribuție și redistribuire a loturilor de teren agricol, care, prin tranzacții de vânzare-cumpărare (și alte feluri de tranzacții), ar trebui să fie permanente în proprietatea celor mai calificați agricultori. Pentru ca acest obiectiv major al pieței funciare să fie materializat, sunt necesare evaluări la fel de permanente a tendințelor și ritmurilor de dezvoltare a pieței funciare autohtone.*

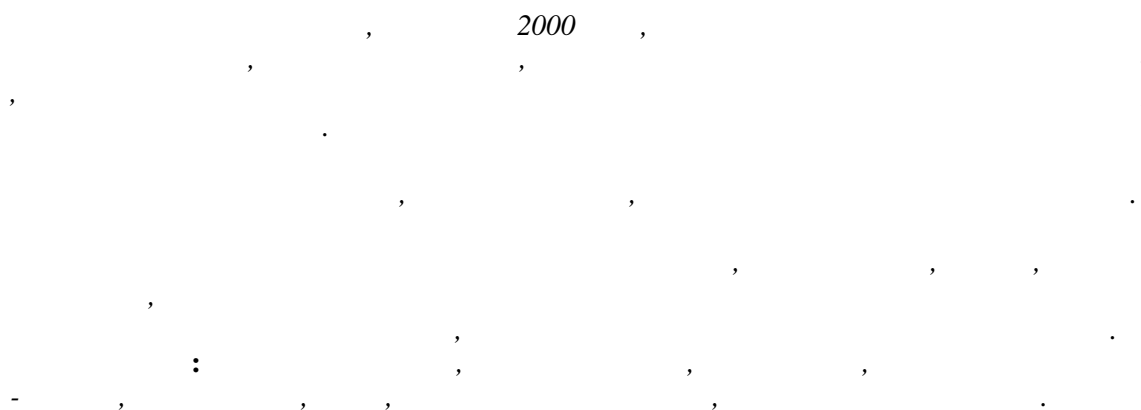
*Conform analizei efectuate, începând cu a.2000, această piață manifestă ritmuri relativ stabile de creștere fie a prețurilor de piață, fie a suprafețelor anuale, supuse tranzacțiilor de vânzare-cumpărare, sau volumelor generale de circuit de piață a terenurilor agricole, exprimate în formă neascendență.*

*Metodele principale ale investigațiilor constituie formarea rândurilor dinamice, analiza calitativă și cantitativă, comparație, modelare matematică etc.*

*În calitate de rezultate obținute poate fi menționat faptul de persistență atât a succeselor palpabile de dezvoltare dinamică a pieței funciare în Republica Moldova, cât și un iriș înțreg de neajunsuri, a căror eliminare la timp va îmbunătăți esențial rezultatele finale ale acestui fragment al mecanismului general de gospodărire de piață.*

**Cuvinte cheie:** *pieță funciară, preț de piață, valoare, număr de tranzacții, vânzare-cumpărare, ofertă, cerere, valoare economică, valoare naturală.*

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**JEL Classification: Q13; Q15; D53; P43**

**Introduction.** With the restoration of private property rights on arable land, which was declared in the early 1990s, the Republic of Moldova had revitalized the land market. Trends and dynamic of this process are the most accurate reflected in market prices of arable land. If, at the beginning of sales transactions, the market price of a hectare of arable land in Moldova was 3687 lei (in 2000), the average price for 2015 reached 19,8 thousand lei / ha or 5.4 times more (current prices). In some regions (eg. Chisinau Municipality and suburbs), the market price of the arable land is 100 thousand lei / ha and more. More detailed and thorough analysis of the process and market trends seeks to inform land owners with present and future situation of the domestic land market as a base for making decisions on sale – buying farmland.

**Main contain.** Being the main and unique natural basis of agricultural production and living conditions in rural area, agricultural land has always been and still remains in the center of attention of domestic foreign investors. It should be noted that in the global scale land market is not a deficiency market.

We believe that this is largely determined by the excessive diversification of prices. For example, the market price of agricultural land varies in the global plan from 100 to 200,000 and more USA dollars for one hectare. In other words, through the variability of prices it is provided and supported a successful and sustainable land market function. It is obvious that the market price in this circumstance is an integrated indicator, the true purpose of which is to ensure and maintain the balance between demand and supply. In reality, however, the market price of the one lot or another of land for agricultural activity reflects many specific features (including soil composition and placement) of land respectively.

Given that on the land market in every transaction of sale and purchase plots are involved (area or surface) and money, it makes sense to show a direct link between these two dimensions. From an economic point of view, it is this connection that underlies the formation of the economic value of agricultural land. In the most simplified formula, the economic value of agricultural land ( $P_p$ ) is directly proportional to the net income ( $V_n$ ) received within a specific time period (usually a year), and indirectly proportional to the value of money reflected through percentage (payment rates) of bank credit ( $D$ ):

$$P_p = \frac{V_n}{D} \times 100 \text{ (lei)} \quad (1)$$

Based on the above mentioned algorithm of the calculation and taking into account the fact that at present the net income of the peasant farmers of the Republic of Moldova from agricultural activities is 2073,5 lei/ha (South Zone) [1], 2654,32 lei/ha (Zone Center) and 2267,34 lei/ha (North Zone), and the interest rate of the average annual payment for bank loans (2014) was equal to 10.53 per cent, we can state that the economic value of agricultural land in the relevant geographic areas should be at the level of:

$$\text{South} - 19691,36 \text{ lei/ha} \left( \frac{2073,5}{10,53} \times 100 \right); \quad (2)$$

$$\text{Center} - 25207,22 \text{ lei/ha} \left( \frac{2654,32}{10,53} \times 100 \right); \quad (3)$$

$$\text{North} - 21532,20 \text{ lei/ha} \left( \frac{2267,34}{10,53} \times 100 \right); \quad (4)$$

In the case where the calculated economic value of agricultural land is near the house (in a densely populated area), does mean land cultivated within households subsidiary, net income from agricultural activities is more higher, their economic value as the result should be:

$$\text{South} - 108670,85 \text{ lei/ha} \left( \frac{11443,84}{10,53} \times 100 \right); \quad (5)$$

$$\text{Center} - 114621,18 \text{ lei/ha} \left( \frac{12069,61}{10,53} \times 100 \right); \quad (6)$$

$$\text{North} - 100880,15 \text{ lei/ha} \left( \frac{10622,68}{10,53} \times 100 \right); \quad (7)$$

The fact that in reality the prices of agricultural land market (in both cases: inside and outside the locality), as a rule, are relatively lower than the calculations above manifested, provides, first of all, the correlation that exists today between supply and demand in the market of agricultural land. I mean that in a market economy, along with many other pricing factors, namely, the ratio of supply and demand plays a crucial role in terms of their end price of the market. What we think of the true causes of the fluctuations of market prices of agricultural land, it has to be analyzed the availability of potential sellers of agricultural land in the domestic market of the Republic of Moldova.

According to the land Cadastre (the situation at the date of January 1, 2014) the total number of land owners (both – inside and outside the locality) in the Republic of Moldova amounted to 2449,9 thousand units [2]. The average area of land by that date amounted to 1.38 hectares, of which 0,74 ha, or 53.6% it is amount of arable land. The proportion of intravilane squares, in Republic of Moldova, even if it is constantly increasing, until that date, was relatively small and occupied only 9.5% of the total area, contained in the report cadastral (3384638,92 ha). It should be noted that in the public property of the state it is only 782.1 th. ha or 23.1%. At the same time, yet 714,7 thousand hectares, or 21.1% of lands are in public ownership of administrative and territorial units, and the remaining 1887,9 thousand hectares are privately owned by citizens, of which more than 1551,4 thousand hectares are represented by the arable land.

It is obvious that in the conditions of market economy any method of calculating the market price of agricultural land has the purpose of decoding, in the first place, the value of land. In terms of its market price, it is formed on the basis of the value, but under the direct influence of the ratio between demand and supply.

Given that the prices, existing in the market, as usually are below the level of the economic value of agricultural land, not to mention below the value of its natural components, we can conclude that in the present the land market is dominated by domestic bidders of the agricultural land. The ratio of potential buyers and sellers de-facto exists as at 1:2.8 or even less.

As a consequence, given the tendency of clearly marked growth, the market prices of agricultural land in Republic of Moldova remain low not only in comparison with their economic and natural value, but in comparison with other countries in the region (Table 1, Figure 1; 2).

It is important to stress the excessive differentiation of market-based prices per units and geographic areas of the Republic of Moldova.

If for the whole period of 2014, the average market price of one hectare of agricultural land comprising Cadastral Territorial Office "Chisinau" was – 118060 lei, than in areas Taraclia, Cahul, Causeni, for example, this price was only 8136-9478 lei, or 12.5-14.5 times less.



Table 1

Market circulation of agricultural land in Republic of Moldova

Years	Area of agricultural land, sold, purchased, ha	The number of transactions of sale and purchase	Market price, lei/ha	The average surface of agricultural plot sold & bought, ha	The specific gravity of the surface, sold - purchased in total agricultural land %
2000	7338	9753	3687	0,75	0,35
2005	21825	47382	4778	0,46	1,05
2006	28096	51484	6965	0,55	1,42
2007	34101	62487	9539	0,55	1,73
2008	35949	73193	8511	0,49	1,82
2009	25214	67109	8911	0,38	1,28
2010	19021	69072	16502	0,28	0,96
2011	19930	71035	13444	0,28	1,01
2012	10159	52138	13719	0,20	0,52
2013*	12906	37710	16785	0,34	0,65
2014*	15653	23282	19851	0,67	0,79

\* - preliminary data

Source: Calculated by the author based on the data of the Agency Relations and Land Cadastre.

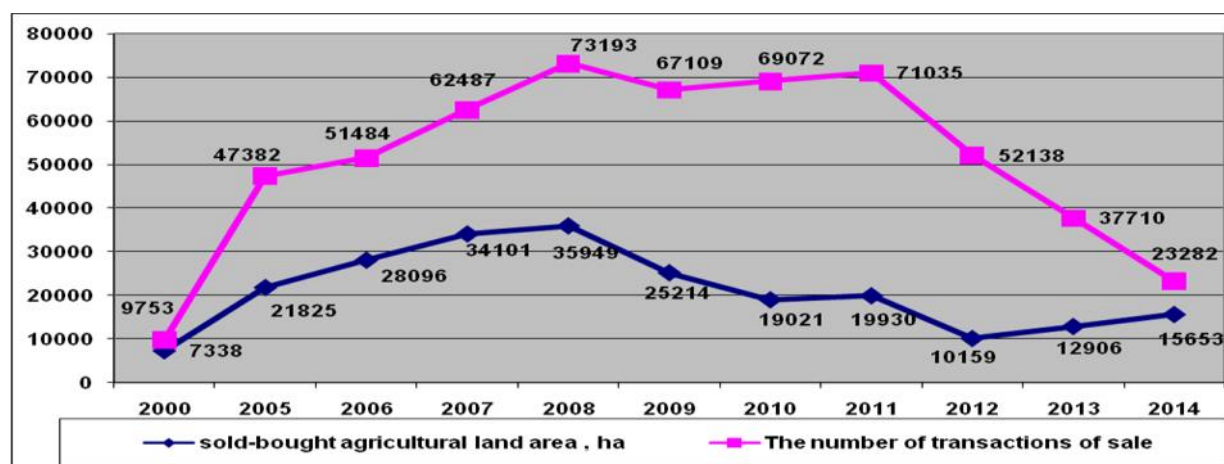


Fig. 1. The area and land transactions of sale and purchase

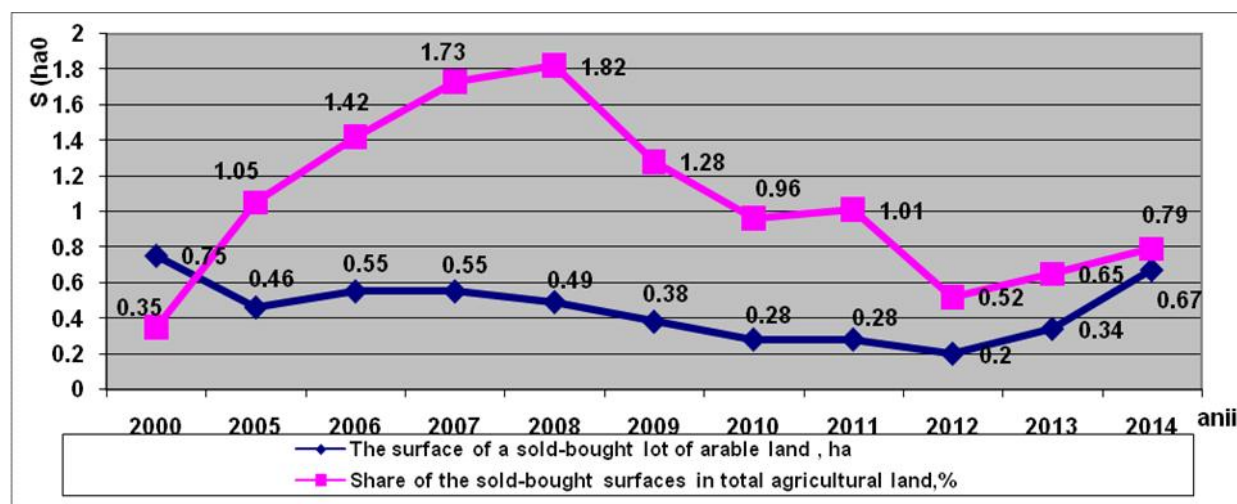


Fig. 2. The average area of a plot of land and the specific gravity of sold-purchased lands

There is to mention a radical differentiation in terms of market prices of agricultural land and other selected indicators at the level of geographic areas of the Republic of Moldova (Table 2).

Table 2

**The market price of agricultural land within the geographic areas of the Republic of Moldova, 2014**

	Geographical areas			
	North	Center	South	Gagauz Autonomous Territorial Unit
1. The area of the land plots sold-purchased, ha	6059,7	5006,8	3992,8	593,4
2. The number of transactions of purchase and sale.	8435	7770	6474	603
3. The market price of agricultural land, lei/ha	21884,1	20073,1	17113,7	16302,7

Basically, as the analysis of the domestic market of land, the total volume of transactions of sale and purchase of land plots for 2014 was more than 310,7 mln lei. Even if the share of the global sold-bought fields was not too large (0,79%, in 2014), the total share of sales amounted to 1.21% from the global agricultural products of the country.

According to the analysis, we can establish the fact of relatively proportional division of the number of transactions during the year. Also, there are relatively stable the prices on the land market, manifested in the form of transactions of purchase and sale throughout the year.

However, it should be noted that the largest share of these transactions are transactions, in which land market price coincides with the average market value of agricultural land. For example, the average price of sale between 13 and 28 thousand lei per hectare, pointed out, 22 from 38 Territorial Cadastral Offices, that is more than 57.9% of all Cadastral Offices. And more important is the number of transactions, carried out in these Offices, which amounted 14702 units, or 63.2% of the total.

In turn, the area of sold-purchased agricultural land within these 22 TCO amounted more than 10686,3 ha, or 68.3% of the total area of agricultural land sold – purchased on the land market of the Republic of Moldova in 2014.

**Conclusions and recommendations:** given that the main purpose of the land market is the efficient and sustainable use of main factor of agricultural production, namely land, we can conclude that the current state of functioning of the land market meets that objective.

However, the lack of stability on the land market, excessive variability and differentiation of prices, especially at the territorial level, as a result have been high proportion of unused areas of agricultural land, which, of course, must be either used or go to the land market for sale and purchase, inheritance, exchange, etc.

As a loophole specific for our domestic land market, may be noted the lack of transparency of this market, which causes, in turn, uncertainty and doubt for both sellers and buyers (investors). Because of the lack of free access and on-time updated information about land market prices, the share of agricultural land advanced for sales in recent years is in average of 0.65%, which means that any lot of agricultural land will change the owner using the procedure of sale and purchase, only once in 154 years.

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## DEVELOPMENT PERSPECTIVES OF LOGISTICS SERVICES PROVIDERS IN POLAND

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*The market of logistics services (TSL) in Poland is new, yet already mature. There are a lot of diverse entities operating there that provide various types of logistics services. So far the major goal of business conducted by them has been to generate profit that ensured further development. However, currently a change in the attitude towards business that is aimed for example at management of the company value is observed. And thus the following question should be asked: „What activities are undertaken by logistics services providers for the purpose of achievement of success such as for example improvement of the company attractiveness or growth in the company value?”.*

*To answer the question put in this way, the analysis of activities undertaken by providers of logistics services in Poland is performed. The article presents activities of logistics services providers that are the response to demands of the market – the customer, for the purpose of satisfaction of their individualised needs. We can consider them determinants of further operations that describe possible trends of development.*

**Key words:** *business models, elements of strategies, logistics services, providers, development, trends.*

*Pia a de servicii logistice (TSL), în Polonia, este nou , dar deja matur . Exist o mul ime de entit i diferite care opereaz acolo i ofer diferite tipuri de servicii logistice. Pân în prezent, obiectivul major al afacerilor efectuate de acestea a fost de a genera profit, care a asigurat dezvoltarea în continuare. Cu toate acestea, se observ o schimbare în atitudinea fa de afaceri, care are ca scop, de exemplu, gestionarea valorii companiei. Astfel, urm toarea întrebare ar trebui s fie: "Ce activit i sunt întreprinse de c tre furnizorii de servicii logistice în scopul realiz rii succesului, cum ar fi, îmbun t irea atractivit ii companiei sau cre terea valorii companiei?".*

*Pentru a r spunde la întrebarea adresat , se efectueaz analiza activit ilor întreprinse de c tre furnizorii de servicii de logistic în Polonia. Articolul prezint activit ile furnizoriilor de servicii logistice, care sunt r spunsul la cerin ele pie ei, adic ale clientului în scopul satisfac iei nevoilor individualizate, fiind considerate factorii determinan i ai opera iunilor ulterioare care descriu posibilele tendin e de dezvoltare.*

**Cuvinte cheie:** *modele de afaceri, elemente de strategii, servicii de logistic, furnizori, tendin e, dezvoltare.*

(TSL)

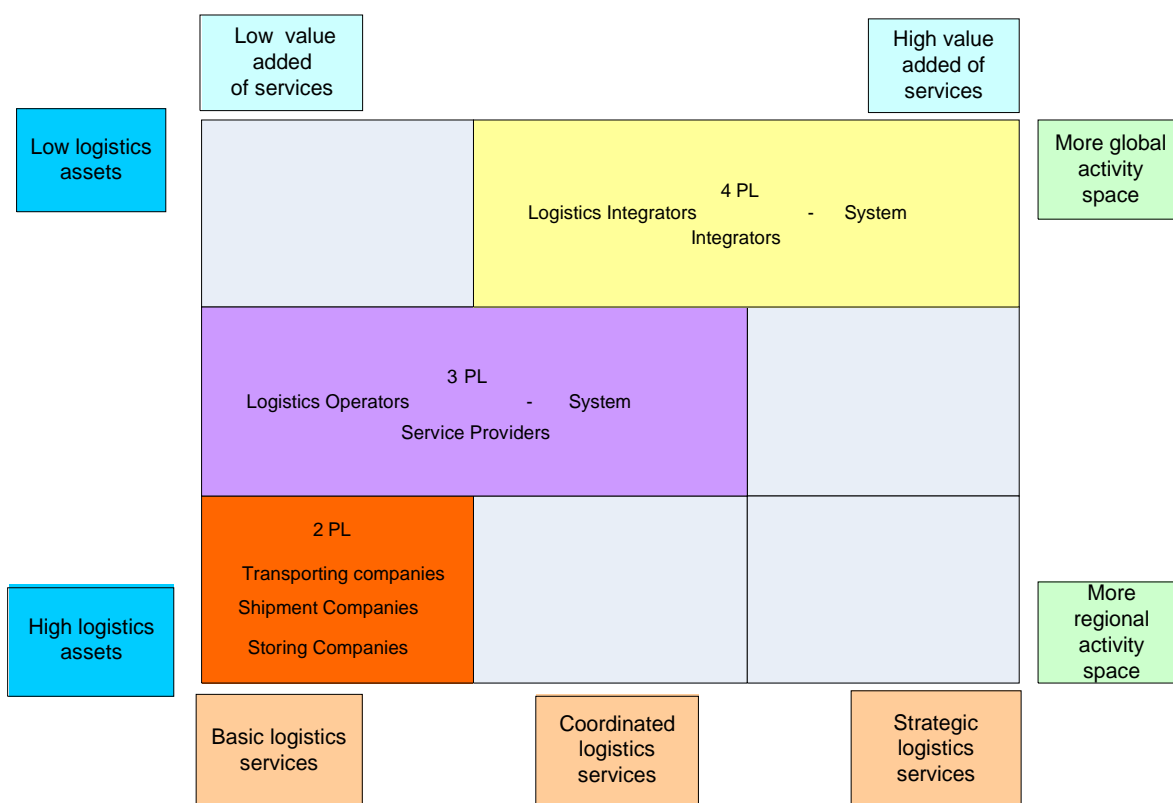
**JEL Classification:** M2; M29; L52; L20

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**Logistics services providers in Poland**

Polish market of logistics services is a new market that emerged as a result of economic changes taking place in Poland in the 80s of the previous century. Activities aiming at market facilitation, adjustment of legislative procedures (particularly implementation of the Act on freedom of conducting business activity in 1989) and changes in the approach to conducted business were significant for changes that were taking place. For many enterprises functioning at that time it was a new and uncertain situation that demanded taking a considerable risk of their activity. On the other hand, new business entities for which there occurred an opportunity to conduct their own business activity started to arise. For the „old” companies functioning at that time, new entities with new business concepts posed a serious threat in the form of competitors growing in strength. Transformations occurring in Poland also opened new possibilities for foreign services providers that were on higher level of evolution. For many of them this represented acquisition of new markets and thereby new possibilities of development and making larger incomes (revenues). Therefore companies-service providers of diversified condition and on various level of development occurred in the market of logistics services.

Besides, a similar service offer resulted in the fact that struggle for the customer started between the companies providing logistics services of various kinds. Emergence of many service providers was also a response to demands of the market that more and more frequently searched for companies / providers of services that could offer not only simple logistics services (for example transport, shipment, customs services) but also provide the whole packages of service on a high level of complexity. Figure 1 presents major characteristics that enterprises need to have to achieve a higher level of development and win a better competitive position.



**Fig. 1. Segmentation of logistics services providers**

Source: Own case study on the basis of [Baumgartem, Kasiske, Zadek, 2000].

### **Business models of logistics services providers**

Enterprises operating in the market of logistics services undertake a specific type of market game that in the long-term perspective should ensure success for the company. This victory is identified with attaining success in the market in the form of high competitive position, growth in the company value, increase in profit and profitability and certainty of permanent and loyal customers thanks to whom all these will be possible. However, in the pursuit of success, logistics service providers have to solve a very difficult problem while answering the question of „how business activity should be conducted to achieve the intended goal”. The question asked in this way may not be explicitly answered. „Conducting business activity” means something different for each entity providing logistics services. However, „business” is most often identified with economic activity or an idea of how to make money [Ko mi ski, 2004]. In economic practice, a business model represents the model of profit or activity in the sphere of profit [Slowytzky, 2000].

According to Slowytzky, a change in the concept of activity has been currently observed. So far the share in the market has been a significant measure of success. Companies focused on development of the product and achievement of the profit of scale. The view that a large share in the market guarantees achievement of large turnover, as they say „win a larger share in the market and this will be followed by profits”, was predominant. However, in the situation of serious competition, technological progress and extensive improvement in information technologies, many enterprises that had remarkable share in the market were not able to achieve high profitability and thus large profits. This made managing entities aware that existing concepts of management ought to have been changed and adjusted to new conditions, because activities that do not translate into incomes (activities in the sphere with no profit) would result in company bankruptcy. To ensure survival for a company in the long term, business model ought to be refreshed, and spheres of profits should be focused on because only they could ensure further development and growth in the value. In new economic order (competition, imbalance) orientation on activities in the sphere of profit is the key condition to achieve success.

Perceiving business model in this way results in the fact that service providers are forced to develop their own, unique business models as they all operate in the environment that is familiar to them and they all have diversified resources including assets and competences.

Therefore we can assume that business model is a strategic method of conducting activity including a combination of resources, processes and relations that is unique for the enterprise and that aims at increasing profitability and value of the company and ensures its competitiveness (in a long term) in a particular sphere.

### **Model of development of logistics services providers**

Business activities that are undertaken by logistics services providers aim at constant development. So far the company development has been perceived in terms of obtained profit (income generated from sale) that allowed for conducting further business activity or investment in possessed assets. However currently the income as the major goal of activity and accounting notion<sup>1</sup> that was historically a complex measure of company success started to lose its predominant significance.

Nowadays traditional way of understanding and perceiving development is contested. More and more frequently they write in the literature about new way of management indicating that development that is characterised by large dynamics in time ought to be identified with the value of company in market and the value for customer. Attention is focused on the issue of activities associated with growth in income that allow for better exploitation of the potential possessed by the company which is translated into growth in the value in long period of time.

Implementation of development model by logistics services providers is reduced in the initial stage to narrow specialisation (horizontal expansion) which lets them distinguish themselves in the sphere of the offer, quality and costs against other competitors. Then, in further stages, while aiming at establishment

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<sup>1</sup> Accounting profit has a retrospective nature; it reflects the effects of past events. Shaped by the instruments of balance law, it does not translate fully into the market value. See H. Zadora, Wycena przedsi biorstwa w teorii i praktyce [Company valuation in theory and practice], Stowarzyszenie ksi gowych w Polsce [The Accountants Association in Poland], Warsaw 2005, p. 13.

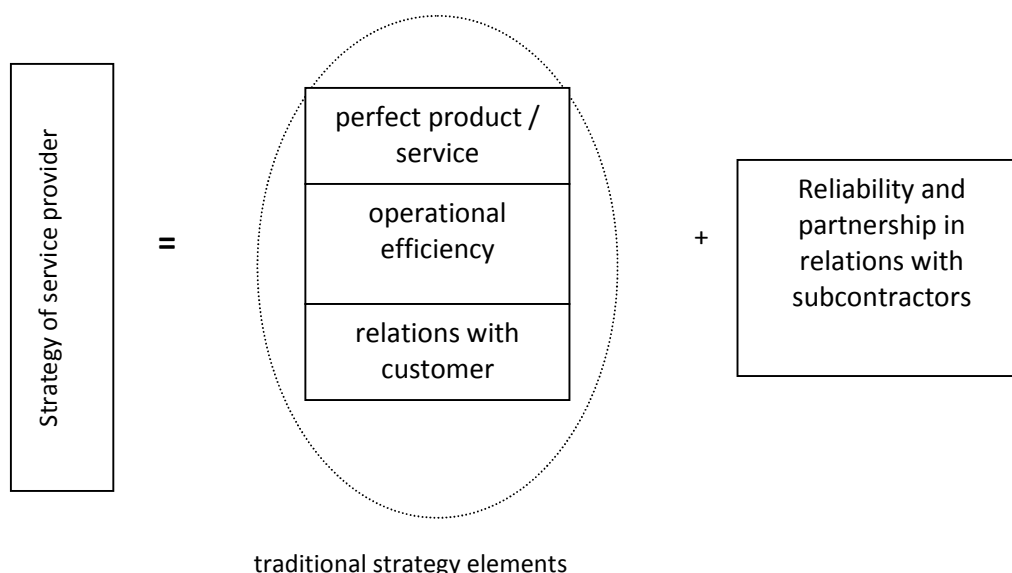
of strong and stable competitive position, service providers conduct concentrated activity on the basis of possessed specific skills and specialist knowledge (vertical integration). In the last stage of development model implementation, expansion of service providers on foreign markets and numerous mergers and takeovers of weaker companies that strengthen competitive power of the strongest entities are observed.

Implementation of the concept of growth in value is a new challenge for logistics services providers that allows, through activation of appropriate motivational mechanisms, to create strong and stable company that bodes well for the future development in longer term.

#### **Trends of development of logistic services providers**

Success of the company, a logistic services provider, depends on developed strategy of operation (business model) based on ability to reconcile execution of determined goals with changing customers' expectations and other elements of company surroundings. Adopted strategy ought to relate to „company vision in the perspective of stakeholders', customers' and owners' demands” while creating service offer of high quality that is adjusted to demands and specific character of trades and scope of customers' activity.

In previous years providers of logistics services based their business strategies on three elements that guaranteed them achieving success (Figure 2). Nowadays they more and more often notice the need to focus on reliability and partnership in relations with subcontractors.



**Fig. 2. Elements of strategy of logistics services provider**

Due to the fact that the market of logistics services (TSL market) is the market instantly reacting to changes occurring in the world economy as a result of for example fluctuations in exchange rates, fluctuations in fuel prices, unstable political situations or conflicts, etc., it is considered and defined as an economic barometer by many people (economy practitioners and theoreticians) who deal with it every day. It is a reflection of economy situation and reaction of companies.

This means that if services providers want to achieve success in unstable and turbulent environment, they have to adjust quickly to changeable market situation and customer demands. One thing is permanent: all activities of service providers are based on establishment of market position, compliant with expectations and possibilities of a particular entity.

Analysing behaviour of service providers in the market of logistics services (TSL) it can be stated that all entities undertake diversified activities, adjusted to their abilities that aim at achievement of intended success – attainment or maintaining a desired market position generating profit, expansion on new markets, etc. It is observed that adjustment activities undertaken by services providers, particularly the leading ones, are perceived by other entities as the so-called determinants



of development operations. Therefore we can talk about suggested development trends of logistics services providers (Figure 3).

All logistics services providers functioning in conditions of strong and severe competition aim at finding elements that might ensure obtaining advantage over other entities (being ahead of competitors). They realise that within the „portfolio of services”, customers ought to be offered varied services that might fully satisfy their needs and that would be distinguished by unique qualities that prove high market specialisation against the competitors. This specialisation can be implemented in two dimensions: with respect to geography and segment. In reality this represents having the latest and innovative solutions or a unique know-how in the sphere of complex logistic offer tailored to individual customer.

Providing services for e-commerce in the sphere of services for individual customer (B2C) for whom courier companies are the major beneficiary is the key development trend for the whole logistic business. Latest information systems, on the basis of which personalised projects of logistic processes will be created, are going to be more and more significant. Technologically complicated and financially expensive networks of self-service mail portals can serve the example here.

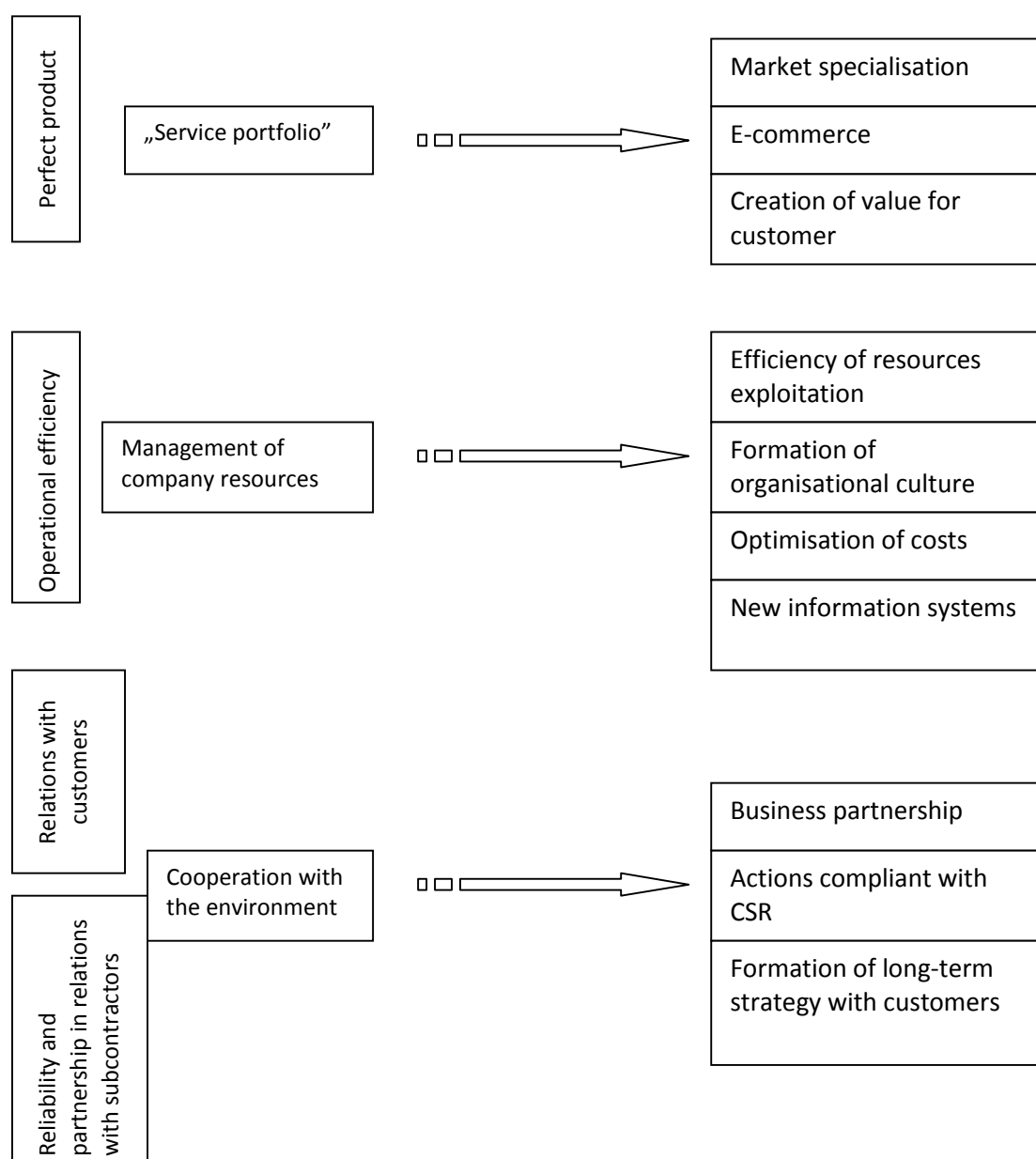


Fig. 3. Trends of development of logistic services providers

Determination of development trends in the sphere of operational effectiveness is the activity related to management of resources. As a result of the recent economic crisis many service providers had to revise their attitude towards the issue of resource acquisition and limit their investment intentions. Decisions made at that time bring consequences until nowadays. Currently, larger services providers reluctantly invest in resources they need. Expanding resources takes place through starting direct cooperation with subcontractors and „transferring” the investment costs on them. In the case of resources already possessed, activities of service providers are directed to more effective exploitation of own networks and optimisation of costs. However, optimisation of costs does not consist in reduction of employment or sale of means of transportation. Undertaken activities should aim at management of costs of logistic operations for the purpose of elimination of unjustified costs and thus better exploitation of logistic infrastructure.

Services providers that offer innovative solutions and build long-term strategy of cooperation with their customers on the basis of business partnership will have the chance of development. Mutual relations ought to be dominated by understanding needs, advisory skills in the sphere of choice of best solutions and business partnership based on mutual trust which unfortunately is a problem currently observed in cooperation.

It is observed that few logistic service providers undertake activities in accordance with new trends in management, for example in the sphere of networking, sustained development or corporate social responsibility. In this way, while basing on the synergy of economic, environment and social aspects (sustained business) they mark their difference against their competitors through the prism of perceiving the company as the entity taking care and looking after natural environment.

**Summary.** The market of logistics services in Poland is the market that has been extensively developing and the entities functioning in the field have relatively stable and strengthened position. Logistics services providers, aware of their weaknesses and strengths make attempts to modify existing business models. While considering their strengths, they undertake activities that often stay ahead the customer needs and that become a new value for the customer. On the other hand, they try to limit or eliminate their weaknesses. Logistics services providers, while seeing new development possibilities in weaknesses, make decisions that are supposed to bring intended results in long term.

There is no doubt that in the period of globalisation, good solutions become an example for others while becoming a determinant for development. Its expression is looking for new practices determining their further development trends that ought to increase the company value at the same time. This is confirmed by the fact that logistics services providers operating in Poland are perceived as high level experts in the sphere of logistics.

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## PREMISES FOR CLASS STRUCTURES IN THE REPUBLIC OF MOLDOVA

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*This study represents by its content a competent sum up of the processes which have unfolded in Moldova for more than two decades of transition and it is focused on social stratification dimension. The social stratification itself proves to be a complex phenomenon, including a differentiated system of hierarchies which form up an integral entirety, determining the positioning of an individual within a social group. The opportunity of this monographic study dedicated to bringing out the processes of social stratification is determined by the need to identify the existence and theoretical grounding of the formed up groups or which are in process of being formed up, them being subjected to research by developing scales based on more criteria.*

*The indispensable nature of the investigations is amplified by the development of a new methodology, which would ensure the emphasis being placed on new social structure compatible with reality, approached through the prism of certain measurement indicators. While in Soviet period the social structure was grounded in occupation, there being present a simplistic picture with no consideration for internal hierarchy, neither for the diversity of the activities, nowadays there is an absolutely innovative approach, grounded on the complexity of the processes from within and out of the society, there being pointed out both the traditional dimension and the trends derived from creating a knowledge based society.*

*The work undertakes a multiaspectual analysis of stratification, including economic and political, professional and cultural dimensions.*

**Key words:** social class, social categories, social structure, social stratification, education, occupation, social status, lifestyle.

*Acest studiu reprezintă o totalizare a proceselor care s-au produs în Republica Moldova pe filiera social stratificatoare mai mult de două decenii de tranziție. Stratificarea socială se dovedește a fi un fenomen complex, incluzând un sistem diferențiat de ierarhii care formează o totalitate integră, determinând poziționarea unui individ în cadrul unui grup social. Oportunitatea studiului consacrat reliefării proceselor de stratificare socială este determinată de necesitatea de a identifica existența și de a fundamenta teoretic grupurile formate sau în formare, supunându-le cercetării prin elaborarea unor scale în baza mai multor criterii.*

*Indispensabilitatea investigațiilor este amplificată de elaborarea unei metodologii noi, care să asigure punerea în lumină a unei structuri sociale corespondente realităților, abordată în sensul unor indicatori aplicați pentru măsurare. Dacă în perioada sovietică structura socială a fost fundamentată pe ocupație, fiind prezentat un tablou simplist, fără a ține cont de ierarhiile în interior și de diversitatea activităților, actualmente s-a impus o abordare absolut inovatoare, fundamentată pe complexitatea proceselor din societate și în afara ei, reliefând atât tradiționalul, cât și tendințele derivate din implementarea societății bazate pe cunoașterea și tehnologia de vârf.*

*Lucrarea conține analiza multiaspectuală a stratificării, incluzând dimensiunile economice și politice, profesionale și culturale.*

**Cuvinte cheie:** clasă socială, categorii sociale, structură socială, stratificare socială, educație, ocupație, statut social, mod și stil de viață.

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**JEL Classification: I20; I24; I25; I29; I31**

**Introduction.** The social stratification is considered to be a complex and multidimensional process, determined by economic, political, cultural, psychological, moral factors, etc. An important role in the formation of people's lifestyle, of economic structures, traditions, social and psychological fields is held entirely by historical circumstances. Historical factors are relevant for groups' forming, social and class structures. Stratification that is formed in Moldova in conditions of building the postmodern society contains in it the nucleus consolidation of social groups and the formation of new classes. These ones, in their resistance structures, contain remnants of social memory.

At the beginning of the twenties century, in Bessarabia, part of the Russian Empire, there was a medieval dominant social structure, much alike the imperial agrarian colonized provinces, which according to statistics, is represented by a very small number of very rich people (large landowners, landowners, merchants) – 0.001%, rich people (landowners, merchants, clerks, manufacturers) – 0.58%, people that had a decent life, having land surfaces providing natural economy for them – 35%, people who were affected by poverty, periodically or permanently subjected to deprivation, chronic malnutrition and having no access to education – 64%. Under these conditions, barely were forming the germs of capitalism, bourgeoisie's, an important element of the social structure that later would influence the formation of the middle class – the base class in the modern society. The division of Europe after World War I, the emergence of new geopolitical structure, returning Bessarabia to the Romanian Unitary state, caused the synchronization of the social processes in Bessarabia and the Old Kingdom, made quicker the formation of the modern society in Bessarabia. The process was interrupted by the outbreak of World War II and the re-annexation of Bessarabia, this time in the Soviet Union and the establishment of the Moldavian SSR. However, people's minds didn't delete the values that were promoted by the modern society for two decades.

#### **Premises for class structures in the Republic of Moldova**

The impact that had the Bolshevik ideology disorganized the social, economic, demographic life in the Moldavian SSR, abolished the private property, were organized also the deportations and massacres by starvation of hundreds of thousands of people. The policy of change of the national structure, made mechanically, by massive immigration of the foreigners and emigration of native population strengthened only apparently the working class and intellectual class from MSSR. The ethno-linguistic social conflicts could not be mitigated, using the instruments of the Soviet state socialism dictatorship; they just went in a phase of latent accumulations. The intellectual elite formation was subjected to ideological pressure to make possible the obedience to the state's power structures.

The formation of the new state, sovereign and independent – Republic of Moldova, doesn't mean just one new graphic appearance worldwide. This process is accompanied by economic transformations, usually difficult ones, by shock operations for most of the citizens, by democratization and social restructuring of the entire population.

The political and socio-economic changes led to the formation of new groups, social strata, new professional structures and changed the structure of the society as a whole. New groups, new social strata appeared not only based on the classic layering principles, but have specific national features on their

foundation, related to the privatization process, to the economy and market relations formation, to the geopolitical reasons.

In the Republic of Moldova there is noticed a specific trend in the post-Soviet space: people who have prospered in business and made great fortunes, involve themselves in politics, occurring the process of oligarchization the state power. Sociologists try to find the reasons for this phenomenon. In our view, the reasons are as follows:

a) In the Moldovan public life there is not enough to have the wealth, which is permanently subjected to risk, because the wealth wasn't always acquired perfectly in a legal way, but rather by the proximity to the hierarchy nomenclature sources, meaning the access to the public money.

b) Rich people come into politics in order to enhance their social-economic status. The main factor of their property economic security becomes the political party affiliation and the proximity to the ruling political circles.

Such events were characteristic to the early stage formation of the socialist society. In Moldova, the state institutions influenced by businessmen, formed monopolistic structures to extort money from the poor people and direct them towards to the rich persons. The state leaders use the state institutions for the businessmen benefits. Generally speaking, their purpose is to make the rich people richer and the poor ones poorer.

The society faces not only a socio-economic crisis, but also a profound identity crisis. It remains to be divided by ethno-cultural-linguistic criterion, formed in Soviet times. Thus, in the absence of a social cohesion, based on the national identity, cannot be built a viable economy.

According to the distribution of responses about subjects' self – positioning, the social structure of Moldova can be represented as follows: 4% of the population believes that it is economically provided and afford luxuries; 13% believe that have no shortages and can afford certain goods; 27% is positioned closer to the middle stratum, and 56% identify themselves with social structures situated down. This division is a general one, because social structures are not distinguished by homogeneity. Relating to the indicators such as income, wealth significantly restricts the boundaries and content of a middle social stratum. The consumption pattern represents today the main factor that determines subjects' position in the social hierarchy. Particularly the consumer style is today in the Republic of Moldova the main factor in social self-identification. The study results confirm once again that the Moldovan society remains one unstable in the absence of a consistent middle social stratum.

The basic criteria of the economic differentiation are disposable income. Under this criterion, three fifths of the population has low incomes that do not surpass the threshold of the minimum standard of living and life and are situated in the poverty zone. It is impetuous necessary to increase the efficiency of the national economy, the permanent increase of the Gross Domestic Product (GDP), creating adequate conditions for every citizen of the country for self-assertion and creative work according to his skills and capabilities. In this regard, it is necessary to develop small and medium business, family business. As a result will appear new jobs, better paid, which will help increase the population's income, promote in the social hierarchy, especially in poor areas.

Using the methods of comparative analysis of stratification criteria and the dimension of the disposable income and comparing them with the subsistence minimum, allowed us to divide the population into six groups. The first stratum is formed by the richest people, the second one- wealthy people and the third – not too wealthy people. The last three strata have income up to the amount of the subsistence minimum and include most of the population (about 60%). It is necessary to develop and build on measures that would help raise population's incomes by creating well-paid jobs.

The structure of consumption expenditures serves as an objective characteristic of quality of life. In the most insured households the share of expenditures for needs satisfaction is noticeably higher than in the least insured households.

These are expenditures for education, recreation, contributing to increasing human capital; these are spending on housing facilities, transport and communications, which creates conditions for a comfortable life; these are expenses for restaurants and cafes that provide power outside the home and represent one of the indices of high level of welfare.

The existence in the least insured households of plots of land with an area greater than in the most insured, attest the following. In Moldova, rural residents had access to land regardless of their level of welfare. The achievement of the program "Earth" secured land possession of land acquired for the account of equivalent land shares. However, the least wealthy households do not have sufficient means for



the production, which would create opportunities for "out" them out of poverty. This concerns, first, means of production, without which it is impossible to get a high return on agricultural production in large volumes and obtain based on sufficient income to overcome poverty.

In the socio-professional stratification took place changes, though they are not so quick and positive as we would like them to be. There are a number of factors that form the individuals' perceptions in this regard. Income level and education is crucial in building future plans of respondents. The more advanced studies are, the aspirations and their plans for the future are more optimistic. However, these respondents are more demanding for the level of training and obviously have a higher level of information.

The income level influences on the respondents' job mobility intentions. With the increasing levels of income, decrease the respondents' intentions to change profession or field of their work. Though one of the main reasons of changing the work place is the low wage for the job they have actually, very few people would plan to open a business on their own or say they would like to work in the private sphere. Most respondents are opting for the public sector, because the situation in this area is relatively stable. This situation is observed especially in rural areas where the budget sphere allows people to have income not too big, but without risk.

The profession is crucial in filling a position in the social hierarchy. According to the results of our research, the majority of the respondents (over 60%) invoke as the first criterion of considering a profession prestigious one the high level of paying it. The character and emotional aspects of labor matters less, but in the same time every fifth respondent believes that a prestigious profession should also be interesting. However, when asked to name the most prestigious professions in the top, were selected not just the best paid. The most prestigious is the medical profession (47%), followed by the jurist one – 36%, professor and economist – just over 20%, the computer programmer – 18%.

The institutional research results indicate a greater interest (compared to previous research conducted) to labor professions as well. Thus, every tenth respondent considered to be prestigious such professions as builder and carpenter. In the rural area a lot of respondents are opting for the profession of farmer. It becomes to be evident the idea that prestigious professions are not only those that involve intellectual work but also physical too.

The education level and the age of the respondents influence the criteria determining the prestige of professions. For people having higher education it is important, first of all, that the profession it be interesting, as the education level is lower, the criterion becomes less important. Respondents with complete and incomplete secondary education are focused on how well paid is the profession. The same trend is observed and related to the respondents' age: for young people, the salary is not so important. With increasing age, are changing and the respondents' preferences, ie the elderly are the most pragmatic.

In the Republic of Moldova persist acute socioeconomic disparities. They are manifested, in particular, through the major economic inequality, extremely one observed in urban and rural areas, including by income, consumption, property distribution and by human and social available capital. And though in the recent years are evident the trends of reducing the level of inequality, there is a high level in all profiles. This fact represents a real threat to the social security of the country.

Quantitative and qualitative indicators of inequality must become an essential reference point in the economic and social policy coordination. The problem of the gap between the upper and lower levels of the society cannot be solved without a review of distributive relations, in order to increase the tax burden on excessive incomes and raising of the incomes for poor people to the accepted social norms. In this situation, the regulatory role of the state is of biggest importance. In the Central and Southeast European countries, as well as the Baltic states, where reforms were successful performed, the state acted in many plans to control inequality.

Today's economic and social situation in Moldova, despite its complexity, is not objective fatal. It can be repaired by the development and implementation of the state social policy based on the scientific principles and systematically argued.

The development of the economic, social, cultural, environmental policies is the prerogative of the governmental institutions, the priority of the political space.

Sociocultural processes, developed over the last two decades, allow us to say that the state doesn't have a policy of development and reorganization of cultural infrastructure. The formation of elites in culture is left to the will of communities, thus government delegating its powers to the local government.

Politics is the sphere of interests of the certain strata of society. In this regard we must emphasize that the current structure of governments clearly reflects the interests of the social groups of the elite: party



officials (their number has more than doubled, until 31.7%) and the representatives of the business elite (from 2 to 16.8%). Today, more often in Parliament, deputies insist on promoting their party and corporate interests. Being guided by these principles is very difficult to reach consensus in order to achieve overall goals. This is more visible considering the fact that in the political sphere of our society, the social and personal relations are indivisible. State leaders are rich people; the authorities do not have poor people among them. This situation demonstrates the immaturity of the civil society institutions. They are not able to control the politicians, "to push" their representatives in power. The officials named on their positions take care to promote on the hierarchical positions "theirs", activity based on principles of brotherhood, kinship, friendship, sometimes – on ethnicity. This creates the elites of the clan. The strata of the governing class consists of stable political and cultural groups, united by the community of political and economic interests and usually consolidated around the heads of executive structures based on personal dependence.

The researches show that nepotism in the spheres of power is more spread on the regional and local level. Here is observed the organizing of activities on the principle of the management commands, hardly subordinated to the executive power in the region. Social bonds with much wider – outside of orders: are mobilized friends, relatives, former classmates, former coworkers. But the main success of the leadership is determined by the existence of the solid links with useful people, personal relationships of loyalty, possession of material resources of power.

The mutual influence of the socio-economic and political reforms has a great impact on the process of stratification. Political selection of parties, the attitude towards them and population's activism often result in common views in assessing the reforms and the state of affairs in a domain or another, for different groups of interests. However, the quality of life, as well as other social and economic indicators, became determinant for voters' political preferences. For example, respondents from rural areas, where the economic situation is a real challenge, consider reforms mostly negative (57%), compared to those from the cities (37%). This is due to the fact that rural residents are less politically active. In their sociological survey they often write: "My vote and opinion change nothing".

This way, local relations of kinship and charisma of some party leaders have a strong influence on people's political choices. During election, candidates win the most votes within the areas where they were born – from 75 to 90%.

In the society there is a lack of political unity between participants in social processes (leaders do not listen to what their people want and people do not hear what their leaders say). As a result, there is no a consensus in carrying out democratic changes.

The underdevelopment of political process, the amorphous situation of its structure, the political actors' anemia ("We are together with those in power and who have more chances to win today") creates situations where neither opposition, nor society is able to have a rational discussion with the leadership. In these circumstances, the opposition doesn't act like a political opposition, but rather as a radical movement.

The low level of social activity holds back the de-concentration of power. So far, it has proved as being impossible to reduce the dominance of the ruling political elite and its representatives in decision making. They control major state resources, central power relation with local government institutions and civil society organizations entirely. The mentality of "people's power", always ready to control and sustain the elites throughout governing process is not consolidated in Moldova yet.

In Moldova, there is still the practice of "political clientele," which proves that social groups that are close to the presidency, parliament, government, concentrate in their hands the most important levers of government, have great possibilities to make use of power as they like. State power administration at regional levels is considerably limited. More than 52% of surveyed local administration workers consider themselves not fully free in their activity and their ability to make effective local policy and that "centralization of power is still quite large." However, local power bodies have different degrees of autonomy in solving their community problems. A partial economic and financial independence was recognized by 57% of respondents; only 27 percent of leaders think of themselves as fully independent in financial matters; partial financial autonomy in social developing of rural areas and their infrastructure was recognized by 55% of respondents and 28% of the heads of local government bodies believe they are absolutely dependent.

Sociological analysis data show that Moldova has an absolutely critical need to improve the legislation on local self-government to attract public organizations in the implementation of local policies,

making better the elites' selection technologies and the development of various forms of democracy in local authorities' politics.

Interaction between internal and external policy implementation is not always stable, which negatively affects the general social progress. If the priorities of the EU integration are drawn with precision within foreign policy, then the internal politics doesn't contain an enhanced support for this direction of development, and some political groups are even hostile to the European course of Moldova.

During the period of important socio-historical processes, especially during transition periods, new forms of participation of new social groups in politics are born and developed. Based on circumstances' and factors' diversity that define state and society policies, social structure turns and settles around nucleus, changing its functions, perfecting various social practices. The development of political reforms and political process in Moldova grows every year, which fortifies confidence that the path of democracy development, which some countries have passed centuries ago, will be crossed faster, because we have directions to look up to, there are practices that can be useful.

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**WAYS TO OVERCOME THE CONSTRAINTS THROUGH STRATEGIC  
DEVELOPMENT OF SUPPORT SYSTEM FOR FINANCING  
SMALL AND MEDIUM BUSINESS**

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*The economic and financial situation of economic agents is a prerequisite. An economy is stable when things are balanced and in particular the financial situation of economic operators is thriving. In a modern, progressive business environment focuses the blanket of society and the regulator should be allowed to fully use the potential of knowledge, skills and initiatives. Competitiveness of small and medium enterprises consists primarily in removing the factors that constitute the greatest obstacle to the development of small enterprises then in the design and drawing directions, which would contribute to unlocking the potential of small businesses and strengthen their market positions.*

**Key words:** *Small and medium enterprises, support and funding system, access to finances, constraints to Small and medium enterprises.*

*În prezent, situa ia economico-financiar a agen ilor economici este o condi ie primordial . O economie este stabil când lucrurile sunt echilibrate i, în special, situa ia financiar a agen ilor economici este prosper . Într-un stat modern, mediul antreprenorial concentreaz cea mai progresiv p tur a societ ții, iar cadrul regulator trebuie s permit valorificarea pe deplin a acestui poten ial de cuno tin e, abilit i și ini iative. Sporirea competitivității întreprinderilor mici i mijlocii const , în primul rând, în înl turarea factorilor care constituie cel mai mare obstacol în calea dezvolt rii micului antreprenorat, apoi în elaborarea i trasarea direc iilor, ce ar contribui la valorificarea poten ialului micilor întreprinderi i consolidarea pozi iilor acestora pe pia .*

**Cuvinte cheie:** *Întreprinderi Mici i Mijlocii, sistem de sus inere i finan are, acces la finan are constrângerii a Întreprinderi Mici i Mijlocii.*

**JEL Classification: D0; D04; D14; F65**

**Introduction.** The improvement of the competitiveness of SMEs in Moldova means, first of all, to remove the factors that constitute the greatest obstacle in the development of small businesses, then plot

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directions, which would contribute to unlock the potential of small businesses and strengthen their positions on the market.

**The biggest constraints.** At present, the biggest constraints faced by the economic agents operators in the sphere of small and medium business concerning the financing of their activities are as follows:

1. *Insufficient financial resources.* This is a difficult dilemma in providing financial resources necessary for building, operating and developing a company. Due to the lack of initial capital, many registered enterprises fail to start working.

2. *High banks interest rates and their excessive volatility.* The high interest rates of loans create a vicious circle, they limit the potential number of eligible customers, which limits, in its turn, the reduction of administration costs of credits from the total savings volume that does not allow to reduce the interest rate of credits. Among the causes that maintain a relatively high level of interest on loans may be included:

a) High inflation and high risk of interest rate, which are the major elements that influence the evolution of interest rates on deposits and bank loans;

b) High liquidity in the banking system, limited tools and low efficiency of this liquidity management leads to the fact that the banks have significant resources placed on NBM accounts and other liquid instruments but they have reduced rates of profitability.

*Lack of financial resources for long-term crediting.* The lack of long term financial resources, the discrepancy between the terms of raised funds and granted credits lead to the fact that the interest rate for these loans is quite high.

Generally, there are three factors to consider in selecting the short-term financing sources: the real credit cost, credit availability in the required amount for a required funding period and influence on the cost of specific funding sources use and availability of other funding sources [3].

4. *The low rate of strategic foreign investors in the banking system of Moldova.* Other strategic bank investors are not interested to come and invest in the national economy due to its small size and lack of transparency of the banking system.

5. *Lack of pledge* is one of the mostly referred causes for a limited access to credit the SMEs. The evaluation of pledges is extremely conservative, and preference is given generally to buildings within cities or municipalities;

6. *Lack of adequate banking technologies for SME crediting and imperfection of financing instruments.* For "traditional" banking technologies the SME crediting is not very attractive due to high administrative costs. For crediting the SMEs it is needed a specific and flexible approach that would reduce these costs. The banks offer a relatively broad spectrum of traditional credit products: term loans, lines of credit, guarantees, letters of credit, etc.

7. *Quality of submitted projects.* The entrepreneurs do not have in most cases, basic knowledge in business.

8. *Lack of interest for the agriculture – an important sector of the economy.*

9. *Poorly developed business infrastructure,* makes the information and communication with the small economic agents to be ineffective. This includes business development services for SMEs, as well as technical assistance and trainings for funding providers (banks, OMF's, ELA, etc.).

Given the listed problems, to improve the access to finance for the SMEs as part of the real economy, it is necessary to adopt measures by business environment, state, as well as financial institutions.

Despite the support from foreign governments, as well as from the state through implementing programs and strategies for SMEs development, however it is necessary to take measures to overcome the constraints in financing the small business as follows:

1. *Promotion of the monetary policy aimed to a low and stable inflation* which would reduce the interest rates on loans and would provide greater predictability and stability thereof. Low inflation and a relatively stable exchange rate would create conditions to increase the public confidence in long-term savings instruments.

2. *Improvement of the business environment* will reduce the risks of doing business, will improve loan quality and enable lenders to include lower margins of risk in interest rates. Among the measures that should be taken with effect on credit market, are the following:

a) Reform of the judiciary system and elimination of corruption;

b) Limit the discretion of judges and examination deadlines – creditors effective taking possession of pledge, in pledge enforcement and insolvency cases.

3. *Attraction of foreign investment in the financial sector* can be achieved by:

a) Greater transparency of the banking sector, by publishing reports related to ownership structure, risk exposures; b) Conduct regular test in banks; c) Increase public confidence in the banking system; d) Implement a transparent and predictable monetary policy.

4. Given that direct investments have particular importance for Moldova's economic growth it is necessary that *the state provides support to investing companies in creating their own financial resources*. Such it is proposed an annual update and correction of fixed assets value, taking into account inflation and time factor, excluding the increase of taxable income value. The calculation of depreciation taken for tax purposes should be corrected considering the new value of fixed assets. This can form a depreciation fund which will allow to replace the fixed assets, and will not be affected by money devaluation.

5. *Improvement of SMEs access to finance*

Although the national legislative framework is extended and it does not present a barrier to access to finance, however, the finances remain the main barrier encountered by SMEs in their activities, contrary to the bans development, credit guarantee schemes and history bureau credit. Given the problems, in order to improve the SME access to finance, the following specific objectives are proposed: Develop innovative financing schemes for SMEs. Ensure an efficient transfer of remittances. Attract long-term credit lines from international financial institutions. Develop credit guarantee system for SMEs. Facilitate the access of SMEs to public procurement [9, p.77].

6. *Improvement of the access to information about the SMEs sector*

This refers to: a) Establish analytical tools for evaluating the access to finance for SMEs, loans duration, type of beneficiaries by categories of business (not just branches), interest rates (in the microfinance sector); b) Establish a functional and efficient credit bureau; c) Create a public register of financial statements; d) Create a single, centralized directory of offers for financing the small enterprises, completely and constantly updated, which will channel all the information about programs and projects of state and donor funding.

7. *Attraction of financial resources* in order to ensure efficient business is possible by using *non-traditional methods of financing*. Using much leasing will allow the SME to supply the companies with modern technologies, create the possibility to make competitive goods on the international market without high initial investment. Analyzing the Moldovan legislation, we find the possibility of replacing restrictions faced by leasing. Considering that the company does not benefit from subsidies granted by the State, which is of great help for the entrepreneurs.

8. *Reform and capitalization of existing credit guarantee funds*, or formation of new guarantee funds with the support of international donors, which will come with financial and technical assistance in this regard;

9. *Adoption of consistent strategies and specific technologies by the banks to credit the SMEs*, different from credits for large enterprises. This is especially true for crediting the SMEs in the agricultural sector, which requires different approaches as to businesses in other sectors. Such strategies and technologies should be directed to: a) Reduced bureaucracy in taking decisions for credits; b) Transparency of crediting conditions and criteria; c) Crediting products well suited to the needs and capabilities of SMEs for reimbursement;

10. *Draft the law on venture financing of innovative activity* and participate in their foundation with international and private financial institutions. The creation of such framework for the activity of hedge funds, would diversify the financing options for the SMEs and business, especially that the development of venture funds are at the early stage in the Republic of Moldova [5].

11. *Creation of the legal framework for the microfinance institutions to collect the domestic resources and transform the ELA into a cooperative bank network*, which would improve infrastructure, regulatory framework and increase the confidence of depositors in these institutions where the lack of resources is the main impediment to development at present [8].

To achieve a sustainable economic growth it is not enough just to create a favorable environment for the working population to develop and be employed, but to create a climate for cultivating entrepreneurship.

And this requires to identify the problems faced by small business in order to create a favorable climate to develop the small business enterprises, increase its share within the national economy and solve



social problems, so that the businessmen could put their ideas into practice, could plan and manage projects both for business development and for the prosperity of the national economy.

The modern management of every entity involves the application of a financial strategy that should provide the opportunity to maximize the performances got during medium and long term.

Improve the financial performance of the SMEs is a goal at state level, as it is stated in the Strategy of development of small and medium enterprise sector for 2012-2020, and in the Strategy of country development – for 2020.

To reflect the latest economic developments, and align the "Small Business Act" to priorities of Europe Strategy 2020 and to continuously improve the business environment for the SMEs, the Ministry of Economy proposed to adopt new actions in several priority areas:

- Smart regulation;
- Improved access to finance;
- Use of single EU market;
- Policies connection;
- Development of SME policies.

Ten principles of the "Small Business Act" for Europe have been launched, to guide the implementation process of policies aimed to stimulate the economic activity of SMEs in Moldova. These principles are essential to produce high added value at EU level and to create level playing field for the SMEs and not the least to improve the legal and administrative framework in the country, namely:

✓ create an environment where entrepreneurs and family business can thrive and entrepreneurship is rewarded;

- ✓ ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance;
- ✓ design strategies according to the principle "*think firstly at micro economic level*";
- ✓ ensure administrations response to the needs of SME;
- ✓ adapt public policy tools to the SME needs: facilitate SMEs' participation at public procurement and offer possibilities for the SMEs to benefit from state aid;
- ✓ facilitate the SME access to finance and implement legal and trade environment that support timely payments in commercial transactions;
- ✓ support the SMEs to benefit more from opportunities offered by the Single Market;
- ✓ promote the upgraded skills within the SMEs and all forms of innovation;
- ✓ ajutarea IMM-urilor să transforme provocările în materie de mediu în oportunități, enable the SMEs to turn environment challenges into opportunities;
- ✓ encourage and support the SMEs to benefit from growth markets [6].

According to the Decision nr.1021 from 16.12.2013 on approval of regulatory Strategy of entrepreneurial activity for 2013-2020 and the Action Plan for its implementation, concrete actions have been taken on access to finance, namely:

- Establish the National Commission to monitor and coordinate activities for finance access.
- Extend activities to improve the risk assessment methodologies and banking procedures in order to include the programs supported by government funds, risk-sharing facilities and partial guarantees for credits.
- Develop and approve the draft law on venture capital (risk).
- Develop effective credit guarantee schemes for SMEs by taking good practices, also include microfinance organizations and savings and loan associations into these schemes.
- Provide the requirement to split the contracting authorities necessities by lots or items in the tender documents in order to ensure the SMEs access to public procurement procedures.

However, a small and medium business cannot tend towards high financial performance within current economic conditions without continuous access to diverse funding sources. The company's financial structure is the main factor that directly influences its financial performance and a very important concern in the financial structure is to establish the optimal proportion (rational) between own sources and borrowed ones and also the access to internal and external financial sources through the policy of support and development of small and medium business developed by the Ministry of Economy [4, p.118].

Chapter III of the Strategy "Policies to support the SME development", stipulates the state support actions of the SME sector. This section includes articles that regulate the access to public procurement of goods, works and services establishing a quota of 20% of all public contracts for subcontracting by micro and small enterprises (this will allow the SMEs to participate in the procurement process being exempt from participation guarantee). There are also stipulations about research – development and innovation,



training activities; state programs and tools to support the development of SMEs; services of information, assistance and consultancy to SMEs, entrepreneurship education and continuous training and exact delineation of responsibilities and rights of all stakeholders involved in developing and implementing policies and programs to support the small and medium enterprises.

An innovative and important aspect linked to the availability of resources to implement the state policies in supporting the SMEs is the annual allocation of financial resources in the amount of 0.2% of gross value added of the SME sector in GDP for the previous year to finance its supporting tools. According to preventive calculations (calculation described in the table below) they would be:

Table 1

**Predicted indicators characterizing the SME share in GDP**

Indicators	2015	2016	2017
GDP (mln. MDL)	116700	128700	140700
SME share in GDP (mln. MDL)	37344.0	42471.1	47700,0
SME share in GDP (%)	32	33	34
SME Fund 0.2% of the SMEs in GDP (mil. MDL)	74688	84942	95400

Source: [11].

The Strategy states a share of 38% of SMEs in GDP by 2020. The financial support to the SMEs in the early years through optimal correlation of the state financing programs directions will give a new impulse to the multilateral sector development and by 2020 it will reach an increase to 25 of SMEs per 1,000 inhabitants, an increased number of employees in SMEs up to 65% and to 38% the share of SMEs in GDP [10].

Currently, at the stage of business financing gap, the Republic of Moldova obtains financial support from various international financial institutions and partners, and it provides access to financial resources for the SMEs through projects within crediting / funding programs, using three schemes:

1. *Direct funding of local financial institutions*, which in turn grant loans to the SME sector under general bank conditions;
2. *"Apex" financing*, according to the principle "first come – first served", where funds are given to financial institutions for certain strictly defined purposes;
3. *Leasing financing* that use quasi-leasing schemes [7, p. 20].

In order to improve the SME access to finance, according to the action plan about the implementation of the Strategy, the following specific objectives are proposed:

- develop innovative financing schemes for SMEs;
- ensure efficient transfer of remittances;
- attract long-term credit lines from international financial institutions;
- develop credit guarantee system for the SMEs;
- facilitate access of SMEs to public procurement.

Under the objective "Attract long-term credit lines from international financial institutions" it is recommended to create and develop innovative investment schemes namely *venture capital* and *business angels* that can be characterized in the following table.

Table 2

**Characteristic of innovative sources**

	"Angel investors"	"Venture capitalists"
<i>Who</i>	People with capital over 1 mil. \$	Professional investors
<i>Funds source</i>	Invest own funds in start-ups	Funds invested by institutions in more mature companies
<i>Investment size</i>	Usually between 10.000-50.000 \$	Average 7 mln. \$
<i>Investor's role</i>	Usually do not involve into operationl management	Active involvement into business
<i>Success rate</i>	48% recovers the invested capital	60% have success

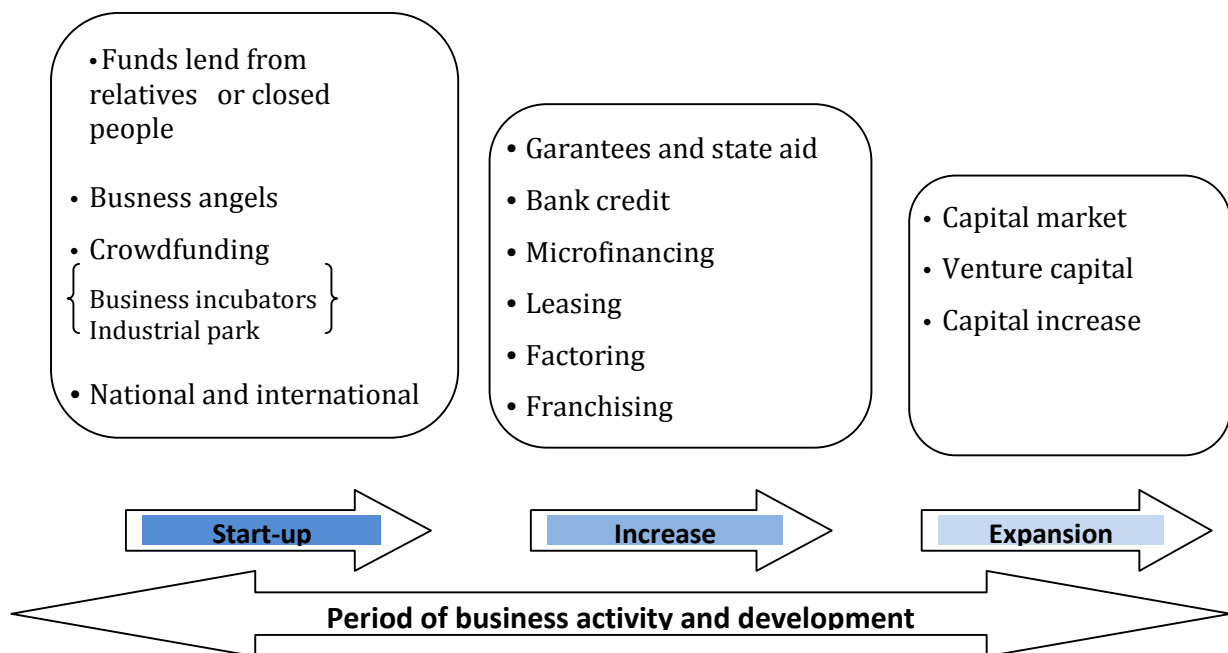
Source: [1, p.13].

“They invest when they know very well an industry, if the organization is operating in the same area, such investors can help a lot with resources and contacts. Venture capitalists and investment funds offer a more generous funding, but there are not so involved and do not know the area very well. Besides, the angel investors invest their own money, the venture capitalists invest the resources of others. If the investors of the latter change their strategy, the venture capitalists become suddenly uncomfortable. An angel investor, as long as he likes the business and the industry and the company goes well, he will not apply the same pressure as a venture capitalist who wants to recover his money. This happens because the angel investor is, in his turn, an entrepreneur and understands the situation”.

A source practiced in EU countries that could be taken for startups activity in Moldova is *Crowdfunding* as it intervenes in the financing entrepreneurial adventure sooner than the business angels, it relies on contributions and donations made by individuals, whom the entrepreneur proposed the project on specialized online platforms.

The expectations are high from the crowdfunding – the new appearance in the world of start-ups finance, and it is seen more as a solution to overcome major problems in funding the early-stage businesses. Worldwide, there are over 400 sites (one of the biggest is *kickstarter.com*) that provide crowdfunding, which means that you can finance your business from tens, hundreds or even thousands of "donors" of small amounts. Globally, crowdfunding platforms funds gathered \$ 2.7 billion in 2012 for more than one million campaign and 5.1 billion in 2013 (estimation by Massolution Crowd Power Solutions). This domain caught so much area that the European Commission intends to promote it by creating the European network a crowdfunding platforms [1, p.18].

The business units can use the diversity of financial instruments depending on the phases of business development.



**Fig. 1. Financial instruments used by SME at different stage of business development**  
Source: Developed by the author.

According to the figure we can mention that such innovative sources like *Business angels* can be used during the business initiation and *venture capital* during emergence stage. Also we can mention also the *business incubators* that would be an important step during the initiating stage or business start-up.

Due to the absence of an integrated methodology for assessing and monitoring the funding mechanisms to the specialized authorities in Moldova, **we propose:**

1. The Ministry of Finance together with the Ministry of Economy and Ministry of Agriculture and Food to **carry (develop) an inventory of the best existing and planned practices on funding mechanisms**, fiscal measures and financial incentives to promote the SME activity, and also to update and an annually review the effectiveness of these measures, taking into account the introduction of new, alternative

mechanisms that are to compensate the lack of funding for the Moldovan enterprises, especially the SMEs. The most important purposes of these new mechanisms are the following:

- be based on public-private partnerships where the risks are shared between the public and private investors;
- ensure that the public investment has the best possible support, thus generating substantial private investment;
- take into account the specific needs in areas that are not attractive, the SMEs which do not have capital or necessary assets to raise funds through loans;
- promote the commercialization of research results from Europe, and also technology transfer to SMEs;
- recognize the deficit of young entrepreneurs, especially according to the type of activity (agriculture, industry, IT), and hence the need to encourage them overcome or remove the specific barriers faced by these sectors and monitor the innovative emerging markets, by adapting the spectrum of policy instruments to their needs;
- take into account the use of the following financial instruments: a) National Fund for Financing the SMEs, whose role will be to invest in start-up and development phases, based on risk capital; b) Patent Fund to facilitate the technology transfer between the research centers and businesses, in particular for the innovative SMEs; c) loans for start-ups on more favorable terms than those on the market.

**2. Use the system of indicators** proposed Bulgac Vitaly and completed by the author **that would allow to evaluate and monitor the access of economic entities, especially the SME, to financing sources.**

This system was based on the indicators formulated in the OECD report "Financing SMEs and Entrepreneurs 2013: An OECD (Organisation for Economic Co-operation and Development) Scoreboard".

The criteria that the mentioned indicators must meet to form a functional system are as follows:

- *Usefulness*, the indicators should be an appropriate tool to measure how easy or difficult it is for agricultural economic units to access funding.
- *Availability*, the data to form the indicator should be available in order not to impose new burdens on government authorities or companies.
- *Feasibility*, if the information to form the indicator is not publicly available, it should be feasible to make them available at a modest cost or to get them during routine data collection or surveys.
- *Opportunity*, the information sources must be collected in a timely manner in order to monitor the evolution of access conditions to finance for businesses.
- *Comparability*, the indicators should be relatively uniform between the country regions in terms of surveyed population, content, data collection methods and periodicity or opportunity [2, p.76].

Applying these criteria, we obtained the following system of indicators that may be useful in assessing and monitoring the access of entities to financing:

*Measures indicators of access to financing for the economic entities*

1. Access to credit guarantee fund for economic units (can be calculated according to the requested sector).
2. Access to financial indirect resources (business incubator, cluster, industrial parks) for legal entities which can be calculated according to the requested sector.
3. Loans from Microfinance Institutions (SCA, MO) to the economic units (micro, small, medium, depending on organizational form – legal, age group, environment, area) / total loans for economic entities.
4. Services provided by national (international) aid programs and funds for economic units (micro, small, medium, depending on the legal form, age group, environment, area) / total services provided to economic entities. *(developed by the author)*

The issue of financing will always be on the agenda of any enterprise in the field of small and medium business, regardless its profitability or position in the market. Even if the SMEs play a vital role in the economy of Moldova, their financing often proves to be defective, because of risks and high costs, insufficient guarantees and unfavorable Regulations.

From the analyses and the above mentioned, we can emphasize some important issues for the business environment, especially the young entrepreneurs, to perform some small but sure steps towards a financial system:

- Access the most appropriate source of funding, depending on the development stage of the business. Orientation to alternative sources of financing as venture capital, business angels, micro-finance, etc.
- Study programs of support and state aid to find something suitable for the practiced activity.
- Orientate towards foreign markets, where possible, using the support of organizations that provide this service.
- Participate within the business incubator or industrial parks, such involvement can generate exposure and feedback for the business and help develop it.
- Proactive connection to existing networks and entrepreneurs, look for a mentor or create an advisory group for business development.

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## INNOVATION AND REGIONAL POLICY TRANSFORMATION

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*Imperfect innovation policy in Ukraine led to a number of problems in the sphere of innovations, such as: low national spending on science, poor national system of protection and management of intellectual property, inefficient organization of the innovation system, weak interaction of science, education and production in the innovation process, lack of foreign and domestic investment in high-tech business, reducing state support of innovation projects within the technological parks, low innovation activity of universities, unsatisfied indicator of cluster development, specialization of TNCs affiliates located in Ukraine at least innovation levels of production process – components assembly. Conceptual basis of regional innovation policy transformation in Ukraine should become the transition of clan-oligarchic economic model to the economy that built on free entrepreneurship. The effectiveness of regional innovation policy in Ukraine could be increased by implementing measures of small and medium enterprises support, clusters and regional innovation infrastructure development, usage of resources of social capital.*

**Key words:** innovation development, regional policy, clan-oligarchic model of the economy, small and medium business.

*Politica de inovare imperfectă în Ucraina a dus la o serie de probleme în domeniul inovațiilor, cum ar fi: cheltuielile scăzute la nivel național în domeniul științei, sistemul național slab de protecție și gestionare a proprietății intelectuale, organizarea ineficientă a sistemului de inovare, interacțiunea slabă a științei, educației și producției în procesul de inovare, lipsa investițiilor străine și autohtone în afacerile high-tech, reducând sprijinul de stat al proiectelor de inovare în cadrul parcurilor tehnologice, activitatea de inovare scăzută a universităților, indicatori nemulțumitori de dezvoltare a grupurilor, specializării afiliate CTN situate în Ucraina, la niveluri mai mici de inovare ale procesului de producție-asamblare componente. Drept bază conceptuală de transformare a politicii de inovare regională în Ucraina ar trebui să devină tranziția modelului economic – clan oligarhic al economiei care a construit antreprenoriatul liber. Eficacitatea politicii regionale de inovare din Ucraina ar putea fi majorată prin mărirea sprijinului la întreprinderile mici și mijlocii, grupurilor și dezvoltarea regională a infrastructurii de inovare, utilizarea resurselor de capital social de punere în aplicare.*

**Cuvinte cheie:** dezvoltare de inovare, politică regională, modelul – clan oligarhic al economiei, afaceri mici și mijlocii.

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**Introduction.** The main task of the current economic policy of Ukraine is to transit from resources-based economy that is able to provide benefits in the short term, to the innovation-based economy that is the key to long-term development. On the one hand, the innovation system of Ukraine has the following important competitive advantage as the high general level of education, the strong scientific base that is inherited from the Soviet Union. On the other hand, the innovation system of Ukraine has a number of problems. Among them – the lack of effective interactions between science and businesses, unfavorable framework conditions for innovation and poor infrastructure. While the solving of the problem of improving the framework conditions is the national level task, the establishment of interaction among participants of the innovation process and the development of innovation infrastructure are the tasks that require the active role of regions.

In practice, the regional policy of the Soviet era was based on the “levelling-off” principle in order to overcome the economic lag of certain territories. At first glance, this approach contributed to socio-economic development of depressed regions, but in comparison to the more developed regions the lag maintained or even increased. Moreover, this approach led to the passivity, lack of initiative, rooting of passive behaviour of depressed regions that are not looking for their own development paths and hoped only on support from the center. Much of this attitude remained in the region of the independent Ukraine. However, international experience shows that a region in order to be competitive in today’s environment is necessitated to take an active measures for mobilization of their endogenous development potential. In this context, the development of regional innovation systems will become a prerequisite for improving the competitiveness of regions of Ukraine in the conditions of the innovation-based economy.

**Theoretical aspects** of regionalization of innovation policy are based on scientific works of many domestic and foreign scholars, including Heyts V.M., Kyzym M.O., Lazareva E.V., Fedulova L.I., Schumpeter J., Porter M., Krugman P., Hospers G., Etskovyts G., Leydesdorf L. and others.

However, the problem of the efficiency of regional innovation policy in terms of clan-oligarchic model of economy that is usual for the post-Soviet states, including Ukraine, remains unsolved.

The effectiveness of innovation policy in Ukraine in comparison with some of the CIS countries may be indicated by the studies of the World Intellectual Property Organization that proposed the annual ranking of the world countries due to their innovation development. Indicators of innovation in the CIS countries and the leaders of innovation development in 2012 are presented in Table 1.

**Table 1**

**Indicators of innovation in some CIS countries and leaders of innovation in 2012**

Countries	Global Innovation Index (among 141 countries)	Sub-index of expenditures on innovation	Sub-index on innovations output	Index of innovation efficiency	Expenditures on science,% of GDP
Russia	51	42,0	33,8	0,8	1,3
Ukraine	63	38,0	34,2	0,9	0,9
Belarus	78	37,7	28,1	0,7	0,6
Kazakhstan	83	41,4	22,4	0,5	0,2
Switzerland	1	68,0	68,5	1,0	3,0
USA	10	66,3	49,1	0,7	2,8
Germany	15	58,8	53,7	0,9	2,8
Japan	25	61,3	42,0	0,7	3,4
China	34	42,7	48,1	1,1	1,5

**Source: The Global Innovation Index 2012.-The World Intellectual Property Organization – [www.globalinnovationindex.org](http://www.globalinnovationindex.org).**



As it can be seen from the Table 1, the leader among the CIS countries by the Global Innovation Index in 2012 is Russia, followed by Ukraine, Belarus and Kazakhstan. Ukraine trailed the leader – Switzerland – by 63 positions that is proportional with countries' expenditures on science. If the global leader of innovation development – Switzerland – spends on science 3% of its (!) GDP, Japan – 3.4%, the U.S.A and Germany – 2.8%, in Ukraine only – 0.9%.

Another important index is the efficiency of innovation that is **ratio between the cost of innovation and its output**. Studies revealed that the highest efficiency of innovations is in China and Switzerland. The leader among the CIS countries by this indicator is Ukraine, where the innovation efficiency index was 0.9% that puts the country by this indicator on the same level with Germany. This high rate of innovation output demonstrates the powerful, but unrealized innovation potential of Ukraine.

The analysis of innovation policy in Ukraine revealed a number of key features. First of all, it should be noted that the majority of scientific research are provided by public research institutions. As shown in the Table 2, the CIS countries are far behind the leaders of innovation by business expenditures on research. For example, in Japan this index is 78.2%, while in the CIS countries – less than 30%.

**Table 2**

**Indicators of interaction between education, research and production in the innovation process in some CIS countries and leaders of innovation in 2012**

<b>Countries</b>	<b>The research, funded by business %</b>	<b>Cooperation between universities and industry, ratio</b>	<b>State of cluster development, rate</b>
Russia	25,9	42,6	28,6
Ukraine	26,6	41,4	35,8
Belarus	28,8	-	-
Kazakhstan	13,5	32,3	41,5
Switzerland	68,2	79,6	61,9
USA	67,3	78,5	63,2
Germany	67,3	69,3	62,0
Japan	78,2	67,6	66,8
China	71,7	58,8	64,4

**Source: The Global Innovation Index 2012.-The World Intellectual Property Organization – [www.globalinnovationindex.org](http://www.globalinnovationindex.org).**

Industrial and Financial Group and transnational corporations (TNCs), that, as a rule, has strong research centers, supported by significant financial resources, are the powerful catalysts for innovative development of industrialized countries. The role of the TNCs in the innovation sector is particularly noticeable in the newly industrialized countries of the South East Asia. However, in Ukraine the TNCs still did not significantly affect the activation of innovation processes.

The key feature of TNCs in Ukraine is that their Ukrainian branches provide usually one of the least innovative parts of the production chain – assembling. Thus, the important effect of innovation on the overall economic progress – their diffusion (Schumpeter J.) [2] – stays away from the economy of Ukraine.

Furthermore, the predominant role of low-innovative industries (particularly in the commodities sector) puts other industries at a disadvantage, and further strengthens the unfavorable economic structure causes low demand for knowledge.

The situation of inefficient innovation system enhanced by the poor interaction of science, education and production in the innovation process. It is proved by the low index of cooperation between universities and industry in Ukraine. For example, in Switzerland and the U.S.A rate is close to 80, and in Ukraine – 42.6.

An important condition for establishing links between all participants of the innovation process in the country is the cluster development. Ukraine has only started to develop and implement the principles of the cluster approach. By the cluster effectiveness coefficient Kazakhstan is a leader among the CIS countries – 41.5, which is the result of systemic reforms of industrial policy on the principles of the cluster approach. Ukraine lags far behind by this indicator, its cluster effectiveness coefficient was 28.6, and in the leading countries this figure exceeds 60.

The major obstacles of unsatisfied links between science and industry in innovation sector of Ukraine are the following:

- low domestic demand for innovation, even commercially profitable, that is caused by undeveloped innovation products markets and relatively low innovation activity of the business sector;

- mismatch of supply and demand for innovation indicates a poor interactions between producers of knowledge (research institutes, universities) and its consumers (producers, entrepreneurs). Often research in public research institutes are conducted without reference to the actual needs of the real sector that cases the problem of the practical realization of the received scientific results [3].

The national legislation of Ukraine in the sphere of innovations is imperfect and does not contribute to solving urgent problems in this area.

In 2008 the State Economic Program “Development of innovation infrastructure in Ukraine for 2009-2013” was adopted, but, unfortunately, it didn’t change the situation in the Ukrainian innovation sector for the better. This is due to lack of budget financing of the planned activities of the program, and enterprises have to finance their own innovative programs, but the majority of businesses, especially small and medium, doesn’t not have financial resources to carry out their own research and innovation projects. The number of enterprises that are engaged in innovation activities in 2011 is 1,679 or 16.5% of all industrial enterprises [4].

There is a problem of low innovative activity of universities in Ukraine, as well as the gap between the academic and university research. For example, in 2008-2010, universities and other higher education institutions offered 2% of technological innovation in the country, while public research institutions – 4.5%, and enterprises – 25%.

Implementation in Ukraine the effective tool for innovation development – clusters is hampered by the following factors: absence of the national cluster program, absence of a common information base of cluster initiatives, lack of the experience of the clusters functioning in Ukraine, undeveloped cluster institutions: regional development agencies, investment promotion bureaus, etc., absence of cluster development coordination establishment, nonsystem character of cluster studies in the Ukraine; declarative rules on cluster specific implementation mechanisms, lack of effective mechanisms and infrastructure for cluster functioning.

Implementation of innovation projects within technology parks has created the competitive innovation products that constantly increase their output and transfers to budget and extrabudgetary funds. Thus, during the time of their functioning it was produced 11.4 billion of innovation products, 14% of this amount was realized abroad; transfers to budget and state funds almost twice exceeded all kinds of state support during this period; 3.1 thousand new jobs were created. However, these results related primarily to the period of 2000-2004. Abolishment of the majority of measures of technological parks state support badly influenced on further functioning of these structures.

Eleven special (free) economic zones (SEZ) operate in Ukraine at the moment. But, according to the Law of Ukraine 2505 from 25.03.2005 2505 "About Amendments to the Law of Ukraine "About the State Budget of Ukraine for 2005" all enterprises in Ukrainian SEZ function and realize investment projects in the general taxation regime.

**The national system of protection and management** of intellectual property is also a weak unit in the innovation development and requires improvements. Ukrainian legislation excludes the state, research institutes and universities from the innovation process – the authors of patents in Ukraine could be only scientists, but alone they are unable to implement their inventions into practice. For example, in the USA it was adopted the Bayh-Dole Act in 1980 that clearly defined universities as patent holders, and in the case of patent inefficient usage all rights on it transfer to the state.

In addition, there is a lack of foreign and domestic investment in high-tech business in Ukraine. This sector isn’t attractive for investors because of imperfect legislation and lack of stability.

Analysis of framework conditions for the implementation of innovation policy in Ukraine found that the vast legislation basis and regulations in the innovation sector don’t encourage innovation sector,



## CASH FLOWS MANAGEMENT AT THE ENTERPRISE LEVEL

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*The management of cash flows associates equally to the management of cash inflows and outflows, as well as to the administration of cash deficit or surplus. The biggest challenge from the enterprise point of view is to schedule adequately cash inflows and outflows to avoid shortages and ensure a rhythmic development of the enterprise.*

*Article's importance arises from the role that management of cash flows has in the daily operations of an enterprise and the issue of ensuring economic efficiency of the decision to finance financial flows. Any activity requires spending money and should be conducted in such a way as to ensure sufficient financial flows. Author comes with a vision of factors that must be analyzed to ensure the financial equilibrium of the enterprise. The researched theme includes an analysis of the effectiveness of management of financial flows aimed at the enterprise level and presents a high level of originality, as it allows combining different concepts of financial management for the analysis and management of cash flows. Qualitative research techniques are used which facilitate the research perspective, enabling a deeper understanding of the investigated problem and the obtained information have a high degree of competence.*

**Key words:** management, efficiency, financial flows, money, business, operations, balance.

*Managementul fluxurilor monetare este asociat, în mod egal, cu gestionarea inputurilor și outputurilor monetare, precum și administrarea deficitului sau surplusului de monedă. Cea mai mare provocare din punctul de vedere al unei întreprinderi este de a programa, în mod adecvat, inputurile și outputurile monetare pentru a evita apariția deficitelor și de a asigura o dezvoltare ritmică a întreprinderii.*

*Importanța articolului reiese din rolul pe care gestiunea fluxurilor de mijloace bănești îl posedă în operațiunile zilnice ale unei întreprinderi și problematica de asigurare a eficienței economice a deciziilor de finanțare a fluxurilor financiare. Orice activitate impune cheltuieli de mijloace bănești și trebuie dirijat în așa mod ca să asigure fluxuri financiare suficiente. Autorul vine cu o viziune asupra unor factori ce trebuie analizați în vederea asigurării echilibrului financiar la întreprindere. Tema cercetată cuprinde o analiză a aspectelor gestiunii eficiente a fluxurilor financiare la nivel de întreprindere și prezintă un nivel înalt de originalitate, deoarece permite combinarea diferitelor concepte din managementul financiar cu scopul analizei și gestiunii fluxurilor de mijloace bănești. Sunt utilizate tehnici calitative de cercetare care facilitează punerea în perspectivă a cercetării, permit în elegerea profundă a problemei investigate, iar informațiile obținute de în un grad sporit de competență.*

**Cuvinte cheie:** gestiune, eficiență, fluxuri financiare, mijloace bănești, întreprindere, operațiuni, echilibru.

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**JEL Classification: H60; D50; E20; P40; P43**

**Introduction.** The process of cash flow management while is a responsibility of financial department, has implications, influences on all enterprise divisions, and refers to every aspect of enterprise activity. There is no a major decision of the enterprise management without direct or indirect financial significance and, therefore, cash flow management process should consider every aspect of enterprise activity and be oriented towards maximization of enterprise efficiency and value.

**The importance of cash flow management.** The management of cash flows relates equally to the management of cash inflows and outflows, as well as to the management of cash deficit or surplus. The biggest challenge from the enterprise point of view is to schedule adequately cash inflows and outflows to avoid deficits. The evolution of economic conditions is unpredictable, making the enterprise management keen to prepare solutions for each situation, to timely anticipate cash flows deficits and to have the right solutions to continue operations and avoid deficits. The cash deficit management relies on internal reserves as well as on the enterprise ability to raise external financing.

During the normal course of business, companies are utilizing both internal and /or external financing, otherwise own or borrowed capital. The major goals when a company decides upon how to finance its operations are:

1. Minimizing the cost of capital by mixing the equity financing with less costly borrowed funding.
2. Timely supply of financing to sustain the normal course of operations and avoid stoppages.
3. Maximizing the value of enterprise by creating and implementing the optimal capital structure.

The management of cash flow deficit at the enterprise level should consider creation of internal reserves as well as the accessibility of external financing in order to optimize the return and mitigate the risks to create value for shareholders. When a company relies heavily on internal reserves and financing to deal with deficits, it succeeds to decrease the business risk, but have a lower level of return on invested capital. Meanwhile, external financing could add significantly to the enterprise return, but it could also generate additional risks and value depreciation, as shareholders have greater return expectations.

**The main factors which influence the managerial decisions.** There are a number of factors: internal and external, which influence the managerial decisions related to the management of cash flow deficits. The main external factors are:

*Capital market conditions* – the conditions of securities markets as well as of monetary markets can influence the ways a company finances its cash flows deficit. Currently, the securities market of Moldova is not liquid and the lack of investment and liquidities limit the enterprises ability to raise financing issuing stock or bonds. There is a little exception; commercial banks securities enjoy a limited level of liquidity in the capital market.

*The level of country's economic development* – has also an influence on financing decisions of management. The economic growth generate a surge in consumption and demand, which in turn is positively influencing the enterprise revenue and profitability. Moreover, during the times of economic growth, enterprises are increasing their investing activity building additional production capacities, penetrating new markets to meet the burgeoning demand. As a result, the demand for external financing to support the increased capital spending is soaring. Financial institutions are also benefiting from the country's economic growth, as they are able to increase the volume of interest earning assets and earn greater profitability.

*The level of competitiveness* – links the capacity to raise funds due to the enterprise profitability. The stability of enterprise return as well as the stability of revenue is important from financing point of view. The emergence of additional competition has the potential to wear away the company market share, revenue and earnings and can influence the financing capacity. An industry with strong growth rates is



attractive from profitability point of view but offers the risk of additional competition which can enter to benefit of abnormally high profitability. The existence of numerous entry barriers like technology, high investment required, recognition from key players, etc. have the ability to protect and industry from additional competition and maintain the profitability levels quite stable over the long run. Therefore a company should consider the industry's level of competitiveness when decides upon financing policies and should make correction to profitability rates if the risk of additional competition is high.

*Income taxes* – the interest payment are considered expenses from income tax point of view and accordingly allows to decrease the amount of enterprise' profit before taxes. Interest payment are considered to protect a part of profits from taxation and act like a shield. The higher is the income tax the biggest is the protection of profits against taxes and the bigger is the enterprise tax shield. In order to use the tax protection at the larger scale, the companies employ more debt in their capital structures. Meanwhile, equity financing usually raise the income tax payments and is considered less desirable from income tax point of view. Beginning with 2012, the Moldova's authorities would restore the income tax at 10% level and would maintain a 15% tax on dividends, raising the effective income tax at 25%. Therefore, domestic companies will increasingly consider the opportunity of debt financing as a tool to increase the company's free cash flows and return.

*Enterprise image* is the recognition that an enterprise earns within the investors community. Regardless the analysis that a company is making toward financing sources, the attitude of investors, creditors and rating agencies are sometimes the most important when a financing decision is taken. In many cases, the company discusses with shareholders and debt holders its financing strategy and considers eventual advises. When the management is too confident and tries to utilize financial leverage, raising the financial risks, it is the duty of creditors to calm down management and recommend a more balanced approach to financing.

Besides external factors, the management should consider internal factors as well, to decide upon the cash flows deficit management aspects. We regard the following factors as important for management consideration:

*Business seasonality* – an enterprise with stable revenue can use the financial leverage at a greater proportion and can sustain the payment of a greater amount of fixed expenses compared to an enterprise with sales volatility. The revenue seasonality (turnover seasonality) is caused by the differences in demand for enterprise products which make the company to report different revenues from one quarter (month) to another. The business seasonality influences the distribution activity, purchasing and inventory management as well as significantly change the

Another aspect is the *probability of bankruptcy and associated risks*. The greater is the level of indebtedness, the higher is the risk of bankruptcy and the higher are the costs associated with the increased probability of bankruptcy. The cost of bankruptcy raises de debt holders and shareholders expected return, which in turn diminish the enterprise value. The companies with stable revenues (that is without seasonality) have also high bankruptcy costs, however the lower probability of bankruptcy make the impact of these costs insignificant. Accordingly, these companies can afford to employ more debt in their capital structure. For example, the revenue stability and predictability for the companies from utilities: gas distribution, telecommunications, distribution of electricity, etc. allow them to use more debt to finance their cash flows deficits. Meanwhile, the companies from agriculture, food industry with higher seasonality should rely mainly on equity to finance the deficits.

*The assets liquidity level* – the companies, which assets can be pledge against loans are able to raise more debt financing to cover the deficit of cash flows. Therefore, the quality of assets as collateral is important and can be measured using the liquidity ratios. The higher is the assets level of liquidity, the greater is the amount of debt that can be raised, since assets can be easily accepted by banks as pledge. Accordingly, the building companies, are using more debt in their capital structure, while technology companies, which main assets are non-material, are relying on equity to cover the cash deficits. The assets of the companies from food industry are not presenting evidences of high liquidity, and accordingly they can rely on debt financing at a lower level.

*The level of economic growth* – the companies with decent growth rates need more financing and accordingly are using debts in a greater proportion compared to the companies with limited growth rates. The high growth companies are requiring cash flow to finance the growth, build additional capacities, accumulate inventories and accounts receivable as well as develop product and brand recognition.



*Profitability level* – companies with higher returns on assets are using internal financing (equity) to cover the operating deficits. While, the internal financing is limiting the utilization of financial leverage to enhance the return on equity, the companies with high returns are motivated to reinvest the cash flow surpluses back into their business, to sustain the rates at high levels. The abundance of cash is not sustaining the eventual utilization of debt financing.

*Financial flexibility* – the maintaining of financial flexibility is about having the internal reserves to raise debt financing without any problems, if the necessity occurs. The company should maintain a non-saturated borrowing capacity, based on internal estimates of cash flows required for operations, as well as on capital market conditions, management attitude and the consequences of eventual lack of cash. Financial flexibility requires the company to maintain a capacity to raise external financing at any moment in the future. The cost of flexibility is the lower rates of return on assets since the internal reserves are not producing decent returns.

Besides the sales and purchasing seasonality, *product life cycle* should be considered when a company is developing a strategy to raise and distribute financing and finance cash flows deficits. The enterprise development can be divided into 4 stages: business initiation or business inception (low rates of growth and huge losses from operations), development or youth (the acceleration of growth and breakeven), the business stability or maturity (growth rates are declining, solid profitability), and economic decline (revenue and profitability are declining).

**Conclusions.** The financing decision depends significantly on whenever a company is at the inception or at maturity; the business is growing or shrinking. Different approaches to financing are used during the enterprise lifetime. The life cycle approach is also important for the companies, which are operating in emerging economies, where the economic instability and volatility take a greater toll on business prospects.

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## ROLE OF TAX PENALTIES IN TAXPAYERS EDUCATION

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*Fiscal control is a form of state financial control bodies from the Ministry of Finance, the instrument we have available to public authorities for monitoring and determining the methods and techniques to ensure the financial resources of the state constitution, in this case, tax revenue is the overwhelming them. Businesses, regardless of its ownership, which profit from their activity, are required by law to calculate and pay taxes to the budget in the amount and terms provided by the regulations.*

**Key words:** taxes, taxpayer, tax evasion legal sanctions, economic subject, tax fraud, income, unreported income, tax charges.

*Controlul fiscal este o formă a controlului financiar exercitat de organele statului din structura Ministerului Finanțelor, fiind instrumentul pe care îl au la dispoziție puterile publice pentru supravegherea și determinarea prin metode și tehnici specifice asigurării constituirii resurselor financiare ale statului, în special, veniturile fiscale care reprezintă partea covârșitoare a acestora. Agenții economici, indiferent de forma de proprietate, care realizează profituri din activitatea desfășurată, au obligația, potrivit legii, să calculeze și să verse la buget impozite în cuantumul și termenele prevăzute de reglementările în vigoare.*

**Cuvinte cheie:** impozite, contribuabil, evaziune fiscală legală, sancțiuni, subiect economic, fraude fiscale, venit declarat, venit nedeclarat, taxe de impozitare.

**JEL Classification: H00; H2; G32; G34; H26; H29**

**Introduction.** Taxation of the population is not a problem for the respective bodies, if income is known, which can be determined by using the statements system. The desire of taxpayers to "bypass" the tax is natural and cannot disappear by itself by raising awareness in society of the need of payment.

**The symbolic language.** Between "desire" and "penalties" there is a reverse dependence. Only sanctions can "educate" the taxpayers. Let us examine this problem in the symbolic language. We consider that economic subject with the  $W$  income indicates in the statement another  $-X < W$  amount. If tax services detect this, then the subject will pay tax, and penalties that will be:  $(T(W) + (W-X))$ , where  $T(W)$  – tax from  $W$  income;  $(W-X)$  – fine for the tax evasion  $(W-X)$ .

Further, we admit that the subject's behavior satisfies the Neumann-Morgenstern axiom related to the decision making under uncertainty [120] and the utility function  $U$  depends only on disposable

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income. This is the case when the amount of declared income will be determined from the condition of maximizing utility's hope [2].

$$\max E(U), \text{ where: } E(U) = (1-p)U(W-T(X)) + p U(W-T(W) - (W-X)). \tag{1}$$

Or, if the subject is sanctioned and the amount for which the tax was paid remains the original that is X, then:

$$E(U) = (1-p) U(W-T(X)) + p U(W -T(X) - (W-X)). \tag{2}$$

We should determine if the utility function for the subject has or does not have an extreme. To this end, we find the first two derivatives after X:

$$E(U)/ X = (1 - p) U^1(W - T(X)) (-T^1(X)) + p U^1(W-T(X) - (W-X)) (-T^1(X) - (W-X))^1 = 0. \tag{3}$$

We admit that the marginal utility  $U^1(W - T(X) - (W - X))$  is a non-decreasing positive function, and the marginal tax  $T^1(X)$  and marginal fee  $^1(W - X)$  are non-negative, increasing, convex functions, then the second derivative:

$$^2E(U)/ X^2 = (1 - p)(T^1(X))^2 U^{11}(W - T(X)) - (1-p) T^{11}(X) U^{1*}(W-T(X)) + p (T^1(X) - ^1(W-X))^2 U^{11}(W-T(X) - (W-X)) - p(T^{11}(X) + ^{11}(W-X)) U^1(W-T(X) - (W-X)) < 0 \tag{4}$$

So, the E(U) function has the maximum.

We admit the taxable function  $T(X) = \Theta X$ ,  $\Theta > 0$ ; the one of the fees  $A > 0$ ; utility function  $U = W - (W-X) = \Theta(W-X)$ , then:

$$\begin{aligned} E(U)/ X &= (-1-p)\Theta/2 W - \Theta X + (p(-\Theta+A)/2 W - \Theta X - AX) = 0 \\ W - \Theta X - AX / W - \Theta X &= p/(1-p) (A-\Theta)/\Theta \end{aligned} \tag{5}$$

We observe

$$W - \Theta X - AX / W - \Theta X = 1$$

A conclusion could be: tax evasion depends on two parameters: the p probability that the economic subject will be caught and the amount of the A fine.

Tax evasion depends on the amount of tax: if taxes are reduced  $\Theta_0 > \Theta_1$ , the hyperbole is translated "in the left, bottom"; otherwise ( $\Theta_0 > \Theta_2$ ) dependency line lies "right, up" (Figure 1). Economic subject's behavior remains the same.

It can be "educated" just by the amount of fine and the fraud detection mechanism which determines the p probability.

If the amount of fines is stiff, is already established by law and cannot be changed, then it is required an adequate organization of mechanisms to detect tax fraud with the probability  $p = 1/A^*$ .

Substituting in (3) the values  $T(X) = \Theta X$  and  $^1(X) = A X$ , we obtain:

$$(1-p)\Theta U^1(W - \Theta X) - p(A-\Theta)U^1(W - \Theta X - A(W-X)) = 0 \tag{6}$$

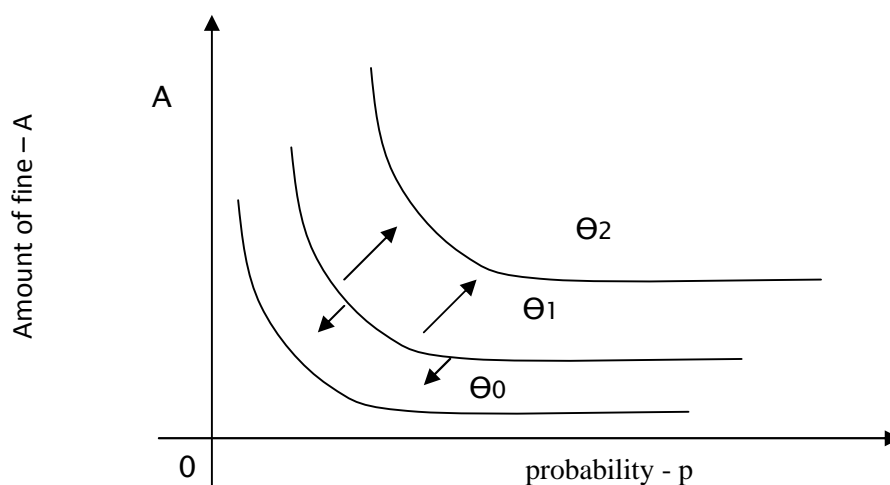


Fig. 1. The dependence of the tax evasion from the amount of tax

Economic meaning of this equation: if  $\Theta = A p$ , then the possible fine for tax evasion is the same with the tax fee and  $X^* < W$  statement is justified; by solving equation (6) there can be determined the optimum amount of the declaration.

In [97] the problem of determining the optimal probability of detection of tax evasion is considered.

In [40], based on the same conditions, amounts of the fines that would effective "educate" the economic subjects are determined.

L.Socolovschi in [128], through substitution  $X=X^*$  in (7), takes partial derivatives after  $W$ . Taking into account the relation (6), we obtain:

$$X^*/W = -1/D (1-p)/\Theta U'(W-\Theta X^*)/[R_a(W-\Theta X^*) + (A-1)R_a(W-\Theta X^* - A(W-X))] \quad (7)$$

$$\text{where: } D = (1-p)\Theta^2 U''(W-\Theta X) + p(A-\Theta)^2 U''(W-\Theta X^* - A(W-X^*)) < 0$$

Function  $R_a(W) = -U''(W)/U'(W)$  is called as "antipathy" towards risk from economic subject. According to the K.Arrow hypothesis [6],  $R_a(W)$  function is positive because  $U' > 0$ ,  $U'' < 0$  is decreasing, meaning  $R_a(W) < 0$ . Hence: with increasing income ( $W$ ) economic subject is increasingly prone to tax evasion than to declare his income.

From (7) it follows that the sign of the partial derivative  $X^*/W$  depends on the amount of the  $A$  fines and for  $A > 1$  (ie economic subject pays 100% tax plus, for example, 10% additional) the fine accounts for 1,1.

$$X^*/W > 0$$

That is, with increasing of the  $W$  real income, the  $X$  declared income by the economic agent also increases. Starting with  $R_a(W) < 0$  (marginal "dislike" is in decrease) from the equation (7) follows:

$$(W-X^*)/W = (1-p)(R_a(W-X^*-A(W-X^*)) - R_a(W-X^*)) / R_a(W-X^*) + (A-1)R_a(W-X^*-A(W-X^*)) \quad (8)$$

So, with the real income growth, not just the reported income increases, but also the remaining (hidden) one.

Let's examine the impact of taxation on the reported income tax. from (7) follows:

$$X^*/W = (1-p)/D \cdot X^* U'(W-X^*) [R_a(W-X^*) - R_a(W-X^*-A(W-X^*))] + 1/D [(1-p)U'(W-X^*) + pU'(W-X^*-A(W-X^*))] \quad (9)$$

From  $R_a(W) < 0$  results that the first term of expression (9) is positive, and the second is negative. So,  $X^*/W$  has an undefined sign. But if the fine is proportional not with the hidden income ( $W-S$ ), but with ( $W-X$ ), then:

$$X^*/W = (1-p/D) \cdot U'(W-X^*) \{ X^* [R_a(W-X^*) - R_a(W-X^*-A(W-X^*))] - A_0(W-X^*) \cdot R_a(W-X^*-A(W-X^*)) \} \quad (10)$$

From the relation (10) and  $R_a(W) < 0$  results  $X^*/W > 0$ .

We conclude: if marginal "antipathy" towards the risk is a decreasing function, then the increase of the tax fee leads to the increase of the amount of the stated income.

We examine the impact of the fine for tax evasion on reported income:

From equation (7) we get:

$$X^*/A = -(1/D) \cdot p U'(W-X^*-A(W-X^*)) \cdot [1 + (A-1)(W-X^*) R_a(W-X^*-A(W-X^*))] > 0$$

The function is increasing, thus increasing of the fines amount contributes to the increase of the reported income.

We examine the impact of screening mechanisms for tax evasion on the reported income.

$$X^*/p = -1/D(QU^I(W-QX^*) + (A-Q)U^I(W-QX^*-A(W-X^*))) > 0$$

Increased probability of tax evasion detection contributes to the increase of the reported income.

According to relation (9) economic subject does not react uniquely to the amount of the tax fees.

The same effect can be achieved in two ways. Increasing the A fine reduces the probability of a tax evasion (Figure 2).

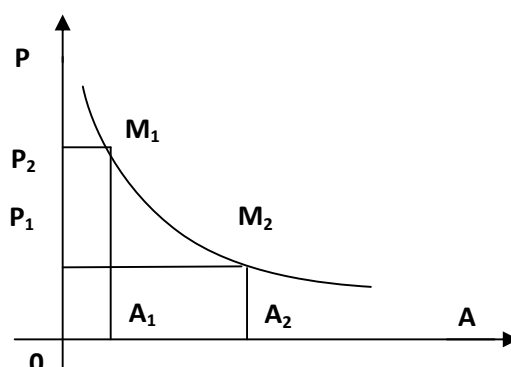


Fig. 2. The ratio between the increase of the fine and the likelihood of tax evasion

For the  $A_1$  fine, the probability of the tax evasion is  $P_2$ ; for the fine  $A_2$   $P_1$   $A_2 = P_2 A_1 =$

Priority in these alternatives is  $P_1 A_2 =$ , because  $P_2 A_1 =$  assumes higher expenses for detection of the evasion. And variant  $P_1 A_2 =$  has a "discomfort". It is about that governments can not argue too large fines for avoiding the tax inspectors. So, the  $P_1 A_2$  variant is "crossed out by the maximum amount of the fine." A way to increase the  $A_2$  fine would be a method that would gather all negative effects (economic, environmental, social, etc.) obtained from tax evasion. All these losses must be updated in current money by the multiplier  $(1+ )^t$ , where contains the bank rate plus inflation rate.

If tax collection function  $T(X) = X$ ,  $>0$ , then for  $> 1$  it is progressive. The marginal tax is  $T(X)/ X = X^{-1}$ .

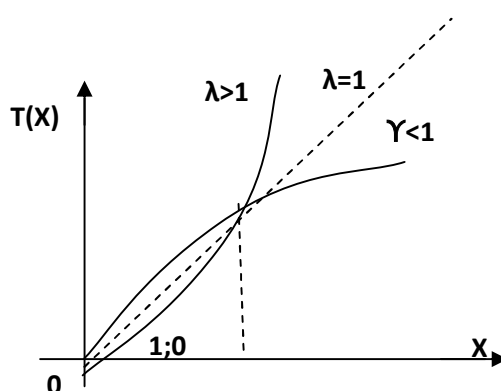
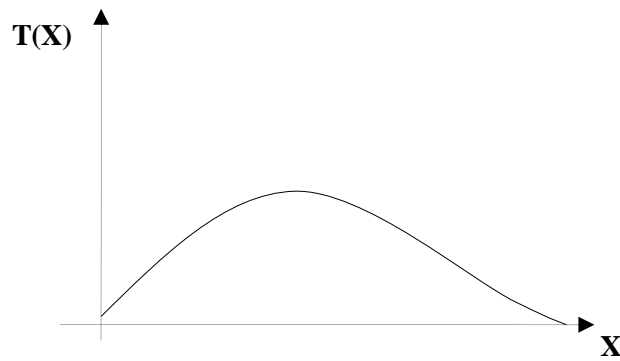


Fig. 3. Possible dependencies between increase of the tax and reported income

If  $T(X) = X$ ,  $X>0$ ,  $>1$ , then the tax levy increase becomes a "punishment" for economic activities. Economic topic for each subsequent time unit is paid less than the preceding. This happens because of progressive taxation; consequently, the economic agent is not interested in economic activities for which taxes become unbearable. Therefore, tax collection starting from a certain tax decrease (Figure 4).



**Fig. 4. Laffer curve: dependence between the amount of tax revenue and tax collection**

In order to illustrate the assertions, we should examine an example. We admit two levels of taxation: up to a certain amount the income is taxed at 15% and above – with 30%.

In these conditions:

$$T(X) = (f(0,15)X/0,0225) - (f(0,15)X^2/0,0025)$$

The total collections are:

$$I_1 = \int_0^{0,3} T(X)dx = 1,66 f(0,15)$$

If the tax does not increase from 15% to 30%, then the collection will be:

$$I_2 = \int_0^{30} \frac{f(0,15)}{0,0225} dx = 2f(0,15)$$

In this case, the linear (proportional) taxation helps to increase budget revenues by at least 30% ( $I_2 - I_1 = 0,34f(0,15)$ ), but maybe more because of the increased amount of the declared income.

We admit that the economic subject has to pay income tax and social tax. Utility function  $U$  thus depends on the disposable income of the economic subject and the labor expenses  $L$ , which can be expressed  $WL+S$ , where:  $W$  – wages in a unit of time;  $L$  – units of time;  $S$  – extra income that does not depend on labor costs (eg dividends).

Starting from a utility function which is severable

$$U(B,L) = V(B) - H(L)$$

The functions  $F$  and  $H$  of derivatives (Figure 5):

$$\frac{\partial \epsilon(B)}{\partial B} > 0; \frac{\partial^2 \epsilon(B)}{\partial B^2} < 0$$

$$\frac{\partial H(L)}{\partial L} > 0; \frac{\partial^2 H(L)}{\partial L^2} < 0$$



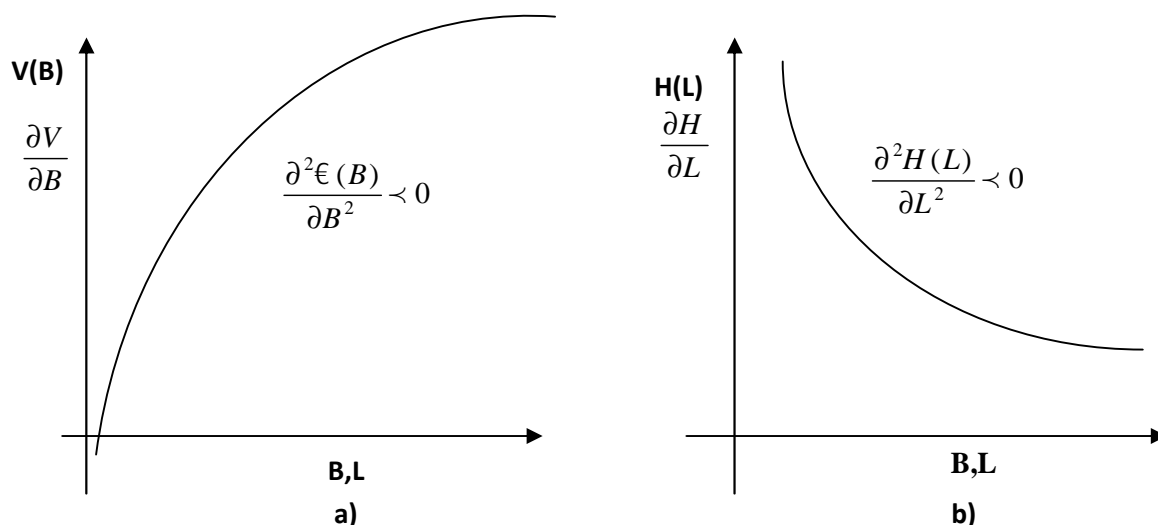


Fig. 5. Properties of functions V(B), H(L)

If the tax and fines are linear functions, then hope utility

$$E(U) = (1-P) V(L + S - X) + pV(L + S - X - A(L + S - X)) - H(L), \quad (11)$$

Where, the first term: with probability (1-p) that income after the "bypass" of the tax authority it will be available for the economic subject; the second term: with the p probability that the subject will pay a fine.

Partial derivatives of equation (9) where X, L:

$$\frac{\partial E(U)}{\partial X} = -(1-P)\epsilon'(\check{S}L + S - X) + P(A - 1)\epsilon'(\check{S}L + S - X - A(\check{S}L + S - X)) = 0$$

$$\frac{\partial E(U)}{\partial L} = -(1-P)\check{S}\epsilon'(\check{S}L + S - X) - P(A - 1)\check{S}\epsilon'(\check{S}L + S - X - A(\check{S}L + S - X)) - H'(L) = 0$$

From the relation (2.10) and  $D_2 = \begin{vmatrix} \frac{\partial^2 E}{\partial X^2} & \frac{\partial^2 E}{\partial X \partial L} \\ \frac{\partial^2 E}{\partial L \partial X} & \frac{\partial^2 E}{\partial L^2} \end{vmatrix} > 0$  results the existence of the maximum value of

the hope utility.

We should determine the impact on the amount of extra income S on the amount of the reported income X\*:

$$\frac{\partial X}{\partial S} = \frac{1}{D_2} (1-P)\epsilon'(\check{S}L + S - X^*) * H''(L^*) [R_A(\check{S}L + S - X^*) + (A - 1)R_a(\check{S}L + S - X^*) - A(\check{S}L + S - X^*)] \quad (12)$$

$$\frac{\partial L^*}{\partial S} = \frac{1}{D_2} (1-P)(1 - \epsilon'(\check{S}L + S - X^*))^2 A^2 \check{S} \epsilon'(\check{S}L + S - X^*) * \epsilon''(\check{S}L + S - X^* - A(\check{S}L + S - X^*)) \quad (13)$$

From the relation (13) follows: growth of the S additional income contributes to the reduction of economic activities and increasing of the reported amount income.

According to the relative antipathy function [G], if we admit  $R'_R(W) > 0$ ;  $R_R(W) > 1$ , then growth of the probability of detection of the fiscal evasion contributes to increase of the economic activities and provides a direct dependence between the amount of reported income and the probability of detection of the evasion.

**Conclusions.** Thus, together with increasing income, the desire to "avoid" taxes also increases; reported and unreported income also increases.

Fine and tax evasion detection probability are defined in "educating" economic subjects. Increasing the amount of taxation leads to increase of the reported income. Increasing the amount of amendment contributes to the growth of the reported income. Increase of the probability of detecting tax evasion contributes to growth of the reported income.

If two variants are examined to increase the reported income by the economic agent by increasing the probability of detecting tax fraud or increasing the fine for fraud, increase of the amount of fine has a certain priority. Proportional to income taxation may increase budget receipts compared to progressive taxation. Additional revenue growth outside work contributes to the reduction of economic activities and increase of the amount of reported income.

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## EUROPE'S SMALL COUNTRIES, EU STATES

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*Normally, economists take the size of countries as an exogenous variable. Nevertheless, the borders of countries and their size change, partially in response to economic factors such as the pattern of international trade. Conversely, the size of countries influences their economic performance and their preferences for international economic policies – for instance smaller countries have a greater stake in maintaining free trade. In this paper, we review the theory and evidence concerning a growing body of research that considers both the impact of market size on growth and the endogenous determination of country size. We argue that our understanding of economic performance and of the history of international economic integration can be greatly improved by bringing the issue of country size at the forefront of the analysis of growth.*

**Key words:** *small country, economy, competitiveness, GDP.*

*În mod normal, economiștii iau dimensiunea Țrilor ca variabilă exogenă. Cu toate acestea, granițele Țrilor și schimbarea dimensiunilor acestora, parțial ca răspuns la factorii economici, cum ar fi configurația schimburilor comerciale internaționale. În schimb, dimensiunea de țări influențează performanța economică și preferințele lor pentru politicile economice internaționale – de exemplu, pentru țările mai mici au o miză mai mare în menținerea comerțului liber. În această lucrare, vom revizui teoria și dovezile cu privire la un organism tot mai mare de cercetare care consideră atât impactul dimensiunii pe ei asupra creșterii, cât și determinarea endogenă a măririi. Susținem, că în alegerea noastră a performanței economice și a istoriei de integrare economică internațională poate fi mult îmbunătățit prin abordarea aspectului dimensiunii Țrilor în fruntea analizei de creștere.*

**Cuvinte cheie:** *Țară mică, economie, competitivitate, PIB.*

**JEL Classification:** A1; F0; F15; F16

**Introduction.** The globe there are 42 microstates that are recognized by the the United Nations, but some territorial entities who claim the status of a sovereign state. Further the economies are considered the smallest European countries. Small European countries traditionally allocated category, and if we talk about the "privilege", it is more correct to designate this group of countries not on formal (size of the territory, population), and the more essential characteristics – the nature of the economy and social indicators (Table 1). For small countries include Austria in Central Europe; three Benelux countries; Scandinavian countries – Sweden, Denmark, Finland and Ireland, whose economy is the general background of the group looks weaker, but have the highest rates of economic growth in Western Europe.

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Table 1

## The nature of the economy and social indicators

Area (km <sup>2</sup> )	10 Small European countries	GDP per capita (Million USD)	10 small countries in the world	Area (km <sup>2</sup> )	GDP per capita (Million USD)
0.44	1. Vatican City	25,500	1. Vatican City	0.44	25,500
1.95	2. Monaco	132,571	2. Monaco	1.95	132,571
61	3. San Marino	36,200	3.Nauru	21	6,954
160	4. Liechtenstein	152,933	4.Tuvalu	26	40
316	5. Malta	22,779.9	5.San Marino	61	36,200
468	6. Andorra	37,200	6. Liechtenstein	160	152,933
2,586	7. Luxembourg	110,697.0	7.Saint Kitts and Nevis	261	14,132.8
9,251	8. Cyprus	25,249.0	8.Maldives	300	6,665.8
10,887	9. Kosovo	3,877.2	9.Malta	316	22,779.9
13,812	10. Montenegro	7,106.9	10 Grenada	344	7,890.5
			<b>Republic of Moldova</b>	<b>33.843,5 (locul 139)</b>	<b>2,239.3</b>

Source: <http://www.worldatlas.com/articles/the-10-smallest-countries-in-the-world.htm>  
<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

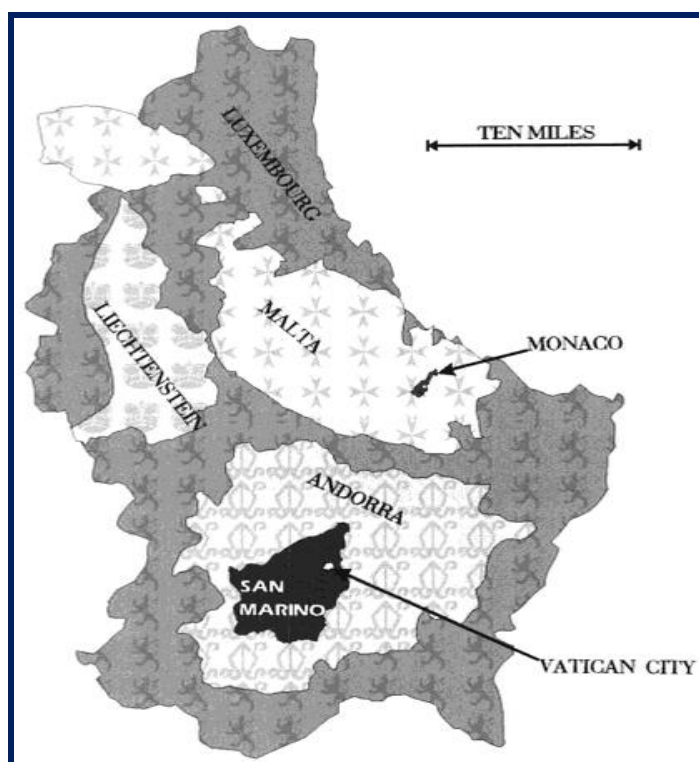


Fig. 1. The nature of the economy and social indicators

Source: <http://www.worldatlas.com/articles/the-10-smallest-countries-in-the-world.htm>  
<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

In the past, some of them have played a leading role in world politics (Austria times of Austria-Hungary, the Netherlands, Sweden), some were "privileged" to the robbery of the colonies (the Belgian Congo, a colony of the Netherlands in different parts of the world).

But for now their role in the other. Less large than in countries "Seven", the monopoly of these countries (highly specialized) occupied an important place not occupied by the largest monopolies – have themselves become TNK – in its rather narrow field.

The Dutch "Yuniveliver" ranks first in the hierarchy of TNK food world "Royal Dutch Shell" (the Anglo-Dutch company) – the second place among all the oil giants, the Swedish "Volvo" – car

manufacturer of the highest class and reliability, the Swedish concern "Tetra Laval" among the top five in the pulp and paper industry.

Table 2

Main indicators of small European countries (member states EU)

Countries	Area (thous. sq. km)	Population (mln. people)	GDP (billion. dollars)	GDP per capita population (thous. dollars)	Share of raw materials exports (in%)
Austria	83,8	8,1	283,4	26,9	11
Belgium	30,5	10,1	269,1	24,7	20
Netherlands	41,8	15,7	395,9	24,0	37
Luxembourg	2,5	0,4	14,0	41,2	-
Sweden	450,0	8,9	228,6	23,7	15
Denmark	43,0	5,3	172,2	29,9	36
Finland	338,1	5,2	125,4	20,5	18
Ireland	70,3	3,55			

Combine small European countries high GDP per capita. It is clear that very different scales, even in the category of "small country" absolute values of GDP are very different: the 14.0 billion. In Luxembourg, to 395.9 in the Netherlands. But GDP per capita gaps are small: from 20,500 Euro. in Finland to 41.2 – in Luxembourg. It is essential that small countries are leading this indicator in the "elite" of the modern world, to take place in the top twenty. This is a clear indication of a "weight" than small countries in Europe.

Social protection is measured, in particular, such as wages. Salaries clockwise to counterclockwise in production, Belgium is ranked fourth in the world, Netherlands – fifth, Sweden – the sixth, before United States. Classification of countries in terms of life, compiled by the UN, gives the following result for the first ten: Finland – sixth, Netherlands – seventh, Sweden – the tenth.



Fig. 2. Salary of the European countries

Source: <http://www.timpul.md/articol/topul-tarilor-cu-cele-mai-mici>

The country's financial strength is determined by the stability of the currency, balance of payments, inflation and other indicators. If you bring them to a kind of summary value (credibility, confidence in financial terms), taking 100 there is no risk to capital, the Netherlands' ranking list "ranked fourth with 89, Austria – sixth, with 86 etc.

We can say that the origins of the phenomenon of small countries are as follows. First, it is clearly a specialized economy based on knowledge-intensive industries. In economics, the term "niche production" – is not captured by TNCs industrialized countries. Look for these "niches" pushed weakness resource base and the presence of an education system model that provides such personnel are able to develop new work in

the most advanced areas of production, with more funds allocated to R & D. There is no coincidence that many laboratories and research centers TNK large states are created in small countries. Secondly, the export orientation. Narrow domestic market would not give a clear opportunity for specialization in the production of high-tech high-quality rare. Pulse export oriented gave establishing a common market, reducing tariff barriers EEC market in Western Europe opened two orders of magnitude higher than inside.

When this position geopolitical of is the key small countries and gives additional opportunities; thus, the Netherlands, which entered the Europas, creates a strong refining hub "Texas-Europe" which provides chemical intermediates Germany and Northern Europe.

Geopolitical position in the Benelux countries is extremely profitable and now, because they are located in the center of mega-cities in Europe. This – the main area of dynamic growth in the EU. In the 1990s the share of small European countries in world industrial output was about 10% and about 20% of world exports. The share of exports in GDP of Belgium reaches 35-40%, Netherlands – 35%, etc.

Thirdly, strong position of global market in the industry "niche". Lowering the icebreaker Finland ranked first in the world (up to 50% of all items in 80-90-ies.) According to Finland and Sweden pulp and paper accounted for 10-15% of world exports, and sometimes is a unique product (Swedish factories on one product, for example, an ultra-thin special paper for the European edition of the "New York Times" that, when dozens of pages can be easily put in your pocket). In Denmark with animal insulin well-known, providing the raw material for this to catch up to 1/3 of the global market is now dominated by the latest biotechnology.

All positions are becoming more important countries and small newest high-tech industries – robotics production of medical electronic equipment, equipment for wind power plants, etc.

Table 3

## Dimensions of European countries by different criteria

Country	PIL 2010 (millions of \$)	GDP in 2010 per capita (\$)	GDP in 2010 - per capita (in% of EU-27)	Inflation 2010	Area, sq	GDP growth (prev. 2011-13)
Luxembourg	41.271	81.466	271	+2,5%	2.586	+1,6%
Netherlands	680.772	40.973	133	+0,9%	41.543	+1,1%
Austria	333.537	39.761	126	+1,7%	83.871	+1,9%
Ireland	176.555	39.492	128	-1,6%	103.000	+1,5%
Sweden	356.321	38.204	123	+1,9%	450.295	+2,5%
Denmark	201.702	36.443	127	+2,2%	43.094	+1,4%
Belgium	396.035	36.274	119	+2,3%	30.528	+1,5%
Germany	2.944.352	36.081	118	+1,2%	357.022	+1,8%
United Kingdom	2.181.456	35.059	112	+3,3%	243.610	+0,9%
Finland	187.696	34.918	115	+1,7%	338.145	+2,1%
France	2.134.941	33.910	108	+1,7%	643.801	+1,2%
Spain	1.372.720	29.830	100	+1,8%	505.370	+0,9%
Italy	1.778.832	29.480	101	+1,6%	301.340	+0,4%
Cyprus	23.259	28.960	99	+2,6%	9.251	+0,7%
Greece	318.670	28.496	90	+4,7%	131.957	-2,5%
Slovenia	56.663	28.073	85	+2,1%	20.273	+1,2%
Czech	262.144	24.950	80	+1,2%	78.867	+1,4%
Malta	10.423	24.833	83	+2,0%	316	+1,8%
Portugal	247.458	23.262	80	+1,4%	92.090	-1,3%
Slovakia	120.524	22.195	74	+0,7%	49.035	+2,3%
Poland	723.032	18.981	63	+2,7%	312.685	+3,1%
Hungary	188.677	18.841	65	+4,7%	93.028	+1,1%
Estonia	24.762	18.527	64	+2,7%	45.228	+5,1%
Lithuania	56.750	17.235	57	+1,2%	65.300	+4,4%
Latvia	32.609	14.504	51	-1,2%	64.589	+3,7%
Bulgaria	97.066	12.934	44	+3,0%	110.879	+2,5%
Romania	254.918	11.895	46	+6,1%	238.391	+2,4%
Eurozone	10.848.470	—	108	+1,6%		+1,1%
European Union	15.203.145	-	100	+2,1%		+1,2%
Republic of Moldova					33.851	

Source: <http://www.worldatlas.com/articles/the-10-smallest-countries-in-the-world.htm>

<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>



The ranking is done according to the size of each country that occupies all or part of the geographical territory of Europe. Russia ranked 1 presents a special case: even if only a small part of the eastern state is on European territory is enough to occupy first place in our rankings. Details of other special circumstances on the old continent found at the bottom of the article. Some of these countries are in Europe, the other part being on the Asian continent. These countries were included in the ranking of countries according to the area that they occupy part of European geographical space. Cyprus was included in our ranking as appearing as a state in the European Union and will be easier to spot. Cyprus is an island in the Mediterranean Sea, close to the geographical area of Middle East Kosovo has not been introduced in these rankings for its independence as a state was not officially recognized by our country, Romania. However, the statistics, the 10,887 sq busy Kosovo are transferred recognized state, Serbia. Therefore, no surface gathered Kosovo, Serbia would have ranked 24, with 77,474 sq.

Of course, it all comes down to "niche" research-based production and skilled labor in small countries. Some sectors of the economy associated with natural resource base, which has expanded in recent years. For example, Sweden has maintained its position as a major exporter of high quality iron ore (iron content – 60-64% is lower and we exporters in developing countries – Liberia, Venezuela), Netherlands came in first place in the export of gas to Western Europe.

However, industry structure, as part of the export of almost all small countries dominated by manufacturing, and within it – the new high-tech industry.

Fourth, the position of many small countries are connected not only with industry and the services sector, particularly banking. This – Luxembourg – "tax haven", which has become even more attractive as one of the EU capitals. The dwarf states are now more than 200 major banks.

Luxembourg – a typical example of an international financial center of modern times. Although the Luxembourg financial business volume often inferior to London gold market and not the foreign exchange market and the market for short-term loans and medium term are poor, it is the largest market in the world for long-term loans. This has contributed to the favorable geographical position near the headquarters of Western societies. He is regarded as the financial capital of the European Community. Here is the European Investment Bank, the European Monetary Cooperation Fund, etc.

The rapid growth means for Luxembourg as global financial center in the 60s. Also contributed to the low cost of credit and financial operations, no tax on dividends and interest on securities and similar financial benefits. International stock market values in Luxembourg is among the highest in the world. By sharing takes place over 60% of the total issued eurobonds.

Fifth, small countries is crucial for transport, tourism and business travel.

Rotterdam with its "Europort" – gateway for maritime trade in Western and Central Europe – continued global leadership role in freight traffic (more than 250 million tons.) The turnover of container. Scandinavian Airlines ("SAS") and Belgium-Netherlands ("Sabena", "CML") serves a number of European and international airlines. Unique transport projects in Denmark: is the longest in the "bridges tunnels" over the straits world. Denmark (especially after the construction) – a "bridge" the largest in Central Europe to the Nordic countries.

Scale tourism quietly, economically and environmentally safe, and political life of the country politically stable in recent years is increasing: Austria visited 18 million tourists and tourists a year, the Netherlands – 5 million pers. in Austria and Finland tourist business on the number of persons employed in it than many important branches of industry. Tourism revenues in Austria prevyshayut10-11 billion. Eur. per year. The Benelux countries were at the market. Three EU countries – Austria, Sweden and Finland – have a policy of non-alignment. Sweden's neutrality continues with the 1815 Congress of Vienna in Austria, this is due to the State Treaty in 1955, to restore the sovereignty after the Second World War, and in Finland "active neutrality" was proclaimed after World War II and is related to the political "Paasikivi- Kekkonen line" – then president of the country.

All these characteristics of small countries reflects their current position in the world but not in any way indicate no problems, or more – full economic and social welfare. The current situation of small countries made a tough competition when killed entire industries previously given work to hundreds of thousands. So shipbuilding Scandinavian countries were almost "crushed" in 70-80, competition in Japan and South Korea. In 1994, Japan accounted for 45.6% share of tonnage vessels Released share of South Korea – 21.8, while Germany was pushed into third place with a share of only 5.4%.

The difficulty of restructuring of the energy sector crisis and the collapse of the coal and steel industries in Europe have affected the entire "Rust Belt" (northern France, Belgium and Luxembourg, Germany) transformed foci in these industries in crisis areas. I was painful "wash" old industry.

Small countries have gone the way of the Swiss, who showed an advantageous combination of own and foreign labor when people "their" focused on the most complex industries, as "workers" and held low skilled environment. This led to an increase in non-indigenous population, racial clashes, the emergence of inter-ethnic problems.

If the entire small countries can be considered low unemployment rate (3.3%) in Belgium, the "coal and metallurgical heritage" to the past – more than 12% (1997) and Finland even 16-17%.

A special place among the small countries of the EU and Ireland – in the recent past, one of the most backward countries in Western Europe. Now Ireland is the European leader in terms of growth (GDP growth in 1995 was 10% and now stands at about 7% per year), the living standard of Irish is practically no different from UK.

The situation in the Irish economy in the 1990s significantly improved due to three main factors:

1. foreign direct investment;
2. skilled labor;
3. social cohesion policy in wage determination.

Foreign direct investment in the 1990s carried out mainly in the most progressive sectors of the national economy, high-tech industry, information industry and the semiconductor industry. In the first half of the 90s. investment growth rate amounted to 45%, but raised only about \$ 7 billion. USA, Which is equal to 12% of GDP. The main investor in the Irish economy was the United States, which has contributed greatly to the creation of modern high-tech sector of the national economy. Based on US investments in Romania was created by the production of computers and processors to, semiconductor manufacturing, office equipment, Foreign investment in a poor country contributed equity competent economic policy of the Government of Ireland, to encourage foreign investment. In particular, Ireland has a preferential tax treatment for investors, set up special industrial zones, income tax, which is only 10%. In particular, the Shannon International Airport, which has one of these areas, has created around 300 industrial enterprises producing export goods and the IFSC in Dublin were about 400 foreign banks involved in offshore operations, products, pharmaceuticals, electronics and electrical engineering.

Availability qualified labor force also contributes to the rapid development of Ireland. Relatively small in terms of population, Ireland is second in Europe in terms of qualification of its human capital. Of particular value is the fact that school and university education in the country is almost completely meet business needs. In particular, highly skilled and better adapted to modern conditions change rapidly engineers have prepared the Irish higher education.

Social cohesion policy in salaries for also played an important role. Unlike the French or the Dutch social and guaranteed, the Irish are willing to live in a small wage increase, which ensures low inflation, there is little here and performances with the requirements of trade unions to raise wages. All this gives good results: the country's public finances are balanced and in 1993-1996. real income growth was 12%. Revenue growth creates strong domestic demand for real estate, consumer durables and travel, which is an additional factor in the economic growth of the country.

Based on three factors considered Ireland made progress in restructuring its economy. They surfaced high-tech industry, which creates 62% of Irish exports, including 29% of exports go to information technology. Productivity growth in high-tech industry is 10% per year. Due to the nomination of high-tech industries in the foreground old traditional industries of the national economy of the country, such as agriculture and mining, the loss of its former importance that translates agro-industrial discharge post-industrial countries Ireland advanced.

Favorable investment climate in the country to provide political stability, a skilled workforce, a favorable geographical position, English language (no language barriers in dealing with major investors – the US and the UK) and favorable tax conditions. A very important role played by the liberal market model of the economy, which has much in common with the UK and the US, all this creates a unique environment for future economic development of Ireland, which also has also a high potential for internal growth as filling sufficiently sophisticated country with domestic real income growth.

The EU Nordic countries are Sweden, Denmark and Finland. "Scandinavian model" means all common features of economic, social and political life of the Nordic countries and social development

concepts and trends. This model assumes a very important role of the state in the economy, especially in terms of social protection.

The special characteristics of the Nordic model are based non-economic factors such as:

- an active part of the Social Democrats and other parties left the government and the legislature;
- a high degree of "syndication" (the share of union members among workers in different industries in the Nordic countries is 70-90%);
- high political and economic participation of women;
- special ecological Scandinavian mentality;
- specific job Scandinavian culture and business ethics.

The main economic functions of the state in economies the Scandinavian are to develop long-term strategies for economic development (development priorities for the development of national economy, investment policy, promoting research and development, foreign economic strategy) and legislative regulation of business.

Social Orientation Nordic model is:

- redistributive role of the state in the economy: the impact on the economy through the mechanism of taxation, the principle of "income equalization" by transferring part of the income entrepreneurs to workers in paid employment, social protection of population;
- business as a socio-economic processes: in practice, embody the principles of social partnership of workers, trade unions and employers;
- economic policies aimed at priority solution of social problems, such as reducing the number of unemployed;
- great work ethic and entrepreneurial culture, the highest ethical and moral standards of conduct inhabitants of the Scandinavian countries.

Financial base of Scandinavian social democracy is the state budget, which requires a relatively high level of public expenditure, which is set to finance a high level of tax burden. In Sweden and Denmark, the charges are 52-63%, in Finland – 33-36% of GDP.

The sectoral structure of the national economy of Scandinavia is fully in line with the current structure of the economy in other high-income countries (the share of agriculture and mining in GDP is about 2 to 4%, manufacturing and construction – 25-30%, services sector – 65-75%). Thus, the structure of the GDP of all the Nordic countries in the last decade is a change similar structural changes in the world economy, ie increasing the share of services, reducing the share of agriculture, the growing importance of new knowledge-based industries.

The national economy of the Scandinavian countries lead the two main branches of the complex: forestry, including wood and pulp and paper, and metallurgical complex, which includes metallurgy, metalworking and all branches of engineering, among which are the automotive, shipbuilding, manufacture of equipment for the entire complex of forestry and food production industries, communications equipment, electrical and electronic equipment. The food industry has reached a very high level of development in Denmark.

Labor force Nordic countries traditionally have high quality, ie high level of education and skill-training. Consequently, labor costs in the Nordic countries is quite high.

One of the main factors contributing to the dynamic growth of Scandinavia, became investment factor. The rate of accumulation of them is quite high – 25-30% in Finland, which is shared with Japan for second and third place on this indicator among all developed countries during the postwar period.

The Nordic countries have infrastructure excellent transport. However – maritime powers. Well-developed and rail connections, including high-speed line. There are many airports and air ports Scandinavian capacities are growing.

In the service sector, many social services (health, education) provided by the State almost entirely. In the production of goods and services in Northern Europe involves a large number of non-profit organizations that create socially useful products. Traditionally, development finance and tourism. The most powerful monetary system is Sweden.

**Results and conclusions.** Future prospects for the economic development of countries in Northern Europe are related to the process of European integration. Countries in the region that are not yet part of the EU (Norway and Iceland) with some advantages of its neutrality (the ability to have significant discretion their income from oil, gas, metals and fish), and bear some losses. In particular, the EU anti-dumping builds barriers Norwegian and Icelandic fish supplies to the EU relatively inexpensive. Waiting

position regarding the introduction of the euro has occupied Denmark and Sweden. Traditional Scandinavian neutrality is still a major psychological obstacle to integration in the EU region, although most socio-economic indicators in the Nordic countries are willing to play a leading role in the process of building a common European home.

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**CORPORATE GOVERNANCE –  
DETERMINANT OF MOLDOVAN BANKING SYSTEM STABILITY**

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*Recent events recorded in the banking sector of the Republic of Moldova – establishing special administration in three commercial banks by the National Bank of Moldova (NBM) – have highlighted the significant role which the quality of corporate governance presents for banking system. The aim of this paper is to identify the challenges of corporate governance for the stability of the Moldovan banking system and destabilizing effects of weak corporate governance structures within banking institutions and analyze the consequences of corporate governance deficiencies. For achieving the goal the author conducted a detailed analysis of normative acts regulating the banking system in order to identify the existing gaps regarding this subject and analyzed recent performances of commercial banks in Moldova. Despite some progress in addressing the recommendations of the International Monetary Fund (IMF) and the satisfactory reported performance of banks, there are serious governance problems in several banks including the largest ones.*

**Key words:** corporate governance, banking sector, financial stability, financial performance, capital adequacy, non-performing loans.

*Evenimentele recente înregistrate în sectorul bancar al Republicii Moldova – instituirea administrațiilor speciale în cadrul a trei bănci comerciale de către Banca Națională a Moldovei (BNM) – au scos în evidență rolul deosebit pe care îl prezintă calitatea guvernării corporative pentru sistemul bancar. Scopul prezentei lucrări este de a identifica provocările de guvernare corporativă pentru stabilitatea sistemului bancar și a efectelor destabilizatoare ale structurilor slabe de guvernare corporativă în instituțiile bancare din Republica Moldova și a analiza consecințele guvernării corporative deficiente. Pentru atingerea scopului a fost realizată o analiză detaliată a actelor normative ce reglementează sistemul bancar în vederea depistării lacunelor existente la acest capitol și o analiză a performanțelor recente ale băncilor comerciale din Moldova. În pofida unor progrese înregistrate privind realizarea recomandărilor Fondului Monetar Internațional (FMI) și performanțelor înalte raportate de bănci de până acum, se atestă probleme grave de guvernare în mai multe bănci, inclusiv în unele din cele mai mari.*

**Cuvinte cheie:** guvernare corporativă, sector bancar, stabilitate financiară, performanțe financiare, suficiența capitalului, credite neperformante.

**JEL Classification: G21; G32; G38; E59**

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**Introduction.** The financial intermediation role of banks in the economy, their high degree of sensitivity to potential difficulties arising from ineffective corporate governance and the need to protect the interests of depositors, make corporate governance for banking institutions of particular interest for their stability.

Researches regarding corporate governance issues within banks have been carried out in the early 2000s by Devriese et al. [1], Caprio et al. [2], Morgan[3] etc. Following the recent financial crisis, bank governance has become the topic of much recent academic works (Walker et al. [4], Mehran et al. [5], Mehran and Mollineaux [6], Heremans [7], Marcinkowska [8], Adams et al. [9]) and policy discussion. They differ in the objective that must pursue corporate governance within financial institutions: some of them [4] arguing the need to implement the shareholder-based approach, others (European Commission [10], OECD [11], Basel Committee on Banking Supervision [12]) – that of stakeholder-based approach in the process of corporate governance. Main research results on bank governance explain why governance of banks differs from governance of nonfinancial firms, focus on four areas of governance: executive compensation, boards, risk management, and market discipline (Mehran et al. [5]). Heremans [7] investigates the specific characteristics of banks, how these specificities affect agency problems for banks as well as the functioning of the governance mechanisms put in place in order to cope with agency distortions.

The worsening of financial performances of Moldovan banking system in the last period and excessive accumulation of risks was mostly caused by *poor corporate governance of financial institutions*. And the lack of effective control mechanisms eventually led to excessive risk-taking by most banking institutions. As banks are crucial to the economy of a country they must operate in a prudent and transparent way in order to minimize the possibility of failures and systemic risks.

#### **The consequences of corporate governance deficiencies on the banking sector performances**

Corporate governance (specifically bank ownership) is a significant source of financial sector vulnerability in the Republic of Moldova. The main *weaknesses of corporate governance* within the Moldovan banking sector are:

1. Opaque shareholders structures and the issue of ultimate beneficial owners disclosure;
2. Deficient quality of banks councils;
3. The lack of effective conditions for law applying.

In accordance with IMF report carried out in July 2014 [13] there were indications of active concealment of banks ultimate beneficial owners and controllers. Some ultimate beneficial owners might be able to disguise their control in order to circumvent NBM's vetting process and to conceal related party lending. There were also concerns that reported liquid assets of some banks might actually be encumbered, which would make the liquidity ratios worse than reported. The IMF concerns unfortunately came true and at the end of 2014 the financial performances of the banking system worsen.

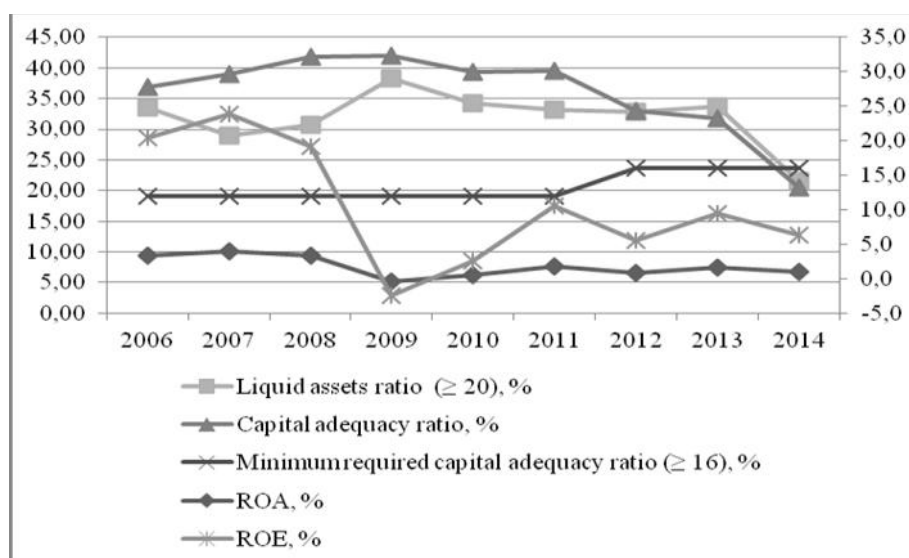
In November 2014 were recorded a number of extremely large transactions between three banks: the largest one Banca de Economii S.A. (with a state ownership share of 56,13%), B.C."BANCA SOCIALA" S.A. and B.C."UNIBANK" S.A. Governance deficiencies within these banks affected crucially their prudential indicators (capital adequacy, liquid assets ratio, non-performing credits/to total credits, return on asset, return on equity), which have a great impact on financial stability and credibility of the banking system as a whole. In 2014 Banca de Economii S.A. exceeded more than three times the limit (20% of the bank's Tier One Capital) of exposure to affiliated persons, recording an amount of 66,22% on September 2014. As a result, the NBM has initiated the necessary verifications and pursuant to art. 374 of the Law on Financial Institutions has established special administration regime within them<sup>1</sup>.

Financial stability indicators of the banking system have been affected substantially due to the situation within these three banks. The level of capitalization has dropped for the first time under the minimum requirement (16%) recording 13.21%. Also, has decreased significantly the liquidity level of the system (Figure 1).

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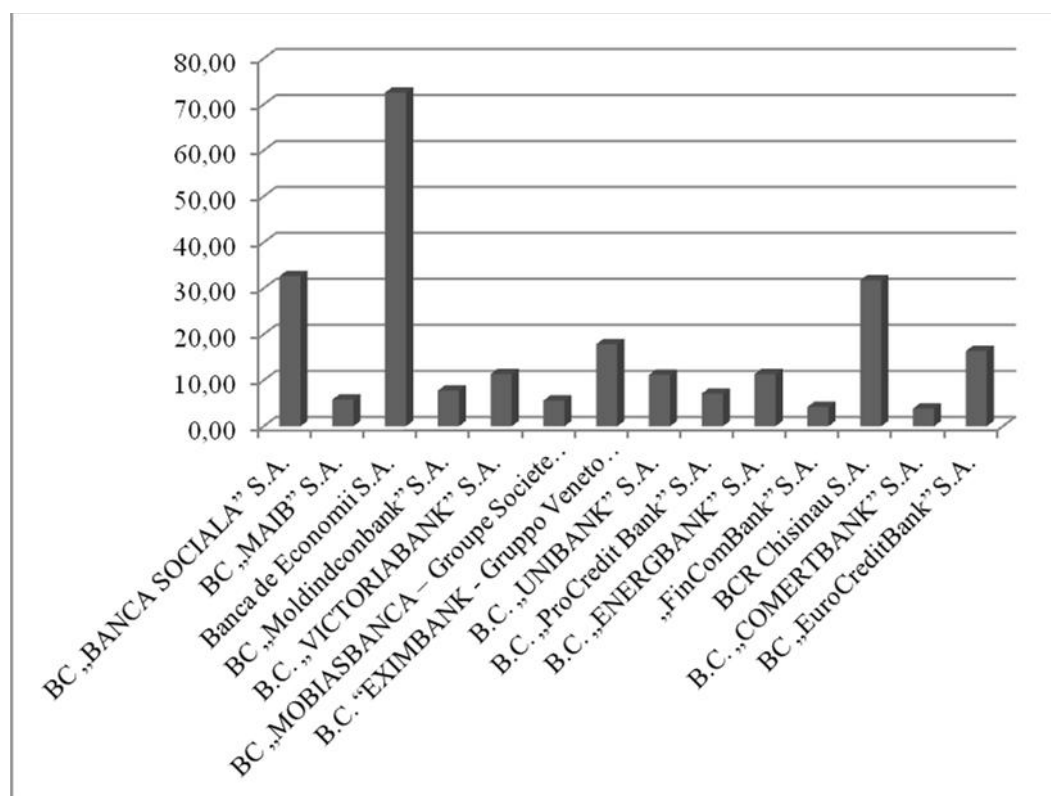
<sup>1</sup> Special administration regime was established within Banca de Economii S.A., B.C. "BANCA SOCIALA" S.A. and B.C. "UNIBANK" S.A. on 27 November 2014, 30 November 2014 and 30 December 2014 respectively.





**Fig. 1. The level of capitalization and liquidity of the Moldovan banking system, %**  
 Source: Elaborated by the author based on NBM data base, [www.bnm.md](http://www.bnm.md)

The profitability indicators (ROA and ROE) at the aggregate level have decreased at the end of 2014. The quality of credit portfolios has been affected too. The worst situation was attested within Banca de Economii S.A. which has recorded in its portfolio more than 72% non-performing loans at 31.12.2014 (Figure 2).



**Fig. 2. The quality of credit portfolios of Moldovan banks**  
 (non-performing credits/to total credits), %

Source: Elaborated by the author based on NBM data base, [www.bnm.md](http://www.bnm.md)

According to the IMF, National Bank has provided Banca de Economii S.A., B.C. „BANCA SOCIAL ” S.A. an assistance amounting to over 3 billion MDL, which is about 3.5% of the country’s Gross Domestic Product (GDP). By the end of October, the National Bank sold 324 million USD of

foreign exchange reserves, 2/3 being sold during the special administration regime. This intervention has influenced negatively the evolution of Moldovan Leu and has caused a rise in inflation.

**Results and conclusions.** Financial stability indicators of the banking system have been affected substantially due to the situation within three Moldovan banks. One of them, the largest, is partially owned by the state with a share of 56,13%. Governance deficiencies within three banks affected crucially their prudential indicators (capital adequacy, liquid assets ratio, non-performing credits/to total credits, return on asset, return on equity), which have a great impact on financial stability and credibility of the banking system as a whole. Therefore, effective corporate governance practices are essential for achieving and maintaining public trust and confidence in the banking system, features which are critical for the proper functioning of the banking sector and the economy as a whole. Weak corporate governance may contribute to bank failures, which can in turn generate significant public costs and macroeconomic implications such as contagion risk. This was illustrated by the financial crisis that began in mid 2007. In addition, poor corporate governance can make markets lose confidence in the ability of a bank to manage properly its assets and liabilities, including deposits, which in turn could trigger a run on bank deposits or liquidity crisis. And banks should have responsibilities to depositors and other relevant stakeholders out of their responsibilities to shareholders. Moreover, transparency and disclosure have long been recognized as a useful tool for improving corporate governance of state-owned banks [14], which helps minimizing political influence and preventing lack of board and management policy.

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## THE GLOBAL FINANCIAL MARKET: ANALYSIS AND PERSPECTIVES

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*The assessment of the situation on the global financial market is analyzed in the paper. The actuality of this research proceeded from the reality facing the entire global financial system. The purpose of this work is to research the situation on the global financial market based on the complex analysis of the sector. In the process of developing of this work were used the following methods: comparative analysis, synthesis, logical analysis. The results from the well-known companies which provided each year the analysis and ratings between the high net worth individuals wealth levels and growth by world regions, the most successfully International Financial Centres, leading wealth managers, wealth management innovators, Private Banks of the year, Private Bankers of the year etc. are analyzed in the paper.*

**Key words:** global financial market, wealth management, high net worth individuals, assets under management.

*În lucrarea data este analizat situația de pe piața financiar mondial . Actualitatea acestei teme de cercetare reiese din realitatea cu care se confrunt întregul sistem financiar mondial. Scopul lucrării constă în cercetarea situației de pe piața financiar mondial în baza analizei complexe al acestui sector. În procesul de elaborare a prezentei lucrări au fost utilizate următoarele metode: analiza comparativ , sinteza, analiza logic . Sunt prezentate rezultatele companiilor bine-cunoscute, care oferă anual analiza și ratingurile cu privire la cele mai înalte venituri nete ale persoanelor fizice, centrele financiare internaționale de succes cel mai bun managerul al patrimoniului, managementul patrimoniului inovator, Private Bank al anului, bancherul privat al anului etc.*

**Cuvinte cheie:** piața financiar mondial , managementul patrimoniului, persoane fizice cu venituri mari, active în administrare.

**JEL Classification:** F3; G0; G1; G2

**Introduction.** There are well-known companies which provided each year the analysis and ratings between the high net worth individuals (HNWIs – those persons with 1 million US dollars or more in investable assets [1, p.3 (Preface)]), wealth levels and growth by world regions, the most successfully International Financial Centres, leading wealth managers, wealth management innovators, Private Banks of the year, Private Bankers of the year etc. The review of such kind of recent reports include: World Wealth Report 2013 prepared by companies Capgemini and RBC Wealth Management, Global Wealth Report 2014 prepared by company Allianz, Global Private Banking and Wealth Management Survey 2013 prepared by PricewaterhouseCoopers, Global Private Banking Benchmark 2014 prepared by Scorpio

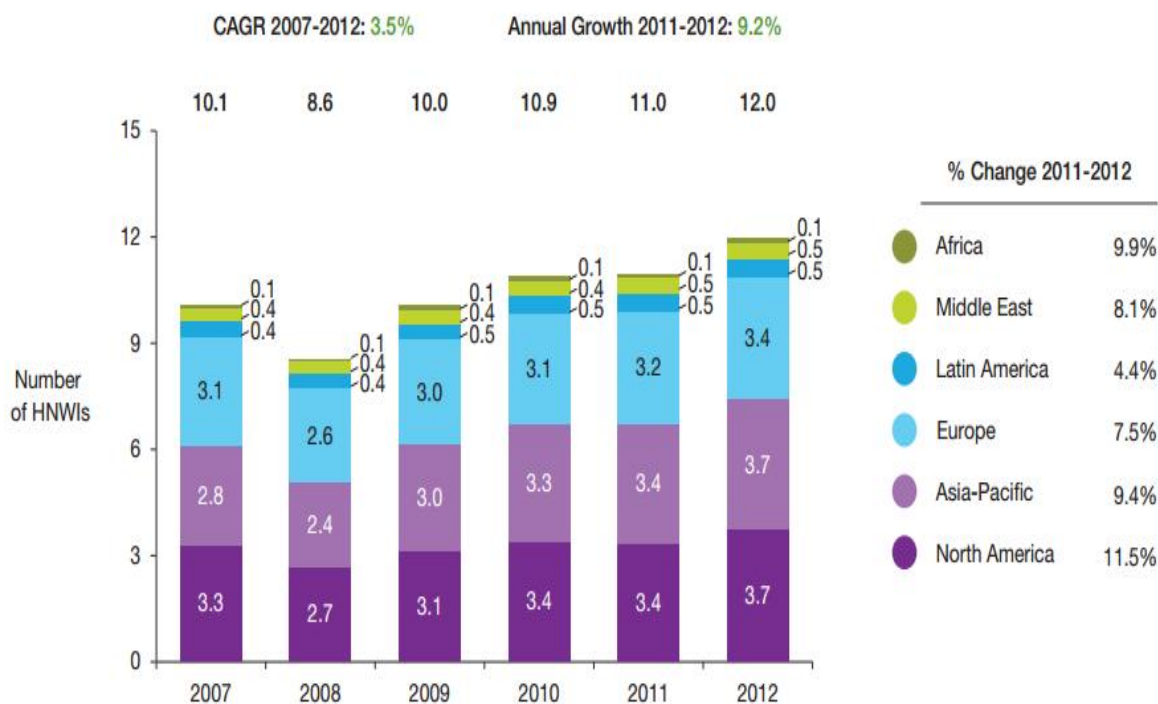
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Partnership, Wealth Management Awards prepared by Spear's.

**The basic content.** According to the data from the report World Wealth Report 2013 [1], prepared by companies *Capgemini and RBC Wealth Management*, the number of "dollar" millionaires in the world has been growing steadily. This is evident from the research of world market based on the largest and most deep studies which include the responses of more than 4,400 high net worth individuals from 21 countries of the five regions of the world. For example, statistics show that the number of segment high net worth individuals in the world in 2011 was 10.0 million persons, but in 2012 their number increased to 12.0 million persons, i.e. on 2 million persons. During this time, the total wealth of private individuals also increased, and if before the crisis, in 2007 it amounted 40.7 trillion US dollars, in 2010 – 42.7 trillion US dollars, by 2012 it has increased significantly and amounted 46.2 trillion US dollars, reaching a record level. Thus, high growth rates the wealth of rich persons in general has led to an increase of the world's wealth.

Today, there are two largest regions with the high number of HNWI's, they are: North America and Asia-Pacific region. The richness of these regions has led to the growth of the world economy as a whole. According to such indicators, as the number of rich people and the size of their wealth, the global market is divided into parts. The market's share of North America by this indicator is 3.73 million rich individuals and the share of Asia-Pacific region – 3.68 million rich individuals.

Asia-Pacific region is considered to be very perspective and rapidly growing region for the rich individuals. As expected in the near future, Asia-Pacific region will overtake North America. Due to the wealth growth of the rich individuals in the Asia-Pacific region it is predicted the annual growth of the world's wealth by 6.5%, which will be reached in 2015 – 55.8 trillion US dollars. After 2011, the population of HNWI's grew up by 9.2% worldwide. The high growth rates in the higher market segments of rich individuals are explain by the high overall productivity. The dynamic of the world's wealth increasing by the regions is shown in Figure 1.



**Fig. 1. High net worth individuals population by regions in 2007-2012, million**

Note: Chart numbers and quoted percentages may not add up due to rounding;

CAGR – compound annual growth rate

Source: Capgemini Lorenz Curve Analysis, 2013 [1].

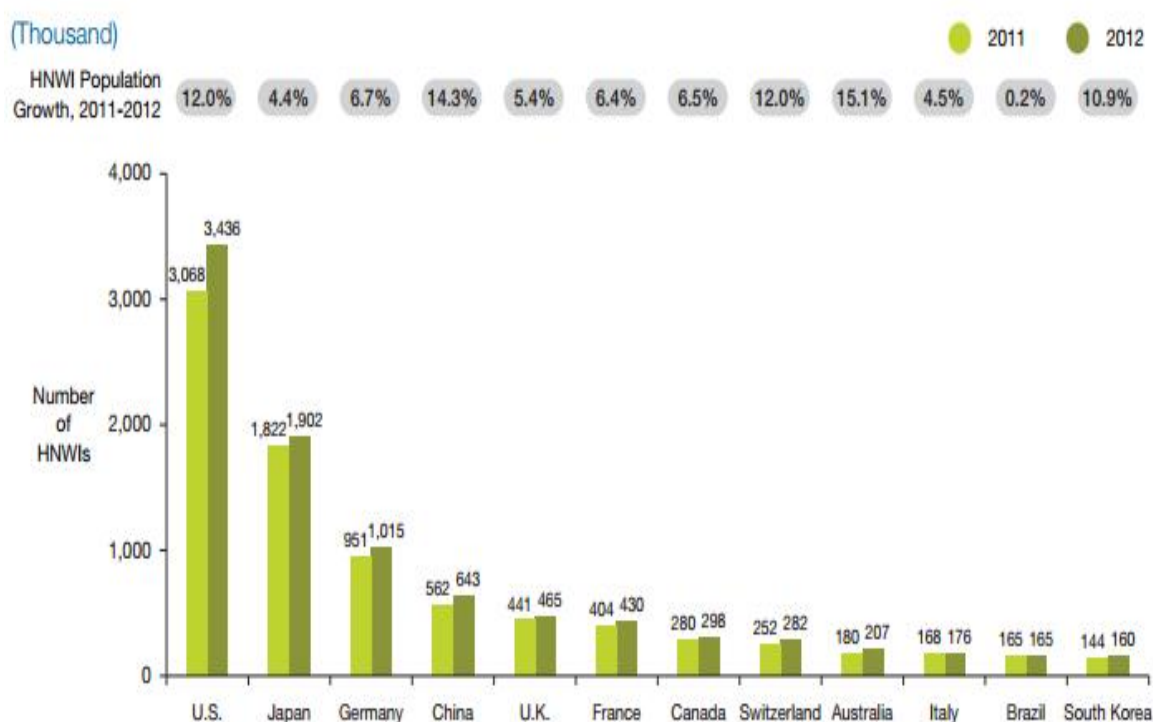
Approximately 53% of rich individuals in the world, i.e. more than a half, are concentrated in three countries: United States (3,068 thousand HNWI's in 2011 and 3,436 thousand HNWI's in 2012), Japan

(1,822 thousand HNWI in 2011 and 1,902 thousand HNWI in 2012) and Germany (951 thousand HNWI in 2011 and 1,015 thousand HNWI in 2012). Their number has been decreased slightly to 54.7% compared to 2006.

On the latest place of this top-12, there are such countries as: South Korea (144 thousand HNWI in 2011 and 160 thousand HNWI in 2012), Brazil (165 thousand HNWI in 2011 and 165 thousand HNWI in 2012), Italy (168 thousand HNWI in 2011 and 176 thousand HNWI in 2012), Australia (180 thousand HNWI in 2011 and 207 thousand HNWI in 2012) and Switzerland (252 thousand HNWI in 2011 and 282 thousand HNWI in 2012).

In the middle of the top-12, there are such countries as: China (562 thousand HNWI in 2011 and 643 thousand HNWI in 2012), United Kingdom (441 thousand HNWI in 2011 and 465 thousand HNWI in 2012), France (404 thousand HNWI in 2011 and 430 thousand HNWI in 2012), Canada (280 thousand HNWI in 2011 and 298 thousand HNWI in 2012), and Switzerland (252 thousand HNWI in 2011 and 282 thousand HNWI in 2012).

Over the past four years there have been no changes in top-12 countries on the market of rich individuals. Percentage growth of rich individuals and geographical location of capitals on different continents, as well as their ratings are shown in Figure 2.



**Fig. 2. Leading countries by the number of rich people in 2012, thousand**

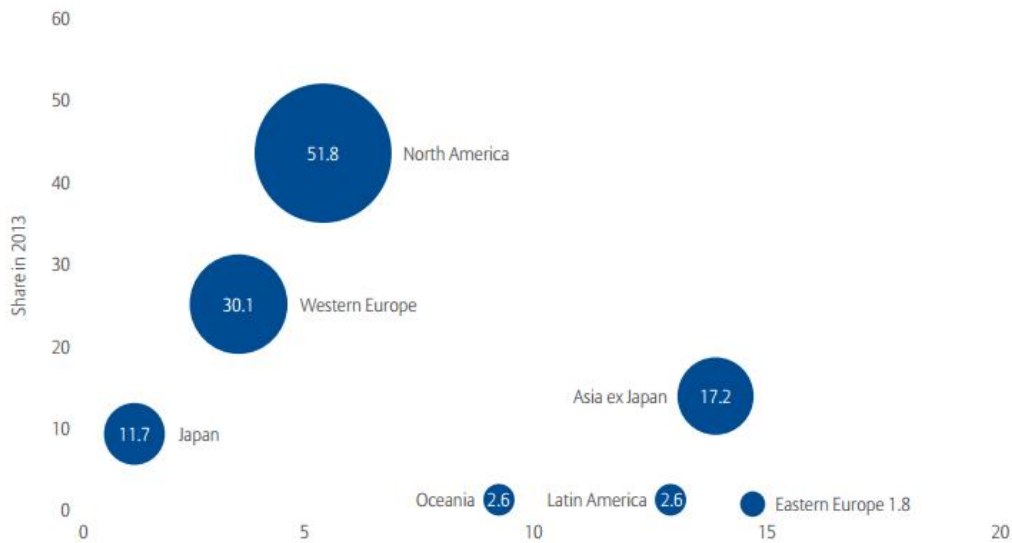
*Note: Percentage growth rates will not match column totals due to rounding.*

**Source: Capgemini Lorenz Curve Analysis, 2013 [1].**

In many countries from Asia-Pacific region has been observed the fastest growing of rich individuals markets. Among the most perspective are Hong Kong, India, Indonesia, Australia, China, New Zealand, Thailand. The number of HNWIs in Indonesia, Australia, China, New Zealand and Thailand doubled. In Hong Kong marked the increasing in the number of HNWIs by 35.7% due to the combination of relatively less conservative view of many richest people to invest and strong equity markets. In India, the growth in the number of rich people was 22.2%, which occurred on the basis of the positive trends in the securities market, increasing the gross national income, consumption and property.

Allianz presented the 5th edition of the report Global Wealth Report 2014 [2], which researches the level of welfare and public debt in more than 50 countries worldwide. According to a new study by the level of global wealth the financial assets of the population in 2013 increased to 118 trillion euro. Figure 3 shows the level of financial assets growth of the population in the context of the continents according to the data Allianz from report Global Wealth Report 2014. The first places are occupied by North America (51.8%), Western Europe (30.1%), Japan (11.7%), Latin America (2.6%).





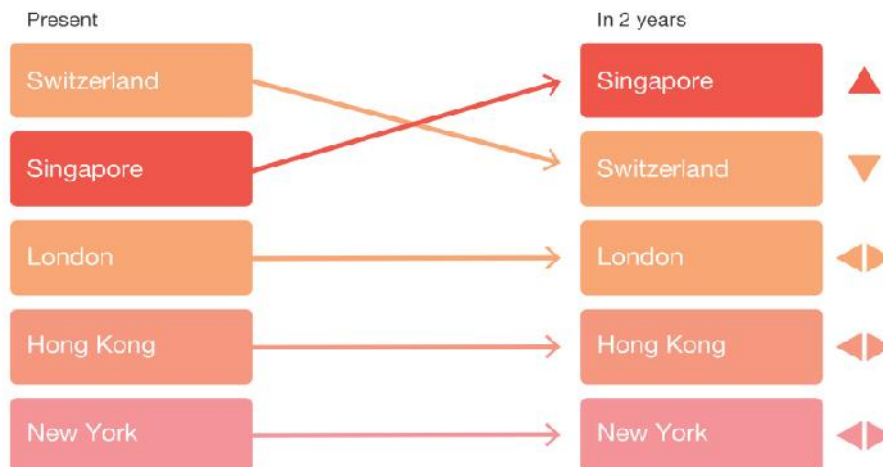
**Fig. 3. Wealth levels and growth by region, 2000-2013, %**

Note: Absolute amount of gross financial assets, in thousand EUR

Source: National Central Banks and Statistical Offices, Allianz SE, Allianz «Global Wealth Report 2014» [2, p.23].

According to surveys of PwC’s 2013 Global Private Banking and Wealth Management Survey [3], in which participated 200 organizations from 51 countries, Switzerland remains one of the most attractive country among International Financial Centers despite the pressure on the transparency. Switzerland is not only ahead of Singapore but faced strong competition with London.

The Figure 4 shows the status and location of the most successful International Financial Centres in 2013 with a forecast for the next two years. Today, top-5 of the most successful International Financial Centres include: Switzerland, Singapore, London, Hong Kong, New York. According to the forecast it is assumed that in the near future, Singapore will overtake Switzerland by the indicator of financial assets.



**Fig. 4. The top-5 of the most successful International Financial Centres in 2013 and forecast on the next 2 years**

Source: PwC’s 2013 Global Private Banking and Wealth Management Survey [3, p.18].

“Switzerland is losing ground on players in Singapore, Dubai, Miami and Hong Kong. The power is shifting away from Western Europe and the US. New players are looming on the horizon” [3, p.18].

Not all regions can to use the favorable situation recorded last year for their strong growth. On the developing markets, particularly in Latin America, growth of assets slowed due to shocks in the foreign exchange market and capital market.



In Eastern Europe region, including Bulgaria, Estonia, Kazakhstan, Croatia, Latvia, Lithuania, Poland, Romania, Russia, Serbia, Slovakia, Czech Republic, Turkey, Ukraine and Hungary as a whole the growth rate slowed by 1 percentage point to 11.2%, although the growth was 2 times higher than in Western Europe (+ 5.2%).

In the long term perspective, all regions will be able to be the leader by growth rate. The average indicator as 14.5% per year remains the highest since 2000 compared with any other region in the world.

Despite this, many countries in the region, especially the countries of Eastern Europe – EU members, since 2007, slightly slowed the accumulation of assets.

The estimation of asset growth in real terms confirm that the rate of growth in Eastern Europe 6% per year is approximately equal to the real rate of growth in Latin America (+5.5 p.p.), but significantly lower than the growth in Asia, such as Japan, which reached growth almost 10% in 2001.

"Despite the unfavorable market conditions, assets in Eastern Europe showed a positive trend in the last two years" – says Michael Heise, chief economist from Allianz. "This shows that the competition still continues. The escalation of the crisis in Ukraine, however, added a few new dark clouds gathering on the horizon".

Analyzing the data from the report Scorpio Partnership Global Private Banking Benchmark 2014 [4] about the situation of the global financial market, it should be noted that the list of the largest banks in the world for several years remains unchanged. The largest banks, by the indicator of assets under management of rich persons in 2013, are presented in Table 1.

Table 1

**Top 25 private banks worldwide by assets under management**

	<b>Institution</b>	<b>Country</b>	<b>Assets under management in 2013, (USD billions)</b>
1	<b>UBS</b>	Switzerland	1,966.9
2	<b>Bank of America Merrill Lynch</b>	USA	1,866.6
3	<b>Morgan Stanley</b>	USA	1,454.0
4	<b>Credit Suisse</b>	Switzerland	888.2
5	<b>Royal Bank of Canada</b>	Canada	673.2
6	<b>BNP Paribas</b>	France	395.1
7	<b>Deutsche Bank</b>	Germany	384.1
8	<b>HSBC</b>	United Kingdom	382.0
9	<b>JP Morgan</b>	USA	361.0
10	<b>Pictet</b>	Switzerland	338.1
11	<b>Goldman Sachs</b>	USA	330.0
12	<b>Julius Bär</b>	Switzerland	282.5
13	<b>Barclays</b>	United Kingdom	233.2
14	<b>ABN Amro</b>	Netherlands	231.7
15	<b>Northern Trust</b>	USA	221.8
16	<b>Wells Fargo</b>	USA	218.0
17	<b>Lombard Odier</b>	Switzerland	198.0
18	<b>Santander</b>	Spain	196.5
19	<b>Bank of NY Mellon</b>	USA	185.0
20	<b>Credit Agricole</b>	France	182.0
21	<b>BMO Financial Group</b>	Canada	171.7
22	<b>CIC</b>	France	141.8
23	<b>Societe Generale</b>	France	116.3
24	<b>Bank Safra Sarasin</b>	Switzerland	115.6
25	<b>Citi Private Bank</b>	USA	112.3

Note: All results are rounded.

Source: Created by the author according to the data from Scorpio Partnership Global Private Banking Benchmark 2014 [4].

The high concentration of the market at the present stage of development is reflected in the following table which include of assets under management in the 25 largest financial institutions on the world market:

- 5 largest financial institutions account about 41% of the world market of all financial assets under management – 6.8 trillion US dollars (exactly 6,848.9 billion US dollars);

- 10 largest financial institutions account about 53% of the world market, i.e. more than half of all financial assets under management that is in terms of money – 8.7 trillion US dollars (exactly 8,709.2 billion US dollars);

- 20 largest financial institutions account about 64% of all financial assets under management of the world market, in terms of money – 10.99 trillion US dollars (exactly 10,987.9 billions US dollars).

The share of all 25 financial companies, presented in Table 1, consist in the global market of financial assets more than 78% (11.6 trillion. US dollars = 11,645.6 billions US dollars). This indicator increased compared to previous year by 1%.

It may be noted that from the 25 leading financial companies – 8 are located in the United States (Table 2).

Table 2

#### Leading USA wealth managers by assets under management in 2013

US Ranking	Institution	Assets under management in 2013, (USD billions)	Growth 2013	Ranking move
1	Bank of America Merrill Lynch	1,866.6	12.5	-
2	Morgan Stanley	1,454.0	17.5	-
3	JP Morgan	361.0	13.5	-
4	Goldman Sachs	330.0	12.2	-
5	Northern Trust	221.8	12.2	1
6	Wells Fargo	218.0	7.0	-1
7	Bank of NY Mellon	185.0	3.4	-
8	Citi Private Bank	112.3	10.2	-

Source: Scorpio Partnership Global Private Banking Benchmark 2014 [4].

Regarding the world ranking of financial companies, in 2013, in terms of assets under management, was happened some significant changes. The BNP Paribas and Deutsche Bank in the ranking of the best financial companies both moved up one position, while HSBC fell from sixth to eighth place. A negative percentage change in HSBC's top 25 financial institutions was due to his current exit strategy for non-core markets. Conversely, at the Julius Bär assets rose sharply by 40.7% last year, largely due to his constant international transactions with Bank of America Merrill Lynch (Table 3).

Table 3

#### Global Ranking in assets under management in 2013

Institution	Country	Global Ranking in 2013	Global ranking move
UBS	Switzerland	1	-
Bank of America Merrill Lynch	USA	2	-
Morgan Stanley	USA	3	-
Credit Suisse	Switzerland	4	-
Royal Bank of Canada	Canada	5	-
BNP Paribas	France	6	1
Deutsche Bank	Germany	7	1
HSBC	United Kingdom	8	-2
JP Morgan	USA	9	-
Pictet	Switzerland	10	-
Goldman Sachs	USA	11	-
Julius Bär	Switzerland	12	3

<b>Barclays</b>	United Kingdom	13	1
<b>ABN Amro</b>	Netherlands	14	-2
<b>Northern Trust</b>	USA	15	1
<b>Wells Fargo</b>	USA	16	-3
<b>Lombard Odier</b>	Switzerland	17	1
<b>Santander</b>	Spain	18	2
<b>Bank of NY Mellon</b>	USA	19	-2
<b>Credit Agricole</b>	France	20	-1
<b>BMO Financial Group</b>	Canada	21	-
<b>CIC</b>	France	22	-
<b>Societe Generale</b>	France	23	-
<b>Bank Safra Sarasin</b>	Switzerland	24	4
<b>Citi Private Bank</b>	USA	25	-

Source: Created by the author according to the data from Scorpio Partnership Global Private Banking Benchmark 2014 [4].

The Spear's Wealth Management Awards were announced the winners of 2013 between about 700 HNWs, entrepreneurs, philanthropists, wealth managers and society figures [5]. Winners included family lawyer *Sandra Davis*, Mishcon de Reya, for Lifetime Achievement; *RBC Wealth Management* for Private Bank of the Year; *Charlie Hoffman*, HSBC Private Bank, for Private Banker of the Year; *Metro Bank* for Wealth Management Innovator; *Marcelle Speller*, LocalGiving.com, for Philanthropist of the Year; and *Nick D'Aloisio*, Summly, for Entrepreneur of the Year. Three main nominators and winners are presented in Table 4.

Table 4

#### Winners of Spear's Wealth Management Awards in 2013

Private Banker of the Year	Private Bank of the Year	Boutique Wealth Management Firm of the Year
Jim Bouley, Merrill Lynch/Julius Baer	Barclays	Berry Asset Management
Julian Cooper, Barclays	Citi Private Bank	James Hambro & Partners
Etienne d'Arenberg, Mirabaud	C Hoare & Co	<b>McInroy &amp; Wood - winner</b>
Charles Hoare Nairne, C Hoare & Co	HSBC Private Bank	Odey Wealth
<b>Charlie Hoffman, HSBC Private Bank - winner</b>	Julius Baer	Ruffer
Giovanni Revedin di San Martino, JP Morgan	Metro Private Bank	Veritas Investment Management
Helen Watson, Rothschild	<b>RBC Wealth Management - winner</b>	
	Schroders Private Bank	
	Weatherbys Bank (highly commended)	

Source: Winners Announced of Spear's Wealth Management Awards 2013 [5].

**Conclusions.** The data from different sources confirm that the modern geography of financial institutions with large financial assets is very broad and focused both on internal national markets, and covers many markets of other countries on different continents, which became possible with the development of IT technologies, through advanced communications, expanding the information field. Thus, the modern world is the world of all-round business globalization, increasing the rates of accumulation and concentration of capital.

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evidence exhibiting correlation between NASDAQ indicators and preceding Twitter users' sentiment values. We find that sentiment variables representing happy and sad emotions affect NASDAQ price the most, and the other sentiment variables such as excitement, calmness, dominance and submissiveness have somewhat of less effect.

The contribution of this paper is that the data used for analysis is hourly data, whereas the previous research was focused on daily data. The hourly data allows understanding the dynamics of sentiments affecting the stock market at a finer scale.

In addition, we employ a weighting algorithm that allows to better estimate the effect of sentiments on NASDAQ market. The motivation behind the weighting is to allow the more popular users of Twitter to have more effect on total sentiment value than the less popular users. We find that this weighting procedure results in more statistically significant results.

In the following section, we are going to present current research in this area. In section "The Data", we describe the data set. Then in section "Methodology", we describe basic assumptions that we are making that may be driving our results, the work we have done to measure the sentiment level of Twitter stream and then the econometric methodology we used to infer causality of sentiment variables on NASDAQ performance. Finally, we present our empirical results in section "Results".

**Literature review.** Research in behavioral economics tells us that emotions of an investor can affect its investment decisions. Being unable to directly observe investor's emotions, we try to find an appropriate proxy to person's emotional state. Social media can be treated as such proxy. We assume that what people post on Twitter represents how they think and what they feel.

Bollen et al. [3] use more than 9 million tweets to explore the possibility of predicting the stock market movements. They use tools called OpinionFinder, which is a system that processes documents and automatically identifies subjective sentences as well as various aspects of subjectivity within sentences, including agents who are sources of opinion, direct subjective expressions and speech events, and sentiment expressions. They also build GPOMS (Google-profile of Mood States) to range the mood level of tweets measured by six dimensions: calm, alert, sure, vital, kind and happy. Then they proceed to use Granger's causality test to determine whether mood metrics have predictive information on the stock price. They find that only GPOMS Calm metric has predictive power on the stock market. They also fit a nonlinear model, where mood causes stock price change nonlinearly. They use self-organizing fuzzy neural network for this purpose. The result is claimed 87.6% accuracy in predicting up and down movements of DJIA over the period February 28 – December 20, 2008.

Gilbert et al. [9] in their paper explore whether the data from more than 20 million LiveJournal posts can be used to predict movements in the S&P 500 index. They construct the so called Anxiety Index and test it using Granger's causality test. They find that the Anxiety Index has some novel predictive information and anxiety is negatively correlated with future S&P 500 index value.

Mittal et al. [14] base their work on Bollen's [3] methodology. Although they use simplified approach based on POMS to construct sentiment index in four dimensions: calm, happy, alert and kind, they have much larger dataset of 476 million tweets from July to December 2009. They apply Granger's causality test, the results are that calm and happy dimensions have the strongest predictive power. After the authors proceed to assess the effectiveness of predictions of stock price of four tools, namely, linear regression, logistic regression, support vector machine (SVM) and self-organizing fuzzy neural network (SOFNN). They find that logistic regression and SVM are the least accurate, whereas SOFNN is the most accurate tool with the level of price directional prediction accuracy as high as 75%. Then the authors implement simple trading algorithm that shows its effectiveness over the period of 40 consecutive days demonstrating the profit of more than 520 Dow Points.

Ruiz et al. [16] were the first to use graph theoretic approach to analyze correlation between Twitter data and S&P 500 companies' financial time series during the first half of 2010. They build a graph of all the tweets relating to 150 randomly chosen S&P 500 companies and analyze this graph's features. Then they regress these features to the stock's price and trading volume using lagged cross-correlation coefficient. They find that certain graph features are closely correlated with trading volume and correlated weakly with the stock's price. Namely, the number of tweets about a particular company, the number of different users who tweeted about that company and the number of connected components in the company's graph are the most important features. Despite the weak correlation between these features and the company's stock price, the authors demonstrate that this information can be successfully used to outperform a number of baseline trading strategies. They compare randomized, fixed profit margin,



autoregression, their Twitter-augmented regression strategies and simply buying DJIA index. The result is that their strategy is the only one that demonstrated positive average return, even when all the other strategies and DJIA were declining between March and June 2010.

Zhang et al. [19] using rather simple methodology by simply counting the number of keywords appearing in tweets collected from March through September 2009 demonstrate that “negative” words have negative correlation with stock market returns, whereas “positive” words have positive correlation.

**The data.** We use a large dataset from social microblogging platform Twitter comprised of more than 275 million tweets, which corresponds to a period from July through December 2013. The data was gathered by ArchiveTeam research group and is publicly available on the Internet [20]. The data feed represents what Twitter calls “Firehose” feed, which is a portion of actual stream of all the tweets in real time, representing approximately 5 percent of all the tweets. Each tweet is presented as a “tweet object” that not only packs text of the tweet, but also provides a list of metadata, such as the time of posting, language, number of people, following the author of the tweet etc. All these metadata provide abundant resource for analysis.

After gathering, the data were processed to leave only tweets in English with metadata used in later analysis, such as the text of a tweet, time of posting and the number of followers of the author of the tweet.

Financial data for NASDAQ index from July through December 2013 was obtained from the Russian “Finam” investment holding company [21]. The stock market was open 8 hours every day, excluding national holidays and days-off, for 127 days. In total, we have 1012 hourly data points during these 6 months. The variables we get from the data set are time series for hourly closing price (CLOSE) and hourly trading volume (VOL).

**Methodology.** In this paper, we make the following theoretical assumptions. First, we assume that a person’s mood can affect their investment decisions. Second, that social and informational environment can affect person’s mood. This leads to the third assumption that social and informational environment can affect person’s investment decisions.

We use sentiment analysis of Twitter data to measure the mood level of social environment. Then we use Granger’s causality test to investigate whether the mood state of people has any predictive power on investment decisions of investors in the NASDAQ stock market.

**Sentiment Analysis.** We use sentiment analysis technique based on Affective Norms for English Words (ANEW) dictionary. It was developed “to provide a set of normative emotional ratings for a large number of words in the English language” [4]. ANEW is a list of 1,034 words rated among three dimensions, according to Osgood, Suci and Tannenbaum’s theory of emotions [15]. The first is the valence of the emotions invoked by the word, going from unhappy to happy. The second is the level of arousal evoked by the word, going from calm to excited. The third dimension refers to the dominance (power) of the word, going from weak (submissive) to strong (dominant). The original results presented in [4] are normalized to take values in range from -4 to 4.

This research analyzes every tweet on a 6-dimensional sentiment scale:

1. happy (valence > 0);
2. sad (valence < 0);
3. excited (arousal > 0);
4. calm (arousal < 0);
5. dominant (dominance > 0);
6. submissive (dominance < 0).

Each tweet is separated into a list of words, and then all the words are converted to lower case. Any word in a tweet that is on the ANEW list is then mapped back to the corresponding sentiment value, hence forming a 6-dimensional sentiment vector. Then all the word vectors for a given tweet are added together to form the tweet sentiment vector  $\mathbf{m}_{tweet}$ .

The mood vector  $\mathbf{m}_t$  of length  $k$  for a given period  $t$  can be computed by adding all the tweet vectors  $\mathbf{m}_{tweet}$  in the set of all tweets  $\mathbf{T}_t$  for the given period:

$$\mathbf{m}_t = \sum_{\forall t \in \mathbf{T}_t} \mathbf{m}_{tweet}$$

**PageRank.** Novel contribution of this paper is to use the PageRank as a weight function to determine total current mood state of the Twitter community. Google founders Sergey Brin and Larry

Page [5] introduced PageRank in 1999 in an attempt to improve web search and make it more relevant. Each tweet can mention other user, or it can be retweeted. In the first case we count it as an outbound link, in the latter it is an inbound link. The idea of PageRank is quite simple. If a large number of users mentions some user that means that this user has high rank. On the other hand, if this user mentions some other user and suppose that user is only mentioned once, that user still will have a rather high rank because a user with such a high rank mentioned him.

However, as was shown by Kwak et al. [13], it is possible to avoid a complex and cumbersome computation using PageRank on a user directed graph with more than 50 million nodes and more than 2 billion links. He showed that ranking users by follower count bears the same results as ranging users by PageRank. They used Kendall's tau rank correlation coefficient and found it to be no lower than 0.6, which implies significant similarity between two rankings. This allows achieving the same results, but avoiding resource demanding and timing consuming computation. Hence, in this paper we use the number of followers as proxy of PageRank weight.

We are going to test two types of weight coefficients: one that is equal to the number of followers of a user, and another one equal to the natural logarithm of the number of followers of a user. The motivation behind taking logarithm of the number of followers is that in this way the sentiments of a small number of extremely popular users will not be able to dominate overall sentiment level of all Twitter users. This logic is supported by the fact that all social networks and Twitter in particular exhibit large-scale properties. In other words, there is a small number of users that have the number of followers exceeding to many degrees of magnitude the median number of user followers [2].

**Granger's causality test.** The test was developed by Granger in 1969 [10]. It is based on the assumption that if a random variable X causes Y, then changes in X will systematically occur before changes in Y [3]. If the mood state values time series contains predictive information about the stock market, then we might expect lagged values of the mood series to show statistically significant correlation with the financial indicators of stock market.

The test compares a pair of models, where the second model adds variables of interest, up to  $n$  lags back (better description of models here). So  $M0$  is the null model, it is nested in  $Mx$ , which is the alternative model. We are going to test several alternative models incorporating different combinations of sentiment lag values and then perform the likelihood-value Wald test of the two models.

$$M0: M_t = \alpha + \sum_{i=1}^n \beta_i M_{t-i} + \varepsilon_t$$

$$Mx: M_t = \alpha + \sum_{i=1}^n \beta_i M_{t-i} + \sum_{k=1}^6 \sum_{i=1}^n \lambda_{k,i} m_{k,t-i} + \varepsilon_t$$

$M_t$  is the first difference of the dependent variable CLOSE or VOL. In the case of closing price, we use the first-difference in log-returns, as it is the standard solution to achieve sufficient stationarity of a time series, at least asymptotically [9].  $M_{t-i}$  is the  $i$ -th lag of dependent variable and  $m_{k,t-i}$  represents  $k$ -th element of the lag mood vector  $m_{k,t-i}$ . Note that the base model  $M0$  is nested in all models  $Mx$ .

Prior to evaluating the models above, we tested all variables for stationarity using Augmented Dickey-Fuller test. The null hypothesis is of existence of the unit root (non-stationary process); the alternative hypothesis is that there is no unit root (stationary process). The results show that neither of the variables is non-stationary.

We decided to limit our analysis to 120 hourly lags, which corresponds to 5 days of lead-time of public sentiment affecting investment decisions in the financial market. For each data point in the 2 dependent variables: NASDAQ hourly close price (CLOSE) and trading volume (VOL) we computed 120 corresponding lags for all six sentiment variables as well as dependent variables themselves. However, including all the 120 hourly lags for dependent variables as well as for each of six sentiment time series means estimating a model with 720 parameters. This leads to over-specification problem. In order to solve this issue, we only include statistically significant lags after estimation of cross-correlation functions for CLOSE and VOL. The resulting cross-correlograms can be observed in Figures 1 and 2. Dark colored bars represent lags at 99% significance level; grey bars represent insignificant lags.

**Results.** All the models were evaluated using GLM. We evaluated 24 models for both CLOSE and VOL, which tested different combinations of sentiment variables and statistical significance of their predictive power on dependent variables.

We use Wald test of nested models to test for goodness of fit of models that use sentiment variables. The null hypothesis is that M0 model is true model and adding sentiment lags will make the model fit worse. For all 48 models with high level of significance (<1%) we can reject the null hypothesis. This means that including significant sentiment lags are Granger-causal for our data.

To further investigate the quality of the 48 models, we ranked them based on the Akaike information criterion (AIC). Models with the AIC less than that of M0 are good in the sense of balance between goodness of fit and complexity of a model. If AIC of a model is higher than AIC of the base model, the interpretation is that some information was lost by including additional variables into the model and its quality is lower.

The main result is that log-weighted models in all cases are superior to the base models M0, and no plain-weighted models exhibit higher quality than the base models.

We find that for NASDAQ closing price (CLOSE) two models provide the best predictors. One model includes only lags corresponding to sentiment variables HAPPY and SAD, and the second model includes only lags corresponding to negative sentiment variables SAD, CALM and SUBMISSIVE. For NASDAQ trading volume (VOL) the best model includes only lags for sentiment variables EXCITED and CALM. Details on these models can be found in the table below.

Upon examining significant models, we can see that closing price is positively correlated with 48-th and 55-th “happy” and “calm” lags, and negatively correlated with 72-nd “sad” lag, all at 5% significance level. This means that happy or calm Twitter mood will likely cause closing price of NASDAQ go up 48 to 55 hours later, and if the mood is sad, this will lead closing prices down 72 hours later.

As for trading volume, we see that there is a very significant ( $p < 0.1\%$ ) positive correlation with 62-nd “excited” lag and very significant ( $p < 0.1\%$ ) negative correlation with 62-nd “calm” lag. This implies that if Twitter mood is very excited, then trading volume of NASDAQ will likely increase 62 hours later, and the opposite is true if Twitter mood is very calm.

Table 1

Regression results for NASDAQ closing price									
Variable name	M0			M8			M12		
	Coef.	SD	Sign.	Coef.	SD	Sign.	Coef.	SD	Sign.
AIC	6,068.0			6,035.3			6,039.8		
Wald test p-value	-			< 0.001			< 0.001		
intercept	0.697	(0.309)	*	0.588	(0.310)	,	0.590	(0.310)	,
close lag 39	-0.081	(0.033)	*	-0.091	(0.033)	**	-0.085	(0.033)	*
close lag 72	-0.088	(0.034)	**	-0.098	(0.035)	**	-0.104	(0.035)	**
close lag 119	0.094	(0.034)	**	0.095	(0.034)	**	0.093	(0.034)	**
lgw happy lag 16				0.883	(0.924)				
lgw happy lag 48				0.595	(0.254)	*			
lgw happy lag 55				0.491	(0.227)	*			
lgw happy lag 83				0.120	(0.669)				
lgw happy lag 120				-0.076	(0.812)				
lgw sad lag 16				0.170	(0.778)		1.692	(1.867)	
lgw sad lag 72				-0.547	(0.238)	*	-0.499	(0.239)	*
lgw sad lag 83				0.790	(0.623)		-0.164	(1.502)	
lgw sad lag 120				0.678	(0.735)		0.520	(2.367)	
lgw calm lag 16							-1.479	(0.855)	,
lgw calm lag 48							0.481	(0.242)	*
lgw calm lag 55							0.468	(0.213)	*
lgw calm lag 57							0.279	(0.205)	
lgw calm lag 83							-0.003	(0.956)	

lgw calm lag 120	-0.747	(1.366)
lgw submissive lag 16	0.561	(2.116)
lgw submissive lag 83	1.013	(1.690)
lgw submissive lag 120	0.814	(2.613)

Note: 'p<0.1; \*p<0.05; \*\*p<0.01; \*\*\*p<0.001

Source: Authors.

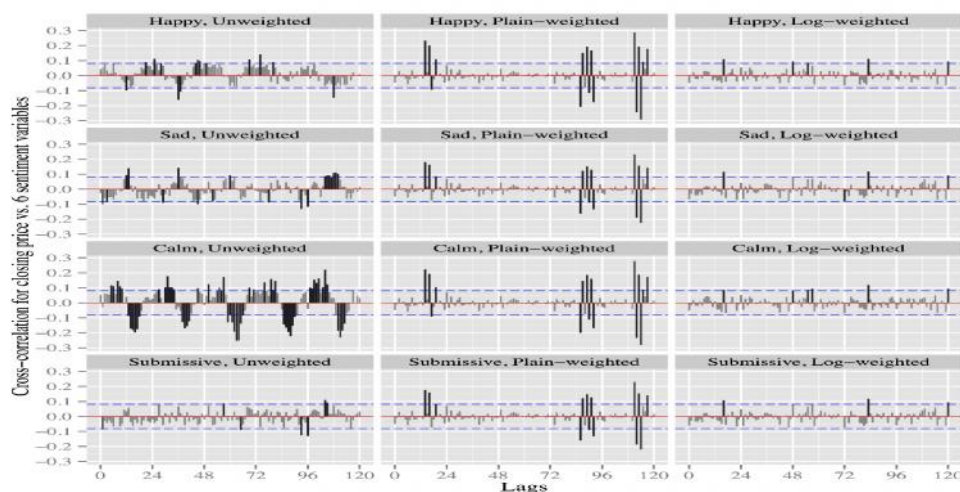
Table 2

Regression results for NASDAQ trading volume (source: authors)

Variable name	M0			M9		
	Coef.	SD	Sign.	Coef.	SD	Sign.
<b>AIC</b>	<b>6,482.6</b>			<b>2,241.5</b>		
<b>Wald test p-value</b>	<b>-</b>			<b>&lt; 0.001</b>		
intercept	0.001	(0.033)		0.002	(0.032)	
vol lag 1	-0.525	(0.032)	***	-0.499	(0.033)	***
vol lag 2	-0.300	(0.031)	***	-0.289	(0.031)	***
vol lag 8	0.075	(0.028)	**	0.078	(0.029)	**
vol lag 48	0.398	(0.044)	***	0.355	(0.044)	***
vol lag 49	0.104	(0.046)	*	0.104	(0.045)	*
vol lag 120	-0.165	(0.041)	***	-0.141	(0.041)	***
lgw excited lag 33				-0.006	(0.024)	
lgw excited lag 37				0.034	(0.027)	
lgw excited lag 50				-0.033	(0.026)	
lgw excited lag 59				-0.070	(0.069)	
lgw excited lag 62				0.365	(0.086)	***
lgw excited lag 77				-0.140	(0.060)	*
lgw excited lag 82				0.075	(0.026)	**
lgw excited lag 105				0.039	(0.026)	
lgw excited lag 107				-0.003	(0.027)	
lgw excited lag 111				-0.143	(0.113)	
lgw calm lag 7				-0.047	(0.023)	*
lgw calm lag 15				0.017	(0.024)	
lgw calm lag 40				0.077	(0.028)	**
lgw calm lag 41				0.063	(0.030)	*
lgw calm lag 59				-0.001	(0.060)	
lgw calm lag 62				-0.302	(0.075)	***
lgw calm lag 77				0.094	(0.059)	
lgw calm lag 86				0.004	(0.026)	
lgw calm lag 88				0.053	(0.027)	*
lgw calm lag 111				0.165	(0.097)	'

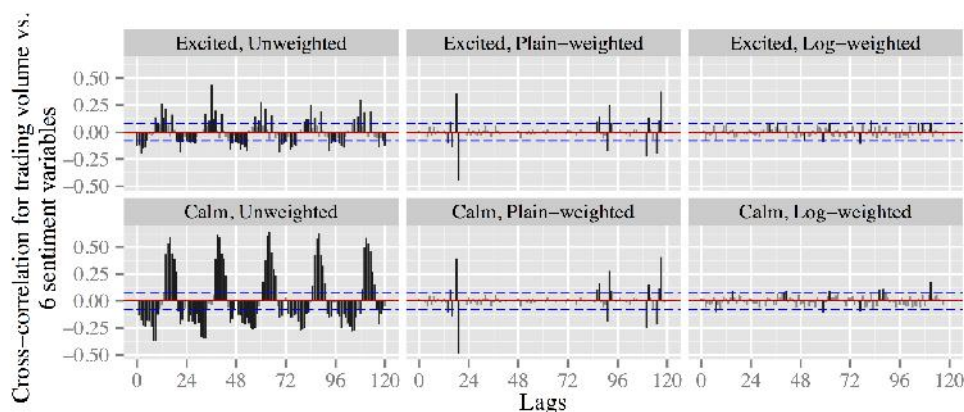
Note: 'p<0.1; \*p<0.05; \*\*p<0.01; \*\*\*p<0.001

Source: Authors.



**Fig. 1. Cross-correlations for closing price and six sentiment variables' lags**

Source: Authors.



**Fig. 2 Cross-correlations for trading volume and six sentiment variables' lags**

Source: Authors.

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**ECONOMIC DYNAMICS OF THE REPUBLIC OF MOLDOVA  
IN THE CONTEXT OF EUROPEAN INTEGRATION**

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*This article provides an analysis of the economic evolution of the Republic of Moldova by defining three evolution and development periods in the regional and global context. Studying the perspectives of integration into the Commonwealth of Independent States (CIS) economy, on one hand, and European integration, on the other hand, is another objective of this chapter. The analysis of the investment climate, the business environment and the foreign trade has a major contribution to the perception of the economic dynamics of the Republic of Moldova.*

*Another research direction of this paper is the analysis of the economic reform efforts undertaken by the government and their impact on the economic system of the Republic of Moldova. The research methodology includes a classical approach, such as methods of comparative, historical-analytical, systemic analysis and quantitative and qualitative analysis.*

**Key words:** liberalization, market economy, export, investment, reforms, European integration, periods, policies, entrepreneurship.

*Prezentul articol cuprinde o analiză a evoluției economice a Republicii Moldova prin definirea a trei perioade de evoluție și dezvoltare în contextul regional și global. Studiarea perspectivelor de integrare la economia țărilor CSI, pe de o parte, și integrarea europeană la UE, pe de altă parte, este un alt obiectiv al acestui capitol. Analiza climatului investițional, mediului de afaceri, precum și comerțului extern are un aport major la perceperea dinamicii economice a Republicii Moldova.*

*O altă direcție de cercetare a prezentei lucrări o constituie analiza eforturilor de reformare economică din partea guvernării și efectele acestora asupra sistemului economic al Republicii Moldova. Metodologia de cercetare cuprinde abordarea clasică cum sunt metodele analizei comparative, istorico-analitică, sistemică, precum și analiza cantitativă și calitativă.*

**Cuvinte cheie:** liberalizare, economia de piață, export, investiții, reforme, integrare europeană, perioade, strategii, politici, antreprenoriat.

**JEL Classification:** O11; F43; G15; G19

**Introduction.** With the exit of the Soviet Socialist Republic of Moldova (SSRM) from the USSR and the collapse of the totalitarian communist governing system, the Republic of Moldova has set a transformation path defined as transition to market economy. In order to achieve this major objective and to implement the transition programs, the Republic of Moldova has undergone many reforms in terms of legislation and economic structure, aimed at creating a free market, establishing private property,

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modernization of agriculture, production activities, export promotion, and local and foreign investment attraction. With regards to international economic relations and integration into regional and global economy, the economic strategy was influenced by the Eastern and the Western foreign vectors, on one hand, and by the EU, on the other hand. In terms of national security and defense strategy, Moldova is determined in an equal extent by both, Euro Atlantic processes (represented by NATO and the USA), and by the Russian Federation. The weak economy and the dependence on energy resources and foreign market have reduced the neutrality status to non-existence and the social and economic performances are far from complying with the requirements of a developed state, which would bring welfare to the population, as it has happened in the Central Europe and the Baltic States.

Therefore, to achieve the economic objectives and to create an efficient and sustainable economy, on 28 November 2013, at the Summit in Vilnius, the Republic of Moldova took the final decision to sign the Association Agreement with the EU and to set the path toward European integration in order to increase the flow of foreign investment and to liberalize the exports to the EU market, the largest market in Europe and one of the largest in the world.

The economy of the Republic of Moldova has gone through several development periods as a result of the reforms on transition to market economy. They aimed to liberalize the economic activity, to privatize the public property, to attract local and foreign investments, to promote exports to several regional markets and also to connect through integration to the EU's economic community. This complex of economic policies and reforms were implemented with the aim to contribute to economic growth expressed in GDP per capita, which has suddenly stagnated after gaining independence 1991. Therefore, in line with government's priorities and strategies and the economic achievements, we can distinguish 3 major periods in the economic development of the Republic of Moldova in the global context:

1. *Period of economic liberalization and public property privatization (1991-2000);*
2. *Period of strategies on investment attraction and export promotion (2000-2009);*
3. *Period of EU association (2010 – present).*

#### **Economic liberalization and public property privatization 1991-2000**

Once confronted with the intensive transition to market economy at the beginning of '90s, the Republic of Moldova and its economic system were subject to a series of reforms in such areas as creation of democratic institutions, price and trade liberalization, public property privatization, adoption and amendment of legislation on entrepreneurship, private property, investments, capital market, foreign exchange market, etc. Becoming an independent state, the Republic of Moldova had a strong need to attract investments and to recover the markets lost in the former USSR republics, and also to win new markets globally. The first concrete steps in this direction were made with the adoption of several laws aimed at establishing the legal framework of reforms, such as: *the Law on property* (22 January 1991); *the Law on privatization* (4 July 1991); *the Law on entrepreneurship and enterprises* (3 January 1992); *the Law on domestic trade* (23 February 1996); *the Law on investment funds* (5 June 1997), *the Law on securities market* (18 November 1998) etc.

Most of the economic reform efforts undertaken by the government at that time have been consumed for the implementation of the privatization process. The privatization process in the Republic of Moldova had 3 major stages:

1. *State Privatization Program 1993-1994* that set the adequate legal basis and led to the creation of the Ministry of Privatization and State Property Administration;
2. *Privatization Program for the period 1995-1996*, that provides for the implementation of public property privatization based on *property coupons*, *free distribution* of agricultural farms and agricultural land, *privatization of dwellings*, etc.;
3. *Privatization Program for the period 1997-1998*, that envisaged the privatization of public property on cash basis [10, p. 9-10].

The privatization lasted almost a decade and involved several shortcomings, in particular, in the area of agricultural land privatization. In parallel with this process, the main institutions on the capital market have been created: Stock Exchange, investment funds and trust companies, independent registrars, broker and dealer companies. Therefore, in 1997 the private sector represented already 60% of the industrial production, 70% of retail services and social services provided, and respectively 44% of the volume of works in capital constructions and transport [10, p. 10]. The process of agricultural land privatization corresponded to the first stages of privatization, which led to a significant increase of surface areas allocated to rural families (from 180 thousand ha in 1990 to 300 thousand ha in 1992), and the

second – *the large privatization* has extended on agricultural land cultivated by former collective enterprises [11, p. 44]. In the period 1996-2000, more than three million of Title Certificates confirming Land holder's rights have been issued to over 1 million of citizens of Moldova [11].

Despite the fact that during these years we managed to establish a European legal framework and create democratic administrative bodies that would lead to economic liberalization and to a process of simplification and reduction of state restrictions and regulations to ensure a broad participation of the private sector in economy, these efforts have not proved to be efficient in stopping the economic decline in the '90s. The agriculture and the processing industry had a strong need to promote the products on the foreign markets and to attract investments for production modernization. Therefore, the privatization model that took place in the Republic of Moldova did not have the capacity to guarantee the entrepreneurship development, in particular among farmers holding Title Certificates on agricultural land with an area of several hectares.

In the '90s there were different considerations regarding the adoption and the implementation of reforms. Both, the international donors and experts, recognized the economic reforms as correct and considered them a perfect laboratory for reforms' implementation [2, p. 103]. However, analyzing the economic performance in the second half of the '90s, we can conclude that the economic transformation efforts have not been successful neither at the level of economic indicators, nor at social level. In 10 years of reforms, the country's GDP has reduced three fold, and in 2000 it represented only 34,3% of the total volume of the year 1990 [2, p. 102]. The foreign trade liberalization, which implies the cancellation or reduction of trade restrictions or barriers between two or several countries, even at the stage of economic initiation, caused the invasion of the foreign products on the Moldovan market and the local producers lost the traditional foreign markets and also lost the domestic market, which was rapidly occupied by the imported goods [2, p. 108-109].

Another factor that led to a significant drop in the GDP and capital investments in the first period of the economic dynamics of the Republic of Moldova was its integration in to a vulnerable regional market and namely CIS market, community founded by the former socialist republics, except for the Baltic States. In turn, these national economies were undergoing the same stage of economic restructuring or, in other words, were demonstrating the same shortcomings and economic imbalances as the Republic of Moldova and specifically: significant reduction of GDP and investments. At the beginning of the '90s, Moldova was strongly integrated with CIS countries (10 times more) compared to the European Economic Community, and the share of exports outside CIS countries was 1.6% and imports – 7.3%, even if commercial relations were maintained with over 60 countries [8, p. 3]. For a long period of time, the exports were directed mainly towards the Russian Federation, which represented approximately 60% of the total exports and respectively 83% of the exports to the CIS countries, while the exports of the Republic of Moldova to the CIS countries represented 70% [1]. A balance of the exports structure by countries was achieved only in 2005, when the share of exports to the CIS countries was approximately 50,5% [1].

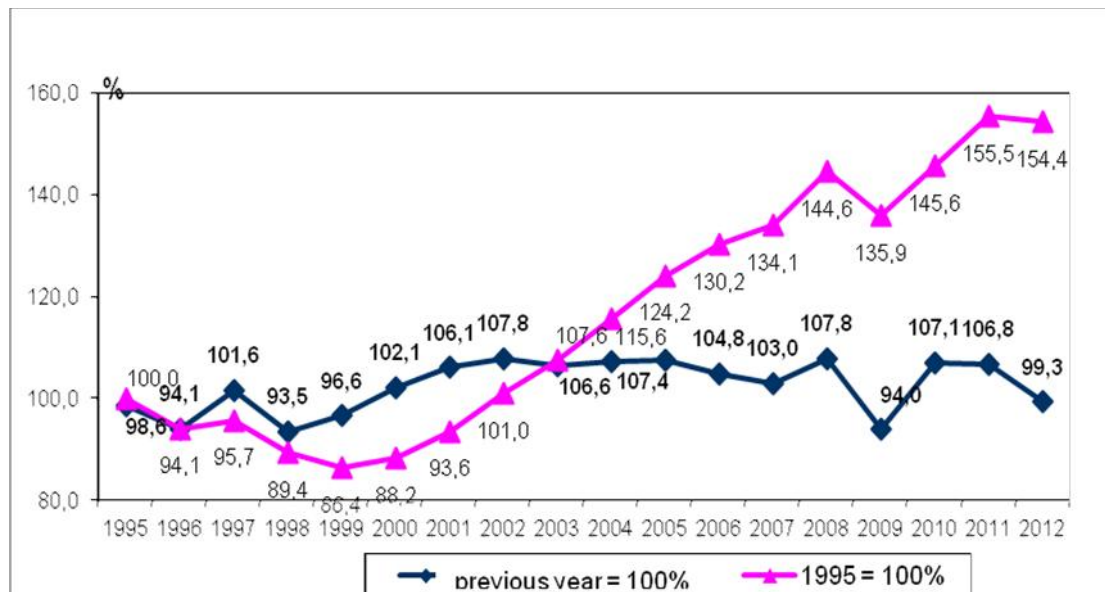
#### **Adoption of strategies on investment attraction and export promotion 2000-2009**

Despite the fact that the GDP volume slightly increased in the period 1999-2002 compared to the previous years (Figure 1), the share of exports was still dependent on the CIS market, while the investments in the real economy were not sufficient to create decent jobs and respectively to contribute to the growth of the national income.

In the second period of Moldova's economic development, the state's economic policies were directed towards creation of a favorable business climate to attract investments, in particular indirect foreign investments, and to increase the export based on structural development by promoting the goods and the services on the global market and reducing the dependence on the CIS market. Therefore, one of the attempts to develop the policies in the area of investments and export promotion was the approval of *the Investment Strategy of the Republic of Moldova for the period 2000-2005* and the *Export Promotion Strategy for the period 2000-2005* [5, p. 4]. Most of actions set in the respective strategies have not been implemented for the following reasons:

- Focus on the idea of national economic development based on the economic structure inherited from the soviet system;
- Global imbalances and changes in the regional circumstances;

• Non-systemic approach of public authorities and the private sector demonstrated by insufficient level of coherence between the policies/actions for the development of trade regimes (exports promotion) and investment activities, etc. [5].



**Fig. 1. Indices of the physical volume of gross domestic product in the period 1995-2012**

Source: National Bureau of Statistics of the Republic of Moldova. National accounts: Gross domestic product indices (1995-2012). <http://www.statistica.md/category.php?l=ro&idc=191> (quoted 07.10.14).

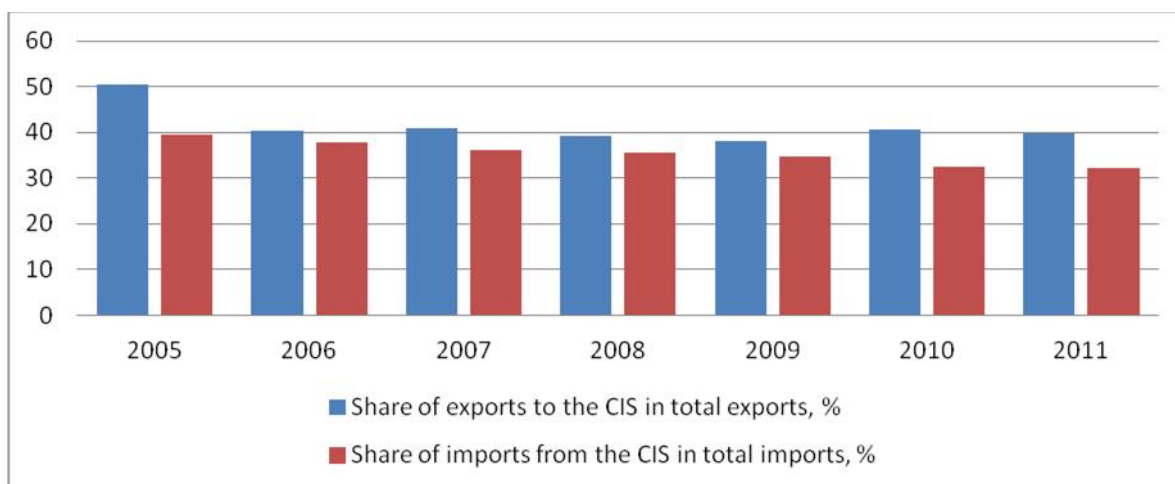
This fact has determined the Government of the Republic of Moldova to adopt the *Strategy on investment attraction and export promotion for the period 2006-2015*, which is a long-term and integrated [5] strategy. According to this strategy, the combination of the investments attraction policy and the export promotion policy created a favorable pre-requisite for ensuring economic growth and population's welfare. One of the main objectives presented by the Government is to attract investments in national sectors oriented towards export, capable to provide innovations and *know-how* transfer, increase added value and create an efficient technical and economic infrastructure [5, p. 5].

Consequently, the Republic of Moldova joined the WTO on 26 July 2001, obtaining a liberalized access of trade with goods and services on the market of those 160 member states (as of 2014). As a result, the Republic of Moldova has achieved the cancellation of several constraints in promoting exports on the global market.

As mentioned above, in the first half of this period of Moldova's economic development, the export was predominantly oriented towards the CIS market and, in particular, the Russian market in terms of the goods with commercial advantage. As of 1994, the intention to sign the *Agreement on creation of a free trade zone* within the CIS persisted, which was only signed in 2011 by 8 CIS members. Certain provisions of this Agreement with respect to free trade were already stipulated in bilateral agreements, including with the Russian Federation [4, p. 5]. And even following the signing of this agreement, the representatives of several political powers and academia were skeptical with regards to the positive effects of such an agreement on the foreign trade of the Republic, due to several reasons. The experience of trade relations knows a number of embargoes imposed by the Russian Federation due to which the national economy has suffered. Beginning with 2006, there were several trade interdictions and embargoes imposed by the Russian Federation:

- Interdiction on wine import from the Republic of Moldova and Georgia on the Russian market due to sanitary reasons (2006);
- „gas war“ between the Russian Federation and Ukraine, which has also affected the energy security of the Republic of Moldova (2009);
- New embargo on the Moldovan wine (2013);
- Prohibition of fruits and vegetable imports from the Republic of Moldova (2014);
- Interdiction on processed meat import from the Republic of Moldova (2014) etc.

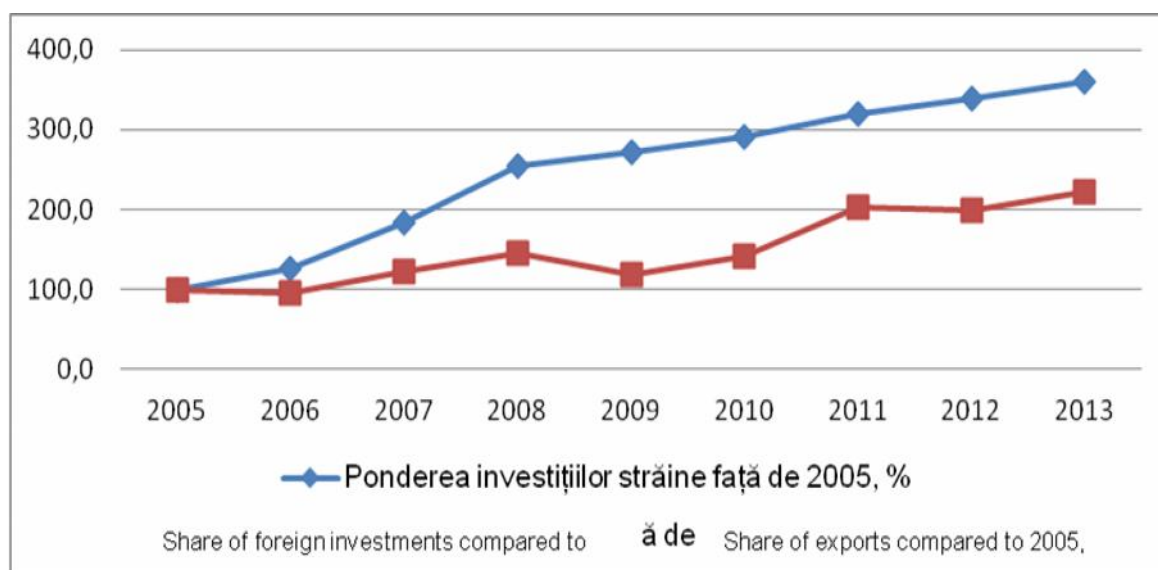
In 2009, the Russian Federation resumed the initiative to create a free trade zone in the CIS area as a result of the distancing of the Republic of Moldova, Ukraine, Azerbaijan and Georgia from the CIS market in the favor of the global market, namely the EU market, and also for the purpose of maintaining the influence in the region. The purpose of such an agreement was also to implement the initiative of the Russian Federation as to make a return action to the EU and, specifically, the Eurasian Economic Union. Even if this Eurasian integration on economic, military and security issues seems to advance, it still has a lot of weaknesses, one of which is the fact that the states associated with the union may withdraw from this agreement if this contravenes their national interests, and their market is characterized by several risks and is much smaller than the EU market. Therefore, after 2005 the foreign trade is gradually orienting towards third markets and the EU market (Figure 2). However, the CIS market is still an important trade partner for certain economic entities.



**Fig. 2. Foreign trade with the CIS (2005 – 2011)**

Source: Fala A. Policy Brief. Policy Brief. Noul acord privind crearea zonei de liber schimb în CSI – posibile consecințe pentru Moldova. Chișinău: IDIS Viitorul, 2011. p. 8.

Although the Government made significant efforts during this period to attract investments and promote exports, the results obtained were modest, and the negative trade balance for the year 2010 represented 2,43 billion USD, increasing by 318 million USD compared to the previous year [1].



**Fig. 3. Share of foreign investments and exports compared to 2005**

Source: Created by the author based on National Bureau of Statistics of the Republic of Moldova. <http://www.statistica.md/category.php?l=ro&idc=191&#idc=34> (quoted 08.10.14).



Therefore, these modest performances were due to both, the financial crisis in 2008-2009 and the reduced results on investments attraction and export promotion, the inefficiency of institutions and the rule of law, corruption, etc. With the change of the geopolitical context at the beginning of the third decade following the creation of the republic and due to the firm decision of the political leadership on EU market association, an important review of the structure and strategy on foreign trade and attraction of foreign investments takes place.

**EU association (2010-present).** The demonstrated inefficiency of integration into the CIS area over 20 years and the economic results achieved by the EU member states from the Central and Eastern Europe, the Republic of Moldova adopts and gets intensively involved in the process of EU association, with the resolution of the deep political crisis between September 2009 – March 2012 (the longest in the history of democratic states). The EU market and its production volume is one of the biggest in the world, which has determined most of the previous governments to make attempts of associating with this economic community, but without any significant progress. At this stage, the exports begin to be redirected towards the EU market and other markets as China and USA.

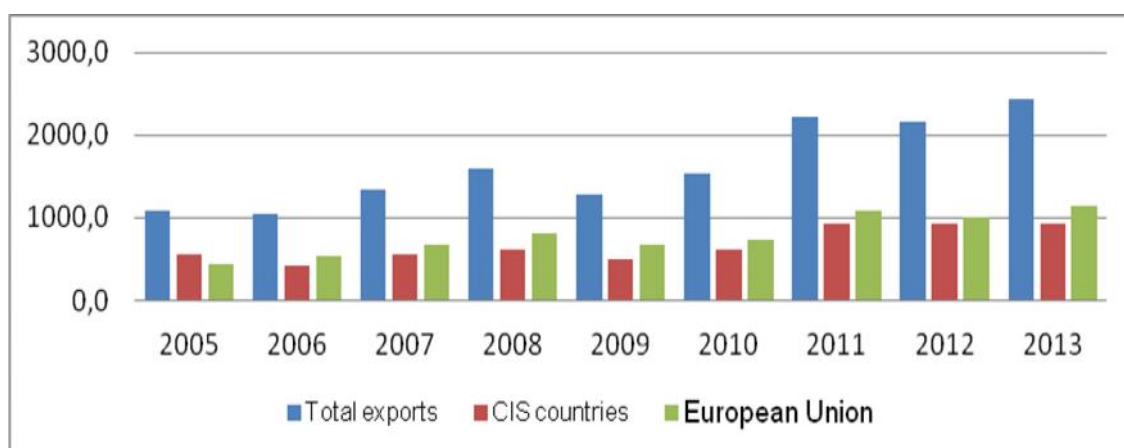
With the change of the foreign policy vector and the EU enlargement in 2004, the EU initiates in the same year the first important steps towards Moldova's adherence to the European community by including it in the EU's European Neighborhood Policy (ENP). The new level of collaboration focused on the intensification of the political dialogue between the Republic of Moldova and the EU [6, p. 9-10]. As part of this process, concrete measures were taken towards country's European integration, one of which was the signing, one year later, of the RM-EU Action Plan, which envisaged the implementation of reforms in the following 3 years in several areas such as democratic institutions, respect for freedom of press and expression, strengthening of the administrative and judicial systems, poverty reduction, economic growth, foreign trade with EU, etc. [9].

In the period 2007-2008, the Republic of Moldova benefitted from a larger opening of the European Union market, the facilitation of the visa regime with the inauguration of the EU Visa Common Application Center, the initiation of the adherence to the Energy Treaty Community, increasing assistance by 2013, signing of the investment agreements with the European Investment Bank and the European Bank for Reconstruction and Development [6, p. 10]. As a result of some progress in the reform process, the EU Council adopted in 2008 several conclusions on the application of the RM-EU Action Plan, emphasizing the support for the gradual approximation of the Republic of Moldova to the EU by initiating the negotiation of a new RM-EU agreement.

To go beyond the ENP and send its neighbors a political message of solidarity, in December 2008 the European Commission submitted the proposal to create the Eastern Partnership (EP) – a specific dimension of the ENP aimed at maintaining relations with the Eastern neighbors – Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. In May 2009, the Eastern Partnership was launched in Prague to implement a political association and economic integration between the EU and its Eastern partners, which would require new association agreements, including deep and comprehensive free trade areas and progressive integration into the EU [3] economy. This process involves also the facilitation of travel to EU through gradual visa liberalization, accompanied by measures to combat illegal migration [3]. Among all Eastern European states participating in the Eastern partnership, the Republic of Moldova managed to advance most of all in terms of objectives of this integration program. Following the initialing of the RM – EU Association Agreement at the summit in Vilnius on 28 November 2013, which includes also the creation of the Deep and Comprehensive Free Trade Area (DCFTA), and its signing on 27 June 2014, the Republic of Moldova enters a new integration phase. This agreement replaces the Partnership and Cooperation Agreement (PCA) and gives the perspective for modernizing its trade relations and its economic development by excluding the customs duties and fees and through comprehensive harmonization of the law, national norms and regulations with the European legislation on trade related sectors [7]. At the same time, on 28 April 2014 the citizens of this country obtained the possibility to travel visa-free to 26 countries of the Schengen Area.

After 2005 more and more economic entities were able to get to the EU market with their goods and services and the share of exports to EU exceeded 50% of their total (Figure 4).





**Fig. 4. Export structure of CIS and EU, USD (2005-2013)**

Source: Created by the author based on National Bureau of Statistics. Foreign trade. <http://www.statistica.md/category.php?l=ro&idc=336&>. (quoted 10.10.14).

**Conclusions.** The benefits resulting from the products marketing on the EU market include also the compliance of products with the European quality standards, mobilization of successful entrepreneurship, and increased competitiveness of both, internal and external markets. Another long-term advantage of the European integration through gradual association consists in attracting direct foreign investments. However, at the current stage, the indicators on foreign investments entry to Moldova are below the expectations of the economic entities and the Government. Therefore, the country is in the process of accession to the EU as a member state and, according to expectations, this objective will reach the highest level of integration, namely the political, administrative and economic, which will significantly contribute to the attraction of foreign investments and free circulation of goods, services, work force, capital, technologies, etc.

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**STREAMLINING FINANCING OF THE DISTRICT HEALTHCARE  
INSTITUTIONS AT THE HOSPITAL LEVEL  
IN THE REPUBLIC OF MOLDOVA**

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*Novelty. Insufficient financial resources in the health care system in the Republic of Moldova is a current problem and derives from the fact that expenditure of the public HI at the hospital level are higher than income earned by these institutions for 2011-2013.*

*Aim. In this context we proposed to analyze the expenditure and revenue of the district HI at the hospital level in order to identify the directions on the rationalization of funding of these institutions to harness financial resources that would have a favorable impact on the efficiency of health services in the country.*

*Methods. In this paper there were used methods of analysis applied in national and international practice. As research methods were used: the study of socio-economic information, analysis and comparison of information at different levels.*

*Results. Analysis of public revenue and expenditure of district HI at the hospital level captures how the funding was made in 9 district hospitals in the Republic of Moldova for the period 2011-2013 being highlighted the main problems facing the financing of hospital care at district level.*

**Key words:** *expenses and income, hospital care, healthcare capitalization of financial resources, health care institutions district, district public IMS.*

*Actualitatea. Insuficiența resurselor financiare în sistemul ocrotirii sănătății în Republica Moldova este o problemă actuală și derivă din faptul, că cheltuielile IMS publice, de nivel spitalicesc, sunt mai mari decât veniturile obținute de aceste instituții pentru perioada 2011-2013.*

*Scopul. În acest context ne-am propus analiza cheltuielilor și veniturilor IMSP raionale de nivel spitalicesc cu scopul identificării direcțiilor privind raționalizarea finanțării acestor instituții în vederea valorificării resurselor financiare care ar avea un impact favorabil privind eficiența serviciilor medicale în Republica Moldova.*

*Metode. În prezenta lucrare au fost utilizate metode de analiză aplicate în practica națională și internațională. În calitate de metode de cercetare au fost utilizate: studierea informației socio-economice, analiza, gruparea și compararea informației la diferite niveluri.*

*Rezultate. Analiza veniturilor și cheltuielilor IMS publice raionale de nivel spitalicesc surprinde modul cum s-a realizat finanțarea a 9 spitale raionale în Republica Moldova pentru anii 2011-2013, fiind evidențiate principalele probleme cu care se confruntă finanțarea asistenței medicale spitalicești la nivel raional.*

**Cuvinte cheie:** *cheltuieli și venituri, asistență medicală spitalicească, ocrotirea sănătății, valorificarea resurselor financiare, instituții medico-sanitare raionale, IMS publice raionale.*

2011-2013

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**JEL Classification: H50; H51; H53; H72; I10**

**Introduction.** District hospitals fall into the category of public healthcare institutions. Hospital represents the most important medical service unit in which provided healthcare is complete - preventive, curative and for rehabilitation of health of population at a certain territorial area. These institutions participate in an integrated system with primary care assistance in order to ensure the health of the population in the territory. But the district hospital is a public institution. So, it is a key element both in healthcare system and in public service system.

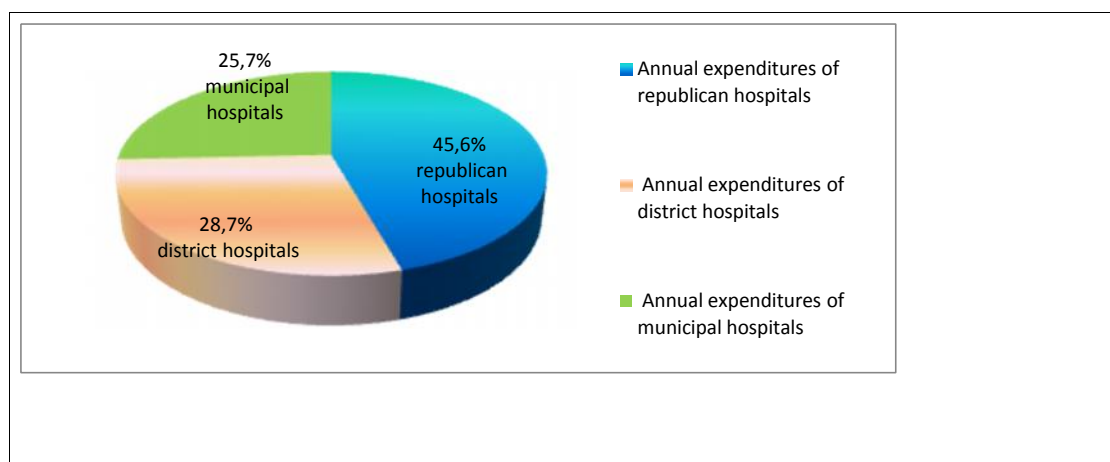
#### **The streamlining role of financing district PHI at the hospital level in the Republic of Moldova**

The hospital is an institution that seeks specific purposes, namely by increasing the population's health from the provided medical services. In this context, they assure medical service while providing accommodation during treatment, activity that justifies the name of the health institution with beds.

Hospital system in Moldova consists of 82 hospitals namely:

- 1) Hospitals at the republican level – 16;
- 2) Departmental hospitals – 10
- 3) Municipal hospitals – 10;
- 4) District hospitals – 35;
- 5) Private hospitals – 11.

In Figure 1 we present the share of expenditure of republican, district and municipal hospitals in the total of annual expenditure made by the mentioned hospitals for 2012. Thus, republican hospitals had expenses at a rate of 45.5 percent of total expenditures. District hospitals have made 28.7 percent of the expenses for the year 2012. The lowest share is owned by the municipal hospitals – 25.7%.



**Fig. 1. Share of expenditures for 2012 of the republican, district and municipal hospitals in the Republic of Moldova**

Source: Developed by the author based on [www.ms.gov.md](http://www.ms.gov.md), statistical data.

Table 1 presents income and expenditure of the 35 district hospitals for 2011-2013. We see the increased revenue of the district hospitals in 2013 by 9.9 pp compared with 2011. Expenditure of the district hospitals increased in 2013 compared to 2011 by 10.1 pp.

Table 1

**Revenue and expenditure of district public healthcare institutions  
in the Republic of Moldova for 2011-2013**

No.	Indices	2011	2012	2013	Growth rate, %
1.	Revenue, thousand MDL	833519,1	881900,3	915760,3	9,9
2.	Expenditure, thousand MDL	860754	919597,7	947625,8	10,1

Source: Developed by the author based on [www.ms.gov.md](http://www.ms.gov.md), statistical data

District hospitals are present in three development regions "North", "Center" and "South". In order to analyze financing of the district hospitals we proposed to make a study of nine hospitals, three district hospitals from each region in accordance with the number of beds as follows:

DR "North" – Edinet DH, Drochia DH, Riscani DH;

DR "Centre" – Orhei DH, Hincesti DH, Calarasi DH;

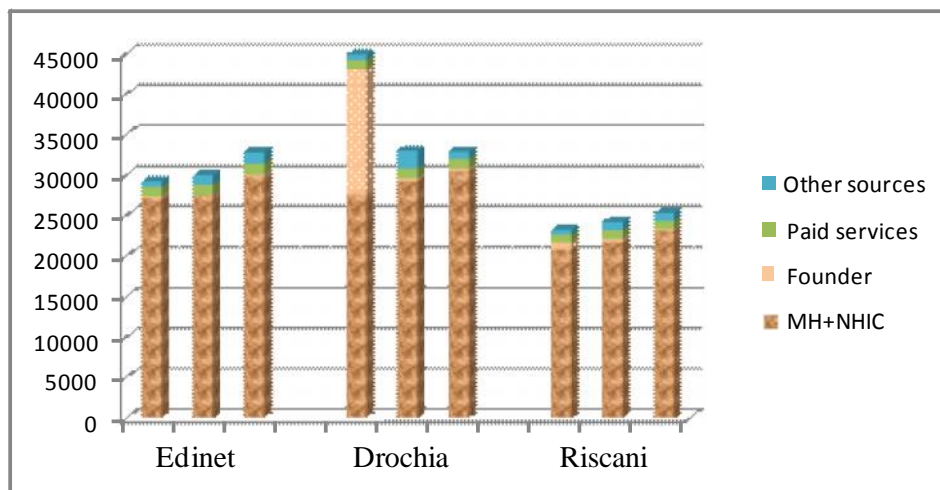
DR "South" – Cahul DH, Causeni DH, Cantemir DH.

Under the law on protection of the health the activity of the public medical institutions involved in the mandatory health insurance system are conducted on the principle of self-financing and non-profit.

Revenue of the district public medical institutions at the hospital level is formed from the following sources:

- 1) allocations of the Ministry of Health and National Health Insurance Company;
- 2) allowances of the founder;
- 3) payment for the delivered services;
- 4) other sources.

Next, there will be presented the structure of revenue on components of the district public hospitals on regions of development for 2011-2013.



**Fig. 2. Components of revenue of the district public hospitals  
Edinet, Drochia, Riscani from the „North” development region for 2011-2013**

Source: developed by the author based on [www.ms.gov.md](http://www.ms.gov.md), statistical data.

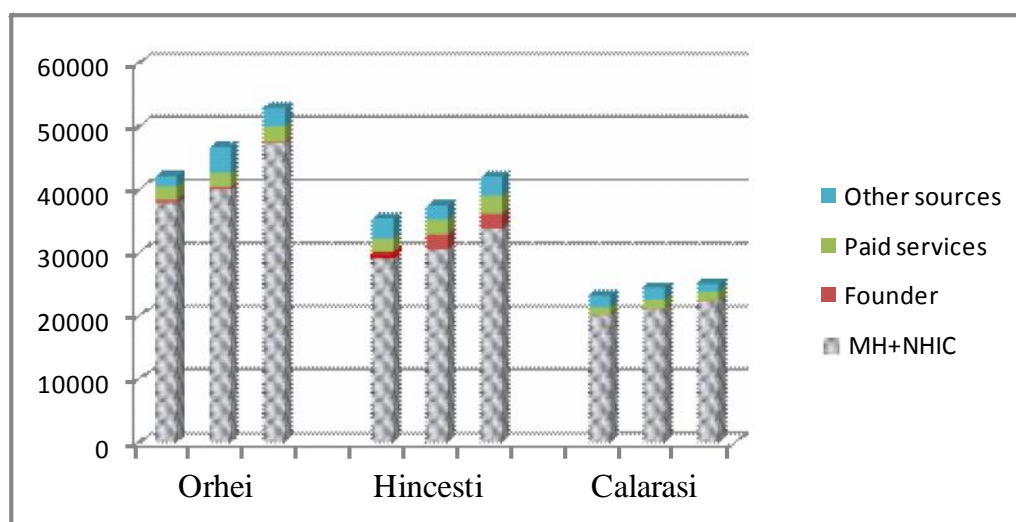
From Figure 2 we see that grants of the Minister of Health and National Health Insurance Company has the largest share, in Edinet DH accounting for – 92%, in Riscani DH – 90% of total revenues for the period 2011-2013. At the Drochia DH they accounted for 61% in 2011, in 2012 and 2013 their share being of 90%.

Edinet DH revenues are worth 32834.0 thousand MDL in 2013. Drochia DH had the highest level of income for the year 2011 – up to 44,896,800 MDL. Revenue of Riscani DR has a lower level in the period under review compared to other hospitals analyzed in the region "North" and was 25,354,000 lei in 2013.

Allocations of the founder account for approximately 1-2% of the total revenue for Edinet DH and Riscani DH for 2011-2013. The situation is different at Drochia DH in 2011, where allocations of the founder represented 34%. This is explained by the performing of the renovation, resources being allocated by the founder Drochia DH.

Revenues from paid services account for 4% for the years 2011 to 2013 in all hospitals analyzed in the development region "North", Edinet DH, Drochia DH and Riscani DH.

Other sources of funding include humanitarian aid, centralized drugs and other sources of income.



**Fig. 3. Components of revenue of the district public hospitals Orhei, Hincesti, Calarasi from the „Centre” development region for 2011-2013**

Source: developed by the author based on [www.ms.gov.md](http://www.ms.gov.md), statistical data.

Analyzing income of Orhei, Hincesti and Calarasi district hospitals from „Centre” development region during the period 2011-2013, we observe its growth in all the analyzed hospitals.

Orhei DH in 2013 achieved 52,879,100 MDL representing the highest amount compared with district hospitals Hance ti and Calarasi. The Hance ti DH recorded revenues of 42.018 thousand MDL in 2013. Revenues of Calarasi DH in 2013 accounted for 25062,9 thousand MDL.

The largest contribution to the formation of hospital revenues from "Centre" development region is held by the Ministry of Health and National Health Insurance Company, as follows: 90% in Orhei DH, 82% in Hincesti DH and 87% in Calarasi DH.

Revenue from founder account for 6% for Hancesti DH, because repairs were made in 2012 and 2013, which are financed by the founder of the district hospital. Allocations of the founder in Orhei and Calarasi reached 1% for 2011-2013.

Revenue from paid services accounts for 6% of all analyzed hospitals in the region development "Center".

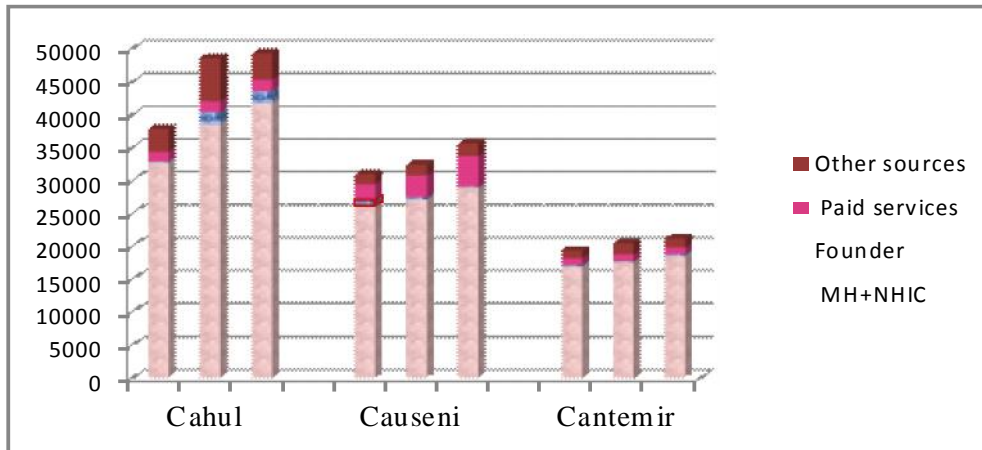
Other sources of funding include humanitarian aid, centralized drugs and other sources of income and account for at Orhei DH - 9% in 2012, at Hancesti DH – 7% and in 2013 and at Calarasi DH – 7% in 2012.

SR Cahul recorded revenues amounting to 49136,6 thousand MDL in 2013 representing the highest level compared with Causeni DH and Cantemir DH. Causeni DH obtained 35594,5 thousand MDL in 2013, increasing by 3228,2 thousand MDL compared with 2012.

Cantemir DH recorded revenues amounting to 21134,1 thousand MDL in 2013, and although growth was found compared to the years 2012 and 2011, it is still low compared with district hospitals in developing regions "North" and "Center" with the same number of beds (Riscani DH obtaining 25354 thousand MDL and Calarasi DH having 25062,9 thousand MDL).

From the income structure of district hospitals in the development region "South" allowances of the Ministry of Health and National Health Insurance Company hold the largest share compared to other sources of funding. Thus, at all district hospitals it is on average about 86%.





**Fig. 4. Components of revenue of the district public hospitals**

**Cahul, Causeni, Cantemir from „South” development region for 2011-2013**

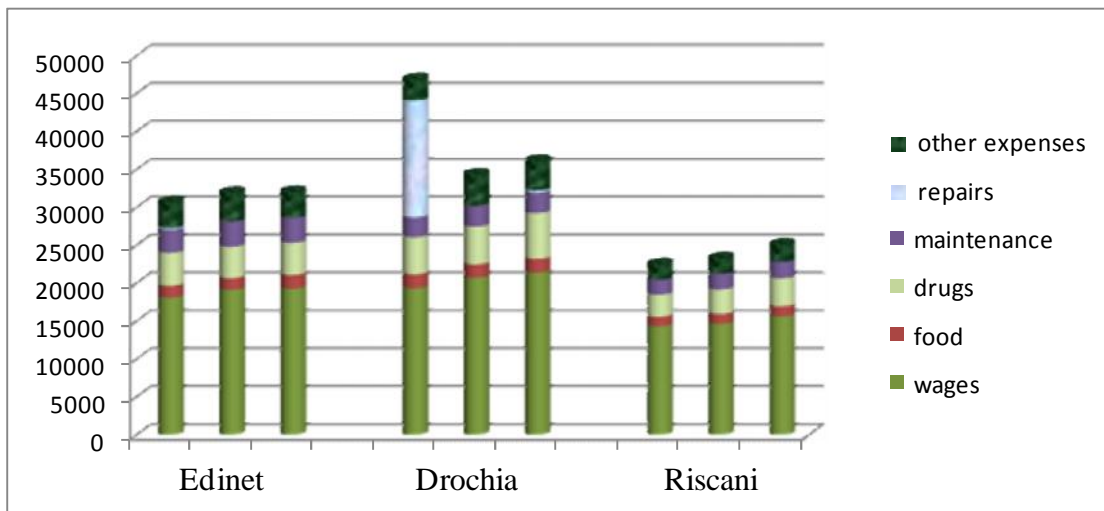
Source: Developed by the author based on [www.ms.gov.md](http://www.ms.gov.md), statistical data.

Founders' contribution to hospitals' income formation is only 1%. Revenues from paid services at district hospitals Cahul and Cantemir are about 4% -5% and at Causeni DH - 13% in 2013, having the largest share in comparison with the analyzed hospitals.

Next we will analyze the costs incurred by public district hospitals selected for developing regions "North", "Center" and "South" for 2011-2013.

Costs incurred by the district hospitals refer to the following components:

- 1) expenditure on wages;
- 2) expenses for food;
- 3) expenditures on drugs;
- 4) maintenance costs (electricity, gas, water, sewerage, transport, etc.);
- 5) expenses for repairs;
- 6) other expenses.



**Fig. 5. Components of expenditures of the district public hospitals**

**Edinet, Drochia, Riscani from the „North” development region for 2011-2013**

Source: Developed by the author based on [www.ms.gov.md](http://www.ms.gov.md), statistical data.

Hospital expenditures of Edinet and Riscani DH increased in 2013 compared to 2011 and 2012. Expenditures of Drochia DH had the highest level in 2011, and it fell in the next years.

Analyzing expenditures on component of district hospitals of the development region "North" for 2011-2013, we found that the largest share is made of expenditures on wages.

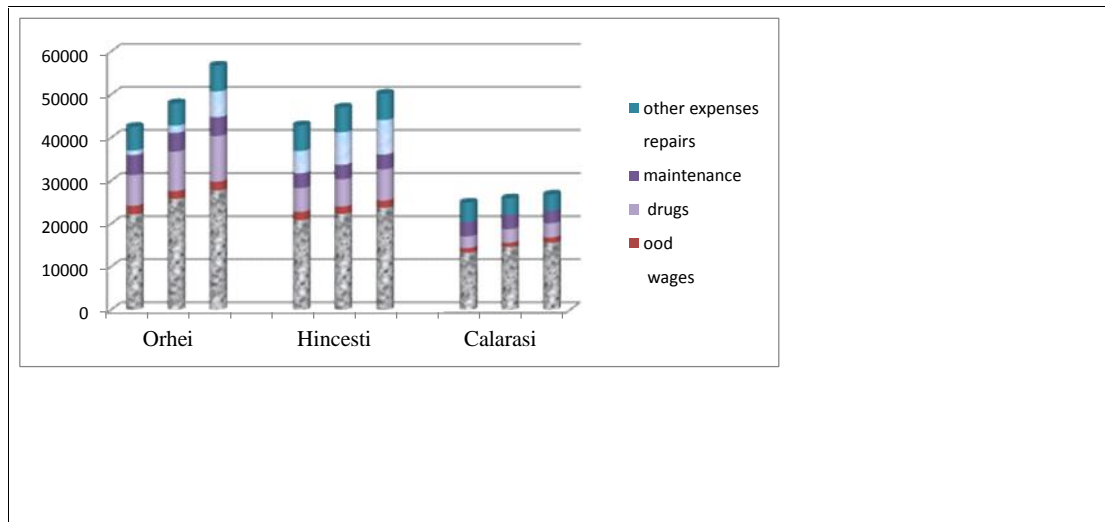
Expenditure on drugs accounted for 13% at Edinet DH, 17% – Drochia DH and 15% – Riscani DH



in 2013. Expenditures for maintenance is an average 8% of total expenditure of district hospitals from the „North” development region.

Major repairs were carried out in Edinet DH in 2011 and in Drochia DH in 2011 and 2013. In this regard, there have been spent money accounting for 200 thousand MDL in Edinet, and in Drochia 15392.4 thousand MDL in 2011 and 289.4 thousand MDL in 2013.

The component other expenses involves equipment procurement and it also includes depreciation of fixed assets.



**Fig. 6. Components of expenditures of the district public hospitals Orhei, Hincesti, Calarasi from the „Centre” development region for 2011-2013**

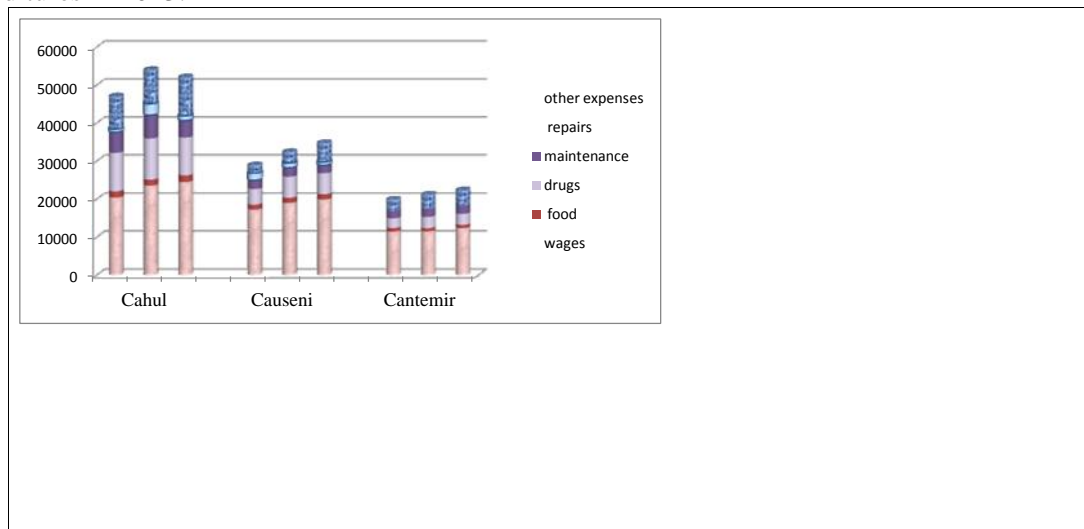
Source: Developed by the author based on [www.ms.gov.md](http://www.ms.gov.md), statistical data.

Expenditures of the district hospitals from „Centre” development region increased in 2013 compared with 2012.

The largest share in total expenditures is expenditures for wages, followed by spending on drugs.

Expenses for repairs are quite significant share in total expenditures and Hâncesti Orhei district hospitals. Following repairs carried decreased maintenance costs by 6% in Orhei. The SR Calarasi repairs were not made in the period.

Spending on food, medicine Orhei is 22%, 18% and 17% RH Hâncesti ti SR Calarasi of total expenditures in 2013.



**Fig. 7 Components of expenditures of the district public hospitals Cahul, Causeni, Cantemir from the „South” development region for 2011-2013**

Source: Developed by the author based on [www.ms.gov.md](http://www.ms.gov.md), statistical data.

Figure 7 presents the expenditure incurred by district hospitals in the development region "South". Expenditures of Causeni and Cantemir district hospitals increased in 2013 compared to 2012. Expenses of Cahul DH decreased in 2013 compared to 2012.

Expenditures for wages hold the largest share in the structure of hospital costs.

As a result of carrying out repairs in Cahul DH and Causeni DH in 2012, maintenance costs decreased in 2013.

Spending on food, medicine accounts for 22% at Cahul DH, 20% at Causeni DH and 17% at Cantemir DH of the total expenditures in 2013.

At all the analyzed district hospitals from all three development regions was found that costs are higher than income.

Insufficient financial resources in the health care system in Moldova are a problem of the first order. As the health care system functionality depends on the financial aspect, it is the basic tool in medical institutions work. Financial resources can be harnessed by rationalizing public financing at district hospitals looking for:

1) optimizing the working expenses of the analyzed district hospitals. This will be possible by reducing the number of beds in Edinet DH. In this context, medical service costs will be reduced at Edinet DH. In Drochia DH 11902 patients were treated in 350 beds, in Edinet DH 11,120 patients were treated in 435 beds. At the same time, the number of hospital bed days also varies – in Drochia DH being 95,216 and in Edinet DH – 88,960;

2) reducing the average length of stay at the hospital from 8 days to 6 days will result in lowering costs for treated cases;

3) increasing the role of local and district hospitals namely the role of founders at the formation of revenues. Currently founder allocations are low accounting for only 1% of the total revenue sources.

#### **Conclusions**

Funding district public hospitals in Moldova proved to be insufficient for 2011-2013, so by applying the directions mentioned in this paper will be made the harnessing of financial resources that will contribute to infrastructure development of the institutions, medical personnel stimulation and finally qualitative medical services.

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## THE ROLE OF BANKING SECTOR FOR STATE'S FINANCIAL STABILITY

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*In terms of global economic disparities caused by financial market instability, the problem of financial security of every state becomes of primary actuality. As being the key intermediary between real and financial sector, banking sector plays an incontestable role in preserving external financial shocks and ensuring the financial security of the state in order to protect the entire economy the consequences. In order to elucidate the domestic banking system efficiency in the distribution of funds in the economy and ensuring stability of the state is analyzed and characterized the evolution of the main banking indicators. As results are determined the main threats regarding the security of the banking sector and measures to reduce their impact are given conclusions and recommendations for minimizing the influence of risk factors.*

**Key words:** financial security, banking sector security, banking system stability.

*În condițiile unor dezechilibre economice globale provocate de instabilitatea pieței financiare problema asigurării securității financiare a fiecărui stat în parte capătă o actualitate primordială. Sectorului bancar, în calitate de intermediar primar între sectorul real și cel financiar îi revine un rol indubitabil în procesul de menținere a securității financiare externe și de asigurare a securității financiare a statului în vederea protejării întregii economii de consecințele acestora. În scopul elucidării eficienței sistemului bancar autohton în redistribuirea fondurilor în economie și asigurarea stabilității financiare a statului este analizată și caracterizată evoluția principalilor indicatori bancari. Drept rezultat, sunt determinate principalele amenințări în adresa securității sectorului bancar și măsuri de reducere a impactului lor, formulate concluzii și recomandări pentru minimizarea riscurilor de influență a factorilor adversi.*

**Cuvinte cheie:** securitate financiară, securitatea sectorului bancar, stabilitatea sistemului bancar.

**JEL Classification:** G20; G21; G29

**Nowadays.** The structure of modern market economy has changed a lot during the last decades. Globalization and advanced IT technologies development creates not only great opportunities for the speedy economic development but also brings serious threats to the security, integrity and economic development of independent states. The main warning is the risk not to integrate to the dynamic flow of these processes, which leads to the transformation of the national economy into a developed one, open for investments and externally competitive.

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Thus, it leads to the significance and importance of the insurance of national and economic security problem. One of the most important aspects of the economic security of a state is its situation on financial sector, its capacity to finance the necessities and with acceptable conditions with financial resources all the financial actors of economy, including governmental agencies. Thus, it has to accomplish fully its main functions for the states' economy. A states' financial system should ensure the existence of a "safety margins" for unusual and extraordinary situations, in order to offer a useful break to reply at threats and to prevent, correct or at least mitigate potential economic-social lost. This beak is useful, especially for public authorities and other economic agents.

**Financial security and banking sector.** Generally, the problem of ensuring the financial security of the state is an important object of study in the academic world in the research of various economic relations. Financial security is the central element of economic and national security. Studying financial security is aimed to identify and pursue a wide range of determinants of banking system stability, which are revealed dangers and raw places within its operation for a better structure and transparency of the operation of all elements of the system.

Government financial security refers to the ability of a financial system to function and grow gradually, to the extent that can withstand shocks from international financial markets. Professional literature defines two specific types of financial security. The first type of security implies a financial system whose monetary system and financial market will maintain their ability to function normally and to develop safely under various international shocks [1]. The second type of financial security requires financial system's ability to resist to external attempts of breach to "financial independence" of the state, by limiting access of foreign financial institutions on local financial markets and the establishment of contribution rates for them. This type of financial security indicate the extent to which financial institutions and domestic financial market can be influenced by international capital markets, and involves two types of manifestation of external threats: one economic and the other one related to the weakness of financial autonomy.

Thus, financial security involves a protection system that would not allow external financial or political factors to arbitrate the sustainability and constant functioning of financial intermediate institutions that are able to organize and modify capital to areas with maximum efficiency. Financial security is an essential attribute of national independence and an essential component of economic security of the state.

A special place in the country's financial system belongs to the banking system; it interacts directly with all sectors of the national economy, solve the main problem of redistribution of funds between individuals and companies, between different branches of national industry and attracts investment for the implementation of innovative programs, including the state ones, etc. Efficient activity of banking system is the main factor of stability and economic security of the country. Ensuring financial stability and security of the state banking system is the major task of the central bank and banking supervision services. Banking system security is important for ensuring economic security of the country, as to its deep dissemination in all domains of economic and social life of the state.

Any deficiency for ensuring the financial security of a banking institution may cause serious distortions in the financial system of the country but also in all branches of the national economy. Thus, the relevance of addressed problem regarding the investment of banking sector with not only key functions of efficient investment process ensuring responsible and sustainable and competitive economic growth guarantee globally national economy and national financial security.

**Moldova banking sector evolution.** In the last 2 decades, Moldova has experienced dramatic changes in the structure of capital, regulation, trade practices and in the structure of economy. Reformation, with major implications in the economy of the new, independent state was the most important task.

Since 1991, the banking system of Moldova is in constant transformation and improvement, and during more than 20 years has registered significant progress. Banking legal framework includes all aspects of commercial banks and central bank activity, it sets the segment of relationships, and responsibilities between financial institutions and customers, it organizes and monitors the comprehensible banking process. The banking operations internationalization and the penetration of foreign capital into domestic banking system started the process of banking regulation compliance with international requirements and it alignment with European best practices by implementing requirements for financial market stability provided by the IMF and the provisions of the Basel agreements.

Financial stability is maintained by suitable regulations of current and potential risks, by effective management of administrative mechanisms and by risk redistribution and ensuring public reliability in financial system.

Those mentioned above have caused the establishment of a competitive, progressive domestic banking system. However, the country's banking system is inefficient, as it does not cover the economic needs, which could create disparities in the financial security of the Republic of Moldova.

The inadequacy domestic banking system in the redistribution of funds in the economy can be shown by following indicators:

1) *The bank assets share to GDP* in Moldova is considered by low financial intermediation effect. In developed countries, this figure rises to a level above 100%, while in Moldova despite a steady increase from 29% to 89% in the period 2000-2014, except for the years 2010 to 2011, years in which it decreased (see figure 1) stays at the low level. For example, in 2011 in Germany this indicator was 326%, in Austria – 336%, in Netherlands – 402%, France – 420% [2].

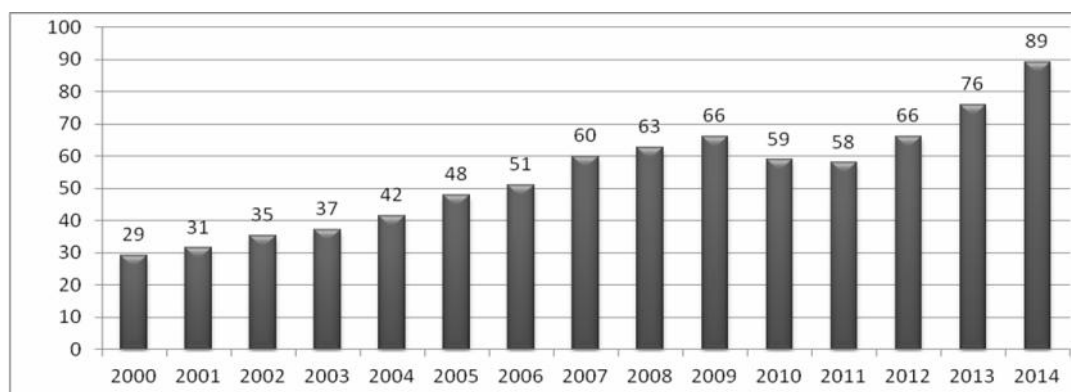


Fig. 1. The share of bank assets to GDP, %

Source: BNM, BNS.

2) *The bank credit share to GDP* is one of the most important indicators of banking sector development because it shows the real sector access to finance which is an important factor for economic development based on investments. The value of this indicator in Moldova shows insignificant contribution of the banking sector in the country's sustainable economic growth (see Figure 2).

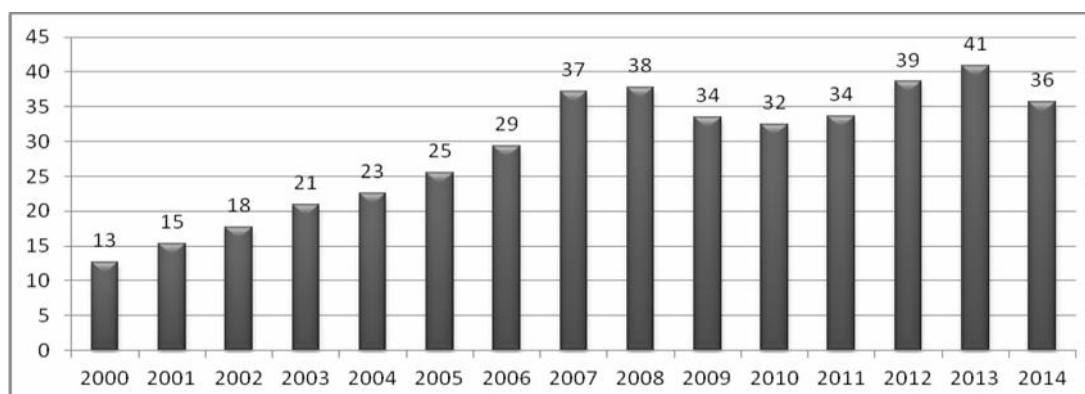


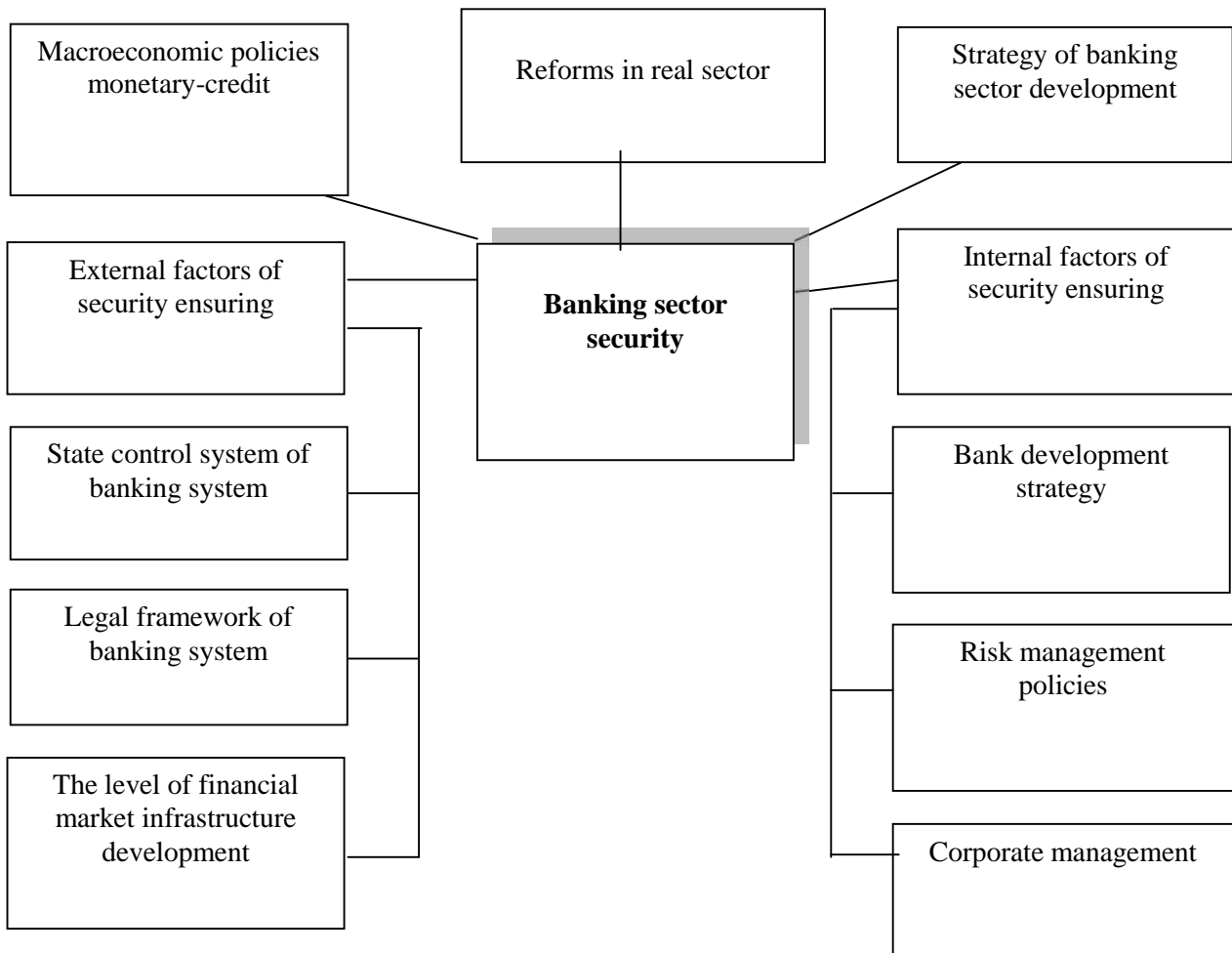
Fig. 2. The loans share in GDP, %

Source: BNM, BNS.

Because of the banking sector passivity, investment level in Moldova is several times lower than in other countries with a similar economy but with a higher dynamic development [3]. In such a situation, the banking system cannot provide cheap long-term investment resources for the economy's real sectors, its lack cannot address the issue of sustainable economic development, GDP growth, entrepreneurship development etc.

**Banking sector security, influencing factors and threats.** Banks enter in a very organic manner into the activity and regulation mechanism of economic activity. They interact with the budgetary process, tax system, and pricing and revenue policy, foreign trade conditions.

Ensuring the sustainability of the banking sector depends on many factors: financial situation in real sector, fiscal policy, a number of other equally important processes that go further than banking activity (see Figure 3).



**Fig. 3. Main factors of banking system stability and security**

Source: Done by author based on [4].

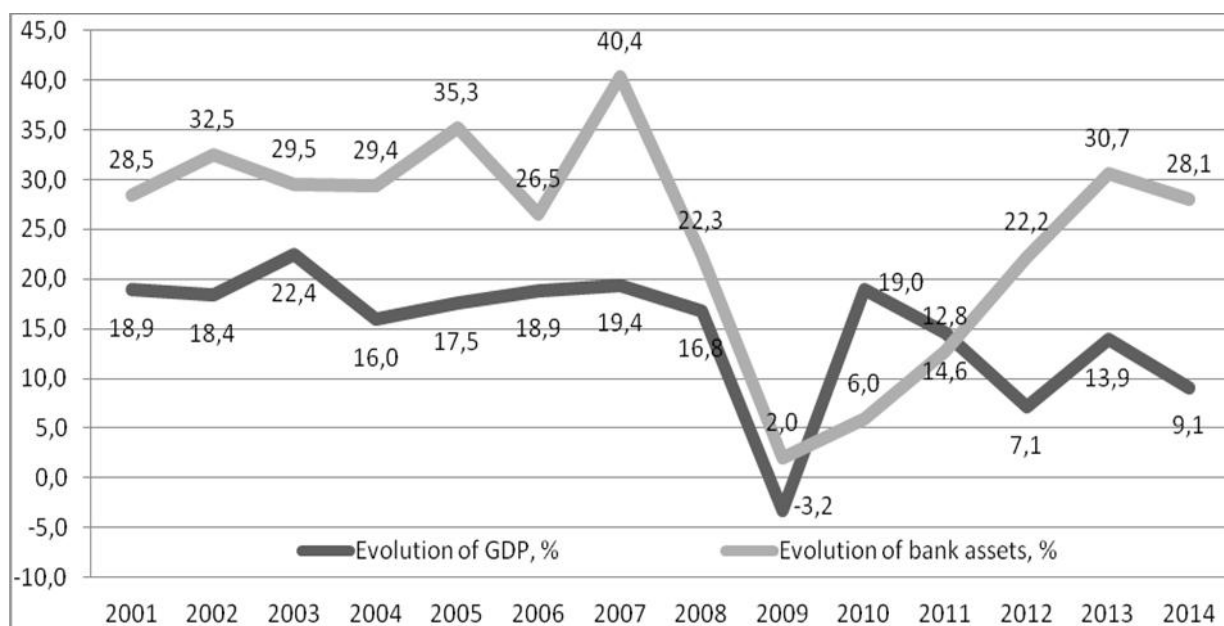
Theoretically, banking sector role in ensuring the financial security of the state is determined by the possibility of its concentration of a large number of threats and risks for economic security and as well, it has a deep infiltration in ensuring the financial interests for the whole economy and businesses and specific organizations. Therefore, the banking sector is an obligatory element that unites and creates opportunities for the interactions of various sectors of the economy; domestic and foreign enterprises, economic interests and the interests of different stakeholders as well as the interests of the country with the global community.

At the same time, as experience proves, the banking sector can work a period in a relative independent sense as to the course of real economy development. The stronger banking system is, the more it will resist to shocks and will work on inertia for a longer period. Thus, the evolution of economic indicators can record opposite parameters of banking system development trends for a certain period. On the other hand, in periods of economic recovery, banking indicators could return to previous levels crisis slower than the real economy.

Even in conditions of high rates of national economy branches profitability, the dynamics of the banking sector, capital market, investment and financial system will record slower indicators, which is due to the massive influence of other factors. The most important factor is a higher expected inflation size and the size of the "shadow economy".

Other factors that may be listed are: "outflow" of foreign capital, evasion of taxes, custom duties, excise duties, etc.; "washing" illegally obtained funds through banks; thefts and misuse of budget funds; underestimating the value of the national wealth; absorption of national companies and entire industries by foreign corporations; inefficient use of reserves and national financial resources.





**Fig. 4. Linking growth evolution of GDP and bank assets in RM, %**

Source: BNM, BNS.

All these factors, affect somehow the efficiency of the financial system. However, in order to achieve a certain level of qualitative changes in the economy (both positive and negative) banking sector growth course will inevitably headed in the same direction as the economy as a whole (*see figure 4*). This phenomenon links to significant threats. During the "relative prosperity" of the banking sector on the background of the negative processes in the real economy, the banking system manages to lose the importance of its functions to directly integrate the interests of all economic agents and cannot affect the threats prevention and offset to those interests. Thus, the banking system is not only a self-destroyer but also becomes a performer, a channel of threats for economic security of the country. Especially, the registered negative trends in the activities of this system have multiplier character and a significant impact on all economic processes.

Thus, the key position held by the banking sector in ensuring sustainable economic growth had its main role in financial and economic security of the state. The organization and stability of the banking system is one of the basic conditions for economic and financial security of the state, stamping at the same time the efficiency of promoted monetary and financial policies.

The main economic factors that influence financial security of a country and its banking sector are the following:

- State political and economic stability, as well as of its neighboring states, with who are maintained significant political and economic relations;
- National currency and promoted economic policies stability;
- The structure of financing sources of banking system, the share of internal and external financing sources;
- The concentration level of banking assets in financial institutions;
- The concentration level of banking assets in certain sectors of the economy;
- The structure of banking institutions' owners;
- The existence of an effective banking supervisory body;
- Low limit of deposit guarantee;
- Diminished liquidity of bank assets.

What about the banking institutions, there may be mentioned certain factors that may cause distortions and imbalances for banking security, as well as mitigation possibilities. Depending on the identified risk, below you may see a try of their structure:

Table 1

**Threats of the banking sector security and impact mitigation measures**

<b>Factors of appearance</b>	<b>Identified risks</b>	<b>Measures to reduce the negative impact</b>
Rapid and unexpected withdrawal of a significant amount of money from banks by a group of depositors can damage bank's ability to pay.	Immediate liquidity risk	Financial institution liabilities diversification for bank solvency regardless of foreseeable behavior of depositors.
Blocking bank assets by other financial institutions.	Counterpart risk	Opening correspondent accounts only in financial institutions with unblemished image. Permanent monitoring of their financial situation and their political relations.
Minimizing fraud ability of big debtors' to pay bank by bankrupting on purpose, may reduce the bank's ability to pay.	Credit risk associated with big borrowers	Monitoring and assessment of bank representatives for large borrowers' management.
The institutions credibility and smooth operation of their services can be threatened by media attacks of information sources in order to discredit the banking institution.	Risk of image	Promoting permanent image bank transparency and financial situation of the bank activity.
Political influences on free capital movement (management account of state enterprises and state organizations, state funds, etc.).	Country risk	Ensuring the independence of monetary funds or minimizing dependence on political, legal provisions in operations of this kind.
Bank elimination from the market of some bank services.	Competitive risk	Achieving a balanced pricing policy, regional economic integration of bank projects.
Banking market dumping.	Risk of product	Continue recovery of bank efficiency and minimizing costs of banking services.
Loss of trained personnel with key functions or their migration to other competing banks.	Risk of personal	Promoting a flexible frame, corresponding staff remuneration and providing social protection to all employees.

**Source:** Done by author.

**Conclusions and recommendations.** Under current conditions for minimizing risk factors, banks should clearly define priorities and strategic partners, continuously monitoring their financial and political activity. From the central bank, it is required a continuous qualitative improvement of supervising banking institutions process.

In order to reduce the influence of media sources to spread false information it would be useful to strengthen the role of central bank in communication and dissemination of information regarding the financial stability, which would be an estimation of banking system financial situation.

Many factors create weakening the financial system and requires Central Bank involvement in all directions:

1) The central bank using its regulatory and supervisory mechanisms may result in: increase confidence in the banking system and promoting savings and investments; return of shadow economy funds into the banking system; improve stability and confidence in the national currency etc.

2) Legislative component, banking market regulators should increase their work for improving the quality of regulatory acts of financial market activity.

Thus, the financial security of the banking sector lies not only on financial institutions but on Government, as well, by promoting systemically and continuously analytic, regulatory and macroeconomic measures.

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**THE ANALYSIS OF THE ART MARKET FROM REPUBLIC OF MOLDOVA  
WITH INNOVATIVE MARKETING ELEMENTS  
(based on the author's interview)**

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*The actuality of this research consists in the less developed of art market in the Republic of Moldova and lack of researches in this domain. The goal of the article is to analyze the art market of the Republic of Moldova with innovative marketing elements.*

*The method of this article is based on interviews conducted with painters, owners of art galleries, art salons were highlighted barriers that hinder the development of the art market in Moldova. The main results are identified ways to overcome and directions for the development of effective marketing that will enhance the country's competitiveness as a whole.*

**Key words:** art market, art business, barriers, Republic of Moldova, deep-structured interviews, art market participants.

*Relevan a acestui studiu constă în subdezvoltarea pieei de artă din Republica Moldova și lipsa generală a cercetării în acest domeniu. Scopul acestui articol este de a analiza piața de artă a Moldovei și elementele inovatoare de marketing.*

*Lucrarea se bazează pe metoda de interviuri cu artiști, cu proprietarii de galerii de artă, saloane de artă, pe baza cărora au fost identificate bariere care împiedică dezvoltarea pieei de artă din Republica Moldova. Principalele rezultate: identificarea modalităților esențiale de depășire a unor obstacole și direcțiile primordiale de dezvoltare a marketingului eficient, care va spori competitivitatea pieei în ansamblu.*

**Cuvinte cheie:** piața de artă, afaceri în artă, bariere, Republica Moldova, interviuri profund-structurate, participanții pieei de artă.

**JEL Classification: L83; N3; N30; O16; O52; Z11; Z10**

**Introduction.** The development Moldovan art-market is hampered by multiple barriers, with which it faces at different stages of its formation and development. For identification of the obstacles standing in the way of Moldova's art market were conducted marketing researches based on interviews with various its members: of the Exhibition Center of the Union of Artists of Moldova "Constantin Brancuș", members of the Union of Artists, of the National Art Museum of Moldova, collectors employees of "L" Gallery, "ARTIUM" Gallery, Sgallery Gallery, AD ART GALLERY, "Alexander" Art Gallery, Art salon "MolDeco".

The respondents were also artists who are interested in the implementation of the research and

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developments of the PhD candidate. Between February and June 2014 were conducted 25 interviews, in January 2015 each interview lasted in average up to two hours. The selection of the expert samples was carried out in continuous manner.

As an auxiliary data collection method that was used for the research is - observation – that was conducted in the galleries of the capital [2]. These observations are recorded in the table on such attributes: location, date of foundation of the gallery, form of work organization – exhibition, format of salon, openness and accessibility of the gallery to the public, price openness.

In this study, as a main method of data collection was used the expert interview. Its goal was - the identification of main issues, which hamper the development of Moldova's art market and implementation of innovational marketing in art-business of the country, the determination of ways and directions of development the effective marketing.

**Guide for conduction interviews.** Within the framework of the research was developed *Guide for conduction interviews* with more than 20 in-depth questions. The questions identified in the guide, were divided into two blocks: first – regarding the art market, second – application of marketing for effective promotion of the artists' pictures.

**The first set** of questions was aimed at elucidation of the concept of the art market[1], namely, whether it exists in reality; what the development trends and the current state; the sources from which respondents are informed about the development of the art business and the art market.

Answers about the concept of the art market among the respondents were very different. "Art Market – this is the place where the sale of paintings it is taking place"; "it is – a market where interact artists and clients on the sale and purchase of paintings"; "This is – a part of the common market", "market where deals are made between the artist and the client", "A place where paintings are sold, auctions are conducted, experts art dealers work".

The views concerning the state of the contemporary art market and factors with impact on its trends were contradictory. Thus one group of respondents claimed that in the country operates the art market, but it is poorly developed, are created only some of the elements of its infrastructure: galleries, art salons. Are held periodically exhibitions of artists, the state provides some cultural programs to support the work of artists. The country has a small number of major collectors.

Other group of respondents claimed that "contemporary art-market is not developed at all. First all main branches of the economy should be developed, and only after based on that should be done some work for development of art and sale of paintings".

On the question of obtaining information on the development of the global art market, most respondents replied that they "find out all the news from the Internet - portals". Most popular are the following websites: [www.Artprice.com](http://www.Artprice.com); [www.Artinvestment.ru](http://www.Artinvestment.ru); [www.ArtFacts.Net](http://www.ArtFacts.Net), [www.picture-russia.ru](http://www.picture-russia.ru); [www.moldovArt.com](http://www.moldovArt.com); [www.arta.md](http://www.arta.md).

To the question "Can it be said that the situation with sales artworks today is "dead" and is it true that on the art market there are no new customers?", "The majority of respondents answered: "We cannot say that the situation is "dead" because the paintings are sold on daily basis. But, the question is, at what prices. Many residents buy for their houses paintings at affordable prices of street exhibitions or Chinese photocopies in beautiful frames for the interior of their homes".

On the question of how to adapt international experience to the conditions of our country for the development of the art market, respondents gave the following answers: "we need a good legal framework, which clearly establish the rights of the art market players, their social security; government support to the artists by purchasing paintings from artists in the fund of the country; pensions, their social insurance, provision of studios, conducting of annual auctions; release of free directories by galleries, the presence of experts and of appraisers of art works".

When asked why the purchase of paintings by the respondents were given different answers. In our view, interest represent following:

- works of art are purchased for profitable investment;
- paintings serve for decoration purposes (office, home);
- paintings are bought for collections;
- as a gift to loved ones: family, colleagues, superiors;
- for money laundering, as a fashion artist painting in the future could cost tens of thousands of euro;
- purchase contemporary art is fashionable and prestigious;

- having nothing to do else;
- do not know why they are buying paintings.

On the question: "What do you think is required for development of the art market in our country?" respondents answered that "it is first necessary to develop a law that made it possible for artists to create and to receive for their paintings a good reward, and to other market participants – experts, art dealers, restorers – have a job. "This is all necessary assistance and protection required from the government at legislative level.

Asked about the prospects of development art market from Republic of Moldova, many respondents answered that "do not see any prospects for its development in the next 5-7 years, until the country enters the EU. Market in the country can be developed, but only with the support of the state, individuals, foreign donors. For the development of the art market capital needs an audience that would be interested in developing and maintaining their local artistic heritage. It is necessary to actively use the Internet new sites on art, art spaces and other innovations".

**The second set of questions in the Guide** was devoted to implementation of marketing activities by participants of the art market: where should be the marketing conducted at, whether is needed its implementation and so on [3].

The respondents' answers were almost the same: "Today marketing in our activity is carried out from time to time and only when funds are available". Some respondents could not answer this question.

About the reasonability of implementation of the marketing on the R. Moldova market of artworks was received different answers: "Now art is estimated expensive: paintings can cost millions of dollars". Therefore, this sector should be actively developed in the country and in the future should be conducted serious market research. Or "Do not even think about it".

According to respondents' answers to this question was clear enough about the low level of interest of R. Moldova artists in the implementation and use of marketing.

When answering to the question: "What techniques and marketing tools should be used for the development of the art market in the country?" the researcher faced with the fact that for some participants the concept of "marketing" and, in particular, innovation it is not familiar at all. Also are not known forms and methods of marketing tools, which is why almost everything of this is not used in the galleries. "R. Moldova collectors keep their interests in the shade and talk with the artists directly, without galleries. They do not need marketing".

Other respondents believe that "an important marketing tool is the implementation of a plan of paintings and evaluation of the art market. It is necessary to motivate employee introduction of marketing. It is necessary to create special small marketing firms that would be involved in the promotion of Moldovan paintings into foreign markets".

On the question of the difficulties encountered in the implementation of marketing when promoting artistic production, respondents had fairly short answer "there is no marketing in this area, financial difficulties, unwillingness of implementation of innovations".

On the question regarding use of innovative marketing elements for the effective functioning of the Moldovan art market, the majority of respondents were unable to give an answer, because they do not know what "innovative marketing" is. Only a few respondents said that "perhaps we are talking about online sales, online exhibitions, biennials and fairs, which were held every year in the country and gained great popularity among artists and collectors".

On the question whether and how to integrate the Moldovan market of artworks in the world market in the next 5 years, respondents said that "The most promising are: close collaboration between Moldovan participants and international art markets in the joint international exhibitions, round tables; participations in the prestigious Biennale fairs". However, they believe that the artists need to focus more on foreign art lovers.

#### **The results of the interviews with the participants of the Moldovan art market**

Summary of interview results allowed revealing the possibility of development of R. Moldova art market and analyzing the main barriers faced by participants in the art market as a result of their activities.

To the main opportunities of country art market development were classified as follows:

- The country it is elaborated and functions legislation that regulates the development of culture. In particular, the Law on Culture Nr. 413-XIV of 27.05.99.

- Were created and still work organizations – intermediaries on the art market. They have already achieved modest, but positive results. This is primarily: the Union of artists, galleries, art salons.



There hold annual exhibitions, biennales, operates a number of R. Moldova art web sites.

➤ There are some potential artists, that consist a sufficiently impressive number. For example, the Union of Artists of R. Moldova in 2014 consisted of 436 members.

➤ In the artistic environment is slowly starts to occur comprehension of necessity for the introduction of the R. Moldova art market marketing, including of use of its elements in paintings promotion and building of business.

➤ In the past three years, some artists, mostly young, came to understanding of the need to implement the innovative marketing: new technologies and materials, use of the Internet: online exhibitions, online auctions for their business growth. Appeared possibilities of external funding for cultural projects: organization of exhibitions by participating in programs of the European Union, for example, the program "Horizon 2020".

All of these capabilities reflect the initial level of the formation of innovative marketing - support, but they are actually present in a creative environment.

By interview method were identified and analyzed **barriers**, which prevent effective work of the R. Moldova participants of the art market. The most significant are the following:

➤ *Poorly developed legal and regulatory framework.* In particular, the Law on Culture Nr 413-XIV of 27.05.99 does not regulate the key concepts of the innovation process on the art market, does not define art-business and its classification.

➤ *Lack of financial capacity is a barrier* to all sides of the art business: artists and intermediaries. Lack of financial resources is the greatest barrier for artists, who want to implement innovative marketing to promote their artworks on the European art market.

➤ *Complexity of the search of workers with the necessary qualifications.* On the art market staffing problem is especially actual and relates to different categories of staff: experts, appraisers, specialists in organizing and conducting auctions.

➤ *Lack of professionally trained staff* in this field exists in the intermediary institutions, whose employees do not have extensive knowledge in the field of art, to organize effective operation of its institutions.

➤ *The complexity of finding a sponsor or dealer* for artists, who are interested in promoting their paintings outside of Moldovan art market.

➤ *Lack of economic incentives for artists* to implement marketing. Foreign experience of European countries shows that there is a direct relationship between the presence of state support of these processes and the results achieved.

➤ *Lack of knowledge and skills of most artists to promote artworks* on the market. It is necessary to educate young artist's entrepreneurial skills and marketing to promote their products, efficient use round-tables organizations and seminars to present their art projects.

➤ *High Risk Investment in the art market* inhibits the development of R. Moldova art business. With an overall unfavorable business environment in the country, characterized by unpredictability, collectors and art-dealers prefer not to increase their own risks.

➤ *The lack of information* that could contribute to the development of the art market and the introduction of innovations in it. Thus, R. Moldova artists and other participants require information at the stage of finding a partner. They miss information on external funding sources.

The results of research show that a significant part of all problems and errors, when bringing artworks to market, is connected to marketing component or errors in the field of marketing activities.

This is mainly weak study or total absence of marketing strategy in presenting a unique artistic product and its sales channels. Therefore, galleries and art agents need to pay special attention to marketing support for the paintings on the market and to innovation marketing.

To describe the marketing situation on the art market, we carried out SWOT analysis of this sector. Drawing up a marketing program designed to attract and most complete customer satisfaction, we started with a comprehensive study of the market situation, as well as consideration of opportunities and threats that may arise in the art market.

Based on the SWOT analysis of the marketing environment of the art market were developed **recommendations** for its development and introduction in its sphere of innovative marketing, which are as follows:

- improvement of legislation and monitoring the execution of accepted norms. Providing in current law definition of art market, innovative marketing, art-business;

- development a national program aimed at innovative development of the art market, which will be designed to teach participants the necessary knowledge in this sphere. For these purposes, should be involved the European Funds for the development of culture;
- establishment of a Fund for the development of creativity for artists. Resources gained from activity of the fund are reasonably to be send in support of outstanding R. Moldova artists as well as creative development of young generation. In the formation of the Fund may participate R. Moldova authorities and foreign art lovers.

### **Conclusion**

1. Obtained data of estimation are based on subjective opinion of the art market's participants. Estimates reflect more negative trends and problems in the art market than they actually occur in reality.
2. The estimation results can serve as a starting material to justify and improve policy in the field of art market of the country.
3. A significant part of all problems and errors, when bringing to market artworks, is connected to marketing component or errors in the field of marketing activities. This is the total absence of marketing strategy of presenting a unique artistic product and its sales channels. Therefore, galleries and art agents need to pay special attention to marketing support for the paintings on the market or to innovation marketing.
4. The results of the interview can be used in elaboration of recommendations for the development of the R. Moldova art market and to introduce the innovative marketing in this area, as well as serve as a starting material to justify and improve policy in the field of art market.

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## FINANCING SME FUTURE DEVELOPMENT

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*The paper highlights the problems faced by the SMEs in accessing adequate financing as one of the most significant barriers of the sector. Financial access is critical for SMEs' growth and development.*

*At the same time, the author emphasize that there is no unique way of financing SMEs. The need depends on the stage of maturity and size of the enterprise.*

*In order to facilitate the SME access to finance it is necessary to adapt the best international practices and to adapt them at the local condition.*

*Article aims to present microfinancing as a tool that could improve the SME access to finance, thus contributing to the economic development of the country by creating new jobs, new products and services.*

**Key words:** SMEs, access to finance, microfinance, development.

*Prezenta lucrare evidențiază faptul că problemele întâmpinate de IMM-uri în accesarea surselor de finanțare sunt constituite una dintre principalele bariere ale acestui sector. Prin urmare, asigurarea accesului la o finanțare adecvată este o condiție imperativă pentru creșterea și dezvoltarea IMM-urilor.*

*În același timp, autorul subliniază faptul că, în prezent, nu există o metodă unică și universală de a finanța sectorul întreprinderilor mici și mijlocii. Fiecare companie are nevoie de finanțare diferită de finanțare, influențată de etapa de dezvoltare, mărimea, sectorul în care activează etc.*

*Pentru a facilita accesul IMM-urilor la finanțare trebuie adoptate cele mai bune practici internaționale și adaptate la condițiile locale de dezvoltare.*

*Studiul își propune să prezinte microfinanțarea drept un instrument care ar putea îmbunătăți accesul la finanțare al IMM-urilor, contribuind, astfel, la dezvoltarea economică a țării prin crearea locurilor de muncă, elaborarea de noi produse și servicii.*

**Cuvinte cheie:** IMM-uri, acces la finanțare, microfinanțare, dezvoltare.

**JEL Classification:** D01; D04; D21; D14

**Introduction.** SMEs play a key role in economic development and make an important contribution to employment and GDP. Financial access is critical for SMEs' growth and development. In their early stages of development, SMEs rely on internal sources of funding, including the owner's savings, retained earnings, or funding through the sale of assets. As firms start expanding, external sources become more important and their availability can determine the firms' growth possibilities. External finance is positively and significantly associated with productivity. Conversely, financing from internal funds and other informal sources is often negatively associated with growth and performance.

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However, access to finance remains a key constraint to SME development, especially in emerging economies. Access to finance is disproportionately difficult for SMEs in least developed countries, with 41 percent of SMEs in reporting access to finance as a major constraint to their growth and development, as compared with 30 percent in middle-income countries, and only 15 percent in high-income countries [1]. Access to finance through bank loans not only decreases with the level of country income, but also tends to be more concentrated among large borrowers.

Improvements in access to finance for SMEs do not depend on credits alone, as they can be achieved through other financial tools as well.

#### **Access to finance of the sme sector**

There is evidence that, in developing economies, SMEs could contribute more to economic development than they currently do. SMEs tend to be smaller in developing countries, suggesting greater constraints to growth, including financial constraints.

Recent World Bank research using a database for 99 developing countries, found that small firms are important contributors to total employment and job creation, but that small firms also have lower productivity growth than large firms. In other words, while SMEs employ a large number of people and create more jobs, their contribution to productivity and growth is less clear.

Financing SMEs requires both financial resources and knowledge about the sector. However, financial institutions, often, know very little about SMEs and lack the specific risk management skills, suitable products, and term liabilities to finance SMEs. On the demand side, SMEs frequently lack the required financial data, business plans, marketing tools, and sufficiently powerful projects to convince financial institutions to provide adequate funding.

A functioning financial infrastructure reduces the information asymmetries and legal uncertainties that increase risk to SMEs and constrain the supply of finance. However, SMEs suffers from the lack of a financial infrastructure, including auditing and accounting standards, credit registries/bureaus, etc. A weak financial infrastructure is a huge challenge for SMEs, as tracking financial information builds a credit history and functioning collateral regimes reduce adverse selection and moral hazard [2].

Small enterprises, new or existing, that face problems in approaching finance providers need various financial schemes and lines. These vary from microcredit through public credit guarantee funds and mutual credit guarantee associations to venture capital and others. There is no unique way of financing SMEs. The need depends on the stage of maturity and size of the enterprise.

Improvements in access to finance for SMEs do not depend on banks alone, as they can be achieved through a range of non-bank financial institutions (NBFIs) as well. NBFIs of different types provide a wide range of services, including: hire purchase transactions such as leasing of machinery or equipment; the factoring or discount purchasing of accounts receivable and other forms of supply chain finance; and new equity to invest in companies. Provision through NBFIs can be enhanced by reforming tax, legal, and regulatory environments, and by supporting the introduction of technological platforms that support a wider variety of financial products and services to be developed, drive down the costs of financial access, and reach previously untapped markets.

The insufficient supply of finances is a major issue, particularly for business creators who are unemployed, women or from ethnic minorities. Improving the access to finance is therefore not only an issue of entrepreneurship and economic growth, but also one of social inclusion.

In 2010, the European Commission introduced Europe 2020 [3], a strategy for smart, sustainable and inclusive growth with higher levels of employment, productivity and social cohesion.

Financial instruments are defined as any tools that are used by either firms or financial intermediaries to acquire or intermediate funds. Clients with illiteracy, lack of regular income and bad credit histories face serious difficulties in getting bank loans, especially when starting a business.

#### **Microfinancing: an efficient tool for sme development**

Under Europe 2020, microcredit has become one of the key financial tools through which small businesses can improve welfare.

Microfinance institutions represent a good source of financing for small enterprises because they cover rural and semi-urban areas where the banking system is absent. They also provide loans to non-qualified businesses and enable them to get bank credit.

“Microfinance” is often defined as financial services for poor and low-income clients offered by different types of service providers. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as “microfinance institutions” (MFIs) [4].

These institutions commonly tend to use new methods, developed over the last 30 years, to deliver very small loans to borrowers taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

More broadly, microfinance refers to low-income households that need permanent access to a range of high quality and affordable financial services offered by a range of retail providers to finance income-producing activities, build assets, stabilize consumption and protect against risks. These services include savings, credit, insurance, remittances, and payments and others.

Microcredit addresses the fact that the self-employed, business start-ups and small enterprises are, usually not bankable and they need a different access to credit. It has a particular focus on, but is not restricted to, groups with limited access to the conventional credit market. Examples include female entrepreneurs, young entrepreneurs, entrepreneurs belonging to a minority group, entrepreneurs with a disability, sole traders, etc. Commercial banks are reluctant to give loans to the poor because they believe that they will not return the loan. Special financial intermediaries created by charity organizations, socially committed helpdesks and group lending cooperatives are, in general, called Microfinance Providers. Business starters and self-employed, especially from vulnerable groups, are thus able to request modest amounts from these Microfinance Providers. The most popular microloans are less than €5,000 and they:

- ✓ consists of microcredit programmes with social orientation
- ✓ includes microsaving, microinsurance, remittance transfers
- ✓ provides training, advice, counselling, coaching.

Microcredit providers (MFIs) comprise savings banks, cooperatives, credit unions, foundations, microcredit banks, different types of not-for-profit associations, microfinance banks and commercial banks. MFIs are categorized according to their target groups as **non-bankable** (mainly financial and socially excluded persons) and **bankable entrepreneurs** (traditional start-ups and already established microenterprises). However, the two groups can take on each other's target clients.

In order to improve access to finance of the small entrepreneurs, the European Commission identified four priority areas:

- i. improving the legal and institutional environment in the Member States;
- ii. changing the climate in favour of employment and entrepreneurship;
- iii. promoting best practices;
- iv. providing additional financial capital for microfinance.

The EU perceives microcredit schemes as a way of encouraging social inclusion and entrepreneurship through self-employment. As a result, EU microcredit schemes target women and minorities. In the EC Communication, "A European initiative for the development of microcredit in support of growth and employment", microcredit is defined as the extension of very small loans (microloans) to entrepreneurs, social economy enterprises, employees who wish to become self-employed, people working in the informal economy, the unemployed and others living in poverty who are not considered bankable. Although this definition of microcredit is based on social objectives, the European definition had been deliberated upon by a high density of banks and is dependent on a segmentation of the market (Nowak 2007).

Today, there are three main drivers of the microcredit schemes in the EU:

- i) enabling an institutional environment for microcredit and microenterprises,
- ii) financing microcredit institutions through grants and market resources so as to enable them to become sustainable in the long-term, and
- iii) the extension of best practices.

There is a paradigm change in the creation of economic and social activities. Through microcredit, the unemployed and the poor become creditable. The economic power engendered by microcredit creates a socio-economic power that generates income and lifts the poor out of poverty.

Microfinancing can be used to reduce poverty and encourage the entrepreneurial unemployment to return to the labour market. However, the majority of micro and small enterprises still cannot apply to financial institutions for aid, in spite of their best efforts. Government policymakers and the financial elite do not understand that microcredit facilities perform the important role of fighting poverty and fostering social inclusion through job creation and self-employment.

Well-functioning microfinance systems are vital for the prosperity of people from all income levels, as well as the long-term growth of vibrant national economies.

Creating efficient systems that formalize microfinance services allow for greater circulation of funds and higher rates of investment.

The European Investment Fund (EIF) categorized four major trends in the demand for microfinance:

- the demand of microloans has had a positive impact on small enterprises,
- the demand for job creation support to avoid unemployment and exclusion,
- the demand for funds to maximize the contribution to the informal sector and the public; the demand for micro-social loans to minimize the adherent effects of immigration (Carpenter 2007).

### **Conclusion**

The lessons learned from european experience regarding microfinancing emphasize following ideas:

1. Microcredit addresses the need to provide access to credit to the unemployed, self-employed, business start-ups, and micro and small enterprises.
2. Microcredit is a key policy tool for job creation, employment creation and poverty reduction. It does so by providing loans and business development services to entrepreneurs that can benefit from them.
3. Microcredit is an instrument of democratization and economic development, as it allows people to manage their destinies.
4. Through microfinance intermediary institutions, microcredit is a bottom-up approach of the local economic development process.
5. Commercial banks are reluctant to give loans to the poor because they are deemed to be unbankable and unlikely to repay loans.
6. There is a paradigm change in economic and social activities: microcredit can make the unemployed and poor creditworthy. Credit can help these people achieve economic power, generate income and lift them out of poverty.
7. Specialized financial intermediaries created by private investors and charity organizations, socially committed help desks, group banking corporations, ethical banks and non-bank financial institutions use microfinance to fund the unemployed and enable them to become self-employed, business starters and microentrepreneurs.
8. There is no single policy model for microfinance promotion.

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