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R&D POLICY IN THE REPUBLIC OF MOLDOVA AND SMART SPECIALISATION APPROACH: CONVERGENCE OR PARALLELISM?

Gheorghe CUCIUREANU¹, PhD
Information Society Development Institute, Republic of Moldova

Smart Specialisation is a strategic approach to economic development through targeted support to research and innovation. It is a key element in the 'Innovation Union' flagship initiative of the Europe 2020 agenda for smart, sustainable and inclusive growth. The paper is focused on analysis (especially through desk-review and observations) of the existing R&D framework in our country, to see to what extent science policy can lead to smart specialization in the Republic of Moldova. As a result, we have formulated five major challenges for convergence of the national R&D system to smart specialization.

Key words: smart specialization, R&D framework, science policy, innovation, regional development, structural challenges.

Specializarea inteligentă reprezintă o abordare strategică a dezvoltării economice prin sprijinirea specifică a cercetării și inovării. Ea este un element-cheie în cadrul inițiativei emblematice „O Uniune a inovării” aflată pe agenda Europa 2020 pentru creștere inteligentă, durabilă și favorabilă incluziunii. În articol este analizat (în special prin desk-review și observații) cadrul existent de cercetare-dezvoltare în țara noastră, pentru a vedea în ce măsură politica științei ei poate conduce la o specializare inteligentă în Republica Moldova. Drept rezultat, sunt formulate 5 provocări majore pentru asigurarea convergenței ei dintre sistemul național de cercetare-dezvoltare și conceptual de specializarea inteligentă.

Cuvinte-cheie: specializare inteligentă, cadru de cercetare-dezvoltare, politica științei ei, inovare, dezvoltare regională, provocări structurale.

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Introduction. Smart Specialisation (S3) is a strategic approach to economic development through targeted support to research and innovation, which implies concentrating resources on key priorities based on the economic potential of region or county rather than spreading efforts and investments too thinly. Smart Specialisation involves a process of developing a vision, identifying competitive advantages through an entrepreneurial process of discovery, setting strategic priorities and making use of smart policies to maximise the knowledge-based development potential of region or country [9]. Europa 2020 agenda sets out, through the 'Innovation Union' flagship initiative, a comprehensive innovation strategy to enhance Europe's capacity to deliver smart, sustainable and inclusive growth [5]. It highlights the concept of Smart Specialisation as a way to achieve these goals. Moldova as an associated country to the EU should strive to implement this approach. In this context, we analysed to what extent the current R&D framework fits smart specialization.

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General national framework. Moldova is a country in Transition to an efficiency-based economy [6] oriented towards European integration. In 2014 major progress was achieved in Moldova's rapprochement with the EU. EU is the biggest trade partner. Critical to achieving Moldova's development priorities, and to deeper political association and economic integration with the EU, are considered improved governance, stronger public administration, independent judiciary and strengthened rule of law. On the other hand, Moldova is a small country with:

- 12% uncontrolled territory (breakaway region Transnistria),
- the lowest GDP per capita in Europe - \$ 2,234 in 2014. The GDP is in absolute figures quite low and depends highly on remittances from Moldovans abroad (26,1% of the GDP) [2].
- with about 30% of the labour force, Moldova's emigrant population is in relative terms among the largest in the world. However, remittances are expected to decline [2].
- The political situation has become fairly unstable in the last years (three governments within a year). Corruption is an important problem for the country and has worsened in recent years: Moldova ranks 103th of 168 in the last Corruption Perceptions Index, for 2015.

Agriculture remains a mainstay of the economy and a major income source for the bottom 40% of the population, although agricultural output is volatile and low market competitiveness is a key bottleneck [13].

Strategic framework for R&I. Moldova's R&I strategic vision is described in the Innovation Strategy and the R&D Strategy, which contain some elements of a more strategic, coherent and integrated framework for promoting R&I. However even if some elements of smart specialisation approach were used in R&D and Innovation strategies (ex., SWOT analysis), they are not set regional / thematic specialisations. The strategies do not meet the requirements of S3 strategies (ex., stakeholders (entrepreneurs, universities) being poorly involved in developing Innovation Strategy. In the case of the R&D Strategy is mentioned that was made a foresight exercise, but stated objectives are not complemented always with appropriate measures. From the thematic point of view, the Strategies cannot be considered as specialisation strategies. The need to use smart specialisation approach is still poorly acknowledged.

From the **thematic** point of views, In R&D Strategy the six societal challenges of Horizon-2020 are mentioned as priorities [12]. Five strategic directions of science and innovation for 2013-2020 are approved by Parliament [11]. The R&I strategies contains an explicit orientation towards addressing major societal challenges. But, the declared strategic or priority directions are so broadly formulated that enframe any scientific or technological activity. The well-defined science and technology areas (niches) to focus financial efforts are missing. This makes difficult orientation of R&D towards supporting competitive area of economy or to encourage the pursuit of technological specialisations. Strategic priorities formulated in loose terms coupled with insufficient detailing of priorities during calls for proposals cannot ensure the concentration of resources in the best R&D areas.

At **regional level**, there is a great difference in the R&D governance and activities between the capital Chisinau, which is inhabited by 21% of the country's population and generates approximately 50% of the GDP, and the rest of the country's territory. The share of R&D personnel outside the Chisinau of the overall Moldovan R&D personnel was 5.2% [10]. In the last period it was developed a framework for regional, but this framework includes insufficiently innovation and smart specialisation aspects.. Meantime, these support tools are not used for funding R&D and innovation activities. Moreover, documents relating to R&I poorly take into account social, economic and territorial disparities: local authorities have some rights in R&D policy, but there is no specific regional approach to the design or implementation of research policy and there are no special regional bodies for R&D development.

The current structure of the R&I system is based on the Code on science and innovation of 2004 [1]. The Academy of Sciences is a key player (fig.1): the main policy-making institution and fulfilling the role of a ministry of science (the president of ASM is a member of the government). Through the annual partnership agreement between the Moldovan Academy of Sciences (ASM) the government, the government has delegated the competence to carry out the state policy in the field of science and innovation to ASM.

At the operational level, the ASM is also the main policy implementation body. It is a research and innovation funding agency, the main research performing organisation in the country, and it takes also care of higher education in the frame of its own university. Nearly all public R&D and innovation funding programmes are managed by the ASM through its subordinated management bodies. Important implementing agencies outside the ASM structure are: the National Council for Accreditation and

Attestation (CNAA) accredits research organisations in Moldova, which is relevant for institutions wanting to become eligible for public R&D funding; the State Agency on Intellectual Property of the Republic of Moldova (AGEPI), which takes care of protection of intellectual property and the Organisation for SME sector development (ODIMM), which is the agency of the Ministry of Economy.

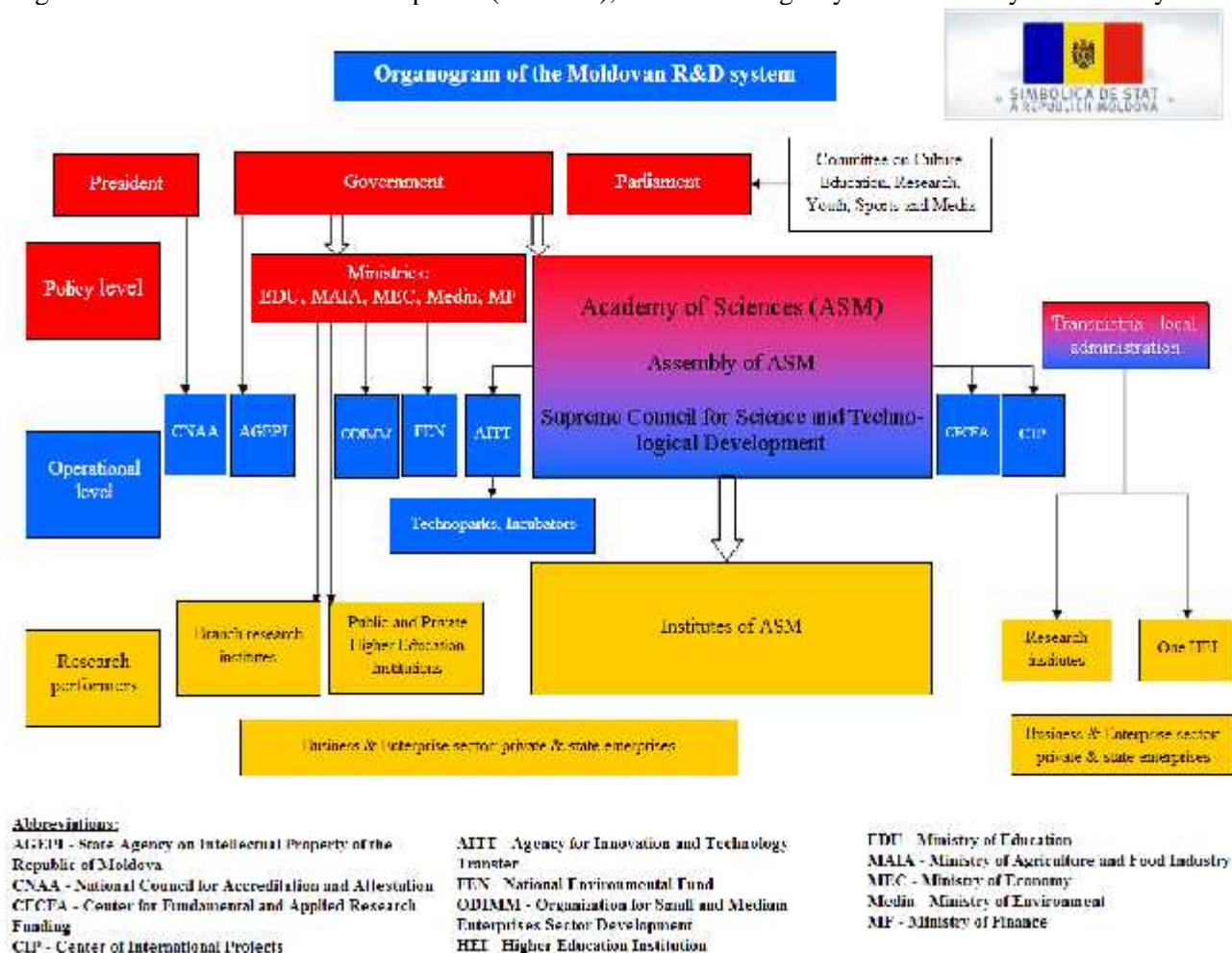


Fig. 1. Structure of the national R&D system

Source: Elaborated by author [2].

Moldova's R&D and innovation system is centralised and has a rather academic character. This is a stable framework for promoting R&I policies for over 10 years, which clearly defines roles in the design and implementation of actions. It ensures the autonomy of research community, the current model being seen as „protection” against frequent political changes. It also give the possibility of pro-science lobby by the president of ASM as he is a member of the government. However, the current model of governance does not ensure the involvement of all relevant stakeholders (for ex., the private sector is not represented in Assembly or Supreme Council). The low level of participation of the private sector in the governance, and in innovation activity in general, means that the ASM has only limited feedback from companies on the effectiveness and relevance of its activities and policies.

R&D policy is weakly linked with other relevant policies for innovation and the mix of these policies is not yet sufficiently geared towards fostering innovation and strengthening the knowledge base. There is an obvious risk that such an innovation system is not very efficient and slow to respond to emerging topics. The R&I have practically no role in the national development objectives identified in strategic planning documents. It is difficult to effectively manage conflicts of interest in conditions of concentration at the Academy of policy formulation and priority setting, as well as policy implementation and evaluation. Inefficiency of governance model is mentioned in international (OECD, UNESCO, EECA Policy mix) and national (Expert Group, Court of Auditors) reports.

R&I Funding. The national R&D system is chronically underfinanced (only 0,35% of GDP). The understanding of the importance of R&D as a basis for increasing of the competitiveness of the economy and for lowering the dependence of the country on remittances is rather low in the society. Low funding of R&D is caused largely by reduced involvement of other sectors, especially of the BES. Accurate data on funding from BES are missing. Modest investments of the business sector in R&D are determined largely by the structure of the economy and distribution of the FDI stock in Moldova which are not encouraging for R&D performing activities. The industry is focused on trading and low-tech products. Low costs continue to be the main source of competitiveness.

The government sector dominates the performance of R&D; most of the resources (70.0%) are spent within the ASM and branch institutes of ministries. The universities performs around 10% of research. Theoretically, all university teachers must carry out R&D, but usually the staff is overwhelmed with teaching duties and only a few conduct substantial research. The business-enterprise sector performs 20%, but no clear picture of research performance in this sector is available.

Government R&D funding is allocated mainly in the form of grants. The main funding instrument is so-called Institutional projects, which allocate in a semi-competitive mode more than 70% of public funds. It is used for allocating basic funding to research institutions. Under the current legal framework this funding instrument is implemented on a competitive basis, through calls for proposals and submission of projects proposals. In practice this scheme is not competitive. Proposals do not compete with each other and the funding amounts are more or less pre-defined. The share of competitive funding schemes varies within 10-15%. The low level of truly competitive funding leads to a certain conservation of structures. It will therefore be important to increase the share of competitive funding, to focus more on strengthening available excellent competencies, to focus on national priorities and on future oriented emerging priorities. The trend in the last years was of increasing the share of institutional funding at the expense of other funding instruments.

Distribution of public R&D funding on thematic priorities. Most finances are allocated to Innovative materials, technologies and products and Biotechnology (fig. 2). In spite of these thematic priorities, most measures of R&D policy in the Republic of Moldova are generic and the procedures are identical for funding instruments, evaluation, monitoring, and reporting for all thematic priorities. Only the State Programms for R&D are thematically focused. However, the topics in the programmes are kept rather broadly and the government funding allocated to this measure is modest. The financing of R&D programs decreased in the past five years more than 3 times, reaching €0.2m in 2014 [10], which represents only 1.1% of public funding for R&D in Moldova.

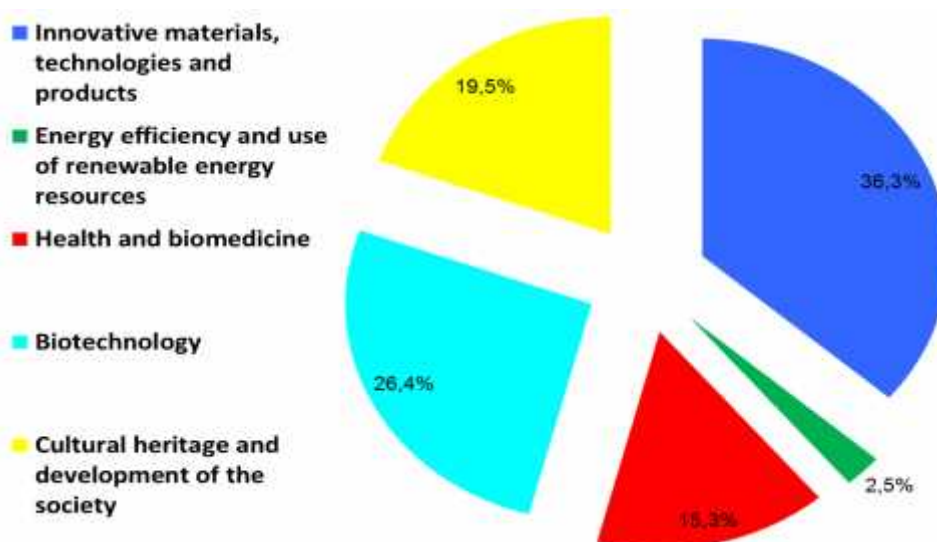


Fig. 2. Distribution of public R&D funding on thematic priorities in 2014

Source: Elaborated by author based on [10].

Concluding on financing framework, the strengths are as follows:

- Current legal framework provides distribution of R&D public funding on a competitive basis;
- Variety of financial instruments that address different objectives of science policy;

- International collaboration was intensified and financing from abroad plays an important role (more than 10%).
The main bottlenecks of financing framework are:
 - The distribution of public funds follows more a bottom-up approach (reflecting the interests of researchers), that in my opinion contributes to a weak integration of R&D into innovation system;
 - The assessment of institutions and its ranking by the CNAA is not taken into account in the distribution of institutional funding although institutions are classified in three categories A, B and C;
 - The design of the support schemes do not stimulate research within private companies;
 - The grants schemes practically do not provide R&D funds to private companies (because they are not accredited).
 - The efficiency schemes to attract R&D investments from business private sector are missing.

The mode of distribution of public funding is not stimulating for greater private sector investments. Modest investments of the business sector in R&D are determined largely by the structure of the economy and by the distribution of the FDI stock in Moldova which are not encouraging for R&D performing activities. The industry is focused on trading and low-tech products. Low costs continue to be the main source of competitiveness. Innovation in the industry and in services is based mostly on foreign equipment and technology acquisitions instead in-house technological solutions, since few Moldovan enterprises have any innovative departments.

Human resources. Some negatives trends are recorded on human resources: decreasing of the number of researchers (up to 3315, in 2014), ageing average age of the researchers reached 49.1 years [10] and the share of young researchers is below 25% [7], emigration. The number of researchers per 1 million people is more than 4.5 times lower than in EU.

As an answer to this precarious situation, the Academy of Sciences has established a series of schemes for attracting and retaining young people in science (scholarships, projects, awards): quotas for young researchers in projects supported under public R&D funding programmes (at least 20-30% of researchers); an annual specific competitive support programme for young researchers of up to 35 years; excellence grants of Moldovan Government for PhD students; establishing educational institutions within ASM (the Lyceum for gifted children and the University of the ASM) and for collaboration with scientific diaspora (ex., grants for short visits of representatives of the Scientific Diaspora). Several efforts were made for moving closer to European standards. ASM accepted the European Charter for Researchers and the Code of Conduct for the Recruitment of Researchers, in 2013 the national EURAXESS portal was launched, and 3 Moldovan institutions are acknowledged for the Human Resources Strategy for Researchers (HRS4R) – Moldova State University, National Institute for Economic Research and University of Academy of Sciences.

On the other hand, the educational supply of the HEIs is still not sufficiently targeted at the needs of the labour market, business, R&D. Educational policies are inefficient to ensure a balanced structure of graduates by fields. Curricula is congested, has a high degree of theorization and does not provide relevance for personal, social and professional development of the beneficiaries. The system is insufficiently focused on training transversal competences and entrepreneurship and innovation skills. Creativity, critical thinking and other features of modern education are not yet sufficiently high on the agenda. This lack of skills has a strong impact on the innovation potential of firms. For example, Student preferences have changed from natural to social sciences. In consequence, there are significant gaps between the specialisation and the training level of graduates and the expectations of companies and institutions. The share of employees in technology-intensive sectors is very low [2].

The **employment and working environment for researchers is not attractive**, due to cuts in public R&D funding, an unstable economic situation and limited career opportunities. The average monthly salary of a researcher in a public research organisation was only €240 in 2014 [10]. Salaries in several sectors of the economy are much higher than these average levels, and the level of remuneration is hence one of the main factors which discourages talents to stay in research. Also stipends for PhD students are low (about €60 per month), and this obliges them to work in parallel to their studies. Existing programmes have rather limited impact since modest financial resources allocated to them not allow a radical change of research framework, emigration remaining an option for many young talented people.

Evaluations and monitoring system. It is a lack of a vision and integrated methodology for monitoring and evaluation of R&I and it is the need for improving the evaluation and impact assessment

culture. Indeed, new instrument were used in the last period (Foresight, S&T Policy Reviews by external experts, Erawatch, Think-Thank evaluations). Nevertheless, the regular and comprehensive evaluation mechanisms for all elements of R&I (system, policies, organisations, programmes, projects etc.) has not yet been established. For example, neither policies nor funding tools introduced since 2004 were object of evaluation.

It creates the impression of insufficient interdependence between research performance and financial allocations. A problem for small local scientific community is an objective evaluation due to close relations of a limited number of available experts. Provision of institutional funding is not based on any rigorous criteria of performance or results of academic accreditation, while the indicators used in the competitive funding are mostly quantitative and rather superficial [4]. No methodology for assessing the social and economic impact of the public R&D investments. Rather formal recent reorganisation of evaluation system of ASM, which does not ensure avoiding conflicts of interest, full use of output indicators, international benchmarking and ex-post evaluation tools. The international dimension is poorly integrated into the evaluation process. So, Excellence as a key criterion in funding and career advancement is affected by lack of critical mass of small community and ethical misconducts of post-soviet science.

Another problem is lack of reliable and comparable R&I statistics according to the European methodology and standards. Moldova is not included in Eurostat statistics and is not covered in the IUCR or IU scoreboard. Among several statistical weaknesses, R&I activities in the BES are not recorded yet (BERD, HR in business, related innovation indicators). For several standard indicators such as GERD different data are available (e.g. of ASM, BNS or UINESCO). Some indicators are not calculated according to the Frascati Manual provisions (e.g., data of personal are not recorded in full time equivalent). This is not allowed getting a clear picture of the R&I system and to have a more reliable basis for making policy recommendations.

Innovation. In the R&I strategic documents the concept of innovation is declared as way for shift from the current economic model based on remittances to a new model based on competitiveness. For ex., The Innovation Strategy (2013) provides the orientation of firms towards innovation and strengthening the connections between companies, educational and research sectors. The strategies stipulate also the transition from centralised R&I system with an academic character towards an open innovation system focused on needs of economy and society. Some elements of the industrial and innovation infrastructure to facilitate knowledge transfer were already developed, inclusively networks of business incubators (5 new incubators in last 2 years), innovation incubators in universities (4 new incubators) and industrial or scientific parks. Also there is a relatively well-regulated framework of IP rights – National Intellectual Property Strategy (2012), contains 30 specific actions to encourage the creation, protection and use of IP.

In opinion of several experts, one important problem for R&I system is a linear conception of the innovation, where research is driven by public authorities, conducted in public research centres and then applied by private companies [3]. A linear conception of the innovation process is an obstacle for integration various stakeholders and thus for networking of R&D sector with the rest of economy [8]. Tools to stimulate cooperation in the knowledge triangle education-research-business are weakly developed and only slowly emerging (for ex., lack of incentives to researchers at universities and public institutes in order to establish innovative spin off and start-up companies) and the governmental programmes for entrepreneurship have still a weak R&D and innovation component. As result:

- research is not integrated in a proper innovation system and operates rather separately of economy and education;
- public R&D sector is not sufficiently oriented towards the economic and social needs, and research results are often not relevant to companies;
- private companies also are not very open to cooperation with domestic research, inclusive due to the low absorption capacity of industry knowledge;
- the universities are traditionally focused more on education rather than in research and have limited collaboration with both R&D institutes and business;
- the universities and research institutes have limited experiences and capacities for patenting, licensing, start-up companies and other commercialisation efforts.

Conclusions. It can be formulated five major challenges for convergence of the national R&D system to smart specialization.

- Inefficient innovation governance model;

- Lack of human resources for R&I;
- Low R&D investments, especially by private sector, with no clear prioritisation;
- Weak links between R&D institutes, universities and BES;
- Undeveloped evaluation and monitoring system of R&I.

Overall, the national R&D policy does not correspond to the conception of smart specialization, but rather addresses separately different issues of the scientific community. The most actors of a national innovation system are not aware of the importance of S3 approach.

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THE INFLUENCE OF INSTITUTIONAL CHANGES ON THE INVESTMENT ATTRACTIVENESS OF THE AGRICULTURAL SECTOR OF UKRAINIAN ECONOMY

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Successful development of the Ukrainian economy, its agro-industrial segment requires a large-scale and efficient investment provision and favourable investment climate. In this regard, the actual task of the scientific community is the study of the influence of institutions on the development of investment policy, the formation of investment processes in the country. The purpose of this article is the study of institutional basis for further development of the investment processes in the agricultural sector of Ukrainian economy under conditions of integration into Europe. In the study process author used general scientific methods, in particular statistical method, method of extrapolation, analogy, institutional analysis, abstract-logical method, methods of descriptive simulation. Results of the study are as follows. The influence of formal institutions (legal regulations for the 'rules of play') was assessed on the investment efficiency. The ponderability of the formal institutions was identified in the investment success of the big agricultural business of Ukraine. The main causes of the low investment attractiveness of small and medium-sized business in the agrarian sector of the Ukrainian economy were defined. The ways were substantiated for development of the non-formal institutions. It was accentuated that asset capitalization of the small and medium-sized companies would be important for development of the investment processes in Ukraine.

Key words: *institutional basis of investment policy, investment processes, investment attractiveness, state investment support, investment trends, institutional theory.*

Dezvoltarea cu succes a economiei Ucrainei, segmentul agroindustrial necesit o asigurare investițional și un climat investițional favorabil la scar larg și eficient. În această privință, sarcina actuală a comunității științifice este studiul influenței instituțiilor asupra dezvoltării politicii de investiții, formarea proceselor de investiții în țară. Scopul acestui articol este studierea mediului instituțional al dezvoltării în continuare a proceselor de investiții în sectorul agricol al economiei Ucrainei în condițiile de integrare europeană. Pentru cercetare au fost aplicate metodele științifice generale, în special metoda statistică, metoda de extrapolare, analogie, analiza instituțională, metoda abstract-logică, metodele descriptive și modelare similară. Drept rezultat al studiului a fost evaluat impactul instituțiilor formale ("regulile jocului" reglementare) asupra eficienței investițiilor. A fost determinat ponderea instituțiilor formale în asigurarea succesului investițional a agro-businessului pe scară largă în Ucraina. Au fost identificate principalele cauze ale atractivității investiționale scăzute a businessului mic și mijlociu din sectorul agrar al economiei Ucrainei. Au fost fundamentate modalitățile de dezvoltare a instituțiilor informale. A fost identificată importanța capitalizării activelor întreprinderilor mici și mijlocii pentru dezvoltarea proceselor de investiții în Ucraina.

Cuvinte cheie: *baza instituțională a politicilor de investiții, procesele de investiții, atractivitatea investițională, sprijinul investițiilor de stat, tendințele de investiții, teoria instituțională.*

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JEL Classification: G11, O16, Q14.

Problem statement. Successful development of the Ukrainian economy, its agro-industrial segment requires a large-scale and efficient investment provision and favourable investment climate. Domestic investment sources and credit possibilities in Ukraine are insufficient to satisfy the investment potential of agriculture and processing industry. At the same time foreign investments (even including the investments of the Ukrainian business from offshore zones) are attracted in limited volumes, and their share in total investments is for the time being insignificant.

Increase in investment volume and quality determines the course for broad integration in the world, and especially European economic space, which formulates a new vector in the development of the investment processes of Ukraine. The base for the new stage of the investment processes consists now in developing the national institutions and institutional environment up to the level of Europe, USA, Japan and other developed countries.

No doubt, the conditions which ensure investment attractiveness of the agro-industrial sector depend on the economic potential of the branch, its specific companies, infrastructure, market, taxation and other factors. However western investors are not less concerned also about sociocultural psychological types of the local population, level and trends of transaction costs and a number of other aspects which are studied and treated in terms of fundamentals of the institutional economic theory.

Analysis of the latest studies and publications. A considerable contribution to investigation of the investment provision problems in the agrarian economy of Ukraine belongs to the scientists of the National Agrarian Science Academy of Ukraine. Among them V.H. Andriichuk, P.I. Haidutskyi, N.I. Demianenko, I.H. Kirilenko, I.A. Lupenko. However, the theoretical basis for the development of investment processes in Ukraine in view of the western standards and changing trends of the domestic institutions remain poorly studied.

The purpose of the research is the study of institutional basis for further development of the investment processes in the agricultural sector of Ukrainian economy under conditions of integration into Europe.

Study results. During the recent years the investment processes in the agrarian sphere of Ukraine are being noticeably updated.

The volumes of the capital investments in agriculture in 2011-2013 increased by about 1.5 times compared to 2010 and in 2013 amounted to UAH 16 billion (nearly 2 billion US Dollars) [2]. However, for obvious reasons, in 2014-2015 there was a significant decline in investment.

The volumes of direct foreign investments increased on 6.4% in 2012 compared to 2011. So it appeared possible to stop the capital outflow due to the world financial crisis. But in 2014-2015 there was a decrease by 28.5%. Since 2010 about 60 % of foreign investments in agriculture are used for development of export-oriented products such as grain, sunflower seeds, rape and soya.

Consequently the growth of investments in the branch is mainly ensured at the expense of own sources of the big producers whose share increased from 70 to 90% in 2015. The main share of the borrowed funds comes from credit resources and makes about 20% of the aggregate incomings, state budget funds make less than 1%, other sources – 3-5%.

The dynamics of big business investments which is in many aspects positive was formed in early 2000s based on formation of the formal institutions ('rules of play'). According to our estimates, the legislation and organizing economic, financial measures taken earlier are still providing a comparatively

high level of the Ukrainian agrarian branch investment attractiveness. Impact of special tax regimes alone allows the owners (investors) to save about two billion US Dollars yearly (table 1).

Table 1

Volumes of indirect state support of agricultural producers due to special tax regimes (UAH billion)

Description	2009	2012	2015
Special regime of VAT collection (accumulation regime)	7,7	14,3	15,0
VAT – subsidies to processing companies	1,5	1,1	1,0
Concession at the expense of the fixed agricultural tax	2,8	3,3	3,5
Total	12,0	18,7	19,5

Source: Author's calculations based on the use of data of the State Statistics Service of Ukraine [6] and the State Fiscal Service of Ukraine [7].

The structure of investments in the agrarian sector features the trend towards innovations. Use of the fertile land as a main resource, cheap compared to Europe, predetermined the priority capital investment in crop growing. Each year the agricultural companies spend more than 70% of investments for purchase of technologies, state-of-the-art machines and equipment whereas expenses for construction and installation amount only to 22-24%. At the same time in Ukraine on the whole 42-44% of the aggregate investments are spent for purchase of machines and equipment and 50-52% for construction (table 2) [2].

Table 2

Share of investments in the fixed capital of Ukrainian agriculture and their technological structure, %

Item	Year		
	2010	2011	2015
Share of agriculture in the total volume of investments in the economy	6,0	6,4	5,2
<i>Structure of investments:</i>			
Construction and installation	24,0	22,7	18,6
Purchase of machines and equipment	70,2	71,2	76,2
Other	5,8	6,1	5,2

Source: 'Report on capital investments per types of economic activities' for relevant years. – State Statistics Service of Ukraine, form 2-in. [2].

In recent years gradually increased in volumes and share are the investments in the development of animal-raising which in 2000-2010 suffered a significant drop in production and reduction in livestock number.

A strong aviculture branch has been built up in Ukraine which does not only meet the internal demand for eggs and chicken meat but also steps up the export potential (140 ths t poultry meat yearly in 2013-2015) including to EU. More than 45% of the investments in animal-raising go to aviculture.

The 'Cattle Breeding Revival' program adopted in 2012, for the time being has not produced any results which were expected. The investment segment share in dairy and beef stock farming does not exceed 10-12%. The situation in pig-breeding is but slightly better.

Now due to (but not limited to) the investments and growth of prices for food, the agriculture of Ukraine is ranking among the leaders in the world exports of sunflower, corn, wheat and other products of plant-raising. Since 2012 the share of exports of agrarian products had occupied the leading positions driving back the exports of ferrous metals, traditional for Ukraine. Due to increase in the production and exports volume, recently the financial result of the branch exceeds UAH 25 billion yearly which makes about 20% on the whole in Ukraine. In the period 2008-2015 on an average the rate of return in the agriculture of Ukraine increased to 4.2% whereas in economy – to 1.3, industry – to 3.4 while construction and trade suffered losses.

Not the least of the factors in the branch economy growth stimulation is attracting of big foreign credits to Ukraine. Among such the notable was the credit of the Chinese Eximbank at whose expense already in 2012 1.5 billion US Dollars were attracted for export deliveries of corn and other grains. During the next 5 years it was attracted from China another nearly 1.5 billion US Dollars. However the scientists are not unanimous about the consequences of such Projects for the investment climate of Ukraine.

But the basic factor of the investment processes shaped in the domestic agrarian economy is today's land relations. As on 01.01.2016, 6.9 million peasants of Ukraine acquired as private property 27.2 million hectares of agricultural land. Out of these 17.5 million hectares were given in rent. Yearly the total paid for the rent of these lands amounted to more than UAH 10 billion. Here it is important that the share of the rental charge in the total costs of the agricultural companies does not exceed 5-10%. The land tax is included in the fixed agricultural tax, and the latter does not exceed 10 US Dollar/year per 1 hectare land. In addition, practically there is no competition for the land rent in the countryside.

Therefore the land relations as well as taxation to a large extent make up the attractiveness of today's investment processes of the Ukrainian agrarian economy including for foreign investors. But not all the businesses gain profit from this.

The determinative entities in the investment processes of today's agriculture of Ukraine are domestic and foreign agro-holdings which obtain maximal profit from the tax, land and other factors of the investment attractiveness.

The big agro-industrial companies of Ukraine learnt to attract investment resources on the world stock markets. It is characteristic that during the period of the financial crisis it was mainly the agro-industrial companies that made public offering and attracting of capital to Ukraine. During 2005-2012 their share in the structure of offerings on the stock markets is more than 50%. According to the forecasts of Fitch Rating analysts, during the 2017-2020 the Ukrainian agro-industrial companies would be able to attract additionally another 20-30 billion US Dollars [3].

To a large extent the accumulated investment potential contributes to formation of a huge land bank by these businesses, which gives rise to the objective concern among the economists.

In addition, the high transaction costs and monopolism of intermediaries on the markets of agricultural products and investment resources do not allow the medium-sized and small companies to create sufficient sources for development of their own material and technical facilities, to ensure their expended reproduction.

Reduction of jobs in the countryside and costs for creation of human capital strengthens the decline processes on rural territories. In Ukraine 4.3 million individual farms are functioning. But only about 1 million peasants decided on independent commercial farming and added 4 million hectares of the land acquired free of charge to the household plots.

Therefore the problem of the investment provision for development of the branch is the sharpest one in the small and medium-sized agricultural companies and in the individual farms which, taken together, produce today around 72% of all the agricultural products and use more than 70% of agricultural lands of Ukraine.

Nevertheless, the state does not eliminate the unfavourable conditions for development of cooperation, medium-sized and small business in the countryside. Pending are the problems of mortgage, financing of measures to develop the social sphere, road network and other factors which would predetermine the future pro-European investment attractiveness of the economy agrarian sector.

Positive moves in this direction mostly depend on the local possibilities of investment provision. However such possibilities are limited in most of the regions and territories. Therefore the investment provision problem for development of agriculture and rural territories is a large-scale problem, its solution is of both national and local importance and requires effort consolidation of all the links and spheres of production, society, state and government authorities.

It is obvious that the prospects of the investment potential of Ukraine are concentrated in the small (about 42 ths farms each cultivating from 10 to 1 ths hectares of land) and medium-sized (about 12 ths companies each cultivating from 1 ths to 10 ths hectares of land). Not less important are also the individual farms (4.3 million) about 1 million of which are already oriented towards marketability of the products. **However these prospects will be implemented when the relevant institutional basis for the new investment conditions is created.**

It is noted in the Economy Agrarian Sector of Ukraine Development Strategy till 2020 [5] that although the underlying principle of such development is still multi-structure the priority is given to the

so-called village-forming companies (business entities whose owners live in a village and combine the right for land (including rent) with the work on it, economic interests with social responsibility).

The criteria of the village-forming companies are met by the most of the medium-sized and small businesses in Ukraine. It is for them that it is reasonable to improve the concessional taxation system and the main programs of the budget allocations (it is worth noting that the effective concessional taxation system is valid only till 2018).

The project of the Law of Ukraine 'On turnover of the lands for agricultural purpose' envisages in particular the restriction on land-use by the agro-holdings which would also contribute to strengthening of the investment potential for small and medium-sized business in the countryside.

The legislation initiatives stated above are aimed at creation of a new institutional basis for the investment processes in the agrarian economy of Ukraine.

However, if in the legal regulatory provision (the formal institutions) the trends of the institutional changes are clear and obvious, the situation in the non-formal segment of the institutional changes is worse. E.g. in accordance with the World Bank studies, only around 5 % of the agricultural land owners of Ukraine understand the significance of the land capitalization and are ready to actively use it in the economic turnover. The investment attractiveness and success of the agro-holdings is known to be based to a great extent on the attractive presentation of their assets and cash flows in the financial reporting certified by recognized audit companies.

It is not a year that the big business spent on the way to the established investment attractiveness through capitalization. This is not the case with the medium-sized and small companies of Ukraine. According to our estimates, if the small and medium-sized companies do nothing but enter the rights for the rent of the land in the company books, their aggregate capitalization would increase at least by 10 billion US Dollars. We would like to note that in all the agro-holdings of Ukraine the rights for the rent of the agricultural lands are entered in the company books. Other assets are also successfully capitalized.

The objective prerequisites of asset capitalization for the small and medium-sized business are shown in the table 3.

Table 3

Dynamics of rent contract validity for the lands of agricultural purpose in Ukraine, %

Rent period	2001	2010	2014
For 1-3 years	45,7	10,0	5,1
For 4-5 years	41,2	49,0	40,3
For 6-10 years	11,3	30,6	41,1
Over 10 years	1,8	10,4	13,5

Source: Author's calculations based on the use of data the State Statistics Service of Ukraine [6].

Entering the rights for long-term and medium-term land rent in the company books is the first step to the increase of the investment basis.

But most of the medium-sized and small business managers are not ready for the mission of creation of the new basis for the investment processes, new investment sites. The state obviously needs to concentrate efforts not only on changing the legal regulatory field (the formal institutions), but also, first of all, to initiate propaganda, training of the small and medium-sized company owners, managers and accountants. In other words, it is important in parallel to create the investment potential by changing the non-formal institutions too.

Conclusions. Not the least of the factors of the investment process new quality growth lies in changes not only in the formal (legal regulatory) institutions but also in the non-formal institutions. The latter, in terms of the institutional theory postulates, make the basis, ground for development of economy including its investment component.

In the domestic studies of the investment policy (processes) the theoretical substantiations are paid insufficient attention.

The problems of condition, development and, in the main, influence of sociocultural psychological types of owners and managers of the Ukrainian agrarian sector business entities on the investment processes should not be secondary in the investigations. In many aspects success of their solution would

allow to improve the investment climate, to strengthen the positions of Ukraine on the world food market. To make forming of the new investment processes more active, strategically it would be reasonable to implement the following measures:

- To form the investment priority of development of the formal institutions (legal regulations concerning land relations, taxation, crediting, attracting foreign partners and other);
- Regarding the formation of the investment basis of the non-formal institution maturity – to launch the program training of the owners and managers of business entities, adopt and implement the Program of the Ukrainian small and medium-sized agro-business capitalization;
- Regarding the development of various businesses in the countryside – to re-orient the state support towards the village-forming businesses (medium-sized companies, farms and other small agricultural companies, servicing cooperative societies, individual commercial farms);
- Regarding the regional development – to provide special investment regime on the depressive rural territories;
- Regarding the branch development – priority grant for state support of animal-raising development, production of organic, export-oriented and import-substituting products;
- Regarding the priority for implementation of the investment projects providing fast increase of the Gross Domestic Product – to implement projects for introduction of innovation technologies, development of infrastructure for storage and processing of vegetables and fruits, build-up of facilities for processing of hop and substitution of imports of raw materials for brewing industry, construction of facilities for production of concentrated mashed potatoes, formation of network of dairies, pig-breeding farms, expansion of export possibilities of confectionary industry, modernization of sugar plants for production of bioethanol, formation of clusters for production and processing of flax, introduction of quality management system for agrarian products, construction and reconstruction of bakeries, production of important veterinary immunological and other drugs, development of aquaculture of fishing plants;
- Regarding the road network – to allocate at least one third of incomings of the road funds to the needs of road network development in rural areas;
- Regarding the social problems – to provide housing construction for employees of the state-financed organizations who work, live in the countryside and made long-term contracts, to provide organization support of the investment projects for development of the countryside.

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ANALYSIS OF LEGAL FRAMEWORK FOR REGULATION OF FAMILY BUSINESS IN ROMANIA

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Novelty of this research paper is determined by the imperative economic and social need to create the necessary legal and favorable framework for initiation and developing family business as a form of business success that would be accessible to socially vulnerable families. The aim of the research paper is to investigate the main legal rules of the legal framework of family business in Romania and to familiarize it with similar families from the Republic of Moldova; this would take into account acceptable rules for the Republic of Moldova and will help to create the legal basis for the establishment of this relatively new form of family entrepreneurship in this country. The main research methods are: systemic analysis, monographic, logic etc. The main scientific results obtained in the article are based on identification, analysis and systematization of main legal norms of the legal framework for the initiation and regulation of family businesses in Romania.

Key words: *family enterprise, family business, a representative of the family business, legal framework, law, regulation, Romania.*

Actualitatea prezentului articol este determinat de necesitatea economico-social imperioas de a crea cadrul juridic necesar și favorabil inițierii și desfășurării afacerilor familiale în calitate de formă de business de succes și accesibil pentru membrii familiilor socialmente vulnerabile. Articolul are ca scop central cercetarea normelor legale principale ale cadrului juridic al afacerilor familiale în România, familiarizarea cu acestea a familiilor similare din Republica Moldova, preluarea normelor acceptabile pentru cazul Republicii Moldova și contribuția la crearea bazei legale pentru instituirea acestei forme relativ noi de antreprenariat familial în această țară. Metodele principale de cercetare au fost: analiza sistemică, sinteza monografică, logică etc. Principalele rezultate științifice obținute în articol, urmări cercetării, sunt identificarea, analiza și sistematizarea normelor legale principale ale cadrului juridic de inițiere și reglementare a afacerilor familiale în România.

Cuvinte-cheie: *întreprindere familială, afacere familială, reprezentant al întreprinderii familiale, cadru juridic, lege, reglementare, România.*

JEL Classification: D1, K36, L26, M2.

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Introduction. Family businesses in Romania are regulated by the Government Emergency Ordinance (GEO) 44/2008 "On economic activities by authorized individuals, sole proprietorships and family businesses", published in the Official Gazette of Romania, Part I, no. 328 of 25 April 2008 with subsequent amendments [1]. Ordinance determines the access to economic activity, registration procedure in the trade register and authorization of functioning and the legal status of authorized individuals to carry out economic activities and individual enterprises and **family enterprises**. This emergency ordinance shall not apply to liberal professions.

Analysis of the legal framework of family business in Romania

For the purposes of this ordinance, terms and expressions have the following meanings:

a) *family* – husband, wife, their children over the age of 16 years at the date of approval of the family business, relatives and in-laws up to the fourth degree;

b) **family business** – *economic enterprise, without legal status, organized by an individual enterprising with his family;*

c) *the assets of affectation* – all assets, rights and obligations of authorized individuals, holder of individual enterprise or members of the affected family business (allocated, directed – Author's note) the purpose of exercising an economic activity constituted as a distinctive fraction of the heritage of the authorized individual, holder of the individual company or *family business members*, separated by the general pledge of their personal creditors;

Under the right to free enterprise, the right to free association and the right of establishment, any person, Romanian citizen or a citizen of another Member State of the European Union or the European Economic Area, can do business in Romania, under terms provided by law. Economic activities can be carried out in all fields, trades, occupations or professions that law does not expressly prohibit for the free initiative [1].

Individuals can pursue economic activities as **members of a family business**. Family enterprises must have an established office in Romania, as provided by law. Any permanent, casual or temporary economic activity held in Romania by **family businesses** must be registered and authorized under this ordinance. The **representative of the family business** is required to demand for the registration in the trade register and authorization before starting business. If he does not make the request within 7 days from the conclusion of the establishment agreement, any member of the family business can apply for registration in the trade register and authorization.

In all cases, the demand for registration in the trade register and functioning authorization must be made within 15 days of the conclusion of the establishment agreement provided in art. 29 par. (1). In case of violation of the time limit, it is necessary to conclude a new agreement.

There can be carried out economic activities in any form by the individual if the representative or members of the family business:

a) are at the age of 16;

b) have not committed acts sanctioned by the financial, customs laws and those regarding

c) the financial and fiscal discipline, as those who enroll in the tax record;

d) have an established office according to the present GEO;

e) declare on oath that meet the conditions required by the specific legislation in healthcare, veterinary, environmental protection and occupational safety.

Where, according to special legal provisions for certain economic activities is necessary to fulfill the conditions of professional training and/or certification of vocational training, **family business** members must prove their fulfillment.

Family business has the professional office declared by the application in the trade registration and authorization of functioning. For professional office setting is necessary for any **member of the family business**, case by case, to hold a right of use over the building at which it is registered.

Request for registration in the trade register authorization of functioning is submitted to the trade register of the Court in the county where the applicant establishes its professional office and will be accompanied by documentation provided in the annex which is an integral part of this emergency ordinance. Registration in the trade register of the **family business** is made by the motivated resolution of the Director of Trade Registry of the tribunal. Articles 11 and 12 of the GEO govern the legal procedures related to registration in the trade register of the **family business**.

Trade register office of the tribunal will issue the registration certificate containing the unique registration code, certificate issued on the basis of the affidavit and other documents provided by law, as

applicable. Registration certificate containing the unique registration code, is the document certifying the registration in the trade register authorizing the operation and the taking of evidence by the competent tax authority.

Article 14 of GEO governs the legal procedures related to:

- Changing the professional office and main object of activity;
- registration of premises in the trade register;
- issuance of a new registration certificate, certificate of claims registration and examiner certificate, etc.

Changing the agreement of establishing the family business is declared within 15 days of the conclusion of the additional act, at the trade register in which **the family business** is recorded. Trade register office of the tribunal will record changes and issue the certificate of mentions registration.

Family business representative will keep single-entry accounting, according to the regulations on the organization and management of single-entry bookkeeping by individuals who act as taxpayer in accordance with Law no. 571/2003 regarding the Fiscal Code, as amended and supplemented.

The legal regime of family business

For the organization and operation of its business, individual entrepreneur, as a natural person employer may engage third parties with an individual employment contract, registered at territorial labor inspectorate, according to the law, and may work with other individuals (PFA), other enterprising individuals who hold individual companies or **representatives of family businesses** or other legal entities to carry out an economic activity, that will change the legal status acquired under this section.

Family business consists of two or more members of a family.

Members of a family business can be simultaneously PFA or holders of individual businesses. They also can have the quality of employee of a third party that works both in the same field, and in another area of economic activity than those related to the family business. Members of family businesses are insured in the public system of pensions and other social insurance rights and are entitled to be insured in the health insurance and unemployment insurance, as provided by law.

Family business is established by an agreement of establishment, signed by family members in writing as a condition of validity. Foundation agreement will stipulate the names and surnames of members, representative, the date of preparation, participation of each member in enterprise, conditions of participation, percentage shares in which will share the net revenues of the enterprise, the relationship between members of the family business and conditions for withdrawal, subject to absolute nullity.

The representative designated by the establishing agreement will manage the family business based on a special mandate as a document under private signature. The special mandate shall be signed by those members of company who have legal capacity and legal representatives of those with limited legal capacity.

In order to exercise the activity for which it is approved, the family business, through its representative, can collaborate with other authorized individuals as PFA, individual entrepreneurs holders of individual businesses or representatives of family businesses or other natural or legal persons, for carrying out an economic activity.

Family business does not have its own assets and shall not acquire legal personality by registration in the trade register. But by the establishing agreement of the family business, its members may stipulate the establishment of an **affectation asset**. In this case, through the founding agreement or an additional act shall establish quotas for the participation of members at the establishment of the **affectation asset**. If members agree unanimously, the ownership stakes may be different from those required for participation in the company's net income or losses.

Members of the family business are individual merchants from its registration in the trade register and are jointly and severally liable for debts incurred by representative in exploiting enterprise with affectation assets, if it was established, and in addition, the entire patrimony corresponding to participation quotas.

Decisions on the current management of the family business are taken by the designated representative. Acts of disposition on the affected property of family business activity shall be taken by simple majority of members' consent, so that such majority includes the owner's consent that shall be subject to the act.

Documents that acquire goods for the family business are made by a representative without a prior approval of members, if the asset value on ending the act does not exceed 50% of the value of goods that have been allocated to the business (and the amounts of money available to the company at the time of the act). The acquired assets are in co-ownership of members in their quotas.

Family business ends its activity and is removed from the commercial register in the following cases:

- a) more than half of its members died;
- b) more than half of the members of the company require its termination or withdraw from the enterprise;
- c) under art. 25 of Law no. 26/1990 [2], which stipulates that any natural or legal person injured as a result of a registration or by an entry in the trade register has the right to request deletion of harmful registering respecting the established legal procedures.

The request for removal, accompanied by a certified copy of the original papers proving, as appropriate, shall be deposited with the commercial registry of the court in which it is established professionally, by any interested person. The provisions of art. 11-13 of this GEO, which regulates the registration in the trade register of the family business, are applied accordingly.

If the family business members constituted a patrimony of affectation or acquired goods, the goods are divided according to the provided quotas. If that was not constituted an affectation patrimony, property acquired under this Ordinance shall be divided according to the rates provided in the same act.

Final provisions of Ordinance

Municipal authorities can to build up helpdesks and representation of individuals referred to in art. 4 of this GEO (authorized individuals, individual enterprises and family businesses) through business reorganization conducted under the provisions of Law No. 300 of 28 June 2004 on the authorization of individuals and family associations that are doing business independently, which was in effect from 27.09.2004 until 25.04.2008, being repealed (a) and replaced (a) by the emergency Ordinance no.44/2008 [3].

Individuals can opt to carry out the formalities provided in chapter II of this GEO and through assistance and representation offices. Helpdesks and representation may represent the individual requesting the procedures for obtaining authorization and registration in the trade register on the basis of representation request.

Pt. (4) of art. 35 of the Ordinance establishes assistance offices and representation skills. For the provided services, municipalities will be able to charge fees that they can determine autonomously under the principle of local autonomy.

Municipalities will make publicly available a standard form of the request for representation. The request for representation, the registration in the trade register request and for functioning authorization and supporting documentation can be submitted to the competent commercial register electronically using the system for approving and registering online and / or in hard copy, by post, registered mail with confirmation of receiving with declared content, or directly to trade register.

Where this emergency ordinance lacks, the Law no. 26/1990, republished, as amended and supplemented, and the Law no. 359/2004, as amended and supplemented, shall apply accordingly, to the extent that are not inconsistent with this ordinance.

Individuals engaged in an authorized economic activity and recognized in another Member State of the European Union or the European Economic Area, in forms similar to those provided by this emergency ordinance may be authorized to carry out in Romania the same types of activities they were authorized in that other state. In this case, the demand for trade registration and functioning authorization is for the Director of the office of trade registry of the court within whose jurisdiction was elected and declared the professional office.

Members of the family business are under taxable income under the terms of Law no. 571/2003, as amended and supplemented.

In case where the competent public authorities establish that there are no longer met the conditions of work that formed the basis of the authorization function and apply complementary sanctions (lifted sanctions), they notify the trade register office by the law court in the county where the professional office of the sanctioned **family business** is declared.

Point 3 of the Ordinance Annex sets out six documents supporting the request for trade registration and authorization to operate the family business, and point 4 – documents certifying training or professional experience.

Family businesses have a real potential to become an important factor of sustainable economic growth both in Romania and Moldova [4].

Results and conclusions:

- 1) They were exposed main meanings of terms and expressions from GEO 44/2008.
- 2) Any individual person, with Romanian citizen or with citizenship of another Member State of the European Union/ European Economic Area, can do business in Romania, including as a family enterprise, as provided by law.
- 3) There were specified mandatory requirements to be met by representative members of the *family business* in order to manage business as an individual person.
- 4) They were revealed legal procedures related to registration of the Trade Registry of the field of *family business*.
- 5) It was described the procedure for amending the agreement on establishing of procedure of the family business.
- 6) The incomes of the family business members are taxable under the terms of Law no. 571/2003, as amended and supplemented.
- 7) The ANNEX (Point 3) of the Ordinance sets out six documents which are supporting the request for trade registration and authorization for good operating of *the family business*, but point 4 – documents is certifying training or professional experience of the person.
- 8) They are highlighted other essential rules of the legal regime of family businesses in Romania as well as *Final Provisions of the Ordinance* GEO 44/2008.
- 9) Family businesses have a real potential to become an important factor of sustainable and qualitative economic growth quality both in Romania and Moldova.

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**COORDINATION IMPROVEMENT
OF THE “INVESTIGATION-ADMINISTRATION” TIES WITH THE AIM
TO CREATE FAIR RELATIONS IN NATIONAL ECONOMY DEVELOPMENT**

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The relevance of the paper is incited by the actual economic situation. In the article the author sets the goal to describe peculiarities of the relationship investigation-administration, specify the obstacles in obtaining positive results after the process of implementing the research results and give examples of methods for improving cooperation between science and administration. The methods used for achieving the goals are analysis and synthesis, and induction and deduction. The concluded key point is that the efficient cooperation of these two types of individuals (the researcher and the public servant) in economy is the most certain way to obtain fair relations in this field.

Key words: *researcher, public servant, national interests, state, homoeconomicus, “science-administration” relationship.*

Actualitatea temei rezid din situația economic actual . În articol autorul are drept scop s descrie caracteristicile relațiilor cercetare-administrare, s specifice impedimentele în calea obținerii unor rezultate pozitive dup procesul de implementare a rezultatelor de cercetare i s dea exemple de metode de îmbun t țire a cooper rii dintre științ i administrare. Metodele folosite pentru a realiza scopurile propuse sunt analiza i sinteza, inducția i deducția. Punctul-cheie stabilit este faptul, c cooperarea eficient a acestor dou persoane (cercet torul și funcționarul public) în economie este cea mai sigur cale de a crea relații echitabile în acest domeniu.

Cuvinte-cheie: *cercet tor, func ionar public, interese naționale, stat, homoeconomicus, raportul “investigații-administrare”.*

JEL Classification: A43, B41, D63, D73.

Introduction. Currently, deep crises that have covered the European and world economy in the globalized economic relations could not leave behind in this process the national scientific and economic activity. Unfortunately, social consciousness, the consequences of this amendment is confused with considerable negative influence of economic science. Moreover, it is characteristic that there are overlooked the political divergences and even decisions and contradictory policy actions of various ministries and departments of economic profile, political parties and popular movements and results of economic activity and its consequences are directly linked to economical science.

Conclusions and recommendations of such a nihilistic attitude towards science in general and towards economic theory, particularly, has a negative impact both on the prestige of scientific work (moreover, on the spiritual activity), as well as on social development per se.

The scientific community (firs of all humanitarian researchers, especially those in economic sciences) really felt this trend, which is more than ever inappropriate – during deep reforms in the sphere of material and spiritual activity, and, the least to say, does not enjoy much support or acceptance from society during the transition to a developed market. Hence the delay in the development of directions of

fundamental, theoretical and methodological research, lack of need for significant scientific potential, reduction in employment of young and talented researchers, and consequently, insufficient influence of research results over the economic and financial state institutions.

Improvement of coordination of the relation "management-research" with the goal to create fair conditions for the national economy development. It is known that among the peculiarities of the transition stage of the Moldovan economy, often related to the real sector and the immaturity of market relations at a given moment, due to underdeveloped market infrastructure and absence of many segments necessary to it (financial – crediting instruments, stock markets, transport and telecommunications methods, etc.).

Negatively influence has insufficiently competitive environment and entrepreneurial law issues. Unfortunately, many of the directions of scientific research projects are pending better times to be investigated, but certain finished projects are facing difficulties in implementing them in mass production.

These are objective reasons that can be accepted. The other situation is when, during the launch of goods and services in the production, scientific researches which contain necessary proposals and recommendations in practice are facing criticism and mainly subjective assessments, preconceived. The concern of researchers-economists is conditioned by the lack of credibility that the governing bodies will implement the recommendations, because of their treatment and arbitrary use, as it is employed for a certain group of corporate interests, as a result, economists lose the ability to justify, develop and appreciate independently and uninfluenced the obtained results and recommendations.

Long experience of planning scientific research shows that if the central leading bodies determine prior directions of research strategies, they must be accepted unconditionally without any scientific discussion. But appreciation of theoretical and practical meaning of the work is poor. In the first place, the need arose and also impossibility to postpone the review, evaluation, to await recognition from society of the results and recommendations of research in economic field.

Innovative products with social-economic character are an intellectual property protected by copyright, but in the process of technology transfer are involved various resort ministries only then - government and parliament. However, making analytical correction and editing produced analytical materials, forecasts and recommendations, additions and embodiments in many cases lead to protect bureaucratic interests, and not national ones.

A very widespread method used by state agencies to influence decisions made and realized according to their economic interests (by officially established directives) is so called people union, i.e. personal participation of representatives of various alliances from legislative and executive bodies of state. For some politicians, civil servants, often happens to be presented arguments and project decisions, which are convenient to certain lobbyists, this is direct or camouflaged lobbying of political parties goals. In fact, the final version of the scientific paper is a subject to change its cardinal ideas are blot out, thus depriving researchers of copyright. Besides that, the authors of proposed scientific recommendations are excluded from the discussion process and the initial version lacks public recognition and isn't even mentioned.

However, the view, that for the situation obtained is responsible science and the scientific community is justified, because current technology of the movement of recommendations for socioeconomic development was due to compliance of science, which was forced to move to simplistic forms of research, adapted to the new conditions of application. Therefore, many weather elaborate proposals for restructuring the economy and improving its mechanism of operation in recent years began to appear fragmentary in many versions, different types and scenarios (pessimistic and optimistic), exposing the slow and ambiguous point of view, clearly yielding the right choice of convenient variant, thus leaving room for unprofessional feedback and comments.

The research material for publication gains in state political and economic decisions have a more and more pronounced common character. Some representatives of legislative and executive powers are undoubtedly conscientious and patriotic, but this, is however, vaguely reflected in the results of social and economic decisions. As a result, they have to vote basing on the perception of the subject, according to the beliefs of the party or group that is affiliated (beliefs from affiliation political).

In a more complicated situation are economic researchers. Being deprived of copyright and the possibility to argue his position in a debate, not participating in discussions where decisions are made and alternatives assessed for projects initiated by them, they fall under the pressure of bureaucracy and lose the ability to influence changes with truly effective economic situation in the country. Finally, even with good intentions, decisions contain incomplete, erroneous information, based on political party doctrine and do

not consider scientific argumentation, generalized recommendations and long-term consequences.

We believe that, if it is constantly kept in mind the seriousness of the economic problems of the Republic of Moldova, the scientific community and, above all, researchers in socio-economic field, must overcome indifference and passivity in defending their work, to argue strongly and clearly the scientific novelty and practical efficiency, to propose professional alternatives for solving the problem, entirely independent of any political interests. This should be done by scientists not only to rehabilitate, but also to test the conditions of democratization of social life in order to protect sound scientific ambitions.

On the other hand, to be possible for the governing bodies according to their activity, to promote national interests and, in the end, realize that economics cannot be confused with scholasticism, that they must stand the nihilistic attitude during assessment of scientific work and adoption, based on the state political decisions.

It is generally recognized the huge economic and social losses that accompany the modern transition process both in social -political life, and in the economy. Their dimensions indicate the infringement of evolutionary legislative changes in the economy. Their proportions are mostly consequences of the constraints of political factors and pseudoscientific entities which consciously made ideological schemes and clichés, ignoring almost completely the connection between modern society and the continuity and succession in social development, which does not correspond to the logic reorganization and transformation of social life.

In other words, starting from the debates dealing with the theoretical problems of economic-philosophical that undoubtedly foresee increasing effects of the legislation on the process of reorganization of the management system, which is based on social support, the findings of science and progressive trends in social development, it becomes imperative to fundamental issues following exposure.

First of all, realization of effective and successful transition processes assume that the state should initiate strengthening of regulatory function to support proper application and compliance with national legislation establishing a truly competitive environment, solving urgent social problems.

The other not less important thing is the orientation of the Academy of Science towards development of the foundations of theoretical and methodological economy in transition as an initial training platform for young cadres and enhancing skills of existing managers from central administration at the national macro, mezo and micro economic level. Special attention should be paid to the role of foresight and expertise of economics. Besides that, science cannot be deprived of the role of heuristic, gnosiological, awareness of new realities in the research for facts by creating concepts and programs of socio-economic growth.

It is hard to overstate the role of socioeconomic scientific work. The nature and orientation of scientific research of government regulation of the stabilization processes in the economy in the last two to three decades have undergone significant changes. Opinion of the followers of neokeynism and neoliberal doctrines allowed to understanding clearer the degree of necessity, permissiveness limits, conditions and means of achieving economic stabilization in the country as a prerequisite for sustainable growth of the national economy. It must be taken into account the scientific papers consecrated to the emerging economies in the beginning of reforming a strictly centralized state, political-administrative management system and development of new principles for the market regulation mechanism. Instruments and legislative rules still bear a pioneering character, as the experience of the global economy has not encountered an analog example of transition.

Currently, there were made a number of relevant scientific researches about the market economy in transition. A relative progress has been achieved in empirical research in the field of economic management, taxation, fiscal, monetary-credit policy, investment, employment and other social and economic problems.

Excessive training of the staff in economics, mathematics and sociology directed to market economy models and solving the problems of efficient mechanisms for regulation, obtaining performance in the application of quantitative methods of economic analysis and management systems, strengthening the relations between research institutions, governing bodies and organizations which represent true economic interests bearers turn the possibility of improvement of economic regulation by the state into something that really exists.

That is why, with the increased need for social research, a growing demand is observed in the field of applied interdisciplinary work, while revealing the specific features of relations between politics and science management. The fundamental role of science in training of highly skilled managers led the

introduction into scientific terminology of the concept of "homoeconomicus". This means the individual possesses psycho-physical characteristics, which were fortified not only by particular professionalism, but also through scientific research, i.e. applied and theoretical and methodological training, which enables the individual to become an active trader. Proceeding from such an arrangement, the economist scientist, garnering this set of characteristics of "homoeconomicus" being a researcher, gives suggestions to the central senior management of complete recommendations from the research of economic processes, and these officials apply them intensively and ingeniously, based on national interests.

We believe that in this situation can be fairly admitted that the consequences fit the requirements and the role of government economic laws. On the other hand, it can be assumed that the use of scientifically proven recommendations can serve as a theoretical and applied basis for formation of contemporary manager's personality (businessmen, entrepreneurs and others).

The achievement of this extremely important issue shall be realized by following the regulation principles of state economy and usage of economic policy concepts of adaptation and social-economic stabilization system which is in transition to a market economy changing conditions. In order to restore production process at the national level there should be elaborated a system of legislative, executive and control measures to combat crisis on sector level and the overall economy disturbances in monetary circulation, creating new jobs, preventing migration and solving many complicated social problems.

The state has plenty of possibilities for economy regulation by means of law, taxes, crediting instruments, fixed capital depreciation rules, custom duties, exchange rate, budgetary expenses and state property. For their optimal and efficient utilization, the government decisions cannot result from particular or group benefits, or interests of the regions of entities, the relationship between central and local authorities, views of certain ministries or departments, state bodies, parties or popular movement.

So far, the practical application of the conceptual requirements and possibilities, their subjectively justified political use, is more likely to be done by the representatives of individual economic interests. This is why these aggregate objective and subjective requirements determine the formation of scientific bases of this concept, which, in turn, generates an acknowledged necessity of change of socio-economic situation, the initial stage of which is to achieve a steady-state national economy as a premise of the concluding phase of transition and development of after-transition period.

Besides that, it should be noted that the increased level of power centralization at the current stage of economic transition has stimulated development of management decisions from the general rules of the game in the past (which, among others, were less affected by corruptibility), to the application of practice making individual decisions today (unfortunately, doomed to failure from the start). Because of this reason, in conditions of bureaucratic activity of modern state, maneuvering levers and final decisions remain in the hands of officials from ministries, with all the consequences that follow.

Special attention deserves the fact that the state apparatus has achieved the ability to manage relatively independently. This is explained by the formation of a specific social bureaucracy group, which changes depending on the outcome of elections and, in this connection, is forming own economic interests and criteria for their activity. It is characteristic for the bureaucracy to show trends towards oligarchic management style, decision making without stakeholders participation and regardless of indicated economic orientation. Meanwhile, it must be taken into account that the great officials have their own large interests and membership in political and economic elite of the country often guides them towards the vested interests of certain group or party. This is particularly evident in the threshold of power change, socio-political structure and, regarding to this, the search for a new social and economic power which may serve as a great social basis for the latter. The radical change of the leading stuff destroys the established relations, interrupt successiveness in public administration and complicate and lengthen the process of forming a new system of formal and informal interaction.

Yet, politicians still have a clear difference comparing to the type "homoeconomicus" in terms bio-psycho-physiological, it is a different kind of politician, a different kind of professional guidance and biosocial nature. Any politician passion, sharing interests of the groups or social classes, practical support and defense, essentially are not compatible, moreover, the "homoeconomicus" activity is contradictory. Otherwise, remain valid question about his ability, in general, to make correct decisions in economic terms, as, doubts arise as to the compliance status of a politician. In a different case, it remains valid the issue about his ability to make correct decisions in economic terms, as, or else, doubts arise as to the compliance of a politician status.

Politicians and in the equal measure – officials from the ministry, having a certain influence on the

scientific community representatives, they must fully correspond to the functional nature of their membership. For this, both as scientist and politician, must overcome vested interests and restore maximum national interests, not only in the social-psychological differences abstract listed, but also according to his ideals, after which they must constantly strive.

The recognition of the concept of the existing different types of socioeconomic representatives from spheres of spirituality – science and politics – building theoretical models of interaction between them, undoubtedly should take the utmost respect and many other human factors in part, and to rely only on one goal of the strategy and socio-political and socio-economic development tactics. There should be activated the collaboration between scientists-economists and government body employees responsible to take political and economic decisions.

In author's opinion, it is indisputable, that namely such an approach allows appeared discordance to be solved and to create a system of proper actions. In the search for the optimal variant it is noticed the common creative work and coordinated establishment of a grade for the scientific paper which reflects the overall national interest.

Elaboration of the social-economic government doctrine which corresponds to the actual situation, that is designed to stimulate economic growth, to regulate workforce employment, to stimulate sector structure developments, to maintain equilibrated budget balance of payments and external balance is possible only by making a compromise between many different interests with the goal to achieve the maximum level of public goods and their fair distribution within the existing social formation.

The study revealed the following conclusions and recommendations:

1. There are analyzed the characteristics, it is valued the relationship "investigation-administration" and specific impediments in the process of implementing the research results, in order to develop and propose methods for enhancing the cooperation between science and administration. It is recommended the key solution for coordinating relation between researchers and public servants, which will contribute to the common interests of the entire economy.

2. However, the planning experience of the research and theoretical and practical paperwork's assessment of the significance is unsatisfactory. The Corrections and editing made by government officials in analytical materials, in forecasts and recommendations developed by scientists, making additions and embodiments in many cases, lead to the protection and promotion of bureaucratic interests, and not the national ones.

3. Politicians and public servants often present arguments and project decisions, which are convenient for those who represent the lobbyists and direct or camouflaged lobbying targets of the political parties. This is why, in the article it is recommended that both the researcher and the politician must arise above the group interests and fully promote the national interest.

4. It is recommended to be acknowledged the concept of existence of different types of socioeconomic representatives of those two spheres of spiritual activity – science and politics. It must be taken, to the maximum into the consideration many other human factors in part, and to focus only on one purpose of the strategy and socio-political and socio-economic development tactics of the country.

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TRANSACTION COSTS – ANALYSIS AT THE FIRM’S LEVEL FROM A FISCAL PERSPECTIVE

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Economic growth implies, at microeconomic level, a process of analysis and adaptation of the business climate, which requires continuous tracking of transaction costs. In this regard, our paper aims at identifying these transaction costs at the firm’s level, respectively the theoretical aspects of transaction costs and their analysis from a fiscal perspective, a comparative analysis of them in Romania and Moldova and some countries in the South East Europe. The methodology used will be a descriptive one, consisting of gathering data and information from the specialized literature and practice. Results of the analysis show that transaction costs, determined in our case, by the costs of compliance with tax legislation, influence the activity of the firm: the higher tax compliance costs are the more transaction costs grow, so the company results will be diminished.

Key words: *transaction costs, firm, administrative costs, tax compliance costs, taxes, tax system.*

Cre terea economic implic la nivel microeconomic un proces de analiz i adaptare a climatului antreprenorial, ceea ce presupune o urm rire permanent a costurilor de tranzac ie. În acest sens, lucrarea noastr are drept scop identificarea acestor costuri de tranzac ie la nivel antreprenorial i, respectiv, studierea aspectelor teoretice privind costurile de tranzac ie la nivelul firmei i analiza lor din perspectiv fiscal , analiza comparativ a acestora în România i Republica Moldova, precum i unele state din Sud-Estul Europei. Metodologia utilizat va fi una de tip descriptiv, constând în culegerea de date i informa ii din literatura de specialitate i din practic . Rezultatele analizei arat c , costurile de tranzac ie, determinate în cazul nostru de costurile cu conformarea legisla iei fiscale, influen eaz activitatea firmei: cu cât costurile de conformare fiscal sunt mai mari, costurile de tranzac ie cresc, deci rezultatele întreprinderii se vor diminua.

Cuvinte-cheie: *costuri de tranzac ie, firm , costuri administrative, costuri de conformare fiscal , taxe, sistem fiscal.*

JEL Classification: D22, H26, H32.

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Introduction. In the economic literature is missing the consensus on the content of transaction costs concept and the most important elements of its components, which partly explains the absence of substantial studies on measuring these costs. Diversity of interpretation relates either to the costs of obtaining information or to opportunistic behaviour of agents, either to concluding and honouring contracts. Lately there have been efforts to widen and specify the components of this concept by expressing the categories of economic activities and bringing them into line with statistical evidence. Also, the economic reality raises a number of issues related to the relationship between transaction costs and period specificity (economic and financial crisis, the actual status of the firm, etc.), and among these specific issues we consider the changes in taxation represent an aspect often invoked by the Romanian practice. Between transaction costs and taxation there is a direct correlation; any fiscal modification causes transaction costs at the enterprise level, costs that often lead to diminishing the entity's financial results.

Transaction costs – analysis at the firm's level from a fiscal perspective. By the transaction costs at the company's level we understand the costs when making transactions, beyond the value of the services that are the subject of transactions. Therefore, regulations or mechanisms that makes the economic exchanges difficult lead to transaction costs.

If an entrepreneur has to comply with numerous bureaucratic procedures to register as a taxpayer, as well as declare and pay the various taxes established in the tax regulations, those circumstances may entail redundancies, delays and additional costs, and trigger unnecessarily high transaction costs. In addition to paying taxes, business owners incur an opportunity cost for the time spent on complying with administrative procedures. This may also lead to the emergence of intermediaries who handle the paperwork, thus making it more costly to open and run a business. Complicated procedures and excessive costs might cause some entrepreneurs to quit and abandon their efforts; others choose to continue, without being subject to all the obligations required, or to operate in the informal sector. In the event, such businesses, in trying to pass unnoticed by the authorities, significantly constrain their own potential for growth and job creation. Informality not only creates uncertainty for businesses and workers, but it also deprives them of access to government support and to the financial sector in general.

Strategies to simplify and lower administrative barriers should, therefore, be properly devised, taking into account the various indirect costs or tax transaction costs that are prompted by tax compliance. Tax transaction costs are the total amount of money spent by society to comply with the tax system. Their main components are the costs borne by taxpayers when complying with their obligations (known as compliance costs) and the costs faced by the tax administration for ensuring compliance by taxpayers (or administrative costs).

Compliance costs include internal and external costs. Internal costs are those associated with the time needed to prepare fiscal data or other requirements of the national tax administrations, accounting software cost used to prepare this information, staff remuneration, training costs, etc. External costs are usually associated with external charges paid to advisors.

Briefly, identifying, measuring and reducing the main components of transaction costs could improve a country's business environment, thereby facilitating tax compliance in the formal sector of the economy and consequently promoting competition, productivity and competitiveness.

Many developing countries are looking for ways to improve their competitiveness and regulatory efficiency. In this context, they have implemented various strategies continuously to upgrade their tax systems. This quest for improvement is usually geared to simplification in the general belief that simpler is better.

Regarding the transaction costs, their reduction may lead to diminishing uncertainty and a better tax compliance. This entails three elements: taxation of different categories of taxes to be paid by the taxpayers as taxes on profits, labour, goods and services; efficiency costs, the manner in which they distort the decisions of economic agents and the way they induce a decline in social well-being; the operating costs of the tax system: the costs to the government (ultimately paid by taxpayers) of administering and collecting taxes, normally referred to as "administrative costs", and costs incurred by taxpayers in complying (or sometimes failing to comply) with their tax obligations, commonly known as "compliance costs".

Transaction costs are basically made up of administrative and tax compliance costs. Administrative costs are those that must be incurred by the tax system's administrator in order to discharge its functions and duties, including: registering taxpayers, carrying out control or auditing programmes, guidance and

assistance services, and so on. The costs most commonly considered are the human resources required; the acquisition of furniture, facilities and computer equipment; and the costs incurred in devising means of helping taxpayers to manage their tax obligations.

Tax compliance costs are those that taxpayers must meet in order to comply with the tax legislation in force. They include not only the acquisition or hiring of the human resources, material and information technology needed to comply with such legislation, but also the cost of the time spent in obtaining the information, assistance and guidance needed for tax compliance. Compliance costs can be divided into: quantifiable economic costs that have a direct impact on taxpayers' income; and non-economic, generally psychological costs, that spring from the need to comply properly with the tax system.

It must be noted that the goal of tax-system simplicity involves reducing the sum of the two costs and should avoid the fact that one of the cost components (administrative costs, for example) is reduced at the expense of lowering the other (compliance costs, for instance). There is a risk of introducing tax measures that do not minimize transaction costs, and thus it is important to understand each of them independently, to quantify them rigorously and to identify how both may be complemented.

From the perspective of the honest taxpayer, simplicity is the principle that the system is simple, easy to understand and easy to comply with. A simple tax system involves few taxes applied to a broad tax base – that is, what is taxed (income, consumption, property) is defined very broadly, without complicated valuation rules; the taxes are stable over time and special cases are not admitted. Administrative simplicity also means limiting “hidden” tax costs (determined by fiscal uncertainty).

It is important to mention that the level of compliance costs tends to vary widely by type of tax. For example, there are cases when it is usually easier to collect value added tax (VAT), but it requires more transactions for the taxpayer. Or, income-tax compliance, though entailing fewer transactions to be declared and paid, tends to be more complex because of the number of exceptions and other considerations that usually prevail, especially in determining the tax base.

Therefore, the size of transaction costs is influenced by the simplicity of the tax system. Basically, a simple tax system involves three areas: simplicity in fiscal policy, simplicity in tax regulations and in tax management.

Below there are presented several reforms that reduce transaction costs:

Table 1

Reforms geared to simplification and reduction of transaction costs

Tax policy	Tax legislation	Tax management
Reduction in the number and type of taxes	Stability of tax regulations	Simplicity of organizational structure
Taxes and simplicity (ex: number of rates)	Extent of tax laws	Simplification, standardization and automation of taxpayer life cycle processes
Number of changes in the tax structure	Clarity of the regulatory regime and simple consultation processes	Focusing on control and examination processes (risk management)
	Judicial claim costs reduction	Simplicity in administrative claims processes
	Consistency between norms at different levels of the hierarchy	Information, assistance and compliance facilitation tools

Source: Barra, 2006, *Simplicidad de los Sistemas de Imposición. El caso de Chile*.

Also we present the measurement of transaction costs at company level:

Table 2

Measuring the transaction costs at enterprise's level

Phase 0. Start-up
Identifying the general context; detailed understanding of the regulatory and administrative framework of the taxes to be analysed. It is important to understand the institutional framework, procedural maturity and political support for a possible reform geared to tax simplification.

Phase 1. Preparatory		
Defining the undertaking's financial resources and training the local technical team. In this phase it is important to analyse the financial viability of hiring an external organization to conduct the survey, as well as the quality of the internal information that will allow the transaction costs to be determined.		
Phase 2. Analysis		
	Step 1.	Identifying the information obligations, requirements and tax transactions, as well as the main internal indicators on the tax cycle
	Step 2.	Identifying the regulations relating to taxes and procedures
	Step 3.	Identifying the segments of firms relevant to the study
	Step 4.	Identifying the target group and transaction frequency
	Step 5.	Identifying related regulations
Phase 3. Measurement		
	Step 6	Measuring compliance costs
	Step 7	Measuring administrative costs
Phase 4. Reports		
	Step 8	National-level extrapolation of the data obtained
	Step 9	Final results report and determination of the simplification plan

Source: CIAT, 2014, Measuring tax transaction costs in small and medium enterprises, United Nation, New York.

In our analysis we will focus on compliance costs (monetary), internal and external, analysis that we realize according to the indicators from Doing Business Report 2016, prepared by the World Bank. These indicators present the evolution of the business environment in the countries analyzed over the previous year 2015. Which they are and what do they mean we can see in the following table:

Table 3

“Doing Business” indicators and their significances

Indicator	Meaning
Starting a business	Procedures, time, cost, minimum paid capital to start a business
Dealing with construction permits	Procedures, time, cost to complete formalities to build a warehouse, quality control and safety mechanisms
Getting electricity	Procedures, time, cost for the connection to the electrical grid, supply reliability and cost of electrical power consumption
Registering property	Procedures, time, cost of transfer property and the land quality management system
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate Governance
Paying taxes	Payments, time and total tax rate for a firm to comply with all tax Regulations
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and strength of the legal framework for insolvency
Labour market regulation	The flexibility of labour force regulation and aspects on work quality

Source: World Bank, Doing Business 2016 report.

As for the situation in Romania and Moldova, according to the report: Romania maintains, in 2015, the 37th place, of 189 countries in the general ranking of the World Bank, and Moldova loses three positions, reaching the 52 rank in 2015, compared to 2014, when it ranked 49.

The indicators analyzed in the report, which represent compliance and administrative costs of the company (transaction costs) are presented in the following table:

Table 4

Indicators in Romania, Moldova and some state in South East Europe

Indicator	Romania	Moldova	Bulgaria	Czech	Hungary	Poland	Slovakia
Starting a business(rank)	45	26	52	93	55	85	68
Procedures(number)	5	4	4	8	4	4	6
Time (days)	8	4	18	5	5	30	1.5
Dealing with construction permits (rank)	105	170	51	127	88	52	84
Getting electricity (rank)	133	104	100	42	117	49	48
Registering property(rank)	64	21	63	37	29	41	5
Getting credit (rank)	7	28	28	28	19	19	42
Protecting minority investors (rank)	57	36	14	57	81	49	88
Paying taxes (rank)	55	78	88	122	95	58	73
Payments (number/year)	14	21	14	8	11	7	10
Time (hours/year)	59	186	23	05	77	71	88
Total tax rate (% of profit)	42	40.2	27	50.4	48.4	40.3	51.2
Trading across borders (rank)	1	33	20	1	1	1	1
Enforcing contracts (rank)	34	67	52	72	23	55	63
Resolving insolvency (rank)	46	60	48	22	65	32	33

Source: World Bank, Doing Business 2016 report.

Therefore, we have: for starting a business, transaction costs are higher in the Czech Republic and the lowest ones in Moldova; for dealing with construction permits, costs are the lowest in Bulgaria and Poland, and the highest in Moldova; at getting electricity, the Czech Republic and Slovakia practice low costs and in Romania these costs are the highest, followed by Hungary; for register property, the smallest costs are in Slovakia, and the highest in Romania; at getting credit, small costs are practicing in Romania, and the highest ones in Slovakia; to protect minority investors, costs are the lowest in Bulgaria, and the highest in Slovakia; for paying taxes Romania is placed the best and highest costs are charged in the Czech Republic. We observe the large number of hours necessary for the payment of taxes in Moldova, which means high costs for companies, as compared with the other countries analyzed; for cross-border transactions, Moldova has the highest costs; at enforcing contracts, Romania ranks after Hungary, which has the lowest costs, at the opposite pole being the Czech Republic, followed by Moldova; for resolving insolvencies the lowest costs are in Czech Republic, and the highest ones in Hungary.

Conclusions Transaction costs represent, for the entrepreneur, everything related to the proper conduct of the firm on the market. These are the costs when making transactions, beyond the value of the services that are the subject of transactions. They include costs related to the company's activity (internal ones) and external costs that are usually associated with charges paid to external advisors. Entrepreneurs are obliged to provide the personnel training necessary for the proper application of the law - which

generates extra costs, and perhaps an unexpected one for the company. The legal provisions are difficult to understand, the company is forced to allocate resources to understanding the legislation, its implementation and ensure compliance.

Other hidden costs could be as follows: cost of the hours that the personnel complete the documents (at first sight, is a normal cost of business, but when changes occur, attention and time to complete documents to comply increase), cost of consultants services.

Also, a different kind of cost, but that can not be quantified in monetary terms, although there are approaches in this regard, is the stress. It plays an important role, considering that bureaucracy and complexity of the tax system and legislation do not allow a clear and simple understanding of measures that a company should have to comply with the law. Stress can be also caused by the fact that the state does not have the personnel trained to provide assistance, so the firm is forced to act as it believes is the best, while being aware of the risk of actions it undertakes.

Perhaps the greatest influence on costs is the fact that the rules change frequently, especially during a financial year, which may affect the company's plans and budget. Tax measures affecting the activities of firms, particularly small firms that can not withstand the market, nor have the means of development. A large business will be less affected, but the small one will have higher losses, mainly due to the lack of resources that can be used to cover these costs.

Compliance costs affect productivity and investment in various ways. On the one hand, a high tax burden imposes extra costs on taxpayers, both individuals and businesses. These costs tend to be higher when the business sector is more informal, a circumstance that in turn induces formal-sector companies to seek legal (or not so legal) "alternatives" in an effort to lower their tax burden, thereby spawning more compliance costs that ultimately will give rise to evasion.

The combination of high taxes, high compliance costs and marked levels of tax evasion distorts firms' investment decisions, reduces market efficiency and prevents governments from investing in essential public services, thereby constraining a society's productive prospects: an unwelcome vicious circle.

When a tax system is complex it can be rejected by taxpayers, because either they do not understand it and, therefore, consider it arbitrary or simply because in view of its complications they choose not to fulfil their obligations. From this perspective, reducing the tax system's complexity and lowering compliance costs may lead to a decline in fraud and corruption, or at least lessen the incentives to engage in such activities.

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FOOD SECURITY IN CONDITIONS OF FINANCIAL AND ECONOMIC CRISIS

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It is well known that in the conditions of financial-economic crisis, food security situation is aggravated. The validity of this axiom is characteristic, in the first place, for less developed countries, economic activities of which is based mainly on the production of agri-industrial commodities with relatively low value-added, reflected in decreased opportunities for investment, attracting foreign capital, etc. A detailed analysis and modern scientific study of the nature of the problem regarding food security is the actual direction of scientific activities. The aim of this work is to identify the true causes that provoke the lack of guaranteed food supply, rigid dependence on food imports and the development of measures of counteraction to all this negative phenomena. During the study of food security problems were used methods of formation of dynamic ranges, methods of comparison, approximation, etc. As the obtained results it should be noted the proposed measures for the accelerated development of the industry of cattle, as well as other types of meat and dairy products, that are designed to replace the massive import of relevant products in order to improve the balance of foreign trade, in the first place, according to the article "Live animals and livestock products".

Key words: Food security, economic crisis, gross capital formation, food cart, import and export of agricultural goods etc.

Este bine cunoscut faptul c în condi iile crizelor economico-financiare problemele ce țin de securitatea alimentară se acutizează . Valabilitatea acestei axiome este caracteristic , în primul rând, pentru rile slab dezvoltate, activitatea economică a c rora este bazat preponderent pe producerea produselor agroindustriale, cu nivel relativ sc zut al valorii ad ugate, ceea ce determină reducerea posibilită ilor pentru activitatea investițională , atragerea capitalului str in etc. Analiza detaliat i cercet rile științifice moderne a esen ei problemei securit ii alimentare constituie o direcție actuală a activit ii tiin ifice. Scopul lucrării îl constituie identificarea cauzelor adev rate de provocare a insecurit ii alimentare, de dependen dur de importul produselor alimentare i elaborarea m surilor de combatere a acestor fenomene negative. În procesul cercetării problemelor securit ii alimentare au fost utilizate metodele de formare a seriilor dinamice, metodele de compara ie, de aproximare etc. În calitate de rezultatele ob inute sunt de men ionat recomand rile tiin ific argumentate de dezvoltare dinamică a sectorului autohton de producere a c rniei de bovine, precum i a altor sectoare de producere a produselor din carne i lapte, destinate s substituie importurile masive ale acestor produse în vederea îmbun t irii balan ei comer ului exterior, în primul rând, la capitolul „Animale vii i produse animaliere”.

Cuvinte-cheie. securitatea alimentară , criza economică , formarea brut de capital, comer ul alimentar de consum, importul i exportul produselor etc.

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JEL Classification: E2, L66, Q02, Q18, Q19.

Introduction. Being an economic system of high level of efficiency, the capitalism, in appreciation of the American scientists [1], is deprived of stability and equilibrium. As a consequence, the economic crises, either of a cyclic nature, or those caused by causal phenomena (like the “theft of the century” – directly from the domestic banking system in the period of 2014-2015) are shaping the base of instability and uncertainty, extremely pronounced, practically in all the main fragments of the national economy. A part apart in this order of ideas is represented by the agri-food areas, which, in recent years, has become heavily dependent on massive imports of food products, the market price of which is raising automatically because of devaluation of the national currency (for example) in the second half of the year 2015.

Analysis of the current food basket of consumption and the elaboration of measures to prevent the worsening of the situation on the market of agri-food products is the main purpose of this article.

The core content. Any economic crisis demands to be treated as a signal of alarm that claims to make changes, often very radical, on the structure of the economic system, on the proportions and/or the disproportions of this system, etc. At the same time, being provoked by some or other shortcomings of general nature, for example, in financial systems, in banking systems, in fiscal or otherwise, any crisis thereafter is reflected by the large branching, damaging the economic status of some or others of the main parts of the national economy, initially having no links with the donor areas of the crisis.

The actual economic and financial crisis, being launched in 2009 and powerfully reinvigorate in the years 2014-2015, along with the devaluation of the moldovan lei at about 35.0 percent, caused the most considerable raise in the price of a whole row of food products on the domestic market of the Republic of Moldova. As a consequence, a wide range of these products, in the first place, those imported, have become even less affordable (from the economic point of view) for a large part of the population of the country, because of their low purchasing power capacities.

Carried out investigations shows us that the structure of the consumed food basket, which at the beginning of the crisis period (2009), was far away from its perfect form, currently it is even more unbalanced [2]. According to our investigation to achieve the level of consumption equal of 3500 Kcal daily in calculation per capita, the volume of production, for example, meat of various kinds should be at the level of 57.6 kg/year per capita. In reality, however, according to the National Bureau of Statistics of the Republic of Moldova, the volume of production of meat of all species of animals and birds (weight after slaughter) is only 32 kg per capita, or 55.6 percent. The considerably deficit is found at the chapter of fish, milk and dairy products, and in some periods at the chapter of vegetables, fruits and berries.

There are established two main sources of coverage of deficit of food, calculated on the base of scientifically proved norms of consumption

The first source is the substitution of food products of animal origin, with the food of phito-(plants) origin, in the first place – with products like bread, fresh pastry, as well as the products of milling (macaroni, grouts, etc.). The explanation of the phenomenon of substitution is a simple one. One thousand kilocalories, for example, in the form of bread or bakery products cost much cheaper for the consumer in comparison with the market price of a thousands of kilocalories in the form of meat or meat products (tab.1). Recall, that in table 1 are reflected consumption dates of food in the calculation at the one person in the average for the national economy.

Table 1

**The composition of the standard (optimal) basket of consumption
in calculation for a person**

to date 01.04.2016

The name of products	monthly use				annual use			The market price, lei/1000 Kcal
	Quantity, kg	The amount of kcalories in the product used	The cost of unit, lei/kg	The total cost per month, lei	Quantity amount, kg	The amount of products in kcalories	The cost of products for a year, lei	
1	2	3	4	5	6	7	8	9
Butter	0,6	4488	90,0	54	7,2	53856	648	12,03
Cheese	0,7	1620	82,50	57,75	8,4	19440	693	35,65
Milk and other dairy	7,5	4200	15,3	114,75	90,0	50400	1377	27,32
Beef	1,5	3270	81,3	121,95	18,0	39240	1463,4	37,29
Pork	1,8	6426	70,4	126,72	21,6	77112	1520,64	19,72
Poultry meat	1,5	3600	40,5	60,75	18,0	43200	729	16,875
Fish	1,5	1650	52,0	78	18,0	19800	936	47,27
The bird's eggs	0,8	1400	12,0	9,6	9,6	16800	115,2	6,86
Other animal products	1,8	4500	70,2	126,36	21,6	54000	1516,32	28,08
Total livestock products	x	31154	x	875,88	X	373848	10510,56	28,11
Bread	15,0	34950	6,0	90	180,0	419400	1080	2,58
Grits	2,23	6852,5	12,5	27,875	26,7	82230	312,5	3,80
Macaroni	1,5	4500	15,0	22,5	18,0	54000	270	5,00
Vegetable oil	0,75	6743	25,0	18,75	9,0	80916	225	2,78
Sugar	1,5	5610	13,50	20,25	18,0	67320	243	3,61
Vegetables and squash	9,0	3150	15,7	141,3	108,0	37800	1695,6	44,86
Potatoes	5,0	4000	8,0	40,0	60,0	48000	480	10,00
Fruits and berries	7,5	3420	15,0	112,5	90,0	41040	1350	32,89
Other phito-products	3,425	10387,5	17,4	59,6	28,8	87346	501,12	5,74
Total phito-products	x	79613	x	622,775	X	918052	7237,22	7,88
Total general	x	110767	x	1498,655	X	1291900	17747,78	13,74

Source: Elaborated by the author based on "Food balance sheets: background information", FAO, statistics division, 2010, "Energy value of food".

If on average for all the consumed food basket at the time of evaluation the market price of a thousand kilocalories was equal to 13,74 lei, then, as data from table 1 is showing, for livestock products (according to the range from the table) the same thousand of kilocalories is assessed at the level of 28,11 lei. Turning to a thousand kilocalories of phito-origin – it costs only 7,88 lei, that means 3.6 times cheaper. The most cheapest kilocalories, by the way, are consumed under the form of bread and bakery products.

Carried out investigations shows us, that a thousand of kilocalories of the existing consumption basket has risen in recent years from 7,13 lei in 2011, up to 13.7 lei in the year 2016, or nearly 92.1% [3]. On the basis of modern methods of assessment regarding the cash flows we can make the conclusion, that the average annual increases of the food price in the past five years has been equal to 13,96%. Being considerably more high in comparison with the average annual level of inflation, raise in prices of food consumption basket normally should contribute to adequate increase of supply of these products.

Regretfully, from the 6 analyzed groups of agri-food and forestry products only group "Fats and oils of animal or vegetable origin" reacted adequately to the raise in prices, domestic producers have been able

to manage the increase of production volumes, including for the export of this group of food products, from 3868,1 \$ in 2000 to 77522,5 \$ in 2014, or more than about 20.0 times.

The level of coverage of import against export in this group of food products currently represent 3,03 lei of export per 1 lei of import, having as a basis of comparison, as has already been mentioned, 1,28 lei export to 1 lei of the import in total on the agri-food and the forestry sector.

The fact of accelerated growth of price of the most energetically rich components of the food basket (animal products) caused considerable increase of both the food basket in general, and the share of food products in the structure of consumption expenditure of households (table 2).

Table 2

**The dynamics of food expenditure in the component
of the consumer basket of households, (%)**

Years	Total	Including	
		urban	Rural
2010	40,8	37,8	44,1
2011	42,5	39,9	45,3
2012	43,2	40,6	46,0
2013	42,8	40,9	44,9
2014	43,8	42,1	45,6

Source: National Bureau of Statistics of the Republic of Moldova.

As the calculations demonstrate, recently the lowest price of a thousand kilocalories has the bread and bakery products. Being heavily subsidized by various forms of the state financial support, this group of food products is currently the cheapest, with the market price for a thousand kilocalories barely 2.58 lei.

At the same time, the limit of consumption of those products is pretty small – about 1.2-1.5 thousand kilocalories daily per capita, the rest of the basket has to be covered with other products, desirable of livestock provenience.

The consumption of these products is ensured, as being already pointed out, mostly on the account of import. It has to be mentioned that Republic of Moldova does not import cheap, low value added food, but mainly products of high added value in both forms of expression – calorific and monetary values. As evidence, can serve the dynamics of import volumes of those products in the period of reformation of the national economy. For comparison in the table below are reflected also the export volumes of those products (tab. 3).

Table 3

Dynamics of export and import of agri-food products, thousands US dollars

Indicators	Years							2014 in % compared to 2000
	2000	2005	2010	2011	2012	2013	2014	
1	2	3	4	5	6	7	8	9
Import								
1. Live animals and animal products	10744,5	57194,1	94747,3	107833,4	130319,9	146800,2	158759,9	14,8 times
2. Vegetable products	25345,6	65022,9	168869,7	199086,6	204596,8	203516,6	195401,7	7,7 times
3. Fats and oils animal or vegetable	2410,2	9885,9	19292,1	25059,2	28376,6	30017,2	25579,4	10,6 times
4. Food products; alcoholic and non alcoholic drinks; tobacco	71233,9	147472,1	308613,1	355805,4	380046,4	403461,6	339584,6	4,8 times
5. Raw hides and skins and tanned leather, furs and products from them	2458,3	69589,6	27427,4	35668,7	30602,0	34213,7	42930,1	17,5 times
6. Wood and wood products (excluding furniture)	9941,7	43624,3	73004,8	88781,2	92623,0	97000,2	102484,6	10,3 times
Total import	122134,2	392788,9	691954,4	812227,5	866564,7	915009,5	864740,3	7,1 times

Export								
1. Live animals and animal products	22793,6	17204,0	26968,9	38042,9	37816,9	37166,5	59732,5	2,6 times
2. Vegetable products	65857,0	131906,7	340715,8	470995,0	360469,6	507045,5	549667,3	8,3 times
3. Fats and oils animal or vegetable	3868,1	37790,6	47584,2	77486,1	89708,7	44040,0	77522,5	20,0 times
4. Food products; alcoholic and non alcoholic drinks; tobacco	198433,4	395970,0	316942,1	330579,1	390885,9	427293,5	278428,7	1,90 times
5. Raw hides and skins and tanned leather, furs and products from them	13056,7	71574,2	24690,4	34668,9	30954,4	33418,1	34680,8	2,7 times
6. Wood and wood products (excluding furniture)	806,5	2290,4	5713,9	10214,4	12188,7	9485,3	8326,0	10,3 times
Total export	304815,3	656735,9	762615,3	961986,4	922024,2	1058448,9	1108357,8	3,6 times
The coefficient of coverage of import agri-food products with export K = Export / Import	2,50	1,67	1,10	1,18	1,06	1,16	1,28	X

Source: National Bureau of Statistics of the Republic of Moldova.

According to the data of table 3 netto-import at the chapter of "Live animals and animal products" in the year 2014 is almost equal to the amount of 100,0 million US dollars, which means an equivalent of almost 20.0 kg of meat, consumed annually in the account at a person.

It has to be mentioned, that currently at the everyone lei of livestock products exported from the Republic of Moldova, imports of these products is equal in the volume of almost 2.7 lei. The explanations, over all heard, that the import is done with the purpose of processing and re-export later, you are devoid of any reasoning. More than 60,0 percent of the massive imports of meat, for example, are directly or after processing sold on the local market.

The development of the livestock sector in the conditions of private households and small or medium-sized enterprises would ensure import substitution at the level of almost 2,0 billion lei annually, in the first place, in the form of meat or meat products, and milk or dairy products.

Along with the bodies of local public administration the resolution of this problem required the massive involvement of the local or foreign investors who are making today massive volumes of import of food products of animal origin.

On the base of data in the table 3 we can conclude, that in the period after the privatization of the agricultural domestic sector (summer 2000), the growth rates of imports of food products have been standing almost 2 times higher in comparison with the growth rates of export of those products. As a consequence, if at the beginning of the analyzed period the coefficient of coverage of import of agro-food products with the export ($K=E/I$) was equal to 2.5, then in the year 2012, for example, it's narrowed down to 1.06. Even if in subsequent years the previous size of this coefficient has been partially restored, the negative trend of the accelerated rhythms of the import of agro-food products remains a reality. It should be noted, firstly, the pace of the alarming growth of imports of livestock products, which, in monetary value constitute between 8-12% each year. If in the past five years (2010-2014) the total exports of those products amounted to around 200 million US dollars, then their import exceeded the amount of 638,5 mln. US dollars, which is 3,2 times more.

In volume the natural import of meat and edible offal of animals (cattle, pork, sheep, goats, horse, donkey, bird etc.) in a single year (2015) constituted more than 22,36 thousand tons. Prices declared by the import (as an example) constituted (Code NCM-0207) – "Meat and edible offal of fowl fresh, chilled or frozen" – 1 dol. US/kg for the CIS countries and 0.7 dol. US/kg for import from the countries of the European Union. Obviously, these prices are much below the production costs of the same products in the Republic of Moldova. As a consequence it is in permanent decline (in the best case – in permanent

stagnation) domestic production sector of livestock products. This observation refers, firstly, to the production of meat and milk, as well as meat and milk products.

General conclusions and recommendations. With all that we are in full market economy, the state in the persons of central and local bodies of public administration should be involved increasingly in solving the problem of the substitution of the massive imports of food products of animal origin.

It is necessary, in the first place, to elaborate and implement in practice a national Program of investments in modern livestock and poultry projects in the conditions of private (family) farms, provided by the considerable financial support from the state. Along with creating new jobs in rural areas, rational use of disposable natural resources, this way of unfolding of events on the food market will ensure and guarantee the improvement of the consumption structure, as well as raising the level of food security of the country entirely.

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**AN ASSESSMENT ON BILATERAL
ECONOMIC RELATIONS TURKEY & AZERBAIJAN**

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‘Azerbaijan’s joy is our joy and Azerbaijan’s sorrow is our sorrow.’
Mustafa Kemal Atatürk

This study shortly deals with bilateral political and economic relations between Turkey and Azerbaijan, of which relations have acquired unique and irreplaceable dimension beyond brotherhood thanks to their common history, culture, religion and language. Within this frame the topic of article, there has been researched in depth as follows: short history of political and diplomatic relations between Azerbaijan and Turkey, bilateral foreign trade of the two states, energy cooperation of Azerbaijan and Turkey, cooperation of Azerbaijan and Turkey in transportation, investment and tourism as well. The topic of article is a current issue. On one hand, the world demands are increasing day by day and on the other hand, the world is shrinking due to fast developing technology and innovations. Considering such, that world we can apperceive the importance of two fields which sometimes interact with each other: energy and transportation. Within this frame, the joint projects of Turkey and Azerbaijan in these fields that will end in the future time have characteristics of creating a big reaction around the world. On this basis, the main aim of study was to reveal the intensive cooperation areas of Turkey and Azerbaijan, their bilateral foreign trade and to find out the problems underlying their bilateral economic relations despite those countries have pretty closed relations. The methodology of research. Literature research, historical method and comparison method have been used for this study.

Key words. Azerbaijan, Turkey, economic, export, import, pipeline, project.

Acest studiu se refer la relațiile politice și economice bilaterale dintre Turcia și Azerbaidjan, care au dobândit dimensiune unică și de neînlocuit dincolo de cooperare, datorită istoriei comune, culturii, religiei și limbii lor. În cadrul temei acestui articol au fost cercetate în profunzime următoarele: scurt istoric al relațiilor politice și diplomatice dintre Azerbaidjan și Turcia, comerțul exterior bilateral al celor două state, cooperarea în domeniul energetic dintre Azerbaidjan și Turcia, precum și cooperarea dintre Azerbaidjan și Turcia în domeniile transportului, investițiilor și turismului. Tema articolului este actuală. Pe de o parte, cererile mondiale sunt în creștere zi de zi, pe de altă parte, omenirea se schimbă datorită dezvoltării rapide a tehnologiei și inovațiilor. Având în vedere acest fapt, noi înțelegem importanța acestor două domenii, care uneori interacționează unul cu celălalt: energia electrică și transportul. În acest context, proiectele comune dintre Turcia și Azerbaidjan în aceste domenii, care se vor încheia în perioada următoare, au caracteristici de a crea o mare reacție în jurul lumii. Astfel, obiectivul principal al studiului a fost de a dezvălui domeniile de cooperare intensivă dintre Turcia și Azerbaidjan, comerțul lor exterior bilateral și de a identifica problemele, care stau la baza relațiilor economice bilaterale, în ciuda faptului, că aceste țări au relații destul de închise. Metodologia cercetării. Studiul literaturii, metoda istorică și metoda comparației au fost utilizate în acest studiu.

Cuvinte-cheie. Azerbaidjan, Turcia, economice, export, import, conducte, proiecte.

JEL Classification: F00, F15, F42, P45.

Literature research. Literature research has been used as the first stage for subject determination and content creation. Within this frame various articles, books, news, reports, statistics and web-sites of public authorities related to given article have been used via internet access.

Historical method. The method has been used to ascertain the general development process of bilateral relations between Turkey and Azerbaijan. Within this frame, the first steps of bilateral relations took place during the Ottoman Period exactly in 1514. The Battle of Baku in 1918 was the turning point at bilateral relations. Turkish support to Azerbaijani people during this war laid the foundations of current closed relations. During the Soviet Union period, their relations continued thanks to official visits of Turkish authorities despite they were part of different blocks. When examining the current republic period, Turkey was the first country which recognized Azerbaijan's independency after dissolution of the Soviet Union. In this manner, the first steps of bilateral relations in the new era were taken in 1992. Until today, numerous bilateral cooperation agreements in various fields have been signed by both sides. Today Azerbaijan and Turkey are strategic partners and they are cooperating mostly on energy.

Comparison method. This method has been used to reveal the changes in economic indicators and to analyse the reasons behind these changes. On this basis, despite a visible development captured at bilateral foreign trade volume taking into account the last 15 years, there was seen an irregularity considering the last five years. Within this frame, bilateral foreign trade volume was 326 million US\$ in 2000 while it reached up to 2.1 billion US\$ in 2015. But it was 3.2 billion US\$ in 2013 that shows us a visible decline. On the other hand, together with border trade and shuttle trade it is reaching to 4 billion US\$ in the recent period, yet it is not a desired level for both sides. High tariff rates, Russia's dominance on Turkish and Azerbaijani markets are some of the main reasons of that undesired level. In addition to this, tourism is an important part of economy. When examined investment, the total Turkish investments in Azerbaijan are around 9 billion US\$, while Azerbaijan's investments in Turkey are around 4 billion US\$. Accordingly, Turkish investments are twice as much in comparison with Azerbaijani. But contrary to this number, Turkish tourists visiting Azerbaijani are almost twice less than Azerbaijani tourists visiting Turkey.

Introduction. Alliance, cooperation, partnership, created by closed relations are pretty necessary within the current international arena, where states always support each other through cooperation either materially and spiritually or in case of military violence. Accordingly having strong friend or even brother country for a state is an unavoidable fact under these circumstances what makes it stronger.

"We are one nation with two states", said the third President of Azerbaijan H.E. Heydar Aliyev for Turkey. Friendship between Turkey and Azerbaijan arising from common culture, history, language, religion and mutual support as well as mutual understanding has transformed quickly into the brotherhood in time that lended credence to the statement of H.E. Heydar Aliyev. That is why the current brotherhood between Turkey and Azerbaijan should be considered as one of the best and the most successful of bilateral relations that can be a model to the world. Also, it can be counted as the most successful foreign policy of both Turkey and Azerbaijan. They have always supported each other and they have always attached special importance to each other which could be seen both in the past and today.

The reflection of brotherhood can be seen in bilateral relations at different fields through the signed cooperation agreements and joint projects that will be actualized in a couple of years. Today Azerbaijan and Turkey are Strategic Partners. Bilateral foreign trade is not at a low level, despite it is under the desired level for both Turkey and Azerbaijan. On the other hand, they are cooperating in energy and transportation fields intensively. The routes of the Trans-Anatolian Pipeline project and the Kars-Tbilisi-Baku Railway project offer alternative options in energy, energy transportation and railway transportation

affecting the foreign trade and tourism that can change epochal the economic indicators as well as the balances in their own fields.

An irreplaceable brotherhood. Bilateral relations of Turkey and Azerbaijan are dated back to 1514, to the Ottoman Empire, when Azerbaijan had been conquered firstly by Sultan Selim I during the Battle of Chaldiran, nevertheless it had been out of the Empire's power after a while that had changed hands with Iran a few times. Finally, Azerbaijan has been conquered for certain by Ottoman statesman and military commander Osman Pasha in 1585 which has been under the control of Ottoman Administration until 1734 during 149 years.

Nader Shah is known as founder of Afsharid dynasty (The Afsharid Dynasty was member of Iranian Dynasty of Turkish origin specifically Ashar tribe (Oguz Turks) from Khorasan, who ruled Persia in the 18th century) and Shah of Persia, who was one of the most powerful rulers in Iranian history took back Azerbaijan from Ottoman Empire. Then Ottoman Empire's staying in the region was hindered by the Russian Empire and the Safavid Dynasty (The Safavid Dynasty was one of the most significant dynasties of Persia) therefore, Ottomans left region. After that, Azerbaijan was divided into small khanates and independent khanets such as Baku, Ganja, Karabagh, Shirvan, Sheki, Yerevan, Quba, Talish that were established in Azerbaijani region. The northern Azerbaijani khanets were not shared between the Ottoman and Russian Empires and Persia, which in the meantime had maintained their independence during a century. Finally, they were shared between Russia and Iran by the Treaty of Turkmenchay in 1828.

Political environment in Azerbaijan got a move after the Russian Revolution of 1905. The Musavat (Equality) Party was established in 1911. The February Revolution known as part of the Russian Revolution of 1917 and existence of the Ottoman Empire at Caucasia led Ottomans and the Musavat Party to make an alliance. In the meantime, Azerbaijan, Georgia and Armenia took a step for establishment of a possible Transcaucasian Federation, however, it didn't happen due to ethnical and religious discrepancies.

An independent Republic of Azerbaijan was established in May 1918, whose which capital was Ganja. Then Baku which was under the governance of Bolsheviks was captured by Azerbaijan Democratic Republic (ADR) forces with the help of Ottoman Empire Army who made Baku the capital. British Empire forces, together with Baku Commune, Centrocaspian Dictatorship and White Army occupied Baku in August 1918 who were fended off by ADR and the Islamic Army of the Caucasus (The Islamic Army of the Caucasus was a military unit of the Ottoman Empire formed on 10 July 1918 by the Ottoman Minister of War Enver Pasha which played a big role during the Caucasus Campaign of World War I). As is known to all this event was the Battle of Baku, known as the conclusive part of Caucasus Campaign and the beginning of Armenian-Azerbaijani War.

As stated above, the Independent Republic of Azerbaijan was established in 1918. After the Battle of Baku, British troops reentered to Baku and hold the republic under their control until August 1919, when they left the city at own requests. The new republic de facto was recognized by the Allied Powers on 15 January 1920. The Red Army occupied Azerbaijan in April 1920. Within the same month, Azerbaijan Soviet Socialist Republic was established, which participated to Transcaucasian Socialist Federative Soviet Republic in 1922. Azerbaijan became a republic of the Union of Soviet Socialist Republics on 5 December 1936 [1].

In the meantime, the Ottoman Empire was living its last years. It has tired out because of World War I and has been totally occupied by enemies. That is why in such chaotic years with regard to Turkish nation, Turks were preparing to enter to another war known as the Turkish War of Independence on 19 May 1919 under the leadership of Turkish army officer, revolutionary and the first president of Turkey H.E. Mustafa Kemal Ataturk. It concluded on 23 April 1923 with Turkish victory, dissolution of the Ottoman Empire and establishment of the Republic of Turkey.

The Battle of Baku was a turning point at bilateral relations in that period. The Ottoman Empire Army came to Azerbaijan to provide aid and save Baku. Then Azerbaijan had provided aid materially and morally to Turkish people during the Turkish War of Independence. In this manner, alongside of friendship arising from both Azerbaijan's being under the control of the Ottoman Empire and common origin, language, religion, similar culture and traditions the first steps of current brotherhood have been taken at that period.

As concerns the republic period of both sides, bilateral relations date back to the Cold War period exactly to the end of 1960s, when Turkey's former prime minister and president of that period H.E. Suleyman Demirel and H.E. Cevdet Sunay paid visits to Azerbaijan. Those visits played a big role at quality determination of bilateral relations [5]. It is necessary to remind that during the Cold War period

the world order consisted of two blocks: western and eastern and there were two super-powers: United States and Soviet Union. In this context, Turkey had turned its face to the West and had adopted western-oriented policies contrary to Azerbaijan. As stated above, Azerbaijan was one of the Union of Soviet Socialist Republics. Accordingly, there hasn't been seen a visible development at bilateral relations between Turkey and Azerbaijan as well as other Soviet Union republics during the cold war period even so, thanks to common historical and cultural heritage together with visits bilateral relations haven't come neither to a breakaway point nor a breaking point.

Azerbaijan had followed policies of "glasnost and perestroika" (The term "Glasnost" means "openness" and was the name for the social and political reforms to bestow more rights and freedoms upon the Soviet people. Its goals were to include more people in the political process through freedom of expression. Perestroika refers to the reconstruction of the political and economic system established by the Communist Party. Politically, contested elections were introduced to reflect the democratic practices of Western society and allow citizens to have a slight say in government. Economically, Perestroika called for de-monopolization and some semi-private businesses to function, ending the price controls established by the government for the past seven decades. The goal was to create a semi-free market system, reflecting successful capitalist practices in the economies of Germany, Japan, and the United States. These policies were created by the last leader of of the Union of Soviet Socialist Republics Mikhail Gorbachev. <http://www.coldwar.org/articles/80s/glasnostandperestroika.asp>) during the cold war period and gained its independence on 1 September 1991. Then Soviet Union collapsed on 26 December 1991. Turkey was the first country that recognized Azerbaijan's independence on 9 November 1991. Diplomatic relations between the both sides were established on 14 January 1992 by a protocol through which consulate general of Turkey in Azerbaijan was stepped up to embassy level. Embassy of Turkey has been operating since then and Embassy of Azerbaijan in Turkey has been operating actively since August 1992.

"We are one nation with two states" said the third president of Azerbaijan H.E. Heydar Aliyev in 1993. Bilateral political, economic, social and military relations between the two brotherly and friendly states have been continuing very well, that reveal the trueness of Heydar Aliyev's statement. Within this frame alongside of numerous mutual high-level visits there are lots of mutually signed agreements and protocols on different fields. Some of them have been specified below by years:

- Agreement on Trade and Economic Cooperation (January 2, 1992);
- Treaty of Friendship, Good-Neighborliness and Cooperation between the Republic of Turkey and the Republic of Azerbaijan (January 24, 1992);
- Black Sea Economic Cooperation (BSEC) Agreement on Education, Culture and Communication Agreement (March 6, 1993);
- Agreement on Cooperation in the Fields of Science, Technique, Social, Culture and Economy (February 9, 1994);
- Agreement on Promotion and Mutual Protection of Investments (April 4, 1994);
- Double Taxation Avoidance Agreement (April 9, 1994);
- Turkey-Azerbaijan Social Security Agreement (July 17, 1998);
- The Second Protocol of Joint Economic Commission (January 31, 2002);
- Agreement on Cooperation between Azerbaijan and Turkey in the Field of Environment Security (October 14, 2004);
- Cooperation and Partnership Agreement (November 6, 2007)
- Memorandum of Cooperation between the Family and Social Policies Ministry of Republic of Turkey and State Committee for Family, Women and Children Affairs of Azerbaijani Republic (February 4, 2008);
- The Long-term Programme on Economic and Trade Cooperation and the Performance Plan (February 18, 2008) [6].

On the other hand, Agreement on Strategic Partnership and Mutual Assistance between Azerbaijan and Turkey came to the conclusion on 16 August 2010 during the former President of Turkey H.E. Mr. Abdullah Gul's Azerbaijan visit. Also, Turkey and Azerbaijan signed a common statement on establishment of High-level Strategic Partnership Council (HSPC) during the 10th Summit of Turkic-speaking Countries. Hence the first HSPC Summit was held on 25 October 2011 and the last Summit was held on 16 March 2016 in Ankara.

The legal infrastructure keeps bilateral relations alive. In this context through important instruments

such as bilateral cooperation agreements and partnership councils at different fields, Turkey has established and developed its cooperation mechanisms as well as bilateral relations. Considering above-mentioned agreements between Turkey and Azerbaijan, we can talk about the provided legal infrastructures at political, economic and social fields between two countries. Besides the High-level Strategic Partnership Council adds another dimension to bilateral relations of Turkey and Azerbaijan, which is still developing at lots of fields. Within this frame, great numbers of bilateral cooperation agreements have been signed during the HSPC Summits. For example, five critical cooperation agreements were signed by both countries alone at the last summit in 2016. These are “Protocol on the exchange of military and civilian personnel for social and cultural purposes between the Republic of Azerbaijan and the Republic of Turkey”, “The Agreement on paid employment of family members of employees of diplomatic missions and consulates General of the Government of the Republic of Azerbaijan and the Government of the Republic of Turkey”, “The Agreement on cooperation between the Ministry of Justice of the Republic of Azerbaijan and the Ministry of Interior of the Republic of Turkey in the field of forensic science”, “The Agreement on mutual recognition and amendment of driving licenses between the Government of the Republic of Azerbaijan and the Government of the Republic of Turkey” and finally “Protocol on technical cooperation between the Government of the Republic of Azerbaijan and the Government of the Republic of Turkey” [2]. All these developments at bilateral relations highlight that Turkey and Azerbaijan cooperate not only politically and economically but also socially and militarily.

On the other hand, both Turkey and Azerbaijan play a leading role in development of cooperation forums, through which regional subjects are discussed. Within this frame, the Threelateral Meeting of the Ministers of Foreign Affairs of Turkey-Iran-Azerbaijan’s role is very important. The last meeting was held on 5 April 2016 in Iran. The main aim of the meeting is the regional development. Accordingly, talks continue in the direction of exchange opinions on regional issues, contribution to the development of cooperation understanding on the basis of mutual advantage and the strengthening of regional prosperity, stability as well as security.

In respect to global dimension, Turkey and Azerbaijan meet at different international organizations as members, through which they can discuss and deal with both bilateral relations, national problems or global developments entirely. Both countries are members of Council of Europe (CE), United Nations (UN), Interpol, Organisation of Islamic Cooperation (OIC), Turkic Council (TC), Economic Cooperation Organization (ECO), Black Sea Economic Cooperation Organization (BSEC), International Monetary Fund (IMF), World Bank (WB), Organization of the Eurasian Law Enforcement Agencies with Military Status (TAKM), (Organization of the Eurasian Law Enforcement Agencies with Military Status (TAKM) is an international organization of three Turkic countries alongside of Mongolia: Turkey, Azerbaijan and Kyrgyzstan which established on 25 January 2013 in Baku. Its main aim is to develop cooperation and solidarity between the law enforcement agencies with military status), Organization for Security and Cooperation in Europe (OSCE) and etc.

Within this frame, Turkey joins actively to the Minsk Group that was established by OSCE to seek a peaceful, fair and permanent solution for Azerbaijan and Armenia’s Nagorno-Karabakh conflict (Nagorno-Karabakh Autonomus Oblasti (currently Nagorno-Karabakh Republic) is an autonomus region established by the Soviet Union within the territories of Azerbaijan Soviet Socialist Republic in 1923. An ethnical conflict had started between Armenians who wanted to add the region to Armenian Soviet Socialist Republic and Azerbaijani who didn’t accept it during the recent years of the Soviet Union which had turned into hot war in 1988 and had continued until 1994. Numerous genocides had been lived during the war. Today Nagorno-Karabakh is internationally recognized as part of Azerbaijan, which is de facto under the domination of Nagorno-Karabakh Republic. Today it isn’t recognized neither by any country and international organizations as a result of occupation of the region by Armenian Armed Forces. The last armed conflict was seen between Azerbaijani and Armenian forces on 2 April 2016. After two days a new ceasefire was declared) in 1992, which is known as the most important foreign policy problem of Azerbaijan. Turkey has been keeping closed its Armenian border gate since 1993 due to the Armenian occupation of Azerbaijani territories. Turkey continues to consider OSCE Minsk Group process as an appropriate platform for conflict’s solution and believes that creative initiatives contribute and land assistance for solution [10].

Bilateral foreign trade is under its potential. Azerbaijan like all former republics of the Soviet Union encountered with important political, military, social and economic problems after gaining its independence in 1991. Production in Azerbaijan came to a stopping point due to reasons as collapse of the

economic structure, which obligated systematical dependency between the republics in the Soviet Union period, lack of economic, political and legal infrastructure as well as free market model and having old technology. Accordingly, it slogged on during the transitional period to the free market economy.

After providing political stability and ceasefire with Armenia, Azerbaijan has started to focus on its economy. It has fastly adapted innovations and has achieved to go through difficulties despite its import ways of intermediate goods for industry that have closed due to reasons as dissolution of economic structuring together with the Soviet Union based on experting, distribution of labour and Armenian war. Today, Azerbaijan is the world's 76th largest economy by nominal Gross Domestic Product (GDP) and the 66th largest economy by GDP per capita (PPP).

In the meantime, Turkey has stopped import-substituting economy policies to move its capital movement to international level and has started to apply outward-oriented economy policies since 1980s through which it developed its economy and improved its bilateral economic relations. Also together with the other applied reforms, Turkey is one of the World's 20 major economies today (18th by nominal GDP, 17th by GDP ppp).

As stated above, Turkey was the first country that recognized Azerbaijan's independence and Azerbaijani-Turkish diplomatic relations were established at the beginning of 1992. In those years, Azerbaijan was struggling with hot war. After establishment of diplomatic relations with Azerbaijan, Turkey also started to attach importance to the Azerbaijan's autonomous region -Nakhchivan. Within this frame, the Mutual Cooperation Protocol was signed in March 1992, during the visit of the 3rd President of Azerbaijan H.E. Heydar Aliyev who served as the chairman of the Supreme Assembly of Nakhchivan Autonomus Republic in that period. By this means, Turkey firstly provided economic, financial and technical assistance to Nakhchivan by giving credit valued at 100 million US\$ and by educating 100 students per annum in Turkey. In this manner, first steps of bilateral economic relations also have taken. Besides total amount of the bilateral official development assistance provided by Turkey to Azerbaijan is 320 million US\$ considering the last 12 years.

Within the frame of bilateral economic relations, foreign trade should be considered as one of the main items. In this context, when we generally observe the foreign trade indicators, we can see a regular development by taking into consideration the 5-year periods. Within this scope, bilateral foreign trade volume of Turkey and Azerbaijani was 326 million US\$ in 2000 and increased twice as much, up to 800 million US\$ in 2005 that was counted as 2.4 billion US\$ in 2010 and with a small decline reached to 2.1 billion US\$ in 2015 (See Table 1).

Table 1

Bilateral foreign trade of Turkey and Azerbaijan (million USD)

Years	Export	Import	Volume	Balance
2000	230	95	326	134
2005	528	272	800	255
2010	1.551	865	2.416	686
2011	2.064	262	2.326	1.802
2012	2.587	340	2.927	2.247
2013	2.961	334	3.294	2.627
2014	2.876	291	3.167	2.585
2015	1.899	232	2.131	1.667
2015 (January-March)	530	48	578	482
2016 (January-March)	233	64	297	169

Source: Turkish Statistical Institute, 2016. Access: <http://www.turkstat.gov.tr>

But contrary to the general development there has been seen an irregularity at foreign trade indicators taking into account the last 5 years. Bilateral foreign trade volume of Turkey and Azerbaijan was 2.4 billion USD in 2010 and it fell down to 2.3 in 2011. Then it showed a noticeable increase in 2012 and reached up to 3.1 billion USD in 2014. Finally, in 2015 it showed a visible decline valued at 2.131 billion USD. Decline is prominently remaining in the first quarter (Q1) of 2016 in comparison with Q1 of

the previous year.

Even if both Turkey and Azerbaijan have closed and brother relations, bilateral trade volume couldn't catch the desired level. Foreign trade of the two countries falls behind its potential due to high tariff rates. In addition to this, the lack of a direct route is an expensive problem. Export of Turkish goods to Azerbaijan is provided via Georgia or Iran that requires high transport fees (See Map 1).



Map 1. Current Borders of Turkey, Azerbaijan, Georgia and Iran

Source: Wikimedia Commons, 2016. Access: <https://commons.wikimedia.org/>

With reference to tariff rates, Russia has an important advantage at Azerbaijan's import because it provides exportation of goods duty free. Besides EU is the largest trading partner and Russia is one of top 3 trading partners of both sides. Accordingly, Russia's dominance at foreign trade of Azerbaijan and Turkey's EU-Turkey Customs Union prevents improvement of Azerbaijan-Turkish foreign trade.

As stated above, Azerbaijan went through difficulties during the transition period to the free market economy. Oil and natural gas reserves played an important role at this situation. Azerbaijan invested in energy field and has entered to the new period since 2005, when oil incomes firstly reflected on the national revenue.

Accordingly, United Kingdom because of British Petroleum (BP) and United States because of oil investments come to the forefront at Azerbaijan's import, however Turkey maintains its importance in the meaning of product range. Even though trade between the two countries doesn't exactly reflect on statistics due to shuttle trade and border trade, it has a potential that will increase considerably in the future [6].

Including the shuttle trade and the border trade bilateral foreign trade volume of Turkey and Azerbaijan reaches around 4 billion US\$ in the recent period, which is under potential for both parties as mentioned above. In this context two countries aim to increase it up to 10 billion US\$ in the short term, exactly in 2017 [12].

With reference to export and import, Turkish export to Azerbaijan has had a showing tendency to increase since 1993 excluding 2014-2015 period through recognition of Turkish goods in Azerbaijan, low quality export goods of Iran known as one of the most important trade partners of Azerbaijan in comparison with Turkish export goods, import of Turkish companies from Turkey to open branches in Azerbaijan and marketing of these goods in domestic markets.

The main items of Turkish export to Azerbaijan are machines and mechanical devices and their spare parts, electrical machines and devices and their spare parts, furnitures, automotive, optical instruments and devices, motor land vehicles and their spare parts, mineral fuels, oil and its derivatives. When these products are converted into numbers, 86.69% of industry products, 9.02% of agricultural products, 2.93% of mining products and the rest of 1.35% of other products are creating the Turkish export.

Besides that, Turkey has export potential at another items such as salt, sulphur, stone, plaster and cement, paper, cardboard and its finished goods, soap, fruits and vegetables. On the other hand, export opportunities of hospital and medical equipments based on investments in health services which have become important recently and export opportunities of consultancy on environmental health and the construction business are evaluated within the frame of export potential.

As regards import, the main items of Turkish import from Azerbaijan are mining products, industrial commodities, agricultural products, fruits and vegetables. If we convert these products into

numbers, Azerbaijani import consists of 94% of mining products- mostly natural gas, 5.17% of industrial commodities, and the rest of 0.78% consists of agricultural and other products. Azerbaijani import doesn't have much varieties in comparison with Turkish export. Turkey mostly imports natural gas from Azerbaijan and other import goods are mainly raw materials such as copper, aluminium, cotton and intermediate goods alongside agricultural products [6].

On the other hand, Turkey is the 5th biggest trading partner of Azerbaijan after US, Italy, Germany and Russia. Besides Turkey ranks the 14th at Azerbaijani export, while it takes the second place at its import.

Energy cooperation could change balances. Energy trade including oil and natural gas and its transportation could be considered as an important element of foreign trade. As it is known to all, the determining factor of Azerbaijani foreign trade is energy. Oil and natural gas have 90% share in export of Azerbaijan, while finished products create 80% of Azerbaijani import. Within this frame, Azerbaijan's proven oil reserves are 7 billion barrels as of 2014 and its proven natural gas reserves are 991 billion cubic metres. Accordingly, Azerbaijani budget in this context depends on energy income.

Considering the energy outlook of Turkey, it is a foreign-dependent country in terms of oil and natural gas. According to Turkish Statistical Institute, Turkey imports 92% of crude oil. Besides Turkey imported 25 million tons of crude oil alone in 2015 that increased 43% comparing with the previous year. The reason of it is the increase of crude oil import from Iraq. In 2015, Turkey received 45.6% crude oil from Iraq which is two times more in comparison with 2014. Then Iran by 22.4%, Russia by 12.4%, Saudi Arabia by 9.6%, Colombia by 3.5%, Kazakhstan by 2.6% and Nigeria by 2.1% followed Iraq [3].

On the other hand, Turkey imports almost 99% of natural gas. Alongside of utilized natural gas towards heating, Turkey produces electricity by using 48% of natural gas. Additionally, if we observe the sectoral distribution of natural gas consumed by Turkey, the remaining is utilized 25% in industry, 19% in residence, 6% in services and 2% in other sectors including energy and transportation. Turkey was the second country after China in terms of growth of natural gas demand. Turkey imported approximately 51 billion cubic metres of natural gas alone in 2015. Also it mainly imported natural gas from Russia with 58%, then from Iran (18%), Azerbaijan (12%), Algeria (7.7%), Nigeria (2.4%) and imported 1.9% of natural gas as LNG and spot market [9].

Approximately 50% of the total income of Azerbaijani budget is provided from oil exportation and a large scale of income from natural gas exportation contributes to public revenue. Accordingly, pipelines to transport energy products are important for such a country that depends on energy.

On the other hand, Turkey has a potential to be an energy hub thanks to its geostrategical location. As is known to all Turkey has a gate status opening to Europe and Asia. Accordingly, in energy field Turkey benefits from its location. While the west of Turkey consists of energy importing countries, the east of Turkey composed of energy exporting countries. In this context, Turkey is neighbouring with the Central Asia, Caspian Sea region, the Middle East and the South Mediterranean Sea region which have more than 75% of the world's total hydrocarbon energy reserves. Turkey exists on the junction point of the East-West and North-South energy routes. That is why Turkey evaluates that important advantage by developing pipeline projects both to meet its energy need to a certain degree and to be an energy bridge transporting natural rich sources to the world markets.

Within this frame, Turkey and Azerbaijan cooperate both in energy trade and its transportation. As stated above, Turkey imports 12% of natural gas from Azerbaijan, which places it in top 3 oil importers of Turkey. Also within the frame of energy transportation the two countries cooperate notably through the Baku-Tbilisi-Ceyhan Pipeline, the South Caucasus Pipeline and the Trans Anatolian Natural Gas Pipeline.

Turkey becomes an intermediary through the Baku-Tbilisi-Ceyhan Pipeline (BTC). The Baku-Tbilisi-Ceyhan Pipeline is a crude oil pipeline with 1768 km length, connecting Baku and Ceyhan. Oil is carried from the Azeri-Chirag-Guneshli oil field in the Caspian Sea to the port on the South-eastern coast of the Mediterranean Sea in Turkey via Tbilisi (See Map 2). BTC was officially opened on 13 July 2006 in Turkey while it was opened in Baku on 25 May 2005 and the first oil reached to Ceyhan from Baku on 28 May 2006.



Map 2. BTC Pipeline Route

Source: The Free Encyclopedia Wikipedia, 2016. Access: <https://en.wikipedia.org/>

The BTC is called as the 21st century's Silk Road. Crude oil is coming to Ceyhan from Baku via Georgia through pipeline and from there it is transported to the world markets by tankers. The total length of pipeline is 1768 km of which 443 km exists in Azerbaijan and 249 km is located in Georgia. Accordingly, Turkey has the tallest part of the pipeline.

On the other hand, pipeline has a capacity to carry 1 billion barrels in a day. Since the beginning of the pipeline's operation, more than 2 billion barrels of crude oil have been carried and have been delivered by more than 2.600 tankers to the world markets. While the cost of project was about 3 billion US\$, Turkish income from the pipeline passed over 3 billion Turkish Liras (more than 1 billion US\$ as of today).

BTC Pipeline has 11 shareholders. The biggest one is BP with 30.1% is followed by State Oil Company of Azerbaijan (SOCAR) with 25%. Turkish Petroleum Corporation has 6.75% of share [7].

BTC was the source of inspiration in a way to construct new transport pipeline route, which is known as South Caucasus or Baku-Tbilisi-Erzurum Pipeline (BTE Pipeline). It is a natural gas pipeline that carries natural gas from Shah Deniz gas field in Azerbaijan to Turkey. It has been running parallel to the BTC pipeline. In this manner pipeline connects Azerbaijani, Turkey and Georgia as well (See Map 3).



Map 3. BTE Pipeline Route

Source: The Free Encyclopedia Wikipedia, 2016. Access: <https://en.wikipedia.org/>

BTE pipeline has been operating since July 2007. Its construction began in 2003. Its length is approximately 696 km. It was aimed to supply Azerbaijani natural gas to Turkey and Georgia at the first stage, however it was designed with larger capacity to supply and export natural gas from Azerbaijan to Europe via Turkey. Within this frame, via Turkey-Greece Interconnector (Nagorno-Karabakh Autonomous Oblasti (currently Nagorno-Karabakh Republic) is an autonomus region established by the Soviet Union

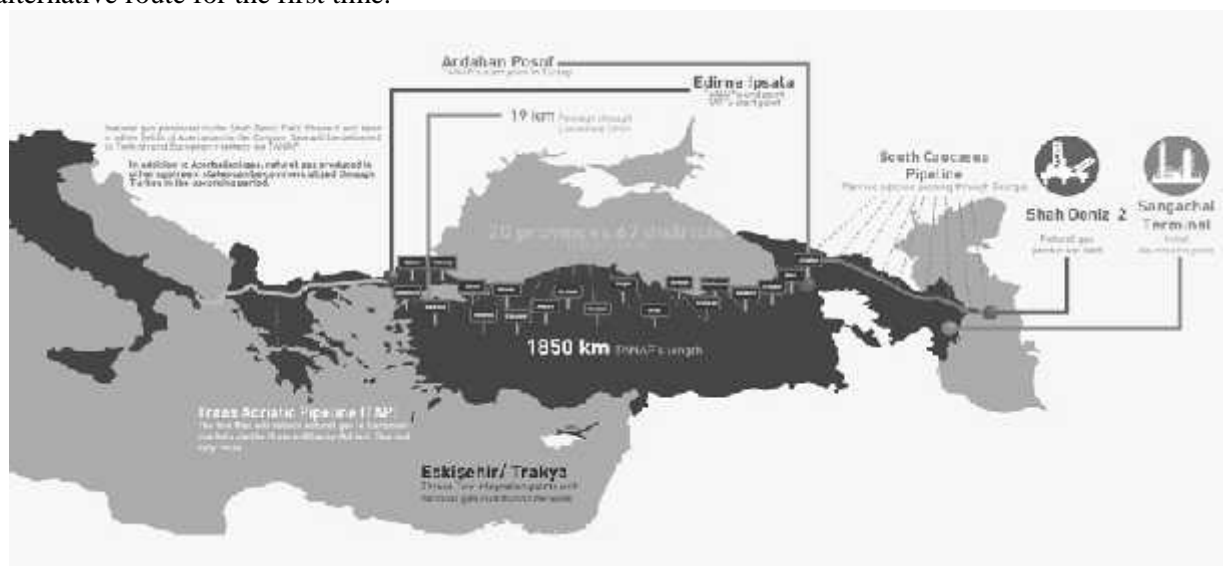
within the territories of Azerbaijan Soviet Socialist Republic in 1923. An ethnic conflict had started between Armenians who wanted to add the region to Armenian Soviet Socialist Republic and Azerbaijani who didn't accept it during the recent years of the Soviet Union which had turned into hot war in 1988 and had continued until 1994. Numerous genocides had been lived during the war. Today Nagorno-Karabakh is internationally recognized as part of Azerbaijan, which is de facto under the domination of Nagorno-Karabakh Republic. Today it isn't recognized neither by any country and international organizations as a result of occupation of the region by Armenian Armed Forces. The last armed conflict was seen between Azerbaijani and Armenian forces on 2 April 2016. After two days a new ceasefire was declared).

Azerbaijani natural gas for the first time has been exported to Europe through mentioned pipeline that can be considered as an alternative. BTE pipeline has capacity to bring 16 billion cubic meters annually. Additionally, there is an opportunity to increase that capacity through technical changes.

After construction of the BTE pipeline, Turkey annually received natural gas from Azerbaijan in the amount of 6.6 billion cubic meters. Natural gas from Azerbaijan is more economic in comparison with Russian and Iranian natural gas. Iranian natural gas is the most expensive one. Within this frame, as of 2015, Turkey received natural gas from Iran in the amount of 490 US\$ per thousand cubic meters, from Russia 335 US\$ per thousand cubic meters and from Azerbaijan 335 US\$ per thousand cubic meters [4].

With regards to shareholders, BTE pipeline is owned by the South Caucasus Pipeline Company known as consortium led by BP and SOCAR. The main shareholders of consortium are obviously BP with 28.8% share, Turkish Petroleum Corporation with 19% share and SOCAR with 16.7% share.

Another Azerbaijani-Turkish cooperative energy project known as the Silk Road of Energy is the Trans-Anatolian Natural Gas Pipeline (TANAP). It's a natural gas pipeline that brings Azerbaijani natural gas to Europe through Turkey and Georgia (See Map 4). Accordingly, a large quantity of Caspian gas notably Azerbaijani gas will have been carried to western markets through TANAP considered as alternative route for the first time.



Map 4. Route of TANAP Project

Source: TANAP, 2016. Access: <http://www.tanap.com/>

This project aims to bring natural gas produced at Shah Deniz 2 Field and other fields of the Caspian Sea primarily to Turkey then to Europe. TANAP forms the Southern Gas Corridor by merging with the BTC pipeline and the Trans Adriatic Pipeline (TAP), (Turkey-Greece Interconnector is a first stage of Southern Gas Corridor developed within the context of EU's Programme „Interstate Oil and Gas Transport to Europe“. Southern Gas Corridor is an initiative of the EU for the gas supply from Caspian and Middle Eastern regions to Europe).

TANAP is the biggest performed energy investment in Turkey. Its length is 1850 km, which places it in one of the longest natural gas pipelines of the world. At the same time TANAP is one of the world's natural gas pipeline with the highest bearing capacity.

TANAP's ground was broken in 2015. Turkish producers provide 80% of TANAP's mainline pipes. Within the frame of TANAP project the first Azerbaijani gas will be delivered to Turkey in the middle of

2018 and to Europe in 2020 in parallel with TAP project. Annual capacity of TANAP will be 16 billion cubic meters at the first stage to gain functionality of which 6 billion cubic meters will be sold to Turkey and the rest will be exported to European markets. Together with the activation of other natural gas sources around Azerbaijan and Turkey the capacity will reach up to 23 billion cubic meters in 2023 and 31 billion cubic meters in 2026.

TANAP is carried out by a consortium in the leadership of SOCAR. Its main shareholders are obviously SOCAR with 58%, from Turkey BOTAS the state-owned Petroleum Pipeline Company with 30% and BP with 12%.

TANAP is a project that contributes to European energy demand and diversity. Its contribution to Turkey is accession to Azerbaijan's rich sources and new markets. On the other hand it provides new employment opportunities [11].

Energy is an important subject of today considering current conjunction of the world including the political or economic strategies towards energy. Azerbaijan and Turkey deeply cooperate on energy, which shows us how their partnership is strategic and close. In fact, their energy cooperation is more intensive than their foreign trade. Taking into account Turkish Azerbaijani energy trade and energy transportation, we can see that they cooperate in natural gas field more than oil field. That can be because Azerbaijan's natural gas reserves are richer than oil reserves. TANAP project is the most beautiful proof of it, which is for the benefit of both Turkey and Azerbaijan. Through this, Azerbaijan could reach to the new markets as well as to costumers to export its natural gas by adding variety and meeting the energy demand.

As stated above, Russia is the biggest natural gas supplier of Turkey. Turkey imported 58% of natural gas from Russia alone in 2015. Besides that, Russian natural gas is more expensive than Azerbaijan's, but considering the recent political developments and tensions with Russia due to Turkey's shoot-down of Russian warplane in 2015, Turkey could be in a difficulty in the context of natural gas supply. At this point, Azerbaijan could succor. Azerbaijan is providing through BTE 6.6 billion cubic meters of natural gas to Turkey, at the moment. Together with TANAP, quantity could increase and Turkey could receive at a cheaper price its natural gas need on a large scale, even in the future it could receive the whole need of natural gas.

On the other hand, Russia's another major natural gas importer is EU notably Germany. Again through TANAP Azerbaijan's cheaper natural gas could become an alternative to Russian's. While Azerbaijan accesses to the European market, creates energy variety and meets Europe's demand, it could be seen as an opponent by Russia in the context of energy supply. Within this frame TANAP project could change balances at energy.

The Iron Silk Road. Alongside of intensive energy cooperation between Turkey and Azerbaijan they also cooperate in transportation by constructing a new project which is known as Kars-Tbilisi- Baku Railway (KTB). In other words it is called as the Iron Silk Road.

KTB is a railway project to connect directly Turkey, Georgia and Azerbaijan (See Map 5). The total length of railway is 826 km and its total cost is around 450 million US\$. Railway's 76 km will be built in Turkey, 259 km will be built in Georgia and the rest will be built in Azerbaijan. Accordingly Azerbaijan will have the major part of railway. Project will be completed in 2017.



Map 5. Route of KTB Rail Project

Source: Daily Sabah, 2016. Access: <http://www.dailysabah.com>.

KTB is a project that could change balances at transportation. This project is not only merging Turkey, Azerbaijan and Georgia but also merging London with Pekin. On one hand KTB railway will connect Turkey, Azerbaijan and Georgia, on the other hand a non-stop direct rail line will be built from Pekin to London. In this manner freight shipment between Europe and Central Asia is planning to be slided to the railway.

As is known to all Turkey has closed relations with Azerbaijan as well as with other Turkic republics, which were former Soviet Union members in the past. Before KTB railway project the railway network between Europe and Central Asia was coming to Armenia after Turkey which was dividing in Armenia into three parts: to arrive in Georgia through Kars (Turkey)-Gyumri (Armenia)-Ayrum (Armenia)-Marneuli (Georgia)-Tbilisi (Georgia) railway, to arrive in Azerbaijan through Ijevan (Armenia)-Qazakh-Baku or Kars-Gyumri-Nakchivan-Meghri (Armenia)-Baku. Turkey's Armenian border gates has been closed since 1993 due to Azerbaijan-Armenian conflict. As a result of this, access to Azerbaijan and accordingly to the Central Asia, Russia, Ukraine, Georgia and China by rail road becomes impossible. Turkey's desire to reach to the Central Asia and ongoing conflict in Azerbaijan resulted with this project.

With the completion of this project, one million passengers and 6.5 million tons freight will be carried at the first stage that will reach up to 3 million passengers and 17 million tons freight in 2034 as predicted. Accordingly, alongside of contribution to cooperation in transportation field this project will increase the foreign trade, tourism and industry as well. Within this frame, transporting products will be known and transport fees could be eliminated or declined. Accordingly, it will promote foreign trade and will contribute to welfare [13].

As stated above, Turkey's bilateral foreign trade volume with Azerbaijan is under its potential considering how their engagements are tight and closed. One of the main reasons is the high transport fees. Through KTB railway they will easily access to each other and they could merchandise with lower fees and their foreign trade volume could visibly increase.

Investment of Turkey doubles Azerbaijan's. Turkey attaches importance to investments as many countries, however it is capable to attract foreign investments through economic stability and opportunities in this context. For example alone in 2015 inward foreign direct investment of Turkey was valued at 16.5 billion US\$ that financed 51% of current deficit known as the soft belly of Turkey. It also has spirit of entrepreneurship. It's outward foreign direct investments have been increasing since 2002 which have reached up to 6.5 billion US\$ as of 2015. Within this frame Turkish companies abroad are mostly famous at construction, textile, furniture and food sectors.

With regards to investment relations of Turkey and Azerbaijan, the total investments of Turkish-capitalized companies in Azerbaijan amounted to 9 billion US\$ as of 2015, whose investments predominantly have headed towards telecommunication, banking/insurance, transportation, food trade, textile, education, furniture and building materials. Within this frame Turkish companies in Azerbaijan come to the forefront at construction sector. Those companies have undertaken 347 projects up to now valued at 11 billion US\$. As of today the total number of Turkish companies existing in various sectors of Azerbaijani market is more than 2600, which offers employment opportunity to more than 25 thousand of people in Azerbaijan.

On the other hand, Azerbaijan is also an attractive country in terms of investments that played a key role at freshening of Azerbaijani economy after Soviet dissolution. Azerbaijan become as a charming market for foreign investments significantly in terms of oil refinery and oil drilling, as a result of economic improvement. Accordingly, a major part of FDI in Azerbaijan is on this field. Besides 60% of capital investments are at hydrocarbon sector.

When examining the total Azerbaijani investments in Turkey, it have passed over 4 billion US\$, however that amount is twofold less in comparison with Turkey's. Azerbaijan's investments in Turkey mostly have focused on energy and transportation considering the current projects. Within this frame SOCAR is the biggest foreign-investor of Turkey which is planning to invest 15 billion US\$ until 2023. On the other hand 1171 Azerbaijani-capitalized companies in different sectors have been actively operating in Turkey as of 2015 [8].

Tourism is under the desired level. Azerbaijan's economy has a double structure. On one hand, tendency of fast development was monitored at hydrocarbon and construction sectors, while on the other hand, investment lack at non-oil industry sector was monitored. As a result of this, there are problems at non-oil industry sector such as low employment, insufficient tax income and weak importation against to

exportation. That's why seeking in the direction of establishment of organized industry regions, revision of transportation sector and development of tourism are in question by Azerbaijan to support non-oil economy. Accordingly tourism is among the potential sectors for promotion. Within this frame Azerbaijan declared 2016 as the „Year of Tourism”.

With regards to Turkey tourism, it is one of the key element of Turkish economy. Turkey has lots of cities and coasts holding historical and cultural heritages alongside of resting areas. 36.4 million tourists visited Turkey alone in 2015, however it is 1.6% less in comparison with the previous year. One of the main reasons of this decline was warplane crisis with Russia. Majority of tourists visiting Turkey were coming from Russia. Russia's embargo to Turkey within the frame of warplane crisis reflected negatively on total number of tourists visiting Turkey.

Considering bilateral touristic visits, number of Azerbaijani tourists visiting Turkey was around 650 thousand in 2015, while number of Turkish tourists visiting Azerbaijan was around 340 thousand, which is under the desired level as well as the potential. Within the frame of increasing the number bilateral visits as part of tourism both Turkey and Azerbaijan organize different activities. Lastly the Culture and Tourism Office of Turkish Embassy in Baku held a meeting in February 2016 with tourism agencies to evaluate the previous year and to work on 2016. On the other hand, Azerbaijan opened a tourism representation office in Turkey in March 2016 to contribute to the number of Turkish tourists visiting Azerbaijan.

Conclusion. Despite the bilateral political relations of Turkey and Azerbaijan have been continuing at high level and Turkey and Azerbaijan are strategic partners, it couldn't catch the desired level. High tariff rates, transition fees, Russia's dominance in both Turkish and Azerbaijani markets are some of the main reasons that hinder foreign trade to reach to its potential.

When examining cooperation of Turkey and Azerbaijan alongside foreign trade, two subjects come to the forefront: energy and transportation. Having said, their cooperation in those fields has the characteristics that could change the balances.

Within this frame through BTC of which major part was built in Turkey, Azerbaijani crude oil reaches to the world markets. In other respects, Azerbaijan is the third largest natural gas supplier of Turkey. Through BTE Turkey receives Azerbaijani natural gas, which will be connected with ongoing TANAP project. Through TANAP project Azerbaijan could reach to the new markets as well as to costumers notably Europe via Turkey to export its natural gas by adding variety and meeting the energy demand. Together with TANAP, quantity of the natural gas could increase and Turkey could receive at a cheaper price its natural gas need on a large scale; even in the future it could receive the whole need of natural gas. At this point, Russia could be stuck in a difficult position. Germany is one of the major natural gas importer of Russia. TANAP Azerbaijan's natural gas could become an alternative to Russian's. While Azerbaijan accesses to the European market creates energy variety and meets Europe's demand, it could be seen as an opponent or a threat by Russia in the context of energy supply.

Turkey and Azerbaijan's another joint project is KTB railway project. This project is not only merging Turkey, Azerbaijan and Georgia but also merging London with Pekin. In this manner, freight shipment between Europe and Central Asia is planning to be slided to the railway and passengers will be transported to these regions. Accordingly, this project could increase the foreign trade, tourism and industry as well. Within this frame, transporting products could be known and transport fees could be eliminated or declined. Accordingly, it could promote foreign trade and will contribute to the welfare of population.

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GROWTH AND DEVELOPMENT THROUGH SUSTAINABLE TOURISM IN RURAL AREAS OF EMERGING MARKETS

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Sustainability is a global goal and tourism is a revitalizing sector for the emerging markets economy. The paper work is a theoretical analysis, deductive and inductive, that shows that emerging markets have the opportunity to progress economically and socially through tourism, particularly rural, on condition of maintaining its sustainability.

Key words: *growth, development, tourism, emerging markets, sustainability.*

Sustenabilitatea este un deziderat global, iar turismul un sector revitalizator pentru economia statelor emergente. Lucrarea este o analiză teoretică, deductivă și inductivă, din care rezultă că țările emergente au posibilitatea de a progresa economic și social prin turism, în special rural, cu condiția menținerii sustenabilității acestuia.

Cuvinte-cheie: *creștere, dezvoltare, turism, piețe emergente, sustenabilitate.*

JEL Classification: O13, O44, Q56.

Introduction. Emergent economies show a high potential of economic growth. These countries experience an antagonism between desiderata – development of the tertiary sector – and possibilities. The possibilities are sometimes limited not by the lack of resources, but on the contrary, by problematic infrastructure and means of production. Tourism appears to be an important agent of growth if the forms of sustainment and promotion are correctly selected. The focus on the durability of economic and human activities makes sustainable tourism be one of the priority measures of growth for emergent states. The rural environment of these countries is particularly related to the idea of sustainability.

If the 18th and the 19th centuries were mainly agricultural ones, and the 20th century a particularly industrial century, the 21st century is the century of services, of services in the “industry without smoke stacks” [Chen Li-Chan et al., 2013]. Tourism is the third great industry (after petroleum and car industries) that records substantial growth [Furqan A. et al., 2010].

There are countries – tourism brand – whose economy is based on tourism to a very high extent, as they are targeted by any person with the intention and the initiative to travel. Emergent countries, newly entered on the global tourism market, are in the situation of analysing and carefully evaluating their tourism potential, of conceiving attractive tour packages for small prices and highest possible quality. If at a cultural and religious level domestic tourism comes first, if the seaside and the mountains are a big challenge in the competition with established destinations, the rural environment of the emergent states bring to the tourism supply the dimensions of novelty and sustainability.

Without neglecting the other factors of growth and development, the emergent countries find in sustainable tourism the necessary instrument for the revitalization of certain regions, especially rural ones, but everything depends on the capacity to promote destinations and to provide competitive products, especially that the rural environment represent the core of European existence [Charvat K. et al., 2003]. Everything starts from sustainable development, an aspect that results from the restauration and revitalization of traditional inheritance and buildings, acquiring a tourism purpose [Draganic A., 2013].

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Sustainable rural tourism in emergent countries. Rural tourism is a complex activity, taking place in the natural environment, outside the urban areas, a component of the industrial sector characterized by tourism activities at a small scale, taking place in regions where the basic activities remain agriculture and forestry; this is a “countryside” experience whose purpose is the economic and social development of rural areas, the promotion of local economy, the stimulation of socio-cultural exchanges and of the life style of local communities [Jinku M. K., 2013].

Tourism has an important contribution (10-20%) within the group of activities specific to rural environment, and 23% of the tourists coming from Europe prefer rural environment as holiday destination [Djekic S., Vucic S., 2007]. The importance of rural tourism is to be found in the interaction between agricultural production, traditional items crafting, preservation of local gastronomy and traditions, based on existing resources [Draganic A., 2013].

The emergent states have an economy and a society that lagged behind, compared to the developed ones, but they have a high potential to repair this distance. It is rather difficult to assert that they are able to hold monopoly or quasi-monopoly positions in tourism, but they can still offer very special landscapes and experiences to those who feel like going towards new places and different cultures. The emergent countries will not manage to compete in a very near future with established destinations in the segment of cultural tourism, as it is the case of great European capitals and cities, but there is still the possibility to successfully compete on the market of other forms of tourism, like the rural one.

The great advantage for the emergent states in the field of rural tourism is the very good conservation of the rural. Once again, it is demonstrated that what is otherwise regarded as a big handicap, the underdevelopment of the rural environment, becomes a great advantage if the best utilisation variants are resorted to. In the developed countries, the difference between the urban and the rural is a sensitive one, the agricultural activities being carried out in an almost exclusively mechanized manner, while the villages look like mini-cities. This is not the case of the emergent states. Even if the rural environment of these countries is not part of the 21st century context, it stands out due to its authenticity and novelty.

The socio-economic situation of the emergent states is rather fragile, especially as regards the rural environment, where the existing problems are deeper. Over the time, the lacks in the rural environment have led it to open itself to tourism, especially since this activity became a promising industry [Gartner C. W., 2005].

The acknowledgment of tourism occurred in a context characterized by a diminishing role of the agricultural activity, the population’s aging process, the migration of the young population towards cities, the lack of financial means, medical infrastructure, problematic education infrastructure. These problems were thought to be solved with the help of tourism, as the impact is tri-dimensional: economic, social and environmental, the economic part being the dominant one. In the effort to deepen the economic dissension, the other two dimensions are often ignored.

The rapid industrial development involved an aggressive utilization of natural resources, generating their diminution and an accentuated degradation of the environment. Mass tourism, specific to big cultural cities, also leads to a degradation of environment and to increasing pollution. An alternative to this type of tourism is the rural one, even if there exists a risk of transforming it into mass tourism, especially at weekends and on the occasion of national official holidays, when most of the city inhabitants prefer the rural environment, searching for calm and relaxation.

Everywhere in the world, rural tourism represents an alternative to the development of agricultural and crafting activities [Santos E. et al., 2014]. This form of tourism takes place especially in areas with low density of population, creating the impression of space. Tourism in rural areas is a triangular relation between destinations, tourism industry and inhabitants and visitors [Lane B., 2005].

Tourism involves modifications of physical space and of inter-relations; the relationship between human society and nature have progressively changed under the pressure of the 20th century changes, following the industrialization, the mechanization of agriculture and of forestry, the commercial and communicational dynamism, the demographic rise, the population density and the utilization of biotechnologies [Charvat K. et al., 2003]. The influences in the urban area, globalization as a process that favours standardization and generalization, transform sometimes in a decisive way – as in the case of the developed states – the rural environment and way of life. In the case of the emergent countries, this is not done but partially, not because the population was not receptive to everything that is new, on the contrary. The population of the emergent states is, as far as it seems, keen on everything related to high standard technology, an aspect demonstrated, for instance, in Romania’s case, where the size of the houses, the

number of cars, of household appliances and of other high technology devices that are acquired, compared to the income level, are impressive. Yet, the very expensive cars, the hi-tech appliances, and the oversized dwellings characterize only a small number of persons with very high incomes. The great majority of the population in the emergent countries have a modest standard of life, recording middle and small income levels, especially in the rural environment. Poverty is the main factor that stopped the insertion of modernism in the rural areas of the emergent countries, an aspect that proves to be a positive one as long as these countries hold wide unexploited areas and authentic villages.

Sustainable rural tourism comes to enforce the idea of conservation and aims to motivate the efforts to restore and re-establish the original image of the rural environment, to recall and practice again the customs, traditions and crafts that are specific to each of the regions. All of this becomes necessary when the transformation of the rural environment into an area of relaxation, of entertainment, in other words into an alternative to the urban areas, is wanted.

A modification of the dynamics and partially of the destination of rural space entails a change of the style of life for the rural communities, as new social roles, new relationships, new economic activities, a new rural culture emerge, while a kind of war is waged between the archaic side, which actually attracts the tourists, and the modern side, that the locals aim at.

The emergent states in general have been, by definition, agricultural ones, their comparative and even competitive advantages being found in the rural area. Agriculture and forestry, as main activities in the rural environment, involve the management of natural resources influencing the quality of environment, with an impact upon the ecologic integrity of the zone and on the aspect of the rural [OECD]. Agriculture is a multifunctional field, which is not strictly limited to production of food, but expands to the environment and to ampler socio-economic functions. The quality of the environment became a key-factor for the assessment of life conditions in the rural environment, such as education, health and security. The diversification of economy and the creation of new work places represent a key-problem of the emergent states and especially in the rural environment. The importance of the rural for the emergent states, its conservation and the conservation of related specific activities provide tourism with the image of an impulse-activity. Tourism acquired increased importance as the rural environment transformed from an agricultural into a service-based one, using the advantages offered by landscape and cultural heritage [OECD]. The emergent states went through periods of denial of the rural, especially after the changing of the economic system, but they realized how important the rural is and how wrong the decision to mainly direct themselves towards the urban. In reality, the neglecting of rural environment with all its negative consequences, especially the reduction of agricultural activity, has the great advantage of preserving natural areas. At present, in a period when people try to spend more time in nature in unpolluted areas, the emergent countries realized that the development and promotion of rural tourism, in its sustainable form, is an important factor of social and economic development and growth.

Tourism is regarded as a regenerator of rural environment, and its development requires effort and complex sustainment from the community, local and national authorities. The tourism activity in the rural involves making up policies of effective utilization of farmable soil in order to get ecologic production [Ozdzi ski J., 2009], administrating the wooded land, preserving architecture and landscape.

Once the process of tourism development in the rural environment is initiated, the education of population becomes necessary, so as to make them understand the obligation to preserve the environment concurrently with developing the tourism supply and adapting behaviours. As they have to get in contact with persons from different regions and countries, the entrepreneurs in the rural area, as well as the locals who are not involved in tourism activities, need to adapt themselves and be flexible, in order to combine, in a balanced way, the necessity to preserve the environment and the offering of an attractive package for tourists, without negatively affecting the way in which traditional activities are carried out. If no effort is made to make people aware of how important this balance is, they could fall in a dangerous trap. Out of the desire to attract as many visitors as possible and to get involved in as many tourism activities as possible, as all of this could bring forth more profit, there is a risk for the locals to give up the rural specific activities (agriculture, animal husbandry, handicraft and cottage industry) and for the environment to be negatively affected (for instance deforestations for buildings, pollution, modification of landscape). The very concept of *sustainable development* is based upon natural resources, upon balanced consumption, without waste, upon demographic structures and, sometimes, upon multi-ethnic richness [Vukovi Predrag, Kljaji Nataša, Mijajlovi Nada, 2009], so that sustainable rural tourism gets the same characteristics. It is very important for the locals of the rural environment and tourists altogether to make a

distinction between daily activities and activities meant for visitors. The locals should not give up their usual activities, just like tourists should not pretend for everything happening there to be dedicated to them.

The involvement of tourists in activities specific to the rural is a form of active tourism that create for the inhabitants the opportunity to live the authentic way, without having to give up the things that consecrated the place where they lead their lives. At the same time, tourists get involved in activities that they had maybe never practiced before, quite different from usual activities. Tourists, especially the foreigners or the young people, know only from hearsay how agricultural activities and handicrafts, especially traditional and less mechanized or not at all technologized ones, are carried out, and they are extremely delighted when they practice them with the locals, by means of some active tourism activities. Most of the activities that are specific to agritourism involve actions from the sphere of the major agricultural activities and related ones.

Tourism industry in the rural environment is, on the whole, made up of SMEs held by locals, owners of bed-and-breakfasts and chalets, guides and third parties, taking care of the tourists' free time organization [Lo M. et al., 2013]. In the rural environment, the entrepreneurs' attention must take several directions, such as: introducing to the tourists the local environment, activities, culture and traditions; the familiarization of tourists with local gastronomy, usually an ecological or "green" one, based on exclusively natural ingredients; the familiarization of tourists with methods of organic production; the familiarization of tourists with local crafts, with the way to make handicrafts, with the manual, non-standardized production methods that guarantee unicity and, implicitly, value; the organization of cultural events (for instance the *ez tori* [small gatherings during which, while dealing with some handiwork, the participants sing or tell stories, riddles, etc.], the evening parties with folk songs, dedicated evening parties – with traditions specific to weddings, baptisms, etc., during which the tourists assist, but at the same time learn how to do some activities – hand-spinning, sewing, knitting, weaving, pottery, etc.) and of sports events (such as horse riding, biking, races, hiking in the woods, etc.); introducing to the tourists the local landscape, by giving them support (information and guidance) in the area (visiting, for instance, the neighbourhoods, monasteries, churches, museums – including the village museum, in case it exists, castles or mansions, places where one can find and admire specific plants or animals); introducing to the tourists the activities that are specific to the rural environment (for instance, agriculture, animal husbandry, fishery, beekeeping, handicrafts, natural building – houses made of adobe, roofs made of reed, etc.); marking the routes and sights.

Ecological elements should be included in the plans of rural tourism under the shape of eco-villages, where anyone who wants can experience healthy life, by means of a gastronomy based on local ecological products and activities in nature [Medojevic J. et al., 2011], in order to maintain the character of sustainability.

Tourism is not a panacea of rural environment and of the economy of emergent countries, but an activity that one should consider as a factor able to augment well-being in a twofold direction: towards the state budget, materialized by the increase of growth rates, and towards the society forced to accept the development process, to contribute to it by adjusting behaviour and enriching knowledge, such as to achieve profitable tourism activities concurrently with the traditional ones, without prejudicing the environment.

In the rural, the tourism opens possibilities to start economic activities, to find sources of further financial sources, to develop cultural, commercial and regional exchanges; it stimulates the participation in local occupations and projects, as well as the enthusiasm for activities that everyone could benefit from [Medojevic J. et al., 2011].

The rural environment has an ideal image, always ready to welcome massive waves of tourists. In reality, the development of tourism often encounters the absence of plans and of an implementation framework, the absence of qualified labour, the manifestation of improper attitudes towards the provision of specific services, the outdated infrastructure, a transportation system that is not organized to a specific tourism purpose, the lack of financial resources necessary to investments, a tourism supply that is not conceived in a really attractive way, the lack of quality standards, the lack of visibility, the lack of an integrated approach incorporating marketing, advertising and promotion. Seasonality is another limitation for the development of rural tourism. The climax periods are vacations and the periods of major Christian holidays, when the desire to go back to traditions and family is even stronger [Cozac E., 2012].

Conclusions: The dominant characteristic of the current period, which will perpetuate itself over time, is *crisis*. The plurality of crises (financial, economic, moral ones, etc.) feed the people's overexcitement. In order to ease the tension, they go back to nature, to origins, even if for a while, in an environment that their parents or grandparents left, searching for the comfort offered by the urban area, which often takes the shape of an imperfect life style [Gartner C. William, 2005]. In the rural environment, each experience is unique and is exclusively based upon novel experiences, on interaction with the elements specific to some local community [Koster R., Lemelin R., 2009].

Sustainable tourism is, for the rural communities, an activity generating growth and development. In the paper we analyzed how tourism activity influences the local community and the neighbouring ones, leading to the diversification of production in the areas under economic and social decline, where the natural environment is not affected by polluting activities.

Tourism in the rural environment unifies, re-establishes, organizes the territory, which is provided with different perspectives and goals, while no different physical infrastructure needs to be built [Draganic A., 2013], and only the existing one is to be improved.

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TRUST EVALUATION OF THE POPULATION OF THE REPUBLIC OF MOLDOVA IN SOCIAL PROTECTION INSTITUTIONS

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In the Republic of Moldova, the problem of the social capital and its main indicator – the trust is less studied. The conceptual apparatus is insufficient developed and there were made very few empirical studies. Therefore, the theme of this article is very actual. The aim of the study is to implement the assess of the interpersonal trust and the trust in the social protection institutions. In the paper were used the following research methods: monographic, analytical, comparing, analogy. It was demonstrated that the level of interpersonal trust in Republic of Moldova is lower than in many other countries. The level of institutional trust is extremely low, especially in the public institutions. It was concluded that the low level of social capital is a limiting factor in improvement of the social protection system in Republic of Moldova.

Key words: *social protection system, social capital, trust, interpersonal trust, institutional trust.*

În Republica Moldova, problema capitalului social și a indicatorului principal al acestuia – încrederea, este puțin studiat. Aparatul conceptual este insuficient dezvoltat și au fost efectuate foarte puține studii empirice. De aceea, tema articolului în cauză este de mare actualitate. Scopul studiului constă în efectuarea evaluării încrederii interpersonale și încrederii față de instituțiile de protecție socială. În lucrare au fost utilizate următoarele metode de cercetare: monografică, analitic, comparativ, analogic. S-a demonstrat, că nivelul încrederii interpersonale în Republica Moldova este mai scăzut decât în multe țări. Nivelul de încredere instituțional este extrem de scăzut, în special față de instituțiile de stat. S-a ajuns la concluzia, că nivelul redus al capitalului social este un factor limitator în ameliorarea sistemului de protecție socială în Republica Moldova.

Cuvinte-cheie: *sistemul protecției sociale, capitalul social, încredere, încredere interpersonală, încredere instituțională.*

JEL Classification: I30, H54.

Introduction. As international experience shows, the improvement of social protection systems must be performed taking into account the situation in the area of the social capital. Meanwhile, in the Republic of Moldova the social capital issue has not received adequate scientific study. The definition of

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the social capital and its components are still debatable. There is a great lack of empirical data on the state of social capital. Especially it refers to the problem of trust, which is the "nucleus" of the social capital. Therefore, the evaluation of interpersonal and institutional trust is crucial in tackling the challenges associated with the solution of social problems, including the problem of increasing the effectiveness of social protection in the Republic of Moldova.

The social capital is an important and valuable resource for the economy and society. Improvement of the social protection system in the Republic of Moldova should be implemented considering the assessment of the existing social capital in the country. The social capital helps to reach certain objectives whose achievement is impossible without it. The social capital together with other forms of capital contributes to the welfare and competitiveness of the nation. Insufficient volume of high social capital does not allow building a full-fledged market society, even if the society formally passed to a market economy.

The variety of expressions and functions of the social capital and interdisciplinary origin of this concept, for a long time hindered the searching of an adequate definition. The difference in opinions and views often became a source of confusion, especially for the demarcation of real social capital and its results. Various authors in different periods, defining social capital as a resource that increases the public efficiency, social norms and values imparted by the community, and also as social networks and links between individuals on the basis of reciprocity and trust etc.

Thus, the famous specialist in the field of economic sociology, *V.V. Radaev* defines social capital as "a set of relationships that are associated with expectations that other agents will do its obligations without sanctions" [4, p.129]. Economists believe that the most reasonable definition of social capital is rising to *Robert D. Putnam* [3, p.163] as *the ability of communities to take collective action to achieve a common objective*. Thus, all definitions of the social capital are reduced to indicate that this is a resource that converted relations between the participants of the social interaction, characterized by mutual accountability and, also, through trust and credibility.

On the one hand, the social capital maintains the order in the economy and society based on the trust and considering the public interest by individuals and in this sense serves institutional alternative to the state and thus contributes directly to economic development in the "horizontal" direction without state participation. On the other hand, social capital reserves depend on the effectiveness of formal institutions and public administration.

The main indicator of social capital or "nucleus" is the trust. *Francis Fukuyama* defines social capital as "a set of informal rules and norms shared by the group members that allow the interaction between them. If members of the group expect that their associates will behave correctly and honestly, it means that they trust each other" [7, p.129]. Trust, being the main component of social capital plays the role of a kind of "lubricant" that allows a group or an organization to operate more efficiently. Every society has some social capital reserve, the real differences between societies are conditioned by the so-called "radius of trust". That is, the cooperative norms, honesty, reciprocity can be practiced with small groups of people, without affecting other members of the same community [7, p.129].

Thus, social capital and especially its constituent elements, the "nucleus" of which is trust, rightly regarded as an institution of a special kind, having an informal origin. Typology of trust – one of the most important informal institutions – is based on several criteria. Very often attention is drawn to the need to distinguish interpersonal trust (i.e. trust between people) and institutional (i.e. people's trust in social institutions).

Interpersonal trust characterizes the credibility of anonymous people (not relatives, not friends), about which there is no exact information. If trust is only for familiar people, it sharply reduces the number of potential participants in the contacts and increases the transaction costs.

Regarding the functioning of the social protection system, the low interpersonal trust is causing the evasion of citizens from paying insurance premiums. This is reflected in practice as a law-abiding citizen is not sure that other people, just like he does, pay in full measure the appropriate insurance contributions, the amount of which for the purpose of social protection of population is distributed in due course.

In Republic of Moldova, the level of interpersonal trust can be estimated on the base on the data of the international project "World Values Survey" (WVS), in the network of which in 1990-2000 the monitoring of indicators of trust in dozens of countries was performed. The Republic of Moldova participates in this project during the survey in 1995-1998.

Survey data from the 1990-2000 on the WVS project shows a considerable difference of the countries by indicator of interpersonal trust (*Table 1*).

Table 1**The weight of respondents who consider the majority of the people are trustworthy, %**

Developed countries and developing countries	2005-2009	2010-2014	Post socialist countries	2005-2009	2010-2014
Sweden	65,2	60,1	Russia	24,6	27,8
China	52,3	60,3	Ukraine	24,5	23,1
Netherlands	42,6	66,1	Bulgaria	19,6	...
USA	39,1	34,8	Romania	19,3	7,7
Japan	36,6	35,8	Poland	18,1	22,2
Germany	33,8	44,6	Republic of Moldova	17,6	...
Egypt	18,5	21,5	Georgia	17,6	8,8
Argentina	17,4	19,2	Serbia and Montenegro	13,6	...
Mexico	15,4	12,4	Belarus	...	32,6
Brazil	9,2	7,1	Azerbaijan	...	14,8
Turkey	4,8	11,6	Armenia	...	10,9

Source: Elaborated by authors according to [6].

The highest level of interpersonal trust can be seen in the Scandinavian countries, where more than 60% of respondents consider that the majority of the people can be trusted. In USA, UK and other English-speaking developed countries, this weight is 1.5-2 times less. In Latin American countries the level of interpersonal trust is 15-20%, and the most "incredulous" are Brazil and Turkey with interpersonal trust level less than 10%. Thus, it is noted the following trend: the level of interpersonal trust is highest in the developed countries comparatively to developing countries.

Cross-country analysis shows that the level of interpersonal trust in the Republic of Moldova (17.6%) is 3.7 times lower compared to that in Sweden, 2.4 times – compared to that in Netherlands, 1.9 times – compared to that in Germany. According to this indicator, Republic of Moldova remains behind all developed countries of the world, but is in a better position compared with the situation in Latin America and countries in West Asia.

Compared with the post-socialist countries, Republic of Moldova occupies the last positions among the countries grouped by the level of interpersonal trust. In 2005-2009, this level was the same as in Georgia (17.6%), and only in Serbia and Montenegro it was lower (13.6%). The dynamics of the level of interpersonal trust attests that in Republic of Moldova and neighboring countries until 1999-2001 years there was a clear downward trend of this indicator, which then replaced to an upward trend (*Figure 1*). The exception is Ukraine, where decline of the level of interpersonal trust continued in 2005-2009 years.

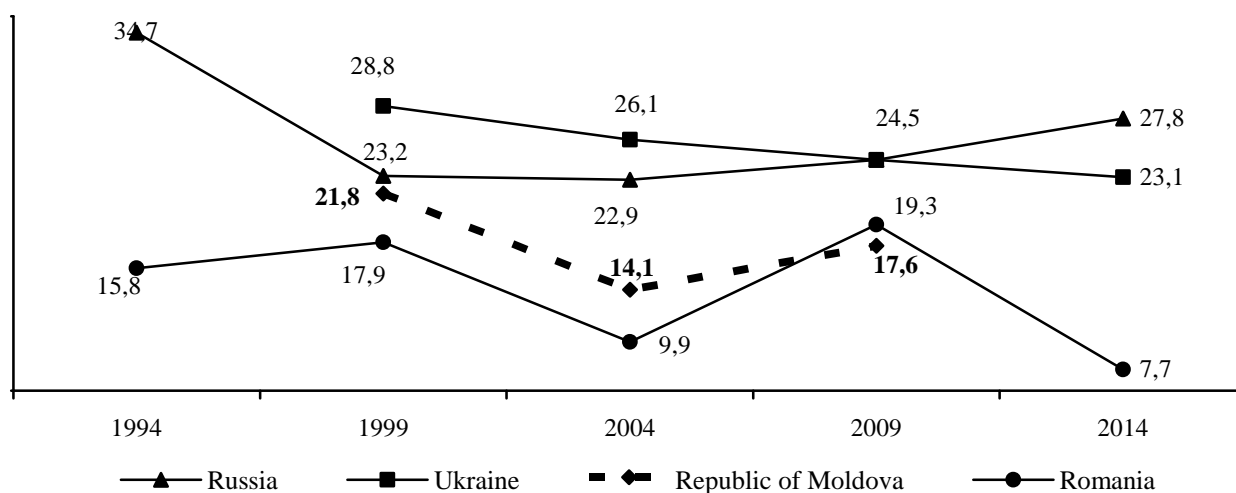


Fig. 1. The dynamics of the level of interpersonal trust in Republic of Moldova and in some countries, %

Source: Elaborated and constructed by authors according to [6].

Thus, the analysis of interpersonal trust in the Republic of Moldova provides the basis for concluding that an extremely low (compared to other countries) level of social capital.

Evaluation of institutional trust is performed on the bases of the results of the two sociological surveys. The first of them is the "Barometer of Public Opinion in Moldova", whose research is performed under the auspices of the Institute for Public Policy and is realized of "CBX – AXA" Centre of Sociological Investigations and Marketing. This study, performed in 2002, covers various aspects of life in Republic of Moldova: economy, quality of life, social problems, field of internal and external policies. A study performed in November 2015, was carried out by interviewing 1,113 respondents aged 18 years and elder, who were living in urban and rural areas, from 12 geographical zones of the country.

An analysis of *institutional trust* is carried out by evaluation of the trust in the state and social institutions, as well as trust in the system of social protection of population of the Republic of Moldova. The level of trust in the institutions of public administration in the Republic of Moldova is high and has a tendency to decrease significantly. Especially, this relates to the top echelon of public administration. In November 2015, the weight of people who partial or total trust in the President was 5%, which is 11.4 times less than in November 2003 (Table 2). In the same period, the level of trust in Parliament and the Government decreased, respectively, 6 times and 5.7 times. At the same time, trust of citizen in the local public administration authorities remained at the same level (52% – in 2003 and in a.2013).

Table 2

The weight of people who trust totally or partially in public and social institutions of Republic of Moldova%

Institutions	Nov. 2003	Dec. 2005	Nov. 2007	Nov. 2009	Nov. 2011	Nov. 2013	Nov. 2015
Church	71	77	81	80	80	84	74
Mass media	57	65	59	62	57	52	49
City hall	52	43	50	56	51	46	52
Police	30	35	26	38	32	31	31
Nongovernmental organizations	29	35	31	34	24	22	24
President of the country	57	43	39	35	15	16	5
Government	40	38	32	44	19	16	7
Justice	30	31	24	37	18	15	12
Parliament	36	34	32	41	14	14	6
Political parties	24	20	15	29	13	14	11
Trade unions	28	28	24	29	20	13	15

Source: [5].

Declining trend in trust is characteristic for the justice institutions and political parties. The weight of people who have partial or full trust in justice and political parties has declined compared to 2003, respectively 2.5 times and 2.2 times. We shall note that the extremely low level of public trust is for the trade unions. They are trusted by only 15% of the population, i.e. only every seventh citizen of the country. Against this background remained and even has increased the trust in the church. In November 2015 in the church had full or partial trust 74% of citizens (in 2013 – 71%).

Thus, in recent years the low level of institutional trust, and first of all in the institutions of public administration, declined to a very low level. This creates serious obstacles for radical social and economic changes in the country, including the implementation of urgent (and often unpopular) measures to improve social protection policies. This assessment is confirmed in studies by other authors [2, p.204].

For the improvement of social protection policies, it is important to have not only a sufficient level of the trust in public and social institutions, but also the high level of the people's trust in the institutions of social protection. Evaluation of this trust is based on the study data of household budgets (module "Social exclusion"). While evaluating the level of credibility of all respondents and as well the beneficiaries respondents of social protection systems.

In the analysis of institutional trust is used comparative approach: the compare degree of trust of various socio-demographic groups of population in the institutions of social protection systems. This analysis indicated that the degree of public trust in system of social protection has an essential

differentiation depending by the institution of social protection. When evaluation of trust in state pension system and the system of social assistance was done the greatest number of responses (24.3%) – from variant "have some distrust", the variant of the "very few trust" prevails in the evaluation of trust in health insurance system (35.0%), and the variant "do not trust" – the support system for the unemployed (22.1%) – *Table 3*. At the same time, a considerable part of the population did not have information about the way of functioning of the institutions of social protection. This has determined that a large number of respondents was in difficulty to answer the question about the credibility to the relevant institutions of social protection. In evaluating of trust in state pension system they constituted 30.5% (while among respondents – pension beneficiaries – 16.5%), to the social assistance system – 31.7% (19.8%).

Table 3

The degree of institutional trust in Republic of Moldova, %

How much do you trust in systems of services you need?	High trust	A some trust	Low trust	Do not trust	I do not know/ It is difficult to answer
State pension system:					
- all respondents	16,2	24,3	20,2	8,8	30,5
- respondents – beneficiaries of pensions	28,3	28,5	20,3	6,4	16,5
Social assistance system:					
- all respondents	11,2	24,3	21,3	11,5	31,7
- respondents – beneficiaries of allowances for children, nominative compensation and other	22,9	29,1	19,6	8,6	19,8
Health insurance system:					
- all respondents	8,0	26,6	35,0	20,8	9,6
- respondents – beneficiaries of health insurance services	9,7	29,1	34,3	17,1	9,8
Support system for the unemployed:					
- all respondents	2,6	9,9	20,9	22,1	44,6
- respondents – beneficiaries of unemployment benefits	27,4	10,8	48,9	12,9	–

Source: Calculated by authors according to [1, p.281].

The highest is the credibility of the public pension system: it is fully or partially trusted by 40.5% of the citizens. Less is the total or partial trust in the social assistance system (35.5%), the health insurance system (34.6%) and significantly smaller to the support system for the unemployed (12.5%). At the same time a phenomenon is clear: a high degree of trust among respondents who are beneficiaries of the social protection system, i.e., those of them who are better informed about the respective institutions. Thus, a full or partial trust towards the state pension system had 56.8% of respondents who are beneficiaries of pensions, which is 1.4 times higher than degree of trust of the all respondents. More than half (52.0%) of the respondents who are beneficiaries of allocation for children, nominative compensations, etc., have a full or partial trust in the social assistance system – which is 1.5 times higher than the weight of those who have similar trust among all respondents. Compared to all respondents, weight of people who trust fully or partially in health insurance system, the beneficiaries of health insurance services are more than 1.1 times, while the weight of the full or partial trust in the support system of the unemployed; the beneficiaries of the support system for the unemployed is more than 3.1 times.

Few trust or do not trust in the state pension system (29.0% of respondents), while a similar distrust in the social assistance system experience 32.8%, in the health insurance system – 55.8%, and in the support system for the unemployed – 43.0% respondents. However, the degree of trust in these systems, their beneficiaries, those who most often face with the institutions providing those services is much lower compared with all respondents.

Between these two types of trust – interpersonal and institutional there is a strong positive correlation.

This is illustrated in *figure 2*, where the horizontal axis is the level of interpersonal trust (points 1 to 10, where 1 means extremely careful in dealing with people, and 10 means that most people can be trusted), and on vertical axis weight of people with fully or partially trust for the social protection systems.

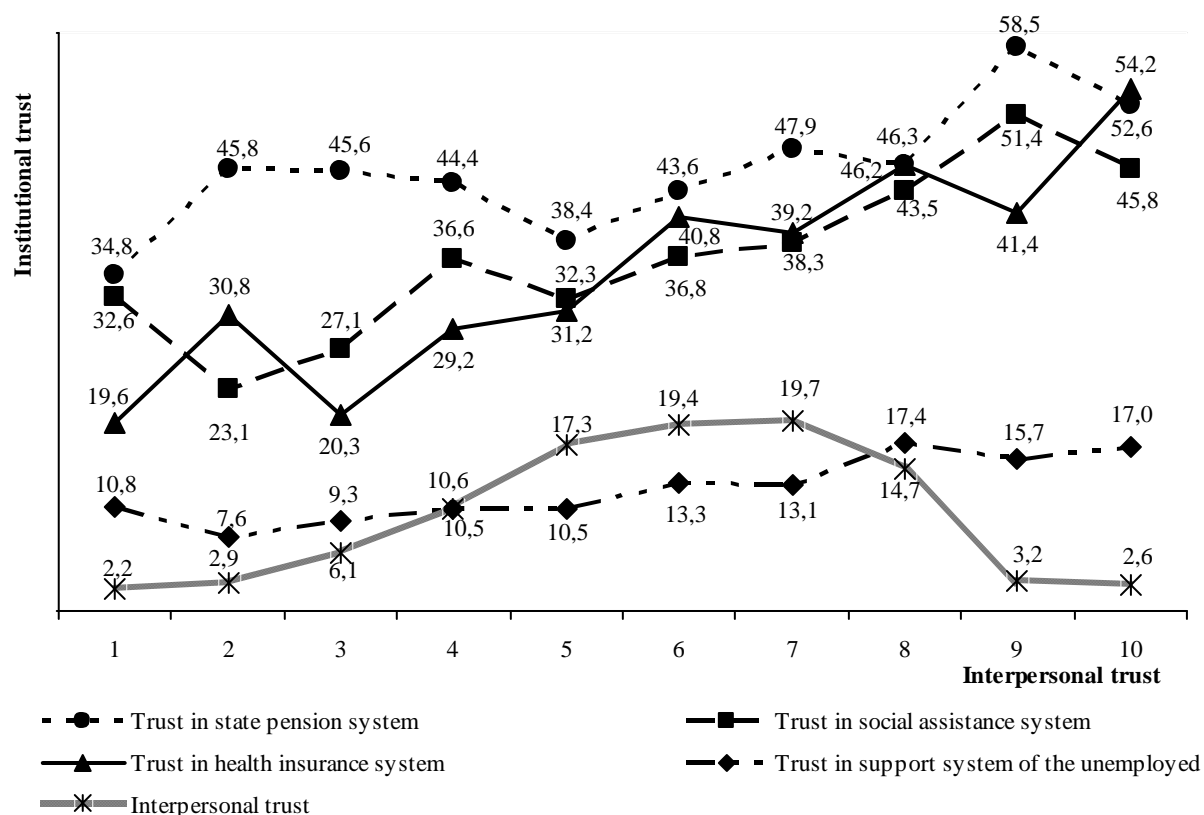


Fig. 2. The relation between interpersonal trust and trust in the institutions of social protection of the population of Republic of Moldova, %

Source: Elaborated and constructed by authors according to [1, p.281].

The higher interpersonal trust is the greater is the trust in the system of social protection of the population. When changing at point "1" (extreme caution in dealing with people) to points "10" (most people are trustworthy) level of interpersonal trust, the weight of persons fully or partly trusting the state pension system, increased from 34.8% to 52.6% (or 1.5 times), in the social assistance system from 32.6% to 45.8% (or 1.4 times), in the health insurance system from 19.6% to 54.2% (or 2.8 times), in the support system of the unemployed – from 10.8% to 17.0% (or 1.6 times). This trend is somehow disturbed when evaluating the relationship between interpersonal trust and trust in the state pension system, the social assistance system (points 9-10) and also in the health insurance system and unemployed support system (points 8-9).

We will be noted that the level of institutional trust is much higher than the level of interpersonal trust. This refers to trust in all systems of social protection of population (the only exception is the relationship between various points that characterize interpersonal trust and trust to the support system of the unemployed). Thus, people consider that most people are trustworthy (i.e., those who indicated point "10" in the survey) constitute 2.6% of all respondents.

These persons fully or partially trust in the state pension system 52.6% (which is 20.2 times more than the weight of those measured at the highest levels of interpersonal trust), in the social assistance system – 45.8% (17.6 times), in the health insurance system – 54.2% (20.8 times), in the support system for the unemployed – 17.0% (6.5 times).

Among these persons fully or partially trust in the state pension system, 52.6% (which is 20.2 times greater than the proportion of those who appreciates the highest level of interpersonal trust), social assistance system – 45.8% (17.6 times), the health insurance system – 54.2% (20.8 times), the system of support for the unemployed – 17.0% (6.5 times).

At a relatively low level of trust in general, the prevalence of the institutional trust on the interpersonal, indicates that the population in conditions of social risks increasingly is pinning its hopes on the solution of emerging social problems through social protection systems, rather to solve them independently or to base on the support of other people, informal organizations and associations.

Conclusions. According to the study results we can conclude the following:

1. Evaluation of the social capital in Republic of Moldova is a very topical issue, but its solution is restricted by the lack of data which characterize the situation in this area.
2. The level of interpersonal trust in Republic of Moldova is lower than in developed countries, which constitutes the basis for the conclusion about an extremely low level of social capital.
3. The level of trust in state administration institutions in the Republic of Moldova is low and tends to a significant discount.
4. The degree of confidence among the beneficiaries of social protection systems is higher than the average of all respondents. The greatest trust is recorded in the state pension system.
5. A strong positive correlation between the interpersonal trust level and the institutional one is observed. As the interpersonal trust is higher, the greater trust in the systems of social protection of population is.

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GLOBAL TRENDS OF ALTERNATIVE INVESTMENTS

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An alternative investment is an investment product other than the traditional investments of stocks, bonds, cash, or property. The term is a relatively loose one and includes tangible assets such as art, wine, antiques, coins, or stamps and some financial assets such as commodities, hedge funds, venture capital, and others. At the moment it was created a global industry opportunities for making investments in nontraditional form. The aim of this paper consists in demonstrating the possibilities of these investments. For this have been studied related main international markets, after then deducted world dominant trends. This article is concerned to present some details of alternative investments global market.

Key words: *alternative investment, gold, diamonds, wine, art, real estate.*

O investiție alternativă este un produs de investire, altul decât investițiile tradiționale de acțiuni, obligațiuni, în numerar sau bunuri. Acest termen are o tratare relativ liberă și include active corporale, cum ar fi arta, vin, antichități, monede sau timbre și unele active financiare, cum ar fi imobilul, capitalul de risc și altele. La momentul de față a fost creat un câmp de oportunități ale unei industrii la nivel mondial pentru a face investiții în formă neconvențională. Scopul acestei lucrări constă în demonstrarea posibilităților acestor investiții. Pentru aceasta au fost studiate principalele piețe internaționale aferente și au fost deduse tendințele mondiale dominante. Acest articol este dedicat să prezinte unele detalii privind investițiile alternative pe piața mondială.

Cuvinte-cheie: *investiție alternativă, aur, diamante, vinuri, obiecte de artă, imobil.*

JEL Classification: F21, F65, G15.

Introduction. Within investment activities exist placements known as traditional investments:

- *real investments*, which is the allocation of funds directly to constitute real assets (buildings, constructions, means of conveyance, land etc), whose functionality is evident and traditional;
- *portfolio (financial) investments*, which is realized through the purchase of securities, creating bank deposits etc., especially taking into account the bank interest rate, depending on which determines whether they are or not profitable.

They are called traditional for the simple reason that there are over a hundred years.

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But in recent decades, they have emerged and other types of investments appeared, generally known as alternative investment.

Defining alternative investments. According Investopedia “an alternative investment is an asset that is not one of the conventional investment types” [2].

These are investments of capital that are not attributable to traditional asset classes. In other words, alternative investments – is an unconventional investment, designed for long term. Unlike traditional investments, money is invested not in bonds, stocks, deposits or debt obligations [7].

The use of such assets in formation of an investment portfolio can increase its profitability and the level of diversification, so when it is formed must play an important role. Also using them to create a completely unique structure of the portfolio, it is qualitatively different from the traditional [8].

There is a separate market for alternative investments and its existence provides a lot of opportunities for a wide variety of investments. Available options investment funds enable investment choices to ensure a sufficient level of portfolio diversification and the possibility of maximum risk reduction. If is considered all the existing types of alternative investments, then they can be conditionally divided into several broad categories [2], [6], [7], [8], [9], [17], [18].

The first category of alternative investments is specific financial assets. This category may include those financial assets that are not related to any kind of debt or business tools of the financial market. In turn, in this category, you can select certain types of alternative financial assets:

- *Venture capital investments* in companies that have been formed recently. Such investments have a fairly high degree of risk, but at the same time and potentially high income. Such conclusions can be drawn for a long time existing major venture capital funds. Total assets of the top five largest funds in the range of 10 billion dollars, and the yield reaches 50% in some cases.

- *Hedge funds* – this are association of investors, typically registered in offshore zones with the condition private partnership. The organization of such partnerships aimed at reducing taxation. Since the choice of instrument and related asset management strategy is loose enough, the profit and depends entirely on the skill level of control of these funds. In some cases, the yield of hedge funds reached 500%, while the other, with a wrongly chosen development strategy and have suffered substantial losses.

- *Exchange-traded funds (ETFs)* – an investment in fund, the structure of which is tied to index certain areas: industry, region or market. This tool has enough free circulation on the stock exchange.

The second category of alternative investments is specific physical (real) assets. This category of alternative investment is not less extensive than the first. And it can also be divided into several types:

- Works of art and antiques. Any investment in art market assets.
- Investments in gems and precious metals. This kind of investment means an investment in all kinds of precious metals and gems in accordance with generally accepted classification. The most reliable are the investments in gold.

- Real Estate. Investments in real estate is rather stable source of income.

- Resources. Investments in production or processing of natural resources: oil, gas, wood, coal and others.

- Various collections of rare objects (for example, investments in wine and wine collections; investment in coins, stamps, badges and decorations).

Investments in tangible assets are not less diverse than in finance. This category may include any material value, which allows to generate profits or increase the value of its own and is not dependent on any changes in the stock market. However, due to relatively high labor intensity of direct investment for investor are more appropriate instruments for indirect investment. In particular, specialized mutual investment funds or general funds of bank management. Through these tools, allowing for indirect investment, it will be much easier to include tangible assets in the investment portfolio.

The third category of alternative investments is special types of securities. This category includes securities that are traded on the Alternative Investment Market (AIM). This marketplace, where shares of companies, divided into 32 main sectors. These are the types of assets such as biotechnology, natural resources, information technology and many others. AIM marketplace makes quite low requirements to issuer. In particular, he has the right to non-compliance with the minimum size of the market value of securities, but they must be in free float indefinitely. And basically the issuing companies will be of interest to investors, based on the prospects of development, rather than the history of a company. Of

course, these investments have a significant degree of risk. Such an investment would require a change in investor willingness to share risk

The fourth category is investments in human capital, which are total expenditures for health maintenance (restore), general education and technical and other activities contributing to raising productivity and quality of work.

Human capital represents capital in form of intellectual skills and practical skills obtained in the training process and practical activity of man. Economically, this is people's ability to participate in the production process [17].

Because of It can be concluded that four large enough category of alternative investments are a fairly extensive range of facilities for investment. And for the selection of the most appropriate option for accommodation in the investment portfolio, the investor will need to study and take into account all the main features and differences of each category.

Accordin Wikipedia, some of the characteristics of alternative investments may include [1]:

- Low *correlation* with traditional financial investments such as stocks and bonds;
- It may be difficult to determine the current market value of the asset;
- Alternative investments may be relatively illiquid (see "Liquid alts");
- Costs of purchase and sale may be relatively high;
- There may be limited historical risk and return data;
- A high degree of investment analysis may be required before buying

Main trends of global alternative investements markets. In Figure 1 is presented the dynamics of *international prices for an ounce of gold*.



Fig. 1. Dynamics of gold prices in the period from 1973 until August 2016

Source: [4].

As shown in the graph, indicated period general trend in gold price movement was growing. Thus, from 1973 until the month of August 2016 gold prices rose to \$ 1,254.60 / ounce or 1915.42%!

Investment attractiveness of gold makes up such indicators [16]:

1. The long-term value of precious metal, which he continues to hold on for hundreds of years.
2. High liquidity of precious metal, which is caused by the presence of investors in precious metal constant potential implementation of their existing stock asset. As a rule, industry analysts say about the possibility of the sale of gold within twenty-four hours at a bargain price.
3. Possible diversification of gold as an essential element of formation of a strong investment portfolio, which allows to increase the value and prospects of assets, ensure their safety and market stability.

Investing in diamonds also are interesting. Diamonds hold more value per milligram than any other traded element in the world.

In Figure 2 it is presented the change in the value of diamonds from 1960 to 2016.

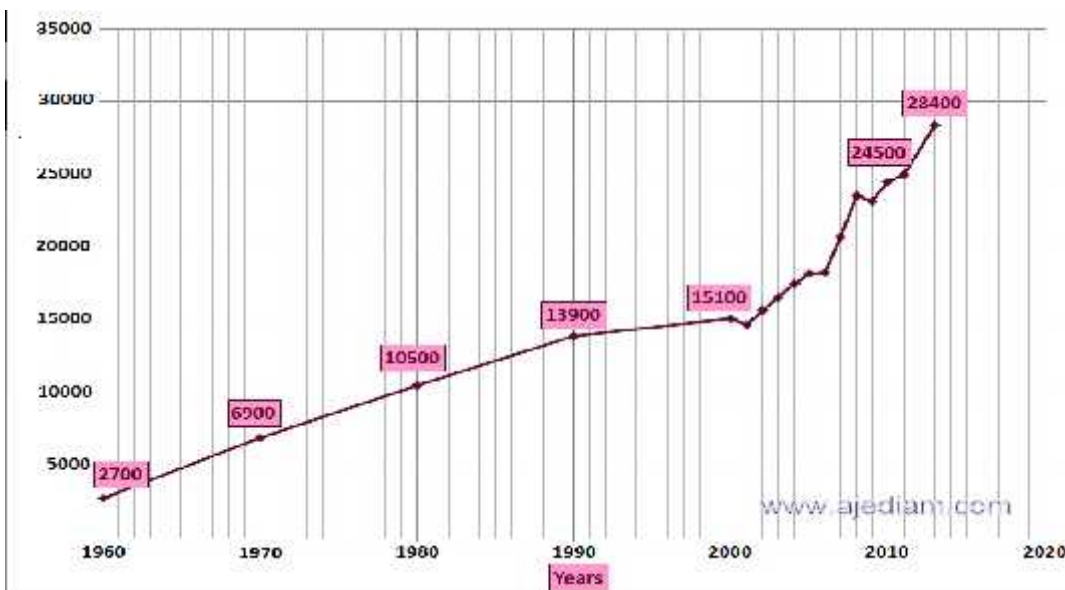


Fig. 2. Change in the value of one carat diamonds from 1960 to 2016 (USD)

Source: [3].

Examined trend shows an increase from 2700 USD to 28400, i.e. 25700 USD or 951.9%!

It should be noted some features of investing in diamonds [11]:

1. The history of diamonds has far more than one hundred years.
2. Diamonds are not suitable for short term investment. For income should be reserved patience for decades.
3. Diamonds, in addition to its investment value, are also very attractive aesthetic qualities.
4. High-quality diamonds are timeless. Precious diamonds have small dimensions therefore they are easy to move, store and display.
5. It is necessary to expertise diamonds, checking their authenticity, quality, to find out their real value.
6. Diamonds are illiquid investment vehicle. This means that care should be taken in advance of the sales channels.
7. There are several types of diamonds and each has its own dynamics of price growth.

Investing in wine is placing funds in bottled wines. International wine market are basic indexes form Liv-ex group, calculated based on trading stock results from London.

Liv-ex 1000 dynamics is shown in Figure 3.



Fig. 3. Dynamics of index Liv-ex 1000 from July 2006 to July 2016

Source: [5].

Nominated graph resulting Liv-ex 1000 has a relatively low volatility and has a tendency to increase.

Investments in wine are long-term. According to experts, the payback period will be from 3 to 5 years. For 4 years the price of young wine could rise by 4 times, and in some instances – 10 [13].

For example, the starting price of a bottle of wine Chateau Margaux 1997 was initially \$65 and after 10 years its value has risen to \$1 thousand. Or, for example, the cost of a bottle Shateau Petrus 2006 for the past five years increased by 4 times. There are examples when buying wine harvest brought a certain owner of elite alcohol up to 400% profit after 15 years, but is considered a successful yield of 30-60%, this growth shows the wine well-known brands, such as Bordeaux: Chateau Mouton Rothschild, Chateau Latour, Chateau Lafite Rothschild, Chateau Haut-Brion. This marks the top division, which from year to year only gain in value [10].

Another important segment of the alternative investment market is *investment in works of art*. The global art market in 2014 earned more than €1 billion (\$ 53.9 billion). In addition, annual sales finally exceeded the pre-crisis maximum of €48 billion (\$51 billion.) made in 2007. Three countries dominated this market. In the United States accounted for 39% of global market, China's share – 22% and the UK – and 22%. UK market grew by 17% in 2014, and in conjunction with the US market, and together they were responsible for 62% of world imports of art and antiquities in 2013 [14].

In 2014 it was carried out nearly 180 art fairs around the world and 39 percent of them were held in the US, in Europe – 38% and Asia – 12%. At art fairs in 2014 works of art was transferred to the amount of €9.8 bln. This number does not include sales made after the fairs. Also, in 2014, dealers have spent € 2,3 bln. to visit fairs.

Sites such as Art.com, Artspace.com and Gagosian.com organize online sales of works of art and antiques in the amount of approximately €3.3 billion, or 6 percent of total sales.

These investments, if are sound, can bring from 20% to 300% annually, depending on many factors [15]:

- Works of deceased artists usually are listed higher than those that are alive;
- Increased interest of mass media;
- Promoting works of art exhibitions;
- Procurement of works by museums;
- Investor collaboration with art galleries.

Real estate is nowadays traded globally and ever more cities are incorporated into global investment flows. The global volume of investment transactions decreased compared to the previous year by 3 per cent in 2015 – to \$689 billion. Experts expect an increase in volume of investments in global real estate market in 2016 to \$720-730 billion [19].

According to experts, the volume of direct investments in commercial real estate will increase in 2020 to \$1 trillion, which is due to the following factors [12]:

- increased control, including less use of debt financing and more – own funds, more stringent standards for assessing borrowers' solvency and greater scrutiny of investment committees;
- Appearance of new sources of capital, primarily in Asia and other emerging economies;
- Growth in volume of direct investment in real estate by institutional investors in developed markets due to low interest rates and the perfection of legal base;
- Growth of cross-border investments from South Korea, China, Taiwan and Malaysia caused by government attempts to reduce over-saturation of domestic market by moving capital abroad.

Conclusions. At the moment it can be seen the process of formation and development of a global market of alternative investments being distinct segments thereof. This market offers investment opportunities with high potential profitability and possibility of using them as shelter investment.

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**INFORMATION AND COMMUNICATION TECHNOLOGIES
IN TASK AND HUMAN RESOURCE MANAGEMENT**

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This article aims to identify the importance of the use of information and communication systems in the enterprise, their role in human resource management, as well as the identification of the impact of information and communication systems on performance, whether these systems are crucial for successful management of an enterprise, the relevance of their use in the efficient human resource management. The problems of this topic are the uncertain potential of information and communication system usage, as well as the identification of prospects for the use of these systems. In the context of this paper there have been identified the main factors of influence of information and communication systems on performance, and have been specified the key forms of these systems application.

Key words: *information systems, communication, management, information technology, human resource management, project management, enterprise.*

Acest articol este elaborat pentru a identifica importanța utilizării sistemelor informaționale și de comunicare la întreprindere, rolul lor în managementul resurselor umane, precum și identificarea impactului sistemelor informaționale și celor de comunicare asupra performanței, atunci când aceste sisteme sunt cruciale pentru managementul de succes al unei întreprinderi, relevanța utilizării lor în gestionarea eficientă a resurselor umane. Problemele legate de acest subiect sunt potențialul nedefinit de utilizare a sistemelor informaționale și celor de comunicații, precum și identificarea perspectivelor pentru utilizarea acestor sisteme. În contextul acestei lucrări au fost identificați principalii factori de influență a sistemelor informaționale și de comunicare asupra performanței și au fost specificate formele cheie de aplicare ale acestor sisteme.

Cuvinte-cheie: *sisteme informaționale, comunicare, management, gestiune, tehnologii informaționale, gestiunea resurselor umane, managementul resurselor umane, managementul proiectelor, întreprindere.*

JEL Classification: L86, L80, M15, M19, H43.

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Introduction. In the age of advanced information progress, information and communication technologies of an enterprise are quite common and popular. The modern systems of enterprise management provide different categories of businesses from small to large-scale ones with the possibilities for successful business development in a wide range of economic sectors.

First, we need to define the very meaning of the term “information technology”. Information technology is the resources needed for data collection, processing, storage and dissemination (ISO/IEC 38500:2008). In turn, enterprise management is essential in the administration and direction of all the tools and resources of the enterprise, starting with the labor force and ending with the human resources for meeting the enterprise goals and making profit.

The author proposes to divide the information technologies used in the enterprise into several categories, and namely:

1. Financial management systems;
2. Personnel management systems;
3. Project management systems;
4. Operations and quality management systems;
5. Sales and marketing control systems.

By the definition and, based on the nature of any kind of information systems we can say that all of these systems intersect and a separate information product can perform one of these functions or all of them at once.

Information and communication technologies, in this case, can fully represent this very kind of intersecting systems. The modern planning systems in enterprises, especially large enterprises that deal with software and information product development, can properly distribute a large amount of work among employees with subsequent collection of the necessary information on the progress of this work.

V.V. Tomilov, V.V. Trofimov and A.M. Burmistrov propose to consider the following as the criterion of ICT system efficiency:

- cutting time for data processing;
- reducing the number of administrative staff (technical executors);
- approaching new markets;
- increasing the customer base;
- strengthening business relations;
- improving sales effectiveness.

The overall objective of investing resources in information and communication technologies is to improve the activity of the enterprise. Specific objectives may be reducing the cost of information processing, improving the reliability and accuracy of information, tackling new economic issues [1, p.120].

Information and communication technology products help to increase the productive efficiency of enterprises, in particular small and medium-sized ones, attaining stronger business performance. However, the percentage of acceptance of these products by small and medium-sized enterprises in BRICS countries is very low [2].

Information and communication technologies, as a rule, are aimed at employee communication to perform complex tasks in the shortest possible time with minimum financial expenses. Information products aimed at staff communication can be defined as the general system of communication between employees through information telecommunications. One of the simplest examples of these communication systems is the e-mail. This communication system is participation of the employees' electronic mailboxes (disk space reserved on the mail server to store e-mails), as a means of communication by sending and receiving electronic messages through a computer network [3, p. 244].

A computer network in this case does not necessarily mean a global network, it may be a local network of working computers. The messages may contain absolutely any information ranging from the textual one to tables, charts, and various types of images. This method of data communication in the enterprise is one of the most primitive, but, at the same time, it is the most common and it is often used in conjunction with classical verbal and material methods of communication. This speeds up the transmission of information, as well as the optimization of employee performance in terms of integrating the received communication information with working processes.

More complex systems of staff communication and information transmission are so-called "chat systems". These systems can combine the basic elements of communication between employees via

e-mail, but at the same time simplifying the process of communication between employees in the company. The most primitive representatives of this kind of chat systems are messengers. Examples of this type of system can be instant messengers as *ICQ*, *Bonjour*, *MSN* – these are information products that offer to the users the possibility mostly to send private messages in digest form to each other.

These forms of communication due to their simplicity can have a relatively high level of information security for protection against data interception by intruders. For example, an information protocol XMPP (Extensible Messaging and Presence Protocol) offers its users a data encryption system and an increased degree of protection against intruders' attacks, storing all the correspondence data on private computer systems without storing data on remote servers. In turn, some systems imply remote voice communication (*Skype*) that use discourse as an additional communication tool. The most effective method of using messengers is the creation of so-called *chat rooms* or *groups*, where several users can exchange messages directly with other users.

Some chat systems have this functionality as optional, while others have been designed precisely to implement this feature for users. One such an example is a corporate messenger *Slack*. This software supports individual message sending and the creation of the aforementioned chat rooms for discussion and adjustment of various tasks or projects. The correspondence in this case is located on the remote server of the information service provider. According to the provider of this service, the use of corporate messenger speeds up the work process in average by 32% compared to the time before using the service (Figure 1).

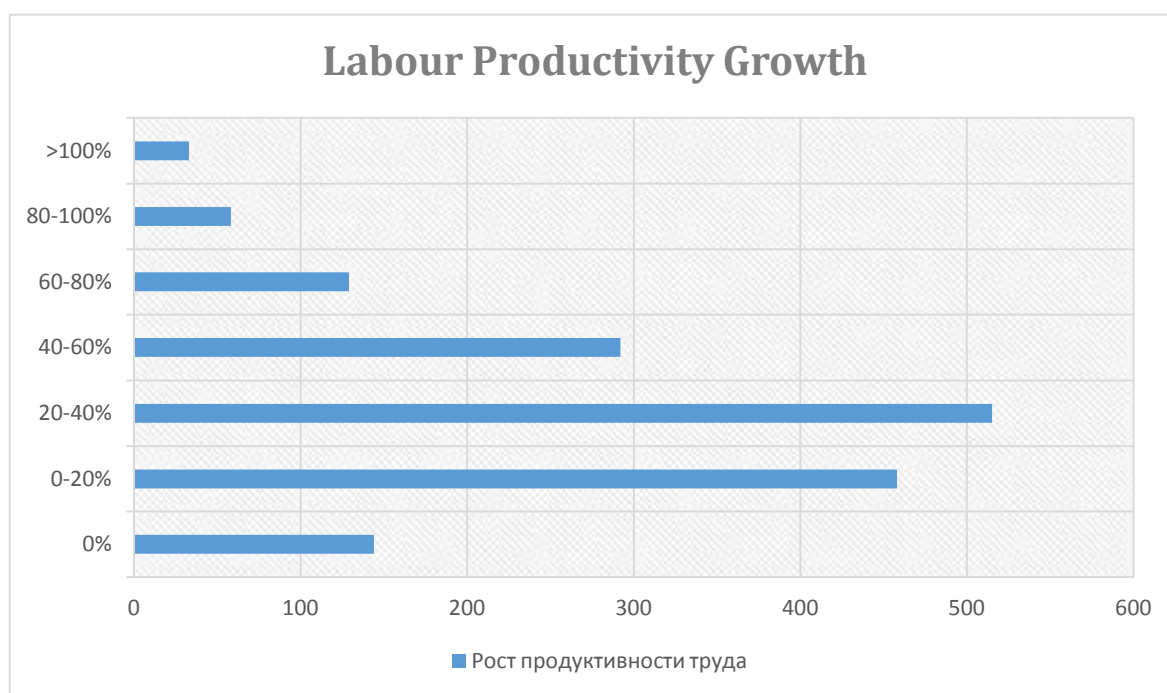


Fig. 1. Labour productivity growth due to corporate messenger Slack application

Source: Slack Survey of 13 July 2015 [4].

Also, the use of Slack services has reduced the number of meetings and briefings by 25%, spending the saved time on carrying out current tasks, thus optimizing time resources of the enterprise (Figure 2). In addition, the use of Slack has made it possible to reduce significantly the amount of messages distributed via the corporate email system in favor of instant messaging, which also helps to speed up communication flows in the enterprise. Also, according to the same study, the entrepreneurs emphasized the influence of corporate messenger on the transparency in the company's activity.

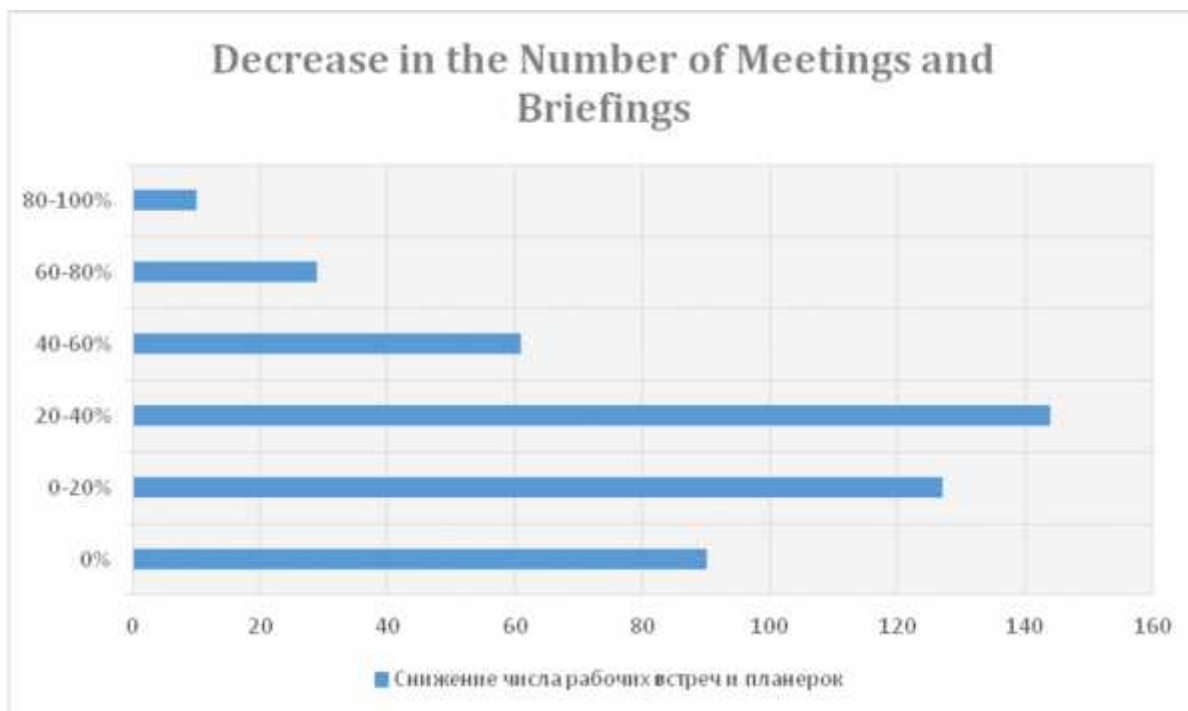


Fig. 2. Decrease in the number of meetings and briefings due to corporate messenger Slack application

Source: Slack Survey of 13 July 2015 [4].

Another more complex category is the category of systems of task setting and supervision in the enterprise or task management system. These software products do not only create a system of communication between employees, but also organize the work on complex tasks. The design as well as separate functionality can vary from product to product but the basic principles of this kind of software remain the same.

The information on a task is recorded in the form of “tickets”, which implies a complex task presented in report form with the possibility to use a wide range of information documents set by the task originator. The task originator, in his turn, may assign various roles to other employees when carrying out the task, and namely, executors, auditors, decision makers, etc. (Figure 3).

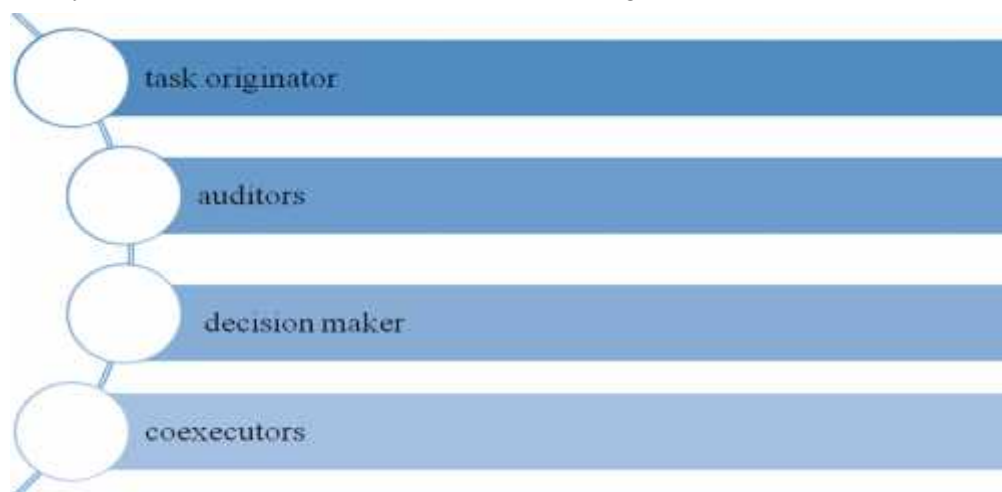


Fig.3. Standard example of a hierarchy in setting tasks in “Megaplan” system

Source: Developed by the author on the basis of the analysis of “Megaplan” system functionality

Further, under this “ticket” there is provided space for comments and discussion of a task by the employees who are to carry it out. Typically, these systems define the task status, the percentage of work performed. Upon completion of the task the “ticket” is closed, but its data remain to be stored on the service provider’s servers or in the in-company repository. These systems may also contain an enhanced functionality for monitoring the remuneration of employees, sales control, customer contact, etc.

These data communication systems in the enterprise enable at once several employees to work simultaneously on tasks, regardless of the physical location of the employees. This advantage enables the company to minimize costs of working space renting by allowing the employees to work from home, the costs of labor, as freedom of movement of employees and their location enables one to hire a cheaper and no less skilled labor force from other countries. For example, according to the online agency of workforce analysis *Payscale*, a php-programmer from India receives 3,097 US dollars as annual income, while the same programmer in the UK has a completely different level of income – 38,588 USD per year. This difference in the cost of labor resources can reduce labor costs, and communication systems enable the head office to monitor remotely the tasks performed.

Information and communication technologies today play a major role in human resource management. Without these systems, even the simplest ones, it is difficult to imagine the efficient operation of a modern enterprise. If the enterprise management is committed to improving the performance, while minimizing costs, than the use of these systems is only a matter of time. Statistical studies of information and communication service providers confirm the extremely high efficiency of these systems in terms of improving the performance.

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OPPORTUNITIES OF APPLICATION OF MARKETING STRATEGIES IN DOMESTIC ENTERPRISES

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Marketing policy consists of a set of strategies that includes the means that the entity will use to achieve the market objectives that it has established and concrete tools for action (tactics). Marketing policy implementation requires compliance of strategies with the chosen tactics. Due to the social, economic and political situation in the Republic of Moldova, the novelty of the paper consists in the existence of marketing strategies that have certain features. The aim of the paper is to identify the main problems that companies have to face while developing and implementing marketing strategies. In order to study them, a study based on survey of local businesses method was developed and conducted. The results of this research are reflected below.

Key words: *competition, marketing, marketing mix, marketing strategies.*

Politica de marketing este alc tuit dintr-un set de strategii, care includ mijloacele, pe care entitatea le va folosi în vederea realiz rii obiectivelor de pia propuse i instrumente concrete de ac iune (tactici). Realizarea politicii de marketing presupune corespunderea strategiilor cu tacticile alese. Datorit situației sociale, economice și politice a Republicii Moldova, actualitatea temei rezid în existența anumitor particularit ți ale strategiilor de marketing. Scopul lucr rii este de a identifica problemele principale, cu care se confrunt întreprinderile la elaborarea i implementarea strategiilor de marketing. În vederea studierii acestora, a fost organizat i efectuat o cercetare prin metoda chestion rii unor întreprinderi autohtone. Rezultatele acestei cercet ri sunt oglindite mai jos.

Cuvinte-cheie: *concrenș , marketing, mix de marketing, strategii de marketing.*

JEL Classification: M30, M31, M39.

Introduction. Many specialists in business management and marketing defined the strategy addressing, as a whole, the content and meaning of the concept as such. In this regard, the illustrious North American professors, Justin Longenecker and Charles D. Pringle treat the strategy as a realization of the prediction, pointing out that it has the aim of "*developing comprehensive essence programs regarding the future, continuing with a more detailed planning of a special nature*" [1].

Brian Quinn gives the following definition: "*Strategy is a pattern or plan that integrates the major goals of the organization, policies and action sequences into a coherent whole*" [2].

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According to Ovidiu Nicolescu, the general economic strategy designates "all the major objectives of the organization in the long term, the main ways of their achievement with the allocated resources in order to achieve a competitive advantage according to the organization's mission" [3].

If the strategy is the overall vision of how the organization's goals are met, then the tactic is the set of actions that transposes in practice the chosen strategy, when to be applied and by whom. Strategies are developed and implemented according to the specific situation and needs of the company, being developed at different times and on different occasions: in the case of the launch on the market of a new product, along with substantiation of programs, plans or enterprise budgets, etc. [4].

Results and discussion: From another perspective, marketing strategies can be classified in:

- **Action strategy** provides the products (product range); price level; region and marketplaces; used distribution channels, etc.

- **Employment strategy** sets out who, when and where will execute specific actions from the strategy in question.

- **Results strategy** sets out the way of increasing the product efficiency through the full utilization of production capacity, labor force and advanced technical possibilities, etc.

However, the social, economic and political situation of the Republic of Moldova, provide the marketing strategies with certain features. In order to study them, a study using the survey method has been developed and conducted. Thus, *by analyzing the survey results, about 44% of respondents mention that they work under a well thought out, clear and real marketing strategy, which is well-argued, rather innovative and feasible.* We believe that, in real life, this share is actually much lower. The same rate of 44% of surveyed enterprises admitted *they have a marketing strategy, but it is poorly reasoned, it is not clear in terms of realization.* The large number of companies that gave such a response shows that they do not have such a policy and, respectively, a viable and sustainable strategy that will allow them to effectively manage the business. About 4% of respondents do not have a marketing strategy, and 8% did not answer this question (Figure 1).

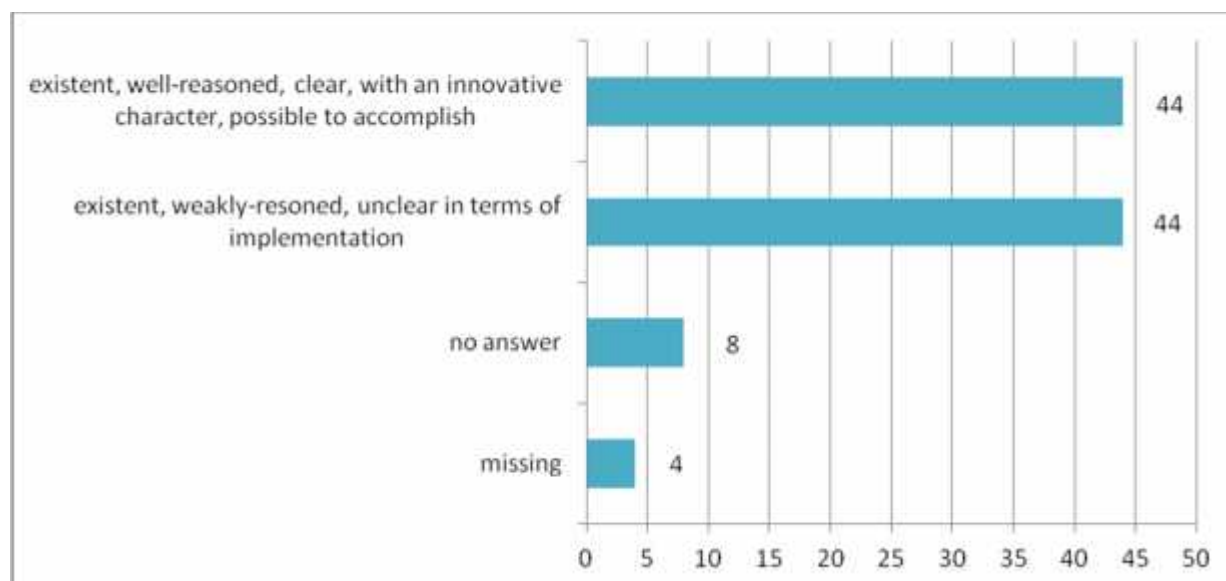


Fig. 1. Assessments regarding the extent to which businesses act as a thoughtful, clear and real marketing strategy

Source: Developed by the author.

In terms of the **competitive fight**, *marketing strategies are geared mainly towards specialization and by addressing to some specific segments of consumers*; this strategic priority has obtained the highest score of 3.8, being on the same position with strategic orientation towards advertising and information. The orientation of marketing strategies to differentiate their products from those competing was assessed with the 3.3 score, followed by service oriented strategic priority of sale and post-sale.

According to opinions on the extent to which the current period of transition to a market economy provides favorable conditions for realization, design and execution of marketing actions (strategies),

16.7% and 29.2% have a positive view, noting that the local economic environment offers very many and many favorable conditions. While the remaining 54.2% think that they benefit from average conditions (50%) or even unfavorable (4.2%). The graphical representation of the above-mentioned is given by Figure 2.

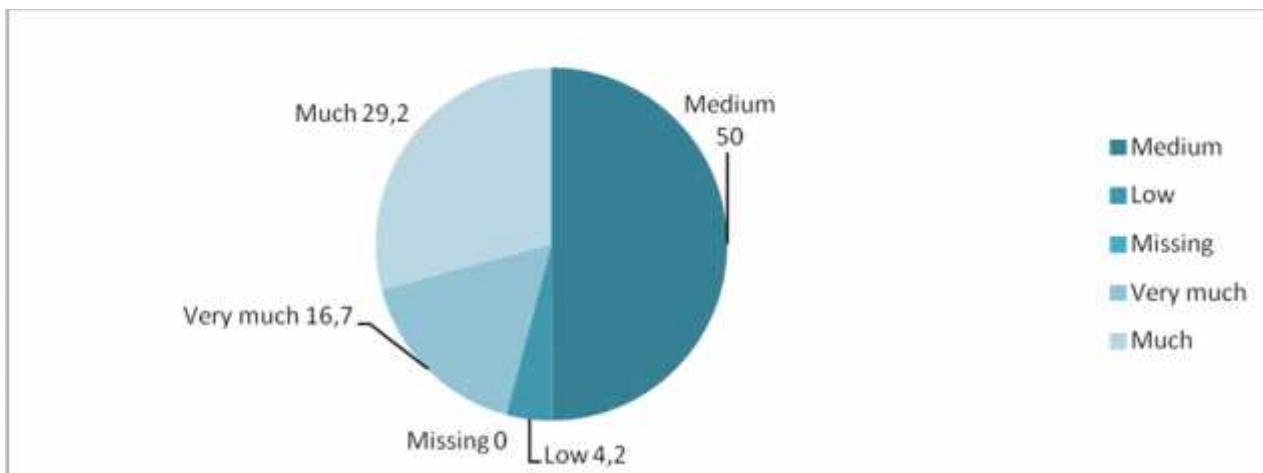


Fig. 2. Division of opinions regarding the extent that the current period of transition to a market economy provides favorable conditions for realization, design and carrying out marketing actions (strategies)

Source: Developed by the author.

We note that approximately 73.5% of respondents mentioned that *they orient their development strategy to increase sales volumes, which once again proves that domestic enterprises place the basic concept in the market strategy orientation towards sales*. A lower share, but still the majority of respondents is moving towards *developing their own businesses (67.3%), image of the company and its products on the market (63.3%), the volume of profits and the level of profitability (59.2%) and increased competitiveness (55.1%)*. Only for about 1/3 of the respondents *the increase in remuneration of staff is an objective included in the economic development strategies (Figure 3)*.

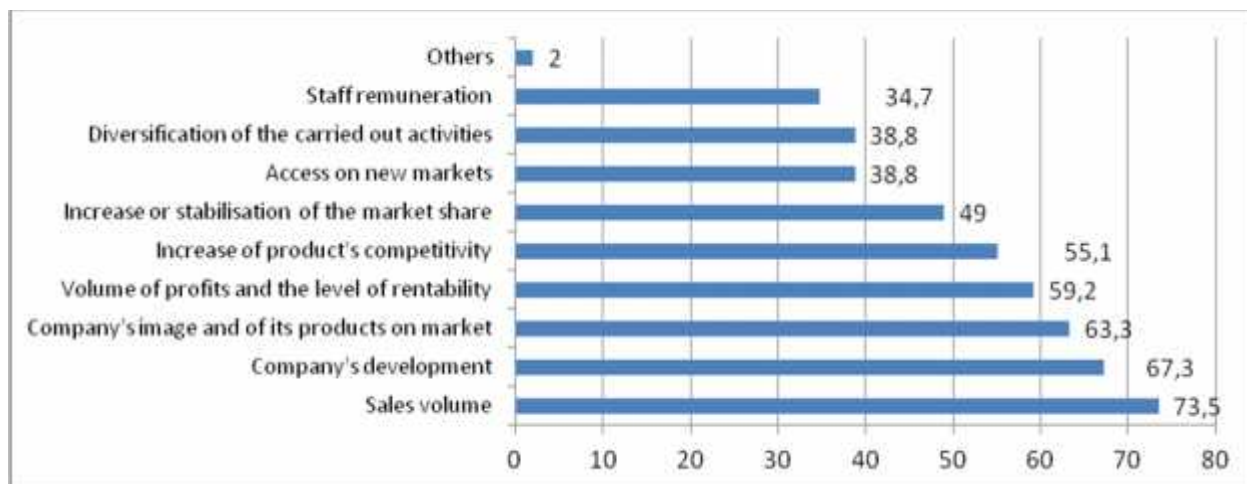


Fig. 3. Economic objectives of enterprises in development of strategies

Source: Developed by the author.

Strategies aimed at holding a qualified staff, at continuous innovation and continuous renewal of the product range are considered less important, being appreciated with an average score below three points (2.8-2.9). The lowest score was obtained by the orientation of competitive strategies of the surveyed businesses towards a more suitable quality of goods and services to consumers (Figure 4).



Fig. 4. Orientation of strategies to combat competitive businesses

Source: Developed by the author.

Depending on the component of the addresses marketing mix, marketing strategy can be classified into several categories: *market strategy*, *product strategy*, *promotional strategy* etc. Under current conditions, market strategy is the core of the marketing policy of the company and must comply with its external environment requirements and to exploit optimally the available resources.

Market strategy serves as the basis and starting point for the development and foundation of all other strategies of the overall marketing strategy.

In the study, for a broader analysis and evaluation of the market strategies that are leading the responding companies, more parameters were appreciated, namely: **the position of companies towards the market dynamics (growth, stagnation or regression), the position of company to market structures, the position of company to market requirements, the company’s position towards competitors** (Table 1). Depending on the position of interviewed enterprises towards the market dynamics, 79.2% have proposed a growth strategy, ie a strategy that is specific to businesses that are in an expansion phase of their work, or which carry out their activity on a growing market. Appreciation by respondents of the marketing strategies based on the enterprise’s position towards the market structures reveals the predominance of differentiated strategies, about 52.1%, followed by focused strategies (37.5%) and by undifferentiated marketing strategies that are in minority, representing only 10.4%.

Table 1

Classification of market strategies

Company’s position towards:				
Market dynamics	Market structure	Market changes	Market requirements	Competition level
Growth strategy	Undifferentiated strategy	Active strategy	Strategy of high requirements	Offensive strategy
Stagnation strategy	Differentiated strategy	Passive strategy	Strategy of medium requirements	Defensive strategy
Regression strategy	Focused strategy	Adaptive strategy	Strategy of low requirements	

Source: [5].

Differentiated strategies require a specific approach for each market segment and are specific for less segmented markets, being a quite expensive strategy. In turn, focused strategies aim at one or a few segments of the market on which efforts are focused. This strategy is often adopted by companies that offer very specific products, for example for blind people and small businesses that are unable to meet several market segments.

About 72% of companies from the sample mentioned that they have an active marketing strategy, and **we consider this share to be erroneous**, this type of strategy being specific for typically large companies with high growth potential, with a prospective attitude, forward-looking. We also consider erroneous the share of declared strategies with high requirements (61.4% of enterprises) such strategies involve a high level of quality products and services that the company offers to market.

Of those surveyed, **in terms of the position towards competitors**, 37.8% mentioned that they have an *offensive strategy*, or an attack strategy, which implies an aggressive stance aimed at increasing the market share of the company, this marketing strategy being specific to strong businesses. Defensive positions or those of maintaining the market share and the collaboration with competitors are appropriate for marketing strategies of 31.1% of respondents for each category of strategy.

As mentioned above, the company's marketing strategy establishes company's orientation towards specific groups of customers and how the value will be created and proposed for these customers. Based on this strategy, a marketing program is developed that in general, builds relations with customer in accordance with the provisions of the strategy. Any program represents a statement of principles, goals etc. of an organization implemented through a plan of activity in which there are established (in order of their occurrence) the proposed steps for a certain period and in a certain order. The main tool for the implementation of the marketing program is, as was mentioned before, the marketing mix, ie the set of marketing tools that the company uses to implement its marketing strategy. **On the foundation of the marketing mix depends largely the implementation of the strategic decisions of the company.**

In about 70% of enterprises participating in the study plans are developed, among which the majority, or 36% of respondents have annual plans of a general character; within the 34% of enterprises, perspective plans and annual plans divided quarterly, monthly and by decades are developed. For other companies very little is planned (22% of all respondents), or is missing in 2% of economic units, about 6% did not answer (Figure 5). We believe that most of companies have a superficial approach on the marketing plans and companies are unaware of the advantages. It is worth mentioning that the majority of enterprises explain this by the lack of certainty and by accelerating changes that occur in the marketing environment of firms.

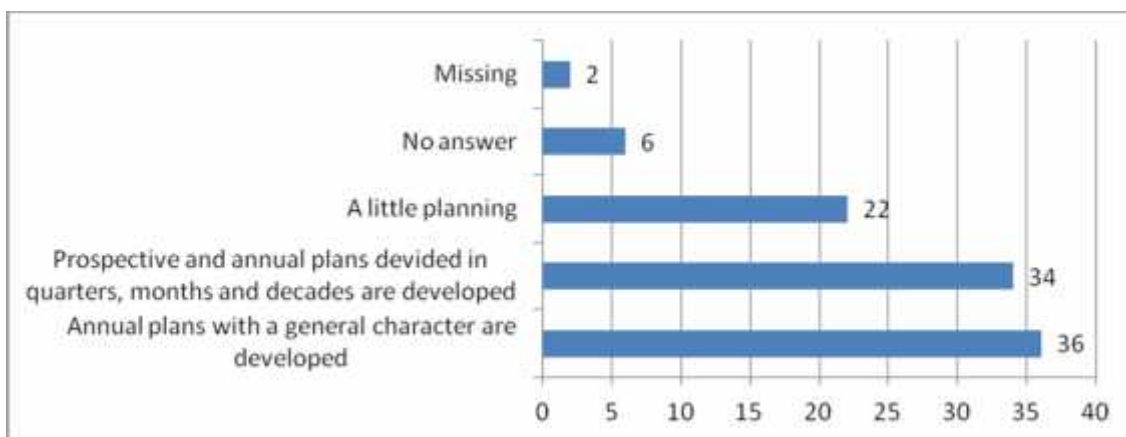


Fig. 5. Assessments on practicing in enterprises of the planning marketing activity through which the proposed strategy materializes

Source: Developed by the author.

Development and implementation of marketing plans is a process conducted differently in each enterprise. Within the 34% of respondents, this activity is charged to the whole team. About 24% of respondents have specialized departments in the development and later organization of marketing plans. Obviously, there are entities where this task is performed by one person, and the share of enterprises with such an approach is quite high, 22% of all enterprises surveyed. 12% of companies organize marketing plans throughout the entire organization by specific departments. This approach may be one accepted in the case of small businesses, in which all staff is aware of their company's activity, but there is still a need of an overall vision and a marketing study performed by a skilled person (Figure 6).

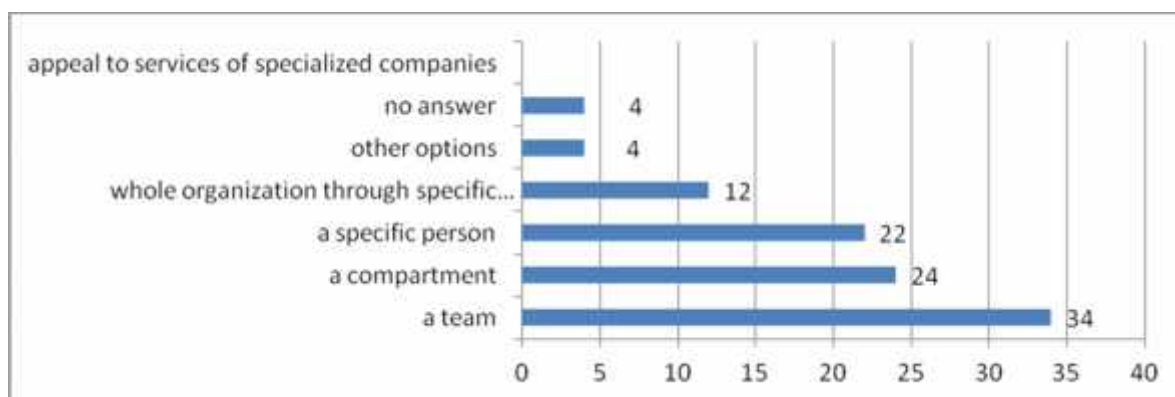


Fig. 6. Organization of marketing plans

Source: Developed by the author.

Marketing planning in domestic enterprises is usually performed on short and medium term; this situation is also caused by the uncertainty of the marketing environment, but also the need for an increased volume of information and more complicated and complex investigations for development of the marketing plans for a long term. Thus, 60% of businesses make their marketing plan for a year, for three years – 20%, for 5 years and more – only by 4% of companies for each category of time (Figure 7).

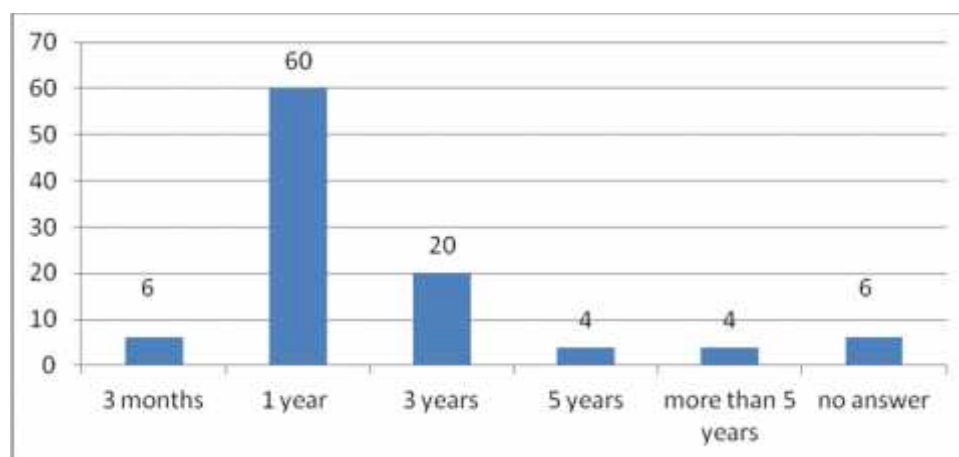


Fig. 7. Horizon of marketing planning within an enterprise

Source: Developed by the author.

In accordance with the above-mentioned, to base a marketing strategy and plans that describe it, there is a need for a set of components, namely: qualified staff, extensive and qualitative information, methods and techniques of marketing research etc. Currently, the information has become an important resource for success.

To this end, there are usually collected and analyzed several categories of data:

- general economic, social, environmental, medical and geographical data of the region where the company is located;
- data specific to the evaluation object, ie product, customer or market segment, etc.;
- industry-specific data are: available modern technologies, standards and regulations in force for the entire life cycle of the product and the positive or negative experience of other companies in the sector.

Collected data must meet the following requirements: be relevant, be exact (data collected must reflect the real situation on the valuation date), to be trustworthy and be complete (data should be sufficient to justify the decision). It is also necessary to perform safety analysis of sources of obtaining information.

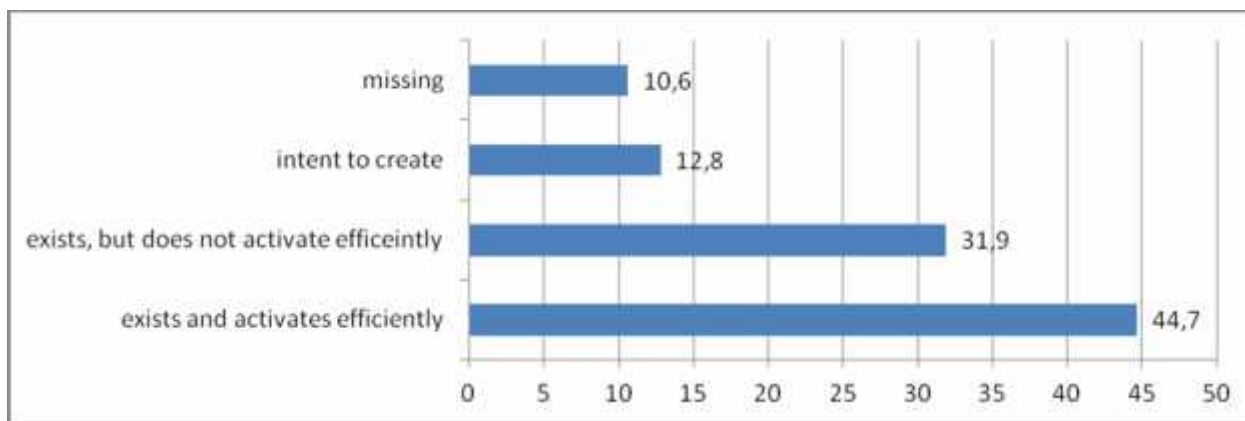


Fig. 8. Implementation of informational marketing systems within the companies

Source: Developed by the author.

Thus, enterprises must have a marketing information system. 44.7% of respondents mentioned they have such a system and it works effectively, 31.9% have such a system but it is inefficient. The remaining respondents included in the survey, 23.4% said they do not have such a system, including 12.8% who intend to create it (Figure 8).

Obtained marketing information are used more widely during the decision-making process within the 85.4% of the enterprises surveyed (Figure 9).

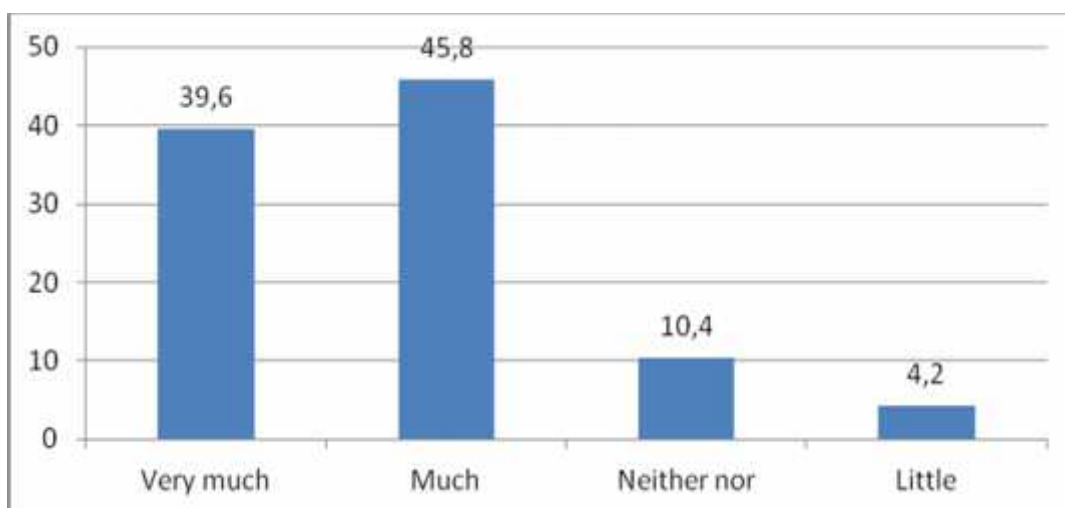


Fig. 9. Assessment of the usefulness of marketing information for the decision making in enterprises

Source: Developed by the author.

Marketing research is defined as all means that enable the collection, analysis, presentation and quantification of all useful information for marketing. Marketing specialist is not in permanent contact with the consumer or retailer, but its action requires a perfect knowledge of agents that are operating on the market; information allows him and the quality of marketing depends on the quality and its usage. Such research are welcome, but often expensive; companies undertake such investigations with a different periodicity, and non-routine. Also, we should note the different approach of the importance of this activity by businesses. *In the study it was found that 47.9% of enterprises have realized the latest marketing research recently, 27.1% - a few months ago.* The share of those who have not done such research is also very high, 14.6% of survey participants.

Conclusions. Analysis of survey of most of domestic enterprises shows that they do not have a policy and, respectively, a viable and sustainable strategy, enabling them to effectively manage their business. We find that today, successful companies have in common the fact that they focus intensely on the customer and are completely engaged in marketing activity. At the same time, to develop an effective

marketing strategy, that will allow holding a high degree of competitiveness, we recommend the company to focus on two main issues, namely:

1. To whom its activity is oriented, which customers will be served;
2. What are the methods and techniques to best serve these customers.

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**THE INTERACTION OF TEAM MEMBERS
AS A KEY FACTOR IN THE DEVELOPMENT OF ITS SKILLS
AND BENEFITS IN THE ENTERPRISES OF THE REPUBLIC OF MOLDOVA**

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The actuality of the theme consists in concretizing the importance of the management teams, identifying and classifying the most adequate individual and personality qualities and the behavior specificity of their members. The author emphasizes the analysis methods of premises that encourages the formation of the management teams, analyzes the impact of the place and the role of the property, of its structure on the practice regarding the formation of the management teams within the companies of the Republic of Moldova. The results are considered as useful and axiomatic in the process of elaborating the management model by the administration of the local companies. The aim is to motivate scientifically and to elaborate the concept fundamentals concerning the formation and the functioning of the management teams, which might improve the management of the modern companies from the Republic of Moldova.

Key words: *team, management, organization, role, ability.*

Actualitatea temei const în concretizarea importanței echipelor de management, identificarea și clasificarea celor mai adecvate calități individuale și de personalitate și a comportamentului specific membrilor lor. Autorul pune accentul pe metodele de analiză a premizelor, ce încurajează formarea echipelor de management, analizează impactul locului și rolului proprietății, a structurii ei asupra practicii de formare a echipelor manageriale în companiile din Republica Moldova. Rezultatele au fost găsite utile și axiomatic în procesul de elaborare a modelului de management pentru administrarea întreprinderilor autohtone. Scopul este de a motiva științific și de a elabora bazele conceptuale privind formarea și funcționarea echipelor de management, care să poată îmbunătăți managementul companiilor moderne din Republica Moldova.

Cuvinte-cheie: *echipa, management, organizare, rol, abilitate.*

JEL Classification: M16, M20, M39, M50.

Introduction. Management team's success depends not only on knowledge and experience that are available to its members or by the processes that ensure their interaction, but also on values shared by the members of teams. The author makes the hypothesis according to which the values that shall orient team members, have a profound effect on what is able to make the team, compared to managers who are not integrated in teams.

However, the tacit, non-coding and personalized knowledge are transmitted slowly, with considerable expenses. Therefore, the problem of creating consolidated knowledge can be solved during

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direct interpersonal communication. Only in such conditions, based on existing knowledge, can be formulated new management ideas and possibilities for their settlement. Moreover, errors of interpretation of knowledge transfer can be corrected immediately in the feedback process.

The basic content. In this respect, the question arises, in what manner in the management team appears the cooperation among its members? From author's point of view, an essential source of establishing what they know and how do management teams use this knowledge, is the presence of mechanisms of interaction between participants. In other words, knowing by team members how should be organized their jointly work is part of general knowledge of the management team.

From this point of view, there can be reached the conclusion that in the process of studying the management team we need to apply for the newest concepts of management, among, the nearest to management issues addressed is considered the concept with regard to dynamic skills. In accordance to the opinion of those who have developed, this concept reflects the possibility of capability growth of companies in terms of integration, creation and reconfiguration of internal and external skills to suit to the rapidly changing environment. Following this logic, it is important to emphasize again that the source of dynamic skills of the management team is the personalized knowledge. However, self-knowledge cannot be a competitive advantage. In this purpose, in accordance with author's opinion is necessary the integration of skills, which is ensured, in author's opinion, by the management team. Thus, participants need to have more knowledge that will ensure an efficient interaction of individuals. This knowledge will be used as competence, maintained by routine procedures. These procedures may include joint management decisions, research and market analysis, clients, partners, developing new creative ideas, organization of quality control etc. Only in the process of systematic interaction between team members on those aspects of individual knowledge turns into the skills of the management team, which, in turn, serve as basis for the efficient management of the company.

Thus, as source of capabilities and benefits of teams of management can be:

- Knowledge that is available to team members, the ability to store and modify them as any other goods;
- Competencies that fulfill the role of organisational processes of joint activity and underlying common management decisions, generating new ideas, strategic development objectives, quality control activities, etc.

Namely, based on them, the team manifests the ability to recognize and develop new opportunities as the ability to "change, to count on response and investment actions, as well as efficiently and effectively introduce a new mechanism of operation".

Therefore, the management team must be understood not only as an union of informed people who have skills in the field of organization of their activities and functioning of the company, but also as a structure that has the ability to recognize the new opportunities and that can use internal and external assets, in order to get economic benefits.

Hence, the benefit sources of management teams in the author's opinion, resume not only to the presence of certain skills, but also, to the ability to change the order of actions and its competences. Therefore, we can assume that in a team should be developed and respected a specific order of interaction, which would ensure the development through skills of the teamwork. Thus, to solve the problem of formation of team activities it is important to keep in mind the qualities that characterize a person from the professional point of view, but at the same time, the qualities that reveal his abilities to communicate and interact. There are several approaches, by complying can provide communication to members of management teams. One of the most common among them – jointly organizing the work, based on achieving by managers of specific roles.

Firstly, the principle of forming management teams based on role approach, aims to use the Manager in two of his situations: on the one hand, personally to accomplish his functional role, i.e. by performing his functional responsibilities, and on the other hand, – performing "the teamwork role", i.e. providing mutual and productive interaction to team members in the common process of activity. Secondly, in each team, as the author mentions, must comply with the principle of "optimal balance in achieving functional and teamwork roles by all team members". Thirdly, the effectiveness of the team depends largely on how the accomplishment of roles of team members identify and understand their strengths and weaknesses and, in the interest of the team, can adapt to the use of strengths and neutralise of weaknesses and the fulfillment of both functional roles and the team.

Fourthly, it is important to emphasize that an effective team does not requires that all its members

should be very similar to each other as for qualities, competence, attitudes and motivation. An essential step in understanding the process of joint work of team members, in our opinion, has become the “complementarity” theory, drawn up by one of the authors. Highlighting four roles: (E) – entrepreneur, (I) – integrator, (A) – administrator, (P) – producer, I. Adizes proposed and argued the concept of complementary roles.

In this regard, it is important to highlight the research conducted by the author, who found that the most effective teams by themselves draw up rules of joint work, rules as regulators of interaction processes. These relate to the following standards/rules of team’s activity:

- each tends to be honest and sincere;
- each participates in meetings of planning and meetings;
- each reports about deficiencies discovered and production quality or labour;
- each understands, respects and supports the unity of the team etc.

Thus, we can say that the joint work of the team can be described as a specific set of processes when communication takes place between its participants. In this sense, the aim of the study was to clarify the fact to what extent the processes of interaction of team members and their orientation are important for joint work of managers in teams and, most importantly, that may be obstacles in securing the joint activity of the team of managers. The results of this study are presented in Table 1.

Table 1

The main barriers in the activity of management teams (%)

Basic barriers	According to the sample	In companies where there are no teams	In companies where there are teams
- Modern people have a too high level of independence, they hear more themselves than his colleagues;	19.4	10	37
- There is no effective system of motivation for teamwork;	24	9	47
- Senior management does not manifest confidence in people, therefore they do not trust for the morrow;	37	32	28
- People are not trained to interact and cooperate;	47.2	24.3	79.2

Source: Developed by author.

The table above shows that, in the opinion of those who work in teams, the biggest obstacle in creating teams is the lack of training of managers, to form interaction and cooperation (79.2%). It is important to point out that in case of companies in which there are no teams, the need for cooperation and collaboration is almost three times lower.

Team members have indicated that the limiting factor is the too high level of independence of administrators who intend to rely more on themselves than on their colleagues (37%). Besides, almost 47% from respondents who mentioned that they work in teams have underlined the lack of effective motivation for work in team.

Therefore, we can find out that interaction processes are the essential base of the work in team of managers. For more accurate understanding of the processes of interaction and the interaction principle is important to highlight some differences compared to “complementarity” principle. It appears that the last is narrower than the first, because it focuses on the complementarity of weaknesses. The interaction in author’s opinion absorbs the complementarity, orienting the personality to other aspects of joint work. For example, establishing a good climate in relations, the respect, the contribution. The interaction allows the use in common of the common baggage of technical, organizational, managerial knowledge and other knowledge depending on the degree of ownership thereof by holders.

However, the purpose of interaction is not only the exchange of information and its effective use, but, as it has already been established, the organization of searching such combinations of assets possessed by the management team which would allow the creation of added value and creating new know-how knowledge. And not only in the technological field, but, more important, in the company’s management,

by the use of new approaches in terms of analysis of the external environment and the activities of own enterprises, marketing, accounting and management, human resource management. Being implied knowledge of the external environment of the company, they cannot be intercepted and therefore are the competitive advantage of the company's team in question.

The development of interaction processes between team members takes place during joint drawing up of the firm beliefs regarding the manner how they should work together and what should be their priorities. In the process of cooperation, on the basis of its own experience, they perceive the validity of various ways of cooperation and follow the most favourable for accomplishing the priorities. As a result, the processes of interaction in team acquire clear forms. Once the company begins to succeed, team members reach gradually to the conclusion that interaction processes successfully used by them are the right way of working in a team. Thus, it should be underlined that teamwork is important not only to the building of relationships in the process of coordination and harmonisation of work processes, ensuring technological production etc, this interaction is defined as one reactive, but are important and interaction processes during discussions, establishing objectives and outcomes of the activity, brainstorming about the company's development priorities and methods of their achievement, etc. The same type of interaction is also proactive and aims to reduce the uncertainty of the future and to define the strategic objectives for the development of business and the possibility for their achievement.

In terms of knowledge, can be stated that the source of team benefits is not only and less a coordination and a better coherence of team members, based on operating with well-known knowledge, encoded, but rather, the creation of conversion mechanisms of individual knowledge (default) and the information received in new team knowledge, explained and non-coded.

The development of interaction processes between team members takes place during joint drawing up of firm beliefs regarding the manner how they should work and what should be their priorities. In the process of cooperation, on the basis of own experience, they perceive the validity of different ways of collaboration and follow those that serve for accomplishment of proposed priorities. As a result, team interaction processes acquire clear forms. Because the company begins to show results, team members gradually reach the conclusion that interaction processes, successfully used, represent the correct way of teamwork.

Team interaction processes make it possible to do an analysis of management teams as an object and at the same time as a subject of management, i.e., as a system of elements (members), producing for themselves management decisions implemented by themselves. This imagining about team indicates that a team works based on the principle of self-government. In this context, the process of interaction from structural point of view is not divided into subject and object of management (one managing the other), but into certain procedural stages of analysis and collective synthesis, collecting and processing data, formulation of problems and finding their solutions, drawing up rules for the development of internal activity, their uses and so on.

According to author's opinion, the "administration concept, in its traditional form, like the ability to work with employees, enriches with a new content in relation to their active involvement in the process of collective management and in its own interests. However, it is important to mention that self-management developed in a team, doesn't mean removing the leader from the managing team. His role as an "architect" in building the team and as a Coordinator of his subsequent activity cannot be omitted. It should be noted that in a team takes place the establishment of a democratic management style and the rejection of the authoritarian, which was studied in detail by the author, that defining the differences between effective and ineffective teams, came to the conclusion that a characteristic of inefficient teams is the presence of authoritarian leadership style. Thus, in the management team works the self-management mechanism and not the leadership one, which allows to the team the achievement of synergy effect through coordination and cooperation among its members.

Underlining this principle changes the search system and the selection of team members. Usually, the selection of managers takes place on the basis of formal rules, which include education, experience etc. However, in recent years, more active in selecting a team has begun to be used a specific principle of "selection".

Results and conclusions. Despite the existence of practices for the selection of management teams, most often, become members of them thanks to the functions they meet. In no cases, the study performed has shown the creation of management team by order. The experience shows that the team was formed by single. This, in author's opinion, suggests us that the very principles of association of managers in teams

and their work organisation are little known to site managers, and moreover, there are no unique methods and principles, which result might form teams. Thus, analyzing the management team in terms of the concept of competences, we can draw the conclusions.

Skills, as a competitive advantage of team management, are based on the following sources:

- Knowledge and skills of team members, which not only has to be collected, but also changed, transformed;

- Competencies appearing in the form of principles, norms and rules of cooperation, interaction processes, which provides the opportunity to identify and develop new opportunities for the purpose of further development of the company.

In addition, the author identifies some basic principles, according to which people cooperate within a team and develops their skills. Among the basic principles can be the following:

- The principle of autonomy, in accordance to which the traditional management is replaced by that of team members conducted him. The result of this principle contributes to the formation of norms and rules of interaction between individuals depending on their desire, leading to the development of initiative, creativity, creative thinking;

- The principle based on knowledge and information exchange. Cooperation of knowledge leads not only to exchange, but also to creation of new knowledge (know-how), the acquirement by the team members of new skills, the ability to identify and develop new opportunities, both within the company and outside;

- The principle of entry into team depending on the assumed role. Adherence to this principle ensures complementarity and balance to behavioural style of team members;

- The principle of horizontal structuring of training the team, where there is no rigid hierarchy of power and subordination;

- The principle of voluntary entry in a team. At its base – inclusion in the processes of interaction, i.e. the exchange of knowledge and experience at person's request, and not through an order.

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SPORTS INDUSTRY – A POTENTIAL NEW SOURCE OF ECONOMIC GROWTH

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The aim of the paper is to study the impact of sports industry on the economic growth of a country, with a further perspective for the Republic of Moldova. The novelty consists in the necessity of a wider research of the activities of sports organizations and their impact on the economic activities within a country, as there are existing worldwide examples that could serve as a strong argument in this case. The results were achieved using the following methods: statistical, analytical, comparison, etc. Understanding that modernization of the sport industry is necessary for any country, including the Republic of Moldova could result in the determination of the linkage between sports and further development of the country.

Key words: *sport industry, investment, economic growth, development.*

Scopul lucrării este de a studia impactul industriei sportive asupra creșterii economice a unei țări, cu o ulterioară perspectivă pentru Republica Moldova. Noutatea științifică rezidă în necesitatea unei cercetări ample a activităților organizațiilor sportive și impactul acestora asupra activităților economice a unei țări, dat fiind faptul că există exemple concrete care pot servi drept un argument forte în această situație. Rezultatele obținute s-au datorat utilizării următoarelor metode: statistică, analitică, metoda comparației etc. Înțelegerea faptului că modernizarea industriei sportive reprezintă o necesitate pentru orice țară, inclusiv pentru Republica Moldova, poate duce la determinarea și identificarea legăturii directe dintre sport și dezvoltarea continuă a unei țări.

Cuvinte-cheie: *industrie sportivă, investiții, creștere economică, dezvoltare.*

JEL Classification: L83, F21, F29, F63.

Introduction. Under the conditions of intensive structural changes that take place nowadays in the Republic of Moldova, the creation of market relations is observed in several new sectors of the national economy. Thus, sports organizations from the Republic of Moldova are lacking in financing, both from public and private sources. They face with the challenge of finding sources of financial resources, which would lead to implementation of innovations in their economic aspect in order to be an active member of the economic process.

Moreover, given the deepening of the commercialization of sport events, it is a strong need to intensively develop sport infrastructure, so that the sport organizations could become an important player

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in the economic processes in the Republic of Moldova.

Material and method. For a wider approach, the article analyses both, national and international data available for sport industries. Within the research, there have been used the following methods: statistical, analytical, comparison, etc. They allowed the author to better present some analysis that was made according on the existing data.

Results and discussions. Over the past decade, the world of sport and leisure activities have turned into a dynamically developing industry, continued to gain more and more popularity and investment attractiveness. The scale of the development of the sports industry is characterized by a steady increase in revenues, which can be seen from Figure 1. Statistics show that the growth of the industry is sustainable even in adverse economic climate and instability of the economy.

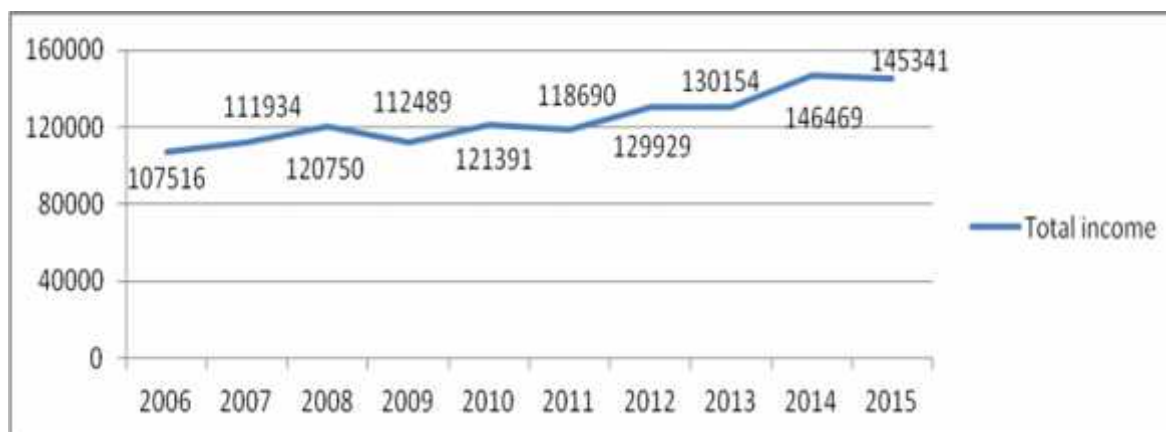


Fig. 1. World sports industry (mil. USD)

Source: *Changing the game: outlook for the global sports market to 2015*, PwC, 2011.

At the same time, Republic of Moldova has a low sport culture that is diminishing its impact on economic activities year by year. The lack of investments in sport complexes leads to the existence of a poor sport infrastructure that is barely changing through years, and even if there are any changes, the situation is getting worse.

Table 1

**Sport buildings, sports and recreation
gymnastics centers for health in the Republic of Moldova**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sport buildings - total	4848	4882	4907	4918	4906	4891	4885	4910	4901	4901	4806
stadiums with stands for 500 seats and above	47	48	54	55	53	52	51	51	51	51	50
plan sport buildings (lands and fields)	3017	3051	3051	3067	3047	3019	3017	3020	3022	3025	3026
sports hall	1229	1251	1270	1281	1269	1274	1273	1267	1267	1268	1268
swimming pools	22	25	25	25	25	25	25	24	24	25	25
other buildings for sports activities	533	507	507	490	512	521	519	548	537	532	437
Centre of physical culture and health recovery	10	9	6	6	6	6	6	6	7	8	9

Source: Database of the National Bureau of Statistics, Republic of Moldova, www.statistica.md

The issues related to sports organizations and culture problems in the Republic of Moldova are widely important. On one hand, the complexity of relations between sports and economy for the national level has as consequence the stagnation for the development process and the promotion of sport, explained by the limited financial resources, thus the absence of a well defined policy that may prolong and promote the sport movement. On the other hand, the world sport moment is given considerable financial resources for maintaining physical culture system and sport. Applying for these types of grants and projects for the sport development and promotion requires the achievement of concrete actions not only for managers and sports organizations but also for the active involve of the state for the sport national system [1].



Fig. 2. National budget expenditures for physical culture and sports in the Republic of Moldova, 2010-2014, thous. MDL

Source: BOOST database of the Ministry of Finance of Moldova, 2010-2014.

In terms of budget expenditures for physical culture and sports, Republic of Moldova has a low level of state support. Sport activities are often combined with cultural ones, and their share in the total national budget expenditures accounts for 2,06% in 2014. But if we have a look just at physical culture and sports expenditures, their share in the executed national public budget is very low – 0,09% in 2014. At the same time, most of the expenditures in sport area are found in financing of institutions of physical culture and sport – 210632 thous. MDL in 2014.

According to the international literature, there can be identified two models of financing the sports industry: American and European. The first involves the minimization of state security, and the second – mixed financing with a greater share of government intervention. The existing Moldovan sports industry is closer to the European standards, as well as all sports industries from CIS countries, but there is a steady trend of reducing financing from budgetary sources. An effectively built organization allows managing financial flows and intelligent marketing policy, accumulating large profits, purchase of expensive players and use of their professional skills to achieve high results. This contributes to the increase in audience of fans, leading to an increase in sales of tickets, etc.

The effectiveness of the sports organization today depends on the ability to organize a commercial basis for its existence. This leads to competition between sports clubs for fans and good conditions for business development.

In such a case, the revenue from selling tickets remains the same, but there appear new opportunities, like sponsorships and rights for broadcast. If we are looking at the situation worldwide, we can observe a trend of investments in sport organizations from banks and big companies, as they consider it a good opportunity for promoting their own brands.

Data from Figure 2 show that the periodic slowdown in sponsorship revenue does not go beyond the trends of development of this sector. Another important segment of the business development in the sports industry is the selling of rights to broadcast sporting events. In this case, the impressive growth rates hide periods of recession and reflect the effect of the major international competitions. Nevertheless, the market has a clear prospect of development through new technologies implemented in the format of broadcasts.

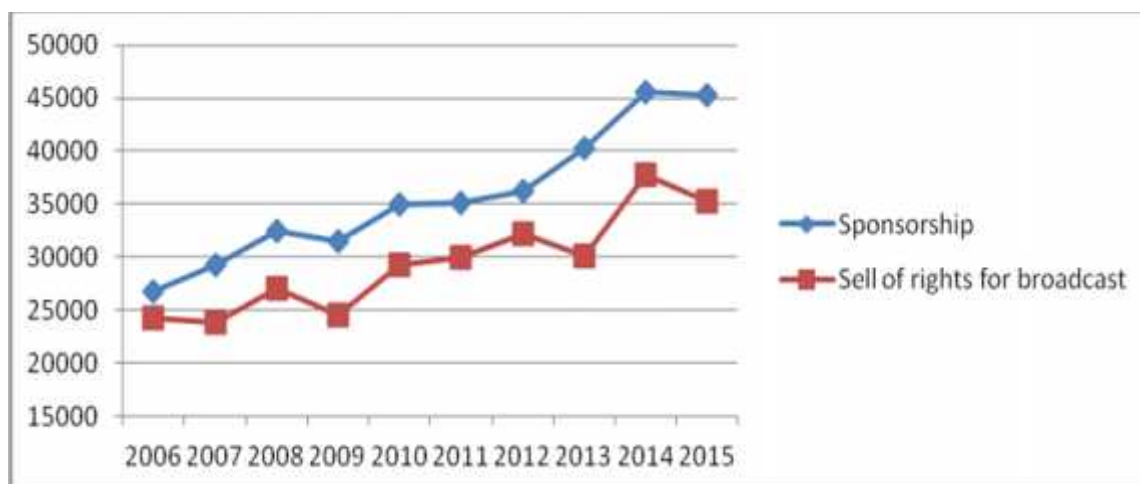


Fig. 3. World revenue from sponsorship and rights for broadcast, mil. USD

Source: **Changing the game: outlook for the global sports market to 2015, PwC, 2011**

Investments represent an important part of the development of sports industries. But besides just the economic aspect of this process, here is also a social one. Investors require sport clubs to follow certain rules, to have a good behavior in the society and promote sports among people of all ages. In addition to the interest of private investors in the sport, it worth mentioning the role of the state. State is the main actor that can promote the sport culture among the population through schools, kindergartens, etc. Also, it can participate in various international competitions for organization of international sports events in the country.

Conclusions. In light of the above, we can conclude that today the Moldovan sports organizations are still at a low level of development in order to have a direct contribution to the economic growth of the country. In this case, at the beginning, it is necessary the state to have a better involvement in promotion of sport organizations. On the other hand, it is important to take into account that the preservation of the dominant role of the state in the financing of the sector could lead to the potential situation where the state could become an inhibiting factor. However, with the right approach of the sport events and other processes and the timely adoption of the necessary measures for their modernization, sports industry could become a branch of the Moldovan economy which will provide resources for further growth.

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DEVELOPMENT OF PRUDENTIAL SUPERVISION – STRATEGIC OBJECTIVE FOR NATIONAL BANK OF MOLDOVA

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Currently, NBM does not have a well defined role in maintaining financial stability, but it has responsibilities in this area through regulation and prudential supervision of the banking sector. With this publication we aim to analyze the legal and regulatory framework governing financial stability and banking supervision in Moldova and offer solutions to improve them. In the context of current issues related to the critical situation in the banking sector, including the loss of credibility among the population and the development partners of Moldova, the development of oversight function should be an objective of strategic importance for the NBM

Key words: bank, National Bank of Moldova, efficiency, financial stability, bank supervision.

În prezent, BNM nu are un rol bine definit în menținerea stabilității financiare, dar aceasta are responsabilități în acest domeniu prin reglementarea și supravegherea prudentă a sectorului bancar. Odată cu publicarea acestui articol ne propunem să analizăm cadrul legal și de reglementare care guvernează stabilitatea financiară și supravegherea bancară în Republica Moldova și de a oferi soluții pentru a le ameliora. În contextul problemelor actuale cu privire la situația critică din sectorul bancar, inclusiv pierderea încrederii în rândul populației și partenerilor de dezvoltare ai Republicii Moldova, dezvoltarea funcției de supraveghere ar trebui să fie un obiectiv de importanță strategică pentru BNM.

Cuvinte-cheie: banc, Banca Națională a Moldovei, eficiență, stabilitate financiară, supraveghere bancară.

BNM.

JEL Classification: B26, D53, E58.

Introduction. The supervision issue of financial markets in general, and the bank market in particular has been a top issue. The global crisis that affected the financial sector since 2007 was the consequence of excessive risk and negative developments in the financial markets. In this regard, the supervisory authorities have developed a series of methods and techniques to detect, monitor and predict risk. In the current context, to improve the stability of the banking system and prevent systemic risk, it needed a fundamental revision of existing prudential regulations embodied in Basel III. This new agreement brings more clarity in the banking and financial addresses a wider range of risks, providing better regulation.

Based on these findings, we aim through this publication at analyzing legislative and regulatory framework that is regulated financial stability and banking supervision in Moldova and prospects and formulate solutions to improve them.

Critical analysis of the domain investigated. In accordance with Art. 4 of the Law on the National Bank, its primary objective is to achieve and maintain price stability. In addition to ensuring and

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maintaining price stability, the NBM has other secondary macroeconomic objectives, including growth and employment. They, however, need to be pursued so that they do not affect the fundamental objective of the NBM.

Although currently NBM doesn't have a well-defined from legally in maintaining financial stability, NBM has, however, responsibilities implicit in this field through regulation and prudential supervision of the banking sector, oversight of payment systems, providing liquidity through its role of lender of last resort for banks, in exceptional cases.

Own opinion on the problem and the results obtained during research

In order to eliminate conflicts between the objective of price stability and financial stability, the author believes that NBM should follow:

- Increased the efficiency of regulation and supervision;
- Ensure the transparency of financial institutions, in particular by disclosing information related to lending practices and attracting deposits and other services;
- Exchanging information with national supervisory institutions and the development of stress tests at different levels;
- Streamlining and transparency of monetary policy.

In response to the global financial crisis, national authorities have initiated a comprehensive reconsideration of the regulatory framework in the financial domain, including the banking sector. Implementation of Basel III brings a necessary and important contribution to strengthening banks' resilience and growth regulation. However, regulatory reforms by themselves cannot ensure the soundness and stability of financial institutions, which must be supported by effective supervision.

Based on the best abilities, supervisory authorities intervene to fix problems that could lead to the failure of individual financial institutions. At the same time, their ability to prevent failures depends on external developments, available resources, and risk tolerance of the supervisory authority and the bodies to which the latter is responsible. Another factor which complicates the work of surveillance, is finding that as the regulation is more insistent on correction of the behavior of financial institutions, the more likely it is that they will be determined to transfer their activities related to risk in the unregulated segments of the financial sector.

Effective supervision should complement regulation. The emphasis in maintaining financial stability must be moved towards effective supervision. As the economic recovery progresses, new risks may arise. It is therefore important that supervisors be prepared to quickly and effectively identify, assess and mitigate them when they threaten to create vulnerabilities in the financial system.

There is no single definition of effectiveness of supervision. The regulation provides the overall framework, which depends on the discretion of the institution expert overseeing. The IMF noted that adequate supervision is intrusive, sceptical, proactive, comprehensive, adaptable and reliable [9].

The basic principles of the Basel Committee for Banking Supervision represent an effective international standard for bank supervision. First published in September 1997, the Basel Core Principles were revised in October 2006 and September 2012, to reflect the main lessons derived from the financial crisis and necessary developments in banking supervision. The revised principles are set at risk-based approach and monitoring activities implemented on time.

These issues are reflected in the efforts to strengthen supervisory practices and risk management with more intense supervision of systemically important banks, applying the supervision at system level and macro perspective and increased focus on early interventions and crisis management. In addition, renewed principles were supplemented to express the significance of sound corporate governance, greater emphasis being placed on public disclosure and transparency of banks in promoting market discipline.

In figure 1 the author presents the conceptual and methodological scheme for effective banking supervision. Of all the principles of effective banking supervision shown in fig.1 the author considers as critical for the banking system in Moldova Principle 1 on skills, responsibilities and objectives of banking supervision and Principle 2 on the independence, accountability, resources and legal protection for supervising authorities. Effective supervision is also dependent on the willingness of supervisors to act and their ability to exercise their judgments, these factors are subjective. Viñals and Fiechter stressed that supervisory approaches and skills will become more challenging once the regulatory framework will become more detailed and complex [9].

The financial crisis had a significant impact on supervisory practices. In addition to regulatory reforms, worldwide national supervisory authorities have reconsidered their strategies of supervision.

Supervisors apply a more forward approach with more attention paid to strategic and qualitative elements. Traditional elements of capital buffers and liquidity requirements continue to play a central role in banking supervision, and are significantly strengthened as a response to the financial crisis. In addition, supervisors applied a proactive approach, for example by requiring stress tests of banking and supervision, and capital planning and liquidity. At the same time, supervisors are increasingly interested in aspects of the financial institution that could provide information on whether the business model and strategy of the institution are sustainable in the long term. They are particularly concerned about behavioural aspect, the cultural aspects of corporate governance of financial institutions. Also, supervisors are paying more attention to risk governance framework of financial institutions, including the board, risk management function within the institution and independent assessment of risk governance [8]. These qualitative elements allow supervisors to identify potential sources of future problems at the initial stage and mitigate risks before they affect the soundness of an institution or financial integrity.

Supervisory practices were renewed. Supervisors reviewed their supervisory approaches and redesigned their set of tools for the prudential supervision. In addition to specific supervision of financial institutions, supervisory authorities increasingly use common global approach to cross-sector analysis of financial/banking as a whole. This is reflected in the increased use of benchmarking exercises and thematic reviews.

One approach to overcome the individual institutions allows supervisors to better identify trends in the banking sector, detect anomalies and analyze potential risks to financial stability.

The scope of supervision was extended. Several segments of the financial sector were drawn into the scope of regulation. For example, new regulations were drafted at the level of supervisors for hedge funds, own private equity entities and credit rating agencies. Furthermore, various initiatives have been developed to extend supervision in to the shadow of banking sector, although in some countries, this is still under implementation.

Macro-prudential supervision has obtained a stronger role. An important conclusion derived from the financial crisis was that financial institutions are more interconnected and real economy than previously considered and that the stability of the financial market as a whole is a separate element, which must be explicitly considered [2]. Central banks and supervisors have developed a macro-prudential pillar separately in their supervisory processes, often expressed in creating new macro-prudential authorities. They also developed new macro-prudential tools such as countercyclical buffer under the supervision of Basel III.

Several national jurisdictions have initiated organizational changes. Since the financial crisis, central banks have obtained a more pronounced in the surveillance process (either directly or indirectly), creating a greater move towards stronger consolidation between sectors [6].

A major change in supervising was the transition to European supervision, being created European Supervisory Authority and, in November 2014, the single supervisory mechanism that brings prudential supervision in the euro area under the responsibility of the ECB.

Ideally, monitoring cycle is embedded in a coherent, continuous and comprehensive (as shown in Figure 1). Key elements of a surveillance cycle is based on surveillance strategy that includes:

- Clarity on the objectives of monitoring ("what we want to achieve?"), Translated into activities through a structured planning process;
- Impact Assessment ("how can we find out if our activities contribute to achieving our goals?");
- Responsibility ("how can we demonstrate our key stakeholders that surveillance was effective?").

Supervisory effectiveness can be assessed more objectively when the supervisory authorities have a well-defined strategy that clearly articulates and prioritises objectives [8].

In all jurisdictions, the safety and soundness of banks and the banking system is reflected in some form, in general objective, strategic monitoring. The overall objective of supervision is determined by the supervisor's mandate, which is often established by law and has a strategic perspective in the long term. Basel core principles for effective banking supervision provides a coherent framework:

- An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups;
- The main objective for banking supervision is to promote safety and soundness of banks and the banking system;
- If the banking supervisor has assigned more responsibilities, they are subordinated to the primary objective and must not in conflict with it.

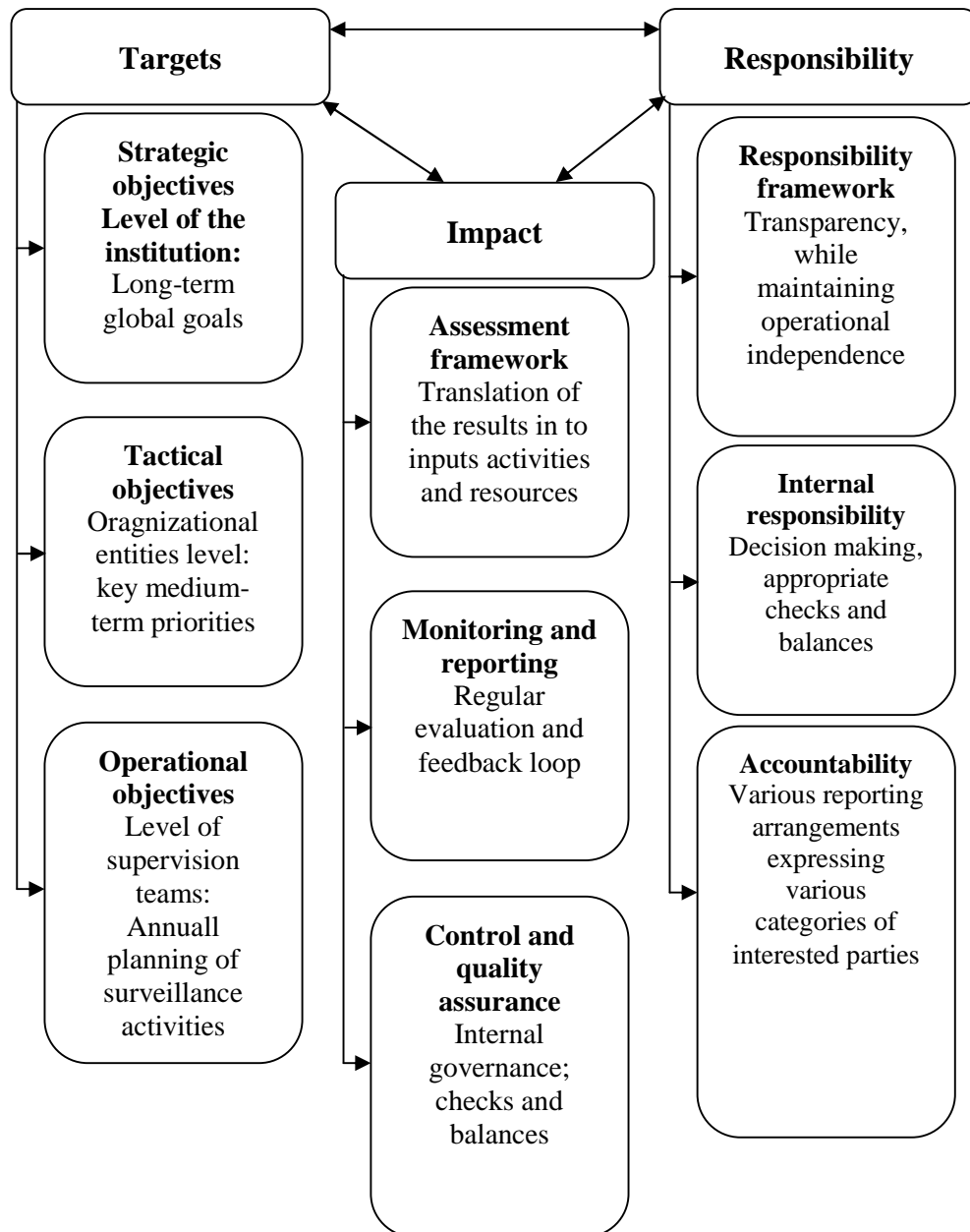


Fig. 1. Surveillance strategy

Sursa: Developed by the author [8].

Supervisors may have the freedom to further refine their strategic objectives and usually have some degree of freedom to formulate strategies supervision. To support the impact assessment and strengthen oversight responsibility, some supervisors have benefited from a process that translates the general objectives of supervision.

Basel Core Principles establish that:

- The supervisory authority has a coherent process for planning and execution of surveillance activities on-site and off-site. There are policies and processes to ensure that such activities are conducted on a thorough and consistent with the responsibilities, objectives and clear outcomes.

A coherent framework of oversight within the organization can facilitate the transformation of long-term goals in everyday surveillance. A coherent framework can be more useful objectives, thus enhancing efficacy. A structured process of planning and control can help to establish priorities. This can be done in several ways.

Supervisors may be more effective if they clearly communicate their goals to stakeholders. Despite the differences in implementation, it is particularly important for supervisors to provide clarity on their goals.

Basel Core Principles state that public oversight authority and meet its objectives through a transparent framework for its tasks in relation to these objectives.

By clearly defining the effects supervisors want to obtain, supervisors not only direct oversight process and provides a clear focus to final results relevant, they also provide clarity supervised institutions on what is expected of and shall contribute to an efficient dialogue and a better prioritization of actions. Finally, define the desired effects is a prerequisite for any analysis of the impact and accountability.

Conclusions. In response to the global financial crisis, standards bodies and national banking supervisory authorities initiated a broad reconsideration of the regulatory framework in the financial, banking default. In recent years, supervisors have revised and strengthened their policy and practice. Surveillance has become more comprehensive and intrusive considering additional dimensions associated with banking. Supervisory authorities have also taken steps to get a larger perspective on the impact of their activities.

Of all the Basic Principles of the Basel Committee for Banking Supervision efficient, the author considers to be of critical importance to the banking system in Moldova Principle 1 on skills, responsibilities and objectives of banking supervision and Principle 2 on the independence, accountability, resources and legal protection supervisors.

Starting with an analysis of international experience in banking supervision and based on the Basic Principles of the Basel Committee for Banking Supervision efficient author recommends:

- Define and implement the concept of banking supervision National Bank effective if the Moldovan banking system development and implementation methodology for assessing the effectiveness of bank supervision by NBM;

- Taking over the supervisory practice NBM prospective approaches, paying attention to strategic and qualitative elements. Meanwhile, traditional elements quantitative must be strengthened;

- Strengthening surveillance NBM practice and risk management with greater intensity surveillance of systemically important banks, supervision of system implementation and macro perspective and increased focus on early intervention and crisis management;

- Strengthen banking supervision, so that it can express the significance of sound corporate governance, greater emphasis being placed on public disclosure and transparency of banks to promote market discipline;

- Effective communication with stakeholders from NBM on its activity in the field of banking supervision;

- NBM accountability for the quality of banking supervision.

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