Collaboration between the OECD and the Republic of Moldova

Paris, March 2009
Agenda

Policy stock taking to support the business climate

Country competitiveness strategy

Focused support - SME Sector Development
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Focused support - SME Sector Development
OECD worked with the Republic of Moldova to assess policies supporting the business climate.

Policy Dimensions

1. Investment policy
2. Investment promotion and facilitation
3. Tax policy
4. Anti-corruption and Business Integrity
5. Competition policy
6. Trade policy
7. Regulatory reform
8. Human capital and Employment
9. Corporate Governance
10. SME policy*

*Part of a separate process conducted in cooperation with the EC in the framework of the European Charter for Small Enterprises
As a result, specific recommendations were formulated to address different policy areas.

OECD IC Recommended Country Priorities

1. **Competition:** Set up an independent National Competition Protection Authority with adequate budget and staff to carry out investigations and impose remedies and sanctions.
2. **Investment Promotion and Facilitation:** Define and implement a comprehensive investment promotion strategy.
3. **Tax Policy:** Implement a Code of Ethics for tax inspectors and a monitoring system to ensure regulations are enforced.
4. **Anti-corruption:** Design and implement a law on conflict of interest, including an effective monitoring instrument.
5. **Trade:** Streamline customs and administrative procedures to decrease the complexity and time required for imports and exports.
6. **Human Capital:** Develop a comprehensive strategy to improve adult and vocational education.
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Focused support - SME Sector Development
The OECD worked with the Republic of Moldova to develop a Competitiveness and FDI strategy

A. Strategic Vision

‘Moldova today is building a competitive and vibrant market economy that will compete on international markets for investment and trade. To attain that national objective Moldova will maximise the scale and scope of private investment, both international and domestic, and its integration into the economy. Moldova will use its natural resources and human talents to compete in world markets …’

B. Where to Compete?  
Environment  
1. Improve overall business environment

Sector  
2. Focus on 5 priority sectors

Customer  
3. Build all types of FDI/exports (greenfield, privatizations, M&A, expansion)

Geography  
4. Focus on priority countries

C. How to Compete?

1. Share and endorse Strategy/Vision/Style
2. Align structure/systems/skills
3. Remove priority barriers to trade/investment
4. Establish/reinforce competitive advantages in priority sectors
5. Assess/improve skills required to compete in priority sectors
6. Implement linkage and integration programs
7. Market/sell Moldova
8. Evaluate/monitor progress in attracting FDI and promoting Exports
For example, 6 sectors were identified as high potential from an investment promotion perspective:

- Sustainable Energy
- Business Process Outsourcing
- ICT software E-business
- Organic Food
- Wine
- Textile and Apparel

Open to FDI in all Sectors
For every sector, specific competitiveness analysis where performed and then used in investment promotion events

### ICT (incl. BPO) outperforming GDP growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Moldova Real GDP (Bln Leu)</th>
<th>ICT sector (incl. BPO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1</td>
<td>6%</td>
</tr>
<tr>
<td>2003</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>2004</td>
<td>28</td>
<td>32</td>
</tr>
<tr>
<td>2005</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>2006</td>
<td>44</td>
<td>44</td>
</tr>
</tbody>
</table>

- CAGR 02-06: ~38%
- Moldova Real GDP: 2002-2006

### Main strengths

- **Very attractive costs**
  - Average salary ~10x lower than in the UK
  - 6-7x than in Hungary
  - Close to India in software development at 10 EUR/hour

- **Quality and number of graduates**
  - ca 1500 graduates emerge each year from Technical University, State University and Academy of Economic Studies (informatics, mathematics, physics – 4 year study); ~30% are prepared for straight entry to software companies
  - An additional 30% can be trained in short period and others need ~6 months to come up to standards

- **Competitive internet/mobile services and infrastructure**
  - E.g. MaxDSL 20 GB from Moldtelecom provider is at EUR 75/month
  - E.g. Orange mobile services monthly subscription at EUR 15 for 3 hours; EUR 55 for 25 hours

- **Favorable tax system/investment facilities**
  - Starting with 2008: 0% corporate income tax, the 15% share will be applied only to dividends
  - Extended fiscal incentives on investments since Jan. 2007

- **Geographic location for ‘near-shoring’**
  - 1 hour time-difference with Paris

Source: Miepo Prezentarea sectorului TIc în Moldova April, 24, 2007
A skill gap analysis was performed

Excluding salary expectations, major discrepancy between supply and demand

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Notes (1): Ranking: (1) Poor; (5) outstanding
Source: OECD field survey with 200 students and 40 companies
A database of ~ 5000 foreign companies was created

**Building a database with company profiles and offering**

**DATA CREATION AND STORAGE**
- Creation and maintenance of the reference company databases
- Automatic update of Moldova statistical databases
- Automatic update of registered information by company (in coordination with the National Statistical Bureau)
- Automatic feedback between MIEPO and company included in the database

**COMPANY PROFILES:**
Includes:
- General information
- Financial information
- Key contacts
- History
- Subsidiaries
- Activities
- Actions in Moldova and abroad
- Organisation changes
- Founders
- Actions with international players

**DATA ANALYSIS AND MINING**
- Search by company offering and segments
- Group/Community management together with international companies
- Possibility to leverage the database for lead generation: identification of company having representatives in Moldova ‘active’ and those that are ‘prospect’
Foreign investors were targeted directly

*Company targeting and selection criteria*

**Initial filter: Company type and targeting**
- Primary target ie BPO provider or of secondary target ie End-user company
- If primary, type of service offered eg ITO, BPO, KPO, etc.

**Second filter: Role and position in the sector**
- Market share globally
- Revenue and profit growth
- Shareholder value and share price evolution

**Third filter: Potential attractiveness to Moldova**
- Company strategy and announcements
- Current and planned presence in Eastern and South East Europe

**Fourth Filter: Existing contacts and relationships**
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Focused support - SME Sector Development
Project objective

To assist the Moldovan government in the development of a coherent and well structured policy towards the small enterprise sector based on:

- An in-depth review of the status of SME policy elaboration and implementation in Moldova;

- The adoption of good practices in policies and programmes, drawn from experiences in the OECD area and the transition countries from Central and South East Europe;

- Assistance in the development of specific policy measures, addressing some of the most critical issues faced by the SME policy community in Moldova;

- The progressive establishment of an effective institutional framework, including mechanisms of inter-governmental consultation, private-public dialogue and monitoring mechanisms;

- The integration of Moldova in regional SME policy for a and improved access to experiences in SME policy elaboration and implementation gathered by OECD and other policy institutions.