

Investment Policies and Strategies of the Republic of Moldova

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Abstract: For any country, attracting investment is an important concern, because they lead to economic recovery and growth. For Republic of Moldova, a country without natural resources, but at the same time with a very high potential human, attracting foreign investment is one of the ways that lead to stable economic growth. Therefore, it is necessary to form a favorable investment climate not only at the macroeconomic level, but also in enterprises. As a result of regular monitoring of policies for attracting foreign investment will lead to the key to success over a longer period to promote investment and at the same time optimizing their benefits. The theme proposed by the author is in tune with the needs of the economy, and therefore the interests of Moldovan entrepreneurs.

Keywords: investments; foreign investment; investment strategies; investment policies; investors

1. Introduction

In contemporary society upgrading of the national economy is inconceivable without the existence of well-formed investment programs, because investment is the material support of economic development. Only calculations based on available human and material resources can be targeted at the areas of maximum efficiency, to those branches which advance the national economy as a whole. Attracting foreign investment is a complicated process for any economy that are in developing, because foreign investment is one of the surest ways to stimulate economic growth. Any country aims to achieve growth as a source of social welfare, and in this sense, a policy of stimulating resources. Therefore, in a broader context, attracting foreign investment fall in development objectives set, explicitly or implicitly, by economic policies.

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2. Investment Climate of the Republic of Moldova

Attracting foreign investment is a complicated process for any economy that are in developing, because foreign investment is one of the surest ways to stimulate economic growth. Attracting foreign investment, as a conscious and deliberate approach member receivers involves defining a political, legal and institutional which consists of programs, normative acts and governing institutions: access to that state's economy; economic activities by foreign investors; treatment of foreign subsidiaries; functioning of markets. Only on the basis of calculations, material resources and human resources can be targeted at the areas of maximum efficiency, to those branches which advance the national economy as a whole.

International experience shows that that one of the most important factors for attracting capital, including the foreign economy is the existence *of an institutional framework and legal basis sets*, that would ensure maximum effective protection of investor interests and other participants in the investment process.

The *investment climate*, that stimulate investment attraction, is a complex framework, is determined by a mix of interdependent elements of economic origin, policy, infrastructure, within their institutional and legislative aspects are very important.

Insufficient resources for investment and the actions taken by other countries led to the change vision of authorities on investment and its role in economy of Republic of Moldova. As a result, concrete steps have been taken the purpose of improving the business climate and attracting *domestic investment as well as foreign ones*. Those steps aimed both the *institutional* framework as well as the *legislative*:

Creation in 1997 of the Agency to attract foreign investment, which in 2001 became part of the Moldavian Investment and Export Promotion Organization (MIEPO); Moldavian Investment and Export Promotion Organization (MIEPO) has two main objectives:

1. To help domestic enterprises achieve profitable export and to assist them in promoting exports corresponds to international competition;
2. To promote foreign direct investment in Republic of Moldova and their role as the main driving force for the economic development of the country. (www.miepo.md).

In 2001, Republic of Moldova became a member of the World Trade Organization. And from 2006, trade relations between Republic of Moldova and the European Union are subject to the GSP plus trade.

In 2007 was established the National Agency for Protection of Competition, as a permanent authority in public administration, aiming to promote the state policy in the field of competition, limit and suppress anti-competitive activity of economic

agents, public administration authorities, and exercise control over execution of the law on protection of competition.

- On 7 September 2004 was registered at the Chamber of State Registration the *Foreign Investors Association*;

Foreign Investors Association appeared due to support the project “Charter Investment”, initiated to encourage reforms and improve the business climate in the countries of South-East Europe, implemented by the Organization for Economic Cooperation and Development, with the support of the European Union member countries. Republic of Moldova participates in this project since joining the Stability Pact for South Eastern Europe. With the creation of Foreign Investors Association, Republic of Moldova joined in the South East Europe Regional Council mains foreign investors. The main purpose of Foreign Investors Association is to promote dialogue between investors and the organs of power, aimed at improving the business climate and competitiveness of the Republic of Moldova at regional and international, presenting opinions of its members to promote common interests, to encourage foreign investment, to establish an effective and constructive dialogue with the Moldovan authorities to abolish barriers, that may arise in dealing with foreign investors. •Was approved in 2000 the *First Investment Strategy* of the Republic of Moldova for 2001-2005, primary objective of this strategy is accelerating the economic development of the Republic of Moldova by ensuring high growth rates of investment, including the flow of foreign direct investment, following order to obtain in this way a cardinal improvement of quality of life and achieve a high level of employment in the labor market.

- Approval of the 2005 *Strategy for Attracting Investment and Promoting Exports* for 2006-2015, developed by the Ministry of Economy. Support business growth in our country, and aims to: creating a favorable environment for business activities, setting the priorities in actions to promote investment, increasing the flow of foreign direct investment. Continue activities of harmonization of legislation of the Republic of Moldova. Were and are directed investments on environmental protection and improvement, and to reduce the negative environmental impacts caused by economic activities. (Strategy of attracting investment and promoting exports for 2006-2015)

- Approval of the *Strategy to Support the Development of Small and Medium Enterprises* for 2006-2008;

- Approving the *National Program for the implementation of the Action Plan Republic of Moldova - European Union*, was signed in Brussels in early 2005, which provides a series of actions and measures needed to be taken by the Republic of Moldova to ensure the transition to a more advanced stage of collaboration.

These provide the legal and institutional reform in the Republic of Moldova to comply with European values.

- Approval of the *Economic Growth and Poverty Reduction Strategy* (EGPRS), a strategy aimed at increasing the quality of life of the population, creating new jobs, developing education and science. It is necessary to form a coherent and stable legal framework, harmonized with European principles and standards and oriented towards creating an entrepreneurial and investment climate.

- *Industry Development Strategy* for the period 2015 is one of the priority branches of industry, that need to be invested in it, that action is taken to protect the smooth efficiency as reorganizing production, implement monitoring tools of production, cooperation with educational institutions in other countries. It has been implemented and *Agri-Food Sector Development Strategy* for 2006-2015, main aspect of strategic actions is the restructuring of agriculture, implementation mechanisms for strengthening the specialized segment of production – goods, oriented for accelerated development of industries with high added-value, implementation of modern technologies for growing, processing, packaging, marketing properly. Another important aspect is creating favorable conditions of farming, through optimization of subsidy, taxation, credit, insurance;

- Initiate *Regulatory Reform*, aiming to reduce dependence undertakings administrative regulation, minimizing financial and time permits, certificates and other permits;

- Adoption of *National Strategies and Programs* that provide for the implementation of measures that will contribute to economic growth by improving the investment climate;

- Concluding *bilateral agreements* with 44 countries in the protection of investments;

- Conclusion of 38 *bilateral agreements* on economic cooperation;

- Conclusion of 13 international agreements on avoidance of double taxation;

- *Law # 81-XV of 18 March 2004 on Investments in Entrepreneurial Activity* is the basic document governing the activity of foreign investors in the Republic of Moldova; Law on foreign investments was repealed. (Law on investments in entrepreneurial activity, no. 81-XV. from 18.03.2004)

- *Law # 438-XVI from 28.12.2006 on Regional Development* setting objectives, institutional framework, skills and tools to achieve regional development policy in Republic of Moldova.

- *Law on the Establishment and Operation of Industrial Parks* that aimed promotion policy formation and development of industrial parks to ensure a favorable investment climate and encourage investment flows in the regions. In

drafting this bill took into account the practice of developed countries and the emerging economies, especially Hungary, Turkey and China. (Law of Industrial Parks 164 XVI of 13.07.2007).

3. Investment Strategic Policies Promoted by Republic of Moldova

In order to attract investment, the Tax Code 1163-XIII of 04.24.1999, offers a number of incentives. Residents of free economic zones enjoy tax benefits under Article 49 of the Tax Code in terms of income tax services provided to /from FEZ outside the customs territory of the Republic of Moldova, delivered in free economic zone from the customs territory of the Republic of Moldova, each other as well as delivered by the residents of free economic zone of the Republic of Moldova, under Article 104, and exemption from excise duty on excisable goods placed in a free economic zone outside the customs territory of the Republic of Moldova, from other economic zones in the customs territory of the Republic of Moldova, as well as goods originating in this area and removed from the customs territory of the Republic of Moldova according to art. 124. (Tax Code of the Republic of Moldova, 1163-XIII)

There are also tax incentives for certain types of activities:

- Investors in the agricultural sector are exempt from income tax from basic activity over 5 years;
- Exemption from road tax;
- Tax incentives for local taxes;
- Companies whose income is in excess of 50% of sales software developed personal are exempt from income tax for a period of 5 years;
- Individuals who run businesses located outside of Chisinau and Balti entitled to a VAT refund on material values, procured services capital investment excluding investments for housing and transportation investments to encourage investment outside those cities.

Therefore, the government continues reforms of improving the investment climate, seeking the following (Report on the Implementation of the Programme of the Government of Moldova):

- **Competition** - was created an independent national competition protection (National Agency for Protection of Competition) with personal budget and adequate staffing for investigations and imposing remedial measures and sanctions;
- **Greenfield** - encourages the flow of foreign direct investment, recommended and creates sectors and companies. Making it possible with using the following instrumentation: privatization, including public - private partnership - privatization

is a major source of new investment and create new jobs, new ways of operating and expanding businesses;

- ***Merger and acquisition*** - represent a major component of international investment, including the creation of joint ventures;
- ***Taxes*** - aimed at ensuring the granting of tax incentives to foreign investors to attract foreign direct investment;
- ***Preventing and combating corruption*** - reflects nationwide to ensure the enforcement of prevention and fight against corruption;
- ***Simplification of customs procedures and administrative*** - to reduce the complexity and time needed for import and export operations;
- ***Human resources*** - means to develop a complex strategy to improve professional training of employees.

However, the Moldovan authorities in late 2010 launched a program to attract remittances in the economy, **PARE 1 +1**, considered to be very important, given the fact that each year over one billion dollars are sent home by our countrymen working abroad, and the government offered free to add a lion to lion invested in these remittances. The purpose of the pilot *Program for Attracting Remittances in Economics, PARE 1 +1* is to mobilize human and financial resources of Moldovan migrant workers in the country's sustainable economic development and stimulate the creation and development of small and medium enterprises by migrant workers and recipients. It is important to emphasize that the Pilot Program recipients invest in various sectors of national economy, such as farming, beekeeping, animal husbandry, food and wood processing, medical services and agrotourism etc. Investment of remittances are channeled in rural areas of districts Anenii Noi, Briceni, Cahul, Cantemir, Calarasi, Causeni, Cimislia, Dubasari, Glodeni, Hancesti, Ialoveni, Nisporeni, Orhei, Rascani, Straseni, Soldanesti, Ungheni, and Chisinau. ([http://www.miepo.md/investment programs](http://www.miepo.md/investment_programs))

It is important that the investment image promoted by the State to comply with the country's investment climate. Investment image of the country is formed as a result of the influence of real processes and phenomena taking place in the country's investment. Investment promotion activities include, primarily, advertisers and also include information distribution channels, its optimal forms, carriers, volumes, time of its presentation schemes. Investment promotion is closely linked to specific local marketing activity. A positive image of the country can be obtained if investment incentives for micro and macroeconomic order are interrelated and applied in a consistent rational entrepreneurial activity attracting capital.

For these reasons, in the development and implementation of institutional model is necessary to prepare the ground for absorption inflow of foreign capital and

domestic entrepreneurs creating attractive investment climate of the country. ([http://www.miepo.md /investment programs](http://www.miepo.md/investment_programs)) In February 2012 the International Finance Corporation, member of Bank Group of Moldova, in partnership with the Embassy of Sweden in Chisinau and the Ministry of Economy of Moldova launched a project to promote investment in Moldova and stimulate the development of agriculture. Investment Climate Reform Project aims to improve conditions for business, and adjust regulations in agriculture in order to attract new investments. Strategic direction in foreign direct investment is focused on continuing to attract investors, paying particular attention to the strategic, with ensuring the transfer of new technologies know-how and management.

To develop maximum private investment opportunities and prospects, both locally and externally, to integrate fully into the economy in order to enhance economic growth, cohesion and social progress, Moldovan Government continues to undertake a number of strategic policies. In this context, encourage and facilitate private investment, including direct cooperation between local and international companies is the main objective of all government policies. As a basis can serve:

- Obtaining the consent and common consensus about the purpose of foreign direct investment between all social partners in Moldova and their contribution to the national economic development plan.
- Ensuring existing and potential investors of the loyalty of Government, fair and equitable treatment of all investors leads to a new and attractive image of Moldova on the international market.

Takes place informing the international community (donor countries, including the EU's international institutions, media) about attracting investments and their constructive consent and support. Investors receive advisory support and assistance from ministries and agencies in creating and maintaining relationships with investors and affirmation of shared responsibilities in achieving national FDI. Human resource development involves various ministries and, therefore, a comprehensive and collective policy in this area is welcome.

Marketing is vital to promote Moldova's image. Occurs promoting public relations and press releases, with the subject all new investments in Moldova. (www.mec.gov.md)

Given the situation of imbalance Moldova needs a liberal approach, which involves focusing on priority fields with sustainable development based on the following criteria: penetration potential foreign markets; possibility of import substitution; competitiveness of goods in foreign markets; efficiency by providing high added value; presence of the multiplier effect. Particular attention is paid to the creation of technical and economic infrastructure, and implementation of projects in the field of environmental security, the application of innovative technologies and know-how transfer.

4. Conclusions

Trade policies promoted by the Republic of Moldova are geared towards attracting investments in the national economy, which are capable of innovation, transfer of know-how and competitive production on internal and external market, high value and create effective economic and technical infrastructures for recovery the existing economic potential.

Thanks to the favorable geographical location, Republic of Moldova is a platform for placing international organizations and transnational corporations and becomes attractive for doing business between the eastern and western markets. For Republic of Moldova, country without significant natural resources and vast internal market, foreign investment is one of the sources that provide sustainable growth of the national economy and its modernization. Developing a legal framework favorable to strengthen investment assumptions and promoting a foreign policy designed to ensure existence of access to foreign markets for selling, Government can catalyze the allocation of domestic and international investment.

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