

MAPPING THE BUSINESS ENVIRONMENT FOR YOUNG ENTREPRENEURS

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Abstract

A favorable business environment is part of a set of complex strategic efforts, which come to boost and develop the comparative advantage of the Republic of Moldova. Good governance, the absence of corruption and efficient institutions stimulate entrepreneurship and promote the growth and development of the business environment. Of course, an important role in ensuring these conditions belongs to the state. The potential that the Sustainable Development Goals open to companies, including new businesses, is estimated at 12 trillion lei in just four business areas. All this represents a good platform for identifying the business niches of the future, which youth could explore and identify their own sustainable business area.

Keywords: *entrepreneurship, business opportunities, support programs of entrepreneurs, young entrepreneurs, business environment, Doing Business, Global Competitiveness Index, Economic Freedom Index*

Classification JEL: *L26; M13; M53*

1. Introduction and context of the study

One of the characteristics of the contemporary business environment refers to the rapid evolution of entrepreneurial opportunities, which represent at least two major components. The emergence of numerous economic opportunities, appreciably compared to previous periods, which are combined simultaneously with their succession, compared to the dynamics of past decades. Businesses thrive in a business environment that fosters their development and growth. Therefore, it is important not only to provide assistance to the enterprises and organizations that represent them, but also to create a favorable regulatory, political and institutional environment that ensures the launch, expansion and sustainability of enterprises.

A favorable business environment is part of a set of complex strategic efforts, which come to boost and develop the comparative advantage of the Republic of Moldova. This general objective is reflected in the Strategy for the reform of the entrepreneurial regulatory framework 2013-2020, accompanied by a Plan of actions, responsibilities and performance indicators.

2. Business environment. Opportunities of youth entrepreneurs

In 2012, the National Development Strategy "Moldova 2020" was approved: Seven solutions for economic growth and poverty reduction, in which the Republic of Moldova aims to improve the business environment, so that in 2020 the risks and costs associated with each stage of business life cycle should be shorter than in the countries of the region, which is governed by the principle of free competition. At national level, the impact of improving the business environment can be expressed by increasing investment, increasing exports, increasing the number of reliable companies motivated to implement innovations, able to create attractive jobs, ensure high productivity and competitive export-oriented production.

At the international level, the performance of an economic system obtained in terms of business environment are reflected in the international rankings: Doing Business, Global Competitiveness Index, Economic Freedom Index and Logistic Performance Index conducted by

international bodies such as: the World Economic Forum, OECD, Heritage Foundation, World Bank, Wall Street Journal, etc.

The strength of the business environment is scored on the basis of an economy's performance in each of the 10 areas included in the ease of doing business ranking (image 1). In the latest ranking of the **"Doing Business 2020"** [3] study, Moldova got down to the 48th position out of 190 countries included (Table No. 1.), after it ranked 44th in 2017. The business environment was assessed with 74.4 points, against 73.54 in 2018; yet, the quicker evolution of other countries diminished the place occupied, according to the Doing Business 2020 report.

Table No. 1. Doing Business ranking, 2020

Rank	Economy	DB score	Rank	Economy	DB score	Rank	Economy	DB score
1	New Zealand	86.8	65	Puerto Rico (U.S.)	70.1	128	Barbados	57.9
2	Singapore	86.2	66	Brunei Darussalam	70.1	129	Ecuador	57.7
3	Hong Kong SAR, China	85.3	67	Colombia	70.1	130	St. Vincent and the Grenadines	57.1
4	Denmark	85.3	68	Oman	70.0	131	Nigeria	56.9
5	Korea, Rep.	84.0	69	Uzbekistan	69.9	132	Niger	56.8
6	United States	84.0	70	Vietnam	69.8	133	Honduras	56.3
7	Georgia	83.7	71	Jamaica	69.7	134	Guyana	55.5
8	United Kingdom	83.5	72	Luxembourg	69.6	135	Belize	55.5
9	Norway	82.6	73	Indonesia	69.6	136	Solomon Islands	55.3
10	Sweden	82.0	74	Costa Rica	69.2	137	Cabo Verde	55.0
11	Lithuania	81.6	75	Jordan	69.0	138	Mozambique	55.0
12	Malaysia	81.5	76	Peru	68.7	139	St. Kitts and Nevis	54.6
13	Mauritius	81.5	77	Qatar	68.7	140	Zimbabwe	54.5
14	Australia	81.2	78	Tunisia	68.7	141	Tanzania	54.5
15	Taiwan, China	80.9	79	Greece	68.4	142	Nicaragua	54.4
16	United Arab Emirates	80.9	80	Kyrgyz Republic	67.8	143	Lebanon	54.3
17	North Macedonia	80.7	81	Mongolia	67.8	144	Cambodia	53.8
18	Estonia	80.6	82	Albania	67.7	145	Palau	53.7
19	Latvia	80.3	83	Kuwait	67.4	146	Grenada	53.4
20	Finland	80.2	84	South Africa	67.0	147	Maldives	53.3
21	Thailand	80.1	85	Zambia	66.9	148	Mali	52.9
22	Germany	79.7	86	Panama	66.6	149	Benin	52.4
23	Canada	79.6	87	Botswana	66.2	150	Bolivia	51.7
24	Ireland	79.6	88	Malta	66.1	151	Burkina Faso	51.4
25	Kazakhstan	79.6	89	Bhutan	66.0	152	Mauritania	51.1
26	Iceland	79.0	90	Bosnia and Herzegovina	65.4	153	Marshall Islands	50.9
27	Austria	78.7	91	El Salvador	65.3	154	Lao PDR	50.8
28	Russian Federation	78.2	92	San Marino	64.2	155	Gambia, The	50.3
29	Japan	78.0	93	St. Lucia	63.7	156	Guinea	49.4
30	Spain	77.9	94	Nepal	63.2	157	Algeria	48.6
31	China	77.9	95	Philippines	62.8	158	Micronesia, Fed. Sts.	48.1
32	France	76.8	96	Guatemala	62.6	159	Ethiopia	48.0
33	Turkey	76.8	97	Togo	62.3	160	Comoros	47.9
34	Azerbaijan	76.7	98	Samoa	62.1	161	Madagascar	47.7
35	Israel	76.7	99	Sri Lanka	61.8	162	Suriname	47.5
36	Switzerland	76.6	100	Seychelles	61.7	163	Sierra Leone	47.5
37	Slovenia	76.5	101	Uruguay	61.5	164	Kiribati	46.9
38	Rwanda	76.5	102	Fiji	61.5	165	Myanmar	46.8
39	Portugal	76.5	103	Tonga	61.4	166	Burundi	46.8
40	Poland	76.4	104	Namibia	61.4	167	Cameroon	46.1
41	Czech Republic	76.3	105	Trinidad and Tobago	61.3	168	Bangladesh	45.0
42	Netherlands	76.1	106	Tajikistan	61.3	169	Gabon	45.0
43	Bahrain	76.0	107	Vanuatu	61.1	170	São Tomé and Príncipe	45.0
44	Serbia	75.7	108	Pakistan	61.0	171	Sudan	44.8
45	Slovak Republic	75.6	109	Malawi	60.9	172	Iraq	44.7
46	Belgium	75.0	110	Côte d'Ivoire	60.7	173	Afghanistan	44.1
47	Armenia	74.5	111	Dominica	60.5	174	Guinea-Bissau	43.2
48	Moldova	74.4	112	Djibouti	60.5	175	Liberia	43.2
49	Belarus	74.3	113	Antigua and Barbuda	60.3	176	Syrian Arab Republic	42.0
50	Montenegro	73.8	114	Egypt, Arab Rep.	60.1	177	Angola	41.3
51	Croatia	73.6	115	Dominican Republic	60.0	178	Equatorial Guinea	41.1
52	Hungary	73.4	116	Uganda	60.0	179	Haiti	40.7
53	Morocco	73.4	117	West Bank and Gaza	60.0	180	Congo, Rep.	39.5
54	Cyprus	73.4	118	Ghana	60.0	181	Timor-Leste	39.4
55	Romania	73.3	119	Bahamas, The	59.9	182	Chad	36.9
56	Kenya	73.2	120	Papua New Guinea	59.8	183	Congo, Dem. Rep.	36.2
57	Kosovo	73.2	121	Eswatini	59.5	184	Central African Republic	35.6
58	Italy	72.9	122	Lesotho	59.4	185	South Sudan	34.6
59	Chile	72.6	123	Senegal	59.3	186	Libya	32.7
60	Mexico	72.4	124	Brazil	59.1	187	Yemen, Rep.	31.8
61	Bulgaria	72.0	125	Paraguay	59.1	188	Venezuela, RB	30.2
62	Saudi Arabia	71.6	126	Argentina	59.0	189	Eritrea	21.6
63	India	71.0	127	Iran, Islamic Rep.	58.5	190	Somalia	20.0
64	Ukraine	70.2						

Source: Doing Business database

Moldova is on the best position (13) in terms of "starting business" and, respectively, ranks 22nd as regards "property's registration." The World Bank's report places Moldova on the 33rd position in terms of "taxes payment" and 38th as concerns the "cross-border commerce." Moldova has the worst mark in terms of "release of construction permits," where the country ranks 156th (chart No.1). According to the Doing Business 2020 report, out of ten indexes, Moldova's position improved in five ones, worsened in four indexes and remained unchanged at one index.



Chart No.1. Rankings on Doing Business topics - Moldova

Source: [3]

The most significant reforms were recorded in the :

- ✓ *Dealing with construction permits* Moldova made dealing with construction permits easier by enabling quality control by supervising engineers and by no longer requiring clearances from health and environmental agencies for low-risk structures; Moldova evolved significantly from the position 172 to 156 at the category of getting construction permits. According to World Bank experts, Moldova simplified the procedures of release of construction authorizations, ensuring the quality control on behalf of the supervision authorities and shortening the time of service.
- ✓ *Paying taxes* Moldova made paying taxes easier by reducing the social security contribution rate paid by the employer and the capital gains basis, from 35 to 33. At the same time, the value of the environmental tax and the time for labor taxes and contributions increase.
- ✓ *Enforcing contracts* Moldova made enforcing contracts easier by amending the code of civil procedure to establish a simplified procedure for small claims - as for the contracts' fulfillment sector, Moldova went up from the 69th to the 62nd position.

New Zealand has remained the most attractive country for doing business for the second year in a row, according to the Doing Business report; it is followed by Singapore.

The Global Competitiveness Index 2019 [5] ranks the Republic of Moldova on the 86th place out of 141 countries, compared to the 88th position held in 2018, advancing by two positions (Table No. 2.)

Moldova has risen in the rankings this year as it has advanced in over 55 sub-indicators out of 103 in the Global Competitiveness Index. The increase in the ranking is due to the improvement, among other sub-indicators, of those related to the business environment.

Thus, at the sub-indicator “Business Launch Time”, Moldova ranks 14th out of 21; to “Shareholder's rights in corporate governance” - from 24th place to 17th place and to the sub-indicator “Burden of state regulation”, from 93rd place to 76th place.

At the same time, Moldova fell to another 20 sub-indicators in the Global Competitiveness Index, which did not allow the country to move more seriously in this ranking.

Table No. 2. Global Competitiveness Index, 2019

Moldova - Global Competitiveness Index		
Date	Competitiveness Ranking	Competitiveness Index
2019	86 ^o	56.75
2018	88 ^o	55.53
2017	89 ^o	57.00
2016	84 ^o	57.13
2015	82 ^o	57.62
2014	89 ^o	56.30
2013	87 ^o	56.24
2012	93 ^o	55.52
2011	94 ^o	55.18

Source: [5]

According to the ***Heritage Freedom 2020*** [2] Index of Heritage Moldova's economic freedom score is 62.0, making its economy the 87th freest in the 2020 Index (Chart No.2.). Its overall score has increased by 2.9 points, with improved scores for government integrity and government spending. Moldova is ranked 40th among 45 countries in the Europe region, and its overall score is well below the regional average and approximately equal to the world average.

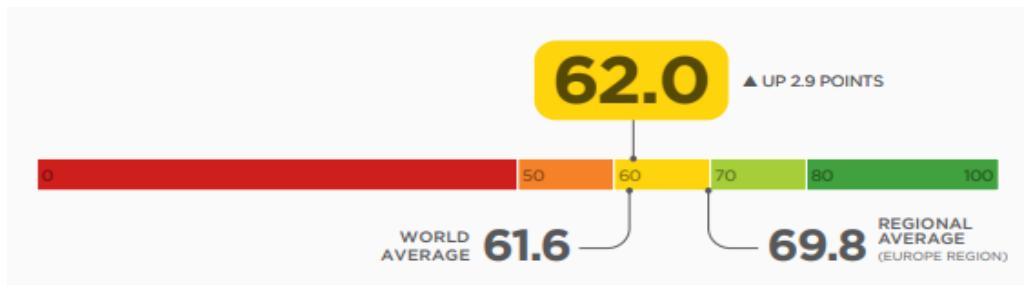


Chart No.2. Moldova's Economic Freedom Score

Source: [2]

The Moldovan economy moves up to the moderately free category this year. Economic freedom is constrained by post-Soviet Moldova's ongoing vulnerability to corruption, political uncertainty, weak administrative capacity, vested bureaucratic interests, a rigid labor code, dependence on energy imports, Russian political and economic pressure, heavy dependence on agricultural exports, and unresolved separatism in the country's Transnistria region. However, the trend of Economic Freedom tends to increase. (Chart No.3.).

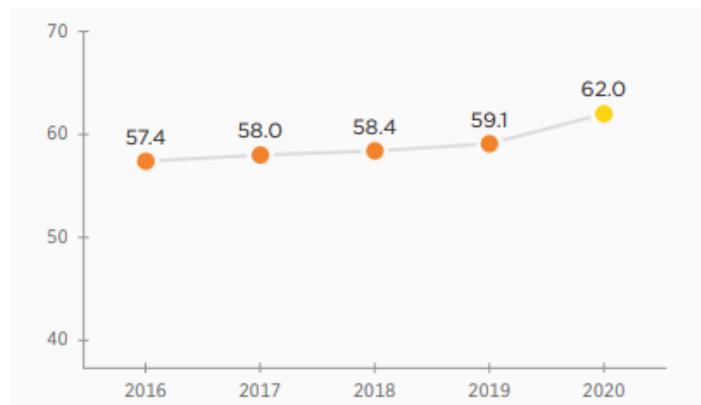


Chart No.3. Moldova's Freedom trend

Source: [2]

The Global Innovation Index [6] (GII) ranks world economies according to their innovation capabilities. Consisting of roughly 80 indicators, grouped into innovation inputs and outputs, the GII aims to capture the multi-dimensional facets of innovation.

Table No. 3. Rankings of Republic of Moldova (2018–2020)

	GII	Innovation inputs	Innovation outputs
2020	59	75	48
2019	58	81	45
2018	48	79	37

Source: https://www.wipo.int/global_innovation_index/en/2020/

The Republic of Moldova performs better in innovation outputs than innovation inputs in 2020. This year the Republic of Moldova ranks 75th in innovation inputs, higher than last year and higher compared to 2018. As for innovation outputs, the Republic of Moldova ranks 48th (Table No. 3). This position is lower than last year and lower compared to 2018.

According to the Global Youth Development Report, globally young people aged 15-29 represent 1.8 billion, or about 24% of the world's population, a figure that has never been registered so far.

The number of stable population in the Republic of Moldova on January 1, 2020 amounted to 2640,4 [12] thousand people, 710,8 thousand or 26,9% are young people aged 14-34 years [7] (Chart No.4.). Young people represent quarter part of the country's population and also the driving force in the country's development process.

Creation of entrepreneurial initiative and business skills at an earlier age are the key factors for successful foundation of new enterprises and development of entrepreneurship. For this reason, the development of the youth sector is a state priority by adopting and implementing effective policies targeting all categories of youth.

The lack of opportunities to capitalize the knowledge and skills of young people either as an employee or as an entrepreneur has caused a massive exodus, mostly outside the country. In 2019, most people who left the country, are aged 21-30 years - 25%, 31-40 years - 21% and 11-20 years - 11% of all migrant people.

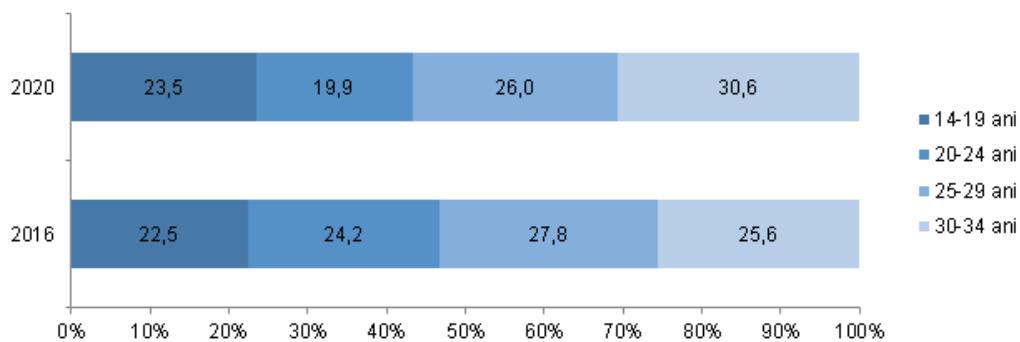


Chart No.4. Population structure between age groups

Source: [12]

At national level, there are a number of public policies targeting young people, including those in low-income groups. Within the framework of „Moldova 2020” [1] National Development Strategy, young people are seen as beneficiaries in terms of career-relevant studies, taking into account the youth unemployment and the level of their education in order to integrate them into the labor market. Thus, the state aims at linking the educational system to the requirements of the labor market in order to increase the productivity of the labor force and the employment rate in the economy. The Sectoral Document „Education 2020” [14] stipulates the development of the educational system through access, relevance, quality and use of ITCs, whose beneficiaries are young people as part of the formal education system. At the level of non-formal education, the Ministry of Education, Culture and Research proposed the non-formal education validation concept and the information will be useful through non-formal education in the youth sector. Moreover, one of the four objectives of the National Youth Development Strategy 2020 envisages the development of entrepreneurial and employment opportunities among young people, namely increasing the number of young people with economic skills by at least 30% by the end of 2020.

In this context, one of the recent measures (14.02.2019) of the Ministry of Finance of the Republic of Moldova to support young entrepreneurs is the credit facility for young people at reduced rates, engaging in the implementation of the partner banks' affiliates throughout the country. At the same time, the bank loans required by enterprises run by young people from 2019 are guaranteed by the Loan Guarantee Fund (FGC), which is the first and only credit guarantee fund created from state budget resources aimed at supporting small and medium enterprises at accessing financial resources.

Starting with January 1, 2018, the project "Civil Society contributes to social and economic development of the country" was implemented with the financial support of the European Union, the East European Foundation, in partnership with the European Business Association, HelpAge International, the Partnership Center for Development and the Innovation and Social Development Center. The project involves the creation of 10 Youth Entrepreneurship Support Funds to increase the social and economic activity of young people in the regions and the long-term development of communities. So, the project will focus on stimulating and mobilizing young people at local level and implementing business initiatives. The created funds will help to support the implementation of at least 50 entrepreneurial initiatives of young people from the regions. Businesses launched by young entrepreneurs are also supported by the state program: "Youth Start-up: domestic sustainable business". It is to be implemented between 2018-2020 to facilitate business start-ups and motivate young people to pursue entrepreneurial activities. In addition to the financial support, young people will benefit from advisory and informational support for businesses that will create jobs in rural areas, but also for those focusing on priority areas such as IT, agro-food industry, water and

sanitation, tourism, services, health and welfare. During the implementation of the program about 1,000 young people will be promoted and informed about the opportunities to participate in the program, the enrollment of 600 young people in the process of generating innovative business ideas, training and assisting in business development of at least 540 young people. Young people interested in improving the practical skills required by the current industry and international standards, entrepreneurs, future ITCs business owners and new companies find the resources, knowledge and the environment in which they can launch a successful business at the Tekwill ITCs Center. Tekwill is an educational and learning platform and an entrepreneurial center designed to strengthen the role and potential of the information and communications technology industry in Moldova. Tekwill plays an essential role in developing IT entrepreneurship, attracting and supporting acceleration and mentoring programs, facilitating the efficient transfer of know-how. Free assistance and advice services are provided by multiple programs for young entrepreneurs such as:

- The Senior Experten Service Program - knowledge transfer of German experts as a contribution to the economic development and infrastructure;
- “The Joint Opportunities in Business for Youth” project (JOBS4Youth) aims to support young people to start innovative businesses with a strong social and economic cross-border impact;
- ”Erasmus for Young Entrepreneurs” with 36 participant countries and unlimited entrepreneurial opportunities offer a cross-border exchange program designed to help young and aspiring entrepreneurs to acquire skills to manage or develop a small business, working with an experienced foreign entrepreneur for over six months. The exchange of experience takes place in an internship with the experienced entrepreneur, so the young entrepreneur acquires the necessary skills.
- The Efficient Business Management - a knowledge-intensive program for effective economic activity;
- The Business Consultancy and Support Center provides support for business development by evolving practical action plans;
- The Business Incubator Network in Moldova - offers entrepreneurs with ideas and business plans the chance to operate in a favorable environment. Within Young Business Incubators young entrepreneurs are provided with space for activity, advisory support as well as professional, technical and administrative assistance;
- The Enterprise Europe Network – a support in increasing economic competitiveness and innovation. The assistance services are free of charge, with a complex specialized character: identification of foreign business partners, advice on European funding programs and access to finance.

Referring to national and international programs providing assistance (credit schemes, grants or grants) to young entrepreneurs, we will refer to:

- The USAID Competitiveness Project in Moldova (10.2015-09.2028) anticipates more grants in the wine, tourism, light industry, ITCs and creative services industries. The project will support at least 20% start-ups to boost local capacity, entrepreneurship, market links, competitiveness, innovation and growth in the key industries;
- The Development of Innovative Enterprises - an innovation program that tests and adjusts creative solutions to any global development challenge;
- The EU 4 Business credit line and grant scheme, ERDB – intended for individuals with entrepreneurial activity;
- The Program on Attracting Remittances into the Economy PARE 1 + 1- oriented towards young migrants from Moldova, who launch or develop business on the territory of the Republic of Moldova with remittances from abroad;
- The EU HORIZONT 2020 Program - grants to link science and business, improve the competitiveness of small and medium-sized enterprises;

- The Rural Inclusive Economic and Climate Resilience - investment grants to increase the capacity of agricultural enterprises to adapt to climate changes;
- Moldova Small Business Support Team - co-financing the procurement of consulting services by small and medium enterprises;
- The EU COSME program – intended to improve the competitiveness of small and medium-sized enterprises through access to finance; promoting entrepreneurship and entrepreneurial culture;
- The USAID Farming Performance Project in Moldova - contributes to the development of the agricultural sector to boost economic growth and changes in rural areas;
- The Women in Business program – meant for women planning to start or expand their businesses, especially in rural areas;
- The State Stimulation Program for Participation at Fairs and Exhibitions provides for partial compensation of costs for renting the exhibition space;
- The Contest of Technology Transfer Projects - grants for innovation and technology transfer projects;
- The National Fund for Agriculture and Rural Development, aimed at supporting the modernization of the agro-industrial sector and rural development. The grant allocation is intended to encourage the creation of small businesses by young farmers, improve their economic performance, create new jobs, and increase the investments in innovative technologies.

3. Conclusions

Although the range of entrepreneurship support programs in the Republic of Moldova is quite varied, there is a lack of support for young people to start or develop their business, where their share remains relatively small, 2.4% of entrepreneurs are aged up to 24 years and 20.3% are aged 25-34 years. At the same time, the statistics identified in the entrepreneurial research process shows that young people from the Republic of Moldova are more likely to start a business 44.40%, compared to adults 24.99%. Young entrepreneurs are more creative and innovative, more open to implementing innovations or introducing business methods and models that can contribute to their rapid growth and internationalization.

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