

Small and Medium Enterprises Baseline Survey

Moldova 2000

Developed and conducted by

Development Alternatives, Inc. (DAI)

and in collaboration with

NGO ADSISTO

Center for Strategic Studies and Reforms (CISR)

Kiev International Institute of Sociology (KIIS)



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TABLE OF CONTENTS

EXECUTIVE SUMMARY	vii
1. INTRODUCTION	1
2. METHODOLOGY	3
2.1 INTRODUCTION AND DEFINITIONS	3
2.2 SAMPLE DESIGN AND IMPLEMENTATION	4
2.3 WEIGHTING AND EXTRAPOLATION.....	4
3. BASIC CHARACTERISTICS OF MOLDOVAN BUSINESSES	5
3.1 MAGNITUDE	5
3.2 LOCATION AND SIZE DISTRIBUTION	6
3.3 MAIN TYPES OF ACTIVITIES	6
3.4 AGE OF ENTERPRISES.....	8
4. EMPLOYMENT IN MOLDOVA	11
4.1 EMPLOYMENT BY TYPE OF SETTLEMENT	11
4.2 EMPLOYMENT BY SIZE CATEGORY	11
4.4 EMPLOYMENT BY TYPE OF ACTIVITY.....	12
4.5 WORKING PATTERNS	14
4.6 EMPLOYMENT AND ORGANIZATIONAL-LEGAL STATUS OF ENTERPRISES	14
4.7 TRENDS IN EMPLOYMENT	15
4.8 WORKER CHARACTERISTICS AND WORKER RELATIONS	17
4.8.1 Women as Employees	17
4.8.2 Relatives as Employees.....	17
4.8.3 Share of Salary Received in Kind and Salary Arrears	20
5. ORGANIZATIONAL FORM OF ENTREPRENEURSHIP	23
5.1 CATEGORIES OF ENTREPRENEURSHIP	23
5.2 NUMBERS OF OWNERS.....	24
5.3 WOMEN AND ENTREPRENEURIAL ACTIVITY	25
5.4 CHANGES IN ORGANIZATIONAL-LEGAL FORMS	27
5.5 DISTRIBUTION OF ENTERPRISES ACCORDING TO METHOD OF CREATION	28
6. INTERACTION OF ENTERPRISES AND THE STATE	31
6.1 REGISTRATION	31
6.2 NEED FOR LICENSES AND PATENTS	31
6.3 NUMBER OF INSPECTIONS AND AUDITS BY STATE BODIES	32
6.4 THE SHARE OF STATE ORDERS IN THE PRODUCTION ACTIVITY OF FIRMS	33
7. INTERACTIONS OF ENTERPRISES WITH THEIR CUSTOMERS AND SUPPLIERS	37
7.1 THE SHARE OF RAW MATERIALS, EQUIPMENT, AND OTHER GOODS PURCHASED THROUGH BARTER	37

7.2 THE SHARE OF EXPORT ORIENTED PRODUCTION	38
7.2.1 Overall Export Orientation.....	38
7.2.2 Exports to Russia and CIS	39
7.3 RELATIONS WITH SUPPLIERS.....	39
8. ECONOMIC PERFORMANCE OF MOLDOVAN ENTERPRISES	41
8.1 AVERAGE MONTHLY VOLUME OF SALES.....	41
8.2 CHANGES IN AVERAGE MONTHLY NET PROFIT FOR THE LAST 6 MONTHS	44
8.3 PROPRIETOR FORECASTS OF CHANGES FOR THE NEXT SIX MONTHS	46
8.2.1 Forecasts of Changes in Sales Volume	46
8.2.2 Forecast of Changes in Overall Environment of Entrepreneurial Activities	46
9. BUSINESS INVESTMENT	49
9.1 PURCHASE OR RENT OF FIXED ASSETS	49
10. PROBLEMS FACED BY MOLDOVAN ENTERPRISES	51
10.1 GENERAL PROBLEMS	51
10.2 CHANGES IN AVAILABILITY OF CREDIT	53
10.3 DEMAND FOR AND ACCESS TO CREDIT	54
10.4 SOURCES OF CREDIT	54
11. CONCLUSION	57
11.1 THE SURVEY.....	57
11.2 THE QUESTIONNAIRE	58
11.3 MAJOR FINDINGS	58
11.3.1 Nature of Enterprises, Number of Businesses and Employment.....	58
11.3.2 Employment.....	59
11.3.3 Ownership	60
11.3.4 Entrepreneur and State	60
11.3.5 Customers and Suppliers.....	61
11.3.6 Economic Results and Proprietor Expectations.....	61
11.3.7 Business Investment.....	61
11.3.8 Business Problems and Access to Credit	62
11.4 ASSESSMENT AND PROSPECTS	62
ANNEX 1 SAMPLING, EXTRAPOLATION, AND WEIGHTING ISSUES	1-1
ANNEX 2 QUESTIONNAIRE FOR SURVEY ENTREPRENEURSHIP IN MOLDOVA	2-1

LIST OF TABLES

Table

3.1	Magnitude of the Business Sector in Moldova	5
3.2	Distribution of Enterprises by Size and by Settlement Type	6
3.3	Main Types of Activity	7
3.4	Percent of Enterprises in Each Type of Activity by Ownership Form	8
3.5	Business Activity by Settlement Type	9
3.6	Enterprise Age	10
4.1	Employment by Type of Settlement	11
4.2	Average Number of Workers per Firm by Firm Size Category Size	12
4.3	Average Number of Workers per Firm by Ownership Form	12
4.4	Employment by Type of Activity	13
4.5	Working Patterns: Percent of Firms with Part-Time Workers by Firm Size	14
4.6	Employment by Different Types of Organizational-Legal Status of Firms	15
4.7	The Change in the Number of Employees Depending on Firm Size	16
4.8	Change in Employment by Type of Activity	16
4.9	How Long Does the Lay-Off Procedure Take?	17
4.10	Women as a Percentage of the Labor Force	18
4.11	Percent of Female workers by Firm Size and Type	18
4.12	The Distribution of Owners' or Managers' Close Relatives by Organizational-Legal Form of Firm	19
4.13	Participation of Relatives in Business Activities	19
4.14	The Salary of Owners' or Manager's Close Relatives by the Size of the Enterprise	20
4.15	Salaries of Owners' or Managers' Close Relatives by Type of Locality	20
4.16	Percent of Payroll Paid in Kind by Firm Size	21
4.17	Payroll Arrears by Firm Size	21
5.1	Enterprises by Organizational-Legal Status	24
5.2	Number of Owners by Ownership Type	25
5.3	Number of Owners by Settlement Type	25
5.4	Distribution of Firms Dominated by Women by Firm Size	26
5.5	Distribution of Firms Dominated by Women by Settlement Type	26
5.6	Distribution of Enterprises with Majority Ownership by Women by Types of Settlements	26
5.7	Modifications of Organizational-Legal Forms of Firms	27
5.8	Change in Organizational-Legal Form by Settlement Type	28
5.9	What Organizational-Legal Form Did Your Enterprise Have in the Past?	28
5.10	Method of Enterprise Creation	29
5.11	Method of Enterprise Creation by Settlement Type	29
6.1	Registration Status by Firm Size	31
6.2	Proprietor's Understanding of the Need for a License or Patent	32

6.3	Number of Inspections Conducted by State Bodies during the Previous 6 Months	33
6.4	Inspections per Firm by Firm Size	34
6.5	Number of Inspections per Firm by Settlement Type and State Body	34
6.6	Proportion of Goods and Services Purchased by the State	35
7.1	Percentage of Raw Materials, Supplies, and Equipment Procured by Barter by Firm Size	37
7.2	Percentage of Payment Received in Form of Barter by Firm Size	38
7.3	Percentage of Production Exported	39
7.4	Percentage of Exports that go to Russia or CIS	39
7.5	Arrangements with Suppliers by Size of Firm	40
7.6	Number of Suppliers by Firm Size	40
8.1	Average Monthly Sales	42
8.2	Average Monthly Sales by Settlement Type	42
8.3	Changes in Monthly Sales Volume during Previous 6 Months by Firm Size	42
8.4	Change in Monthly Sales volume by Industry	43
8.5	Proprietor's Perceptions About Changes in Profits in the Last 6 Months by Firm Size	44
8.6	Change in Profit by Type of Activity	45
8.7	Proprietor's Forecast of Changes in the Volume of Sales Over the Next 6 Months by Firm Size	46
8.8	Proprietor's Forecast of Changes in Sales Volume Over the Next 6 Months by Industry	47
8.9	Proprietor's Forecast of Changes in Entrepreneurial Environment in the Next 6 Months	48
9.1	Percentage of Businesses Making Capital Expenditures in Previous Year by Firm Size	49
9.2	Percentage of Businesses Making Capital Expenditures in Previous Year by Type of Activity	50
9.3	Capital Investment (in lei) by Size of Firm	50
10.1	Most Commonly Cited Business Problems	52
10.2	Primary Business Problem Reported by Firm Size	52
10.3	Most Important Business Problem by Settlement Type	53
10.4	Change in Availability of Credit Over Previous 6 Months by Size of Firm	53
10.5	Application for and Access to Credit in Last 6 Months by Firm Size	54
10.6	Application for and Access to Credit in Last 6 Months by Type of Activity	55
10.7	Sources of Business Credit	55

LIST OF DEFINITIONS

<u>Enterprise:</u>	any for-profit entrepreneurial activity (public or private), excluding production of goods and services for purposes of consumption by the entrepreneur's family.
<u>Medium Enterprise:</u>	an enterprise with between 51 and 250 employees.
<u>Microenterprise:</u>	an enterprise with 10 or fewer employees; a sub-set of 'small' enterprises (see definition of small enterprises).
<u>Organized Activity:</u>	a registered activity (see definition of registered enterprise).
<u>Registered Enterprise:</u>	an enterprise that has registered as a legal entity (excludes proprietors who only hold patents, as well as farmers).
<u>Small Enterprise:</u>	an enterprise with 50 or fewer employees.
<u>SME(s):</u>	small and medium enterprises, those between zero and 250 employees.
<u>Unorganized Activity:</u>	an activity that is not registered (see definition of registered enterprise).
<u>Zero-employee Enterprise:</u>	an enterprise that is owned and operated by a single entrepreneur.

EXECUTIVE SUMMARY

THE SURVEY

In late 1999 and early 2000, USAID commissioned a baseline survey of businesses in the Republic of Moldova. The major goals of the survey were to gather information about the state of entrepreneurship and the total number of and employment in small and medium enterprises (SMEs), and to analyze the basic characteristics and needs of the business sector in Moldova. To the greatest extent possible, this baseline survey used similar methodology and questionnaires as a survey carried out by Management Systems International (MSI) in Ukraine in 1999. One of our objectives is to have a basis upon which to compare the situation in Moldova to that of other countries.¹

To take advantage of two separate sources of information, the survey interviewed businesses from two populations. The first was a household based survey. In this case 523 households randomly selected from lists of voters in the 1996 presidential election were interviewed. The household based survey was intended to gather information on the smallest enterprises; such businesses are seldom officially registered, and as a result little is known about them. The second survey was based on the Enterprises Registry from the Moldovan Ministry of Justice, which contains active data on roughly 19,000 firms. From this list 398 businesses were randomly selected. By using these two sources of information, the results of the survey give a statistically accurate picture of Moldova's business sector.

MAGNITUDE AND EMPLOYMENT

The survey reveals that as of January 2000, there are just fewer than 200,000 enterprises of various sizes in Moldova. Small enterprises number approximately 193,000 and employ approximately 500,000 Moldovans. There are just over 1,700 medium (51-250 employees) firms, and these employ 207,000 persons. Overall, Moldovan firms employ some 705,000 persons or 39% of Moldova's working age population.

MAIN TYPES OF ACTIVITY

Some 40% of all businesses are engaged in retail and wholesale trade, while another 16% are engaged in construction, and 15.7% are involved in services of various forms. Industry comprises only 1.2% of Moldova's 195,000 enterprises. Retail and wholesale trading is very common among microenterprises, but only 23.5% of medium firms are so engaged. In

¹ The report draws comparisons between Moldova and neighboring countries where those comparisons provide a useful contrast to the situation in Moldova. The reader should keep in mind the differences in economic structure when considering the comparison. The most important comparison, of course, will be next year and in subsequent years when the situation in Moldova can be compared against that of previous years, using the same survey and methodology.

addition, construction and transport seem to be very common among the zero-employee firms; these are relatively uncommon pursuits among medium enterprises.

AGE OF ENTERPRISES

The majority of Moldova's businesses began operations in the past 4 years, with more than a quarter of today's firms beginning operations since 1998. The underscores the point that Moldova's business sector is in a state of great change. Still, a considerable proportion of businesses started in 1993 or earlier.

AVERAGE FIRM SIZE

Moldovan firms have on average 10 workers, substantially smaller than Ukrainian enterprises, which have on average 21.4 workers. The average size for Ukrainian small enterprises is 12.1, or nearly twice that for Moldovan enterprises. For enterprises with between 51 and 250 workers, at 127 workers per firm, Ukrainian enterprises are only slightly larger than Moldovan medium-sized firms (120 workers).

WORKING PATTERNS

For the most part, Moldovan firms use only full time workers: three-quarters of Moldova's enterprises have only full time workers, although there is considerable variation according to the size of the firm. About 75% of the microenterprises have only full-time workers, while part-time workers are much more common in the medium-sized enterprises.

EMPLOYMENT TRENDS

Overall, the survey demonstrated that during the last six months 1.7% of Moldovan enterprises have decreased the number of employees, while 1.2% of enterprises have increased the number of employees during the same period. The process of change in the number of employees thus affected just under 3% of firms, while 97% of enterprises did not alter the number of employees.

Over the past 6 months microenterprises are relatively stable on the labor market, especially those in the microenterprise category. The larger microenterprises (with between 6 and 10 workers) were much more likely to report an expansion in the number of employees, but nevertheless over 90% of these either decreased in size or remained the same.

WORKER CHARACTERISTICS AND WORKER RELATIONS

Women comprise 45.9% of the 705,000 persons employed in Moldova's enterprises. The proportion of workers that are female does not demonstrate much variation according to the size of the firm. For all size categories, the percentage ranges from 42% to 53%. In addition, female workers are much more common in enterprises that are owned or dominated by females.

Close relatives of owners or managers are employed by 46.3% of all enterprises operating in the country. Private enterprises and collective joint-stock enterprises dominated by private ownership are especially likely to hire relatives, while enterprises with a large amount of state involvement are less likely to hire relatives.

Generally speaking, Moldovan enterprises pay their employees in cash, as opposed to making in-kind payments. 83.4% of enterprises with employees pay salaries in cash, and just over 6% of firms report that more than 40% of their payroll is paid in kind. The larger firms appear to be more likely to pay some of their payroll in kind than are the microenterprises, as was the case in Ukraine.

According to the survey, 79.7% of firms that are paying salaries do so without any delays. Another 13.4% of firms that pay salaries do so with a 1-3 months delay. Only 6.8% of enterprises paying salaries are delaying the payments for more than one quarter. Still, more than half of medium enterprises report that their payrolls are in arrears. Given that some 207,000 Moldovans are estimated to work in medium enterprises, it is evident that a sizeable number of Moldovan workers are owed salary.

ORGANIZATIONAL-LEGAL CATEGORIES

The fact that Moldova is in the early stages of its transition to a market economy might be proved by the fact that the category of the self-employed significantly dominates over the category of the organized entrepreneurship. The survey demonstrates that non-organized entrepreneurship in Moldova constitutes 85.3% out of the total legal entities and individuals involved in the entrepreneurial activity.

NUMBER OF OWNERS

Nearly 90% of Moldovan enterprises have only one owner. However, this figure is dominated by the inclusion of individual commercial enterprises, which by definition have only one owner. When we exclude individual commercial activities from consideration, just under three-quarters of Moldova's enterprises have a group form of ownership. The survey also reveals that the group form of ownership is more common in small towns and cities than in rural areas.

WOMEN AND ENTREPRENEURSHIP

Despite comprising more than half of the population, enterprises dominated by female proprietors constitute only 29.8% of all enterprises. As the size of the enterprise increases, the proportion of firms dominated by female owners shrinks: 31.2% of small firms are controlled by women, while only 7.4% of medium firms are. The share of female dominated firms in villages and small towns is 48.3%, whereas women control only 19.6% of small town firms and 22.0% of city firms. Female-dominated enterprises are most common in the spheres of hotels and restaurants, wholesale and retail sale, and agriculture and forestry. There are no enterprises in which women own at least 51% of the property in transportation and communication, and female ownership is very uncommon in industry and in construction.

CHANGES IN ORGANIZATIONAL FORM-LEGAL STATUS

The intensity of the transformation of organizational-legal forms is quite high in the Republic of Moldova—more than one of every four firms had a different form in the past. Larger enterprises are more likely to have undergone changes in organizational-legal form: fully two-thirds of medium firms reported a change in their form, presumably reflecting the process of privatization. Of the enterprises that did change their organizational-legal form, the most common previous form was state enterprises, with collective enterprises the next most common sort.

METHOD OF ENTERPRISE CREATION

Most of Moldova's enterprises were created anew. Newly-created enterprises amount to 72.7% of today's firms, while another 20.4% separated from state enterprises or were created through privatization. The dominant method of creation of enterprises in all settlements types was the opening of new enterprises, but privatization takes an especially important role in small towns and cities.

REGISTRATION AND LICENSING

Most of Moldova's enterprises are part of the so-called shadow economy. Specifically, only 15.0% of all firms are registered as legal entities, while 85.0% are not. This, not surprisingly, varies substantially by firm size: all businesses with more than 50 employees are registered as legal entities, but of the small enterprises only 14.3% are so registered.

The majority of enterprises are in fact required to have a license or patent for their business, but more than 70% of proprietors either do not believe they need a license or patent or are not sure whether or not they do. Not surprisingly, this misunderstanding is most common among the smallest of Moldova's firms. The need to have several licenses is one of the obstacles for entrepreneurial activity. Of those enterprises that report a need for licenses to undertake

activity the majority of enterprises (64.7%) need only one license. However, 12.7% report that two different licenses are required and 18.4% report needing three. Another 4.2% need 4 or more licenses!

INSPECTIONS

Besides being required to obtain licenses and patents for their enterprises, proprietors also report a large number of visits from state inspectors. Over the last six months businesses in Moldova were visited over 500,000 times by state inspectors, a figure that amounts to an average of 2.7 visits per firm over the last 6 months. In general the larger the firm, the more frequently it will be inspected. Firms in small towns (and especially) cities are more likely to be inspected than enterprises in the rural areas. Violations were found in 81,000 of the 500,000 visits by inspectors (15.4%).

THE GOVERNMENT AS CUSTOMER

Most Moldovan firms (93%) report that their businesses do not sell anything at all to the state. By contrast, 13% of Ukrainian firms sell at least some part of their production to the government.

BARTER AS A BUSINESS PRACTICE

Contrary to the impression some may have, bartering is not a common means for Moldova's enterprises to procure raw materials, equipment, and other goods, although this depends on the size of the firm. Only 5.4% of enterprises purchase raw materials, equipment and other goods and materials on barter contracts. Of the small proportion of businesses that do barter for their inputs, most are medium enterprises, and most do not rely heavily on such means. Similarly, a considerable part of firms (80.1%) do not accept barter as payment for delivered goods and services. Once again, medium enterprises are much more likely to accept barter as payment for their goods than are small enterprises.

EXPORTS

Only 2.8% of all firms export any of their goods and services, and only 1.8% exports more than 30% of their production. Evidently Moldova's enterprises are oriented for the time being on the internal market. Of the small number of enterprises that do export some of their production, 74% are orienting at least some of their exports to Russia and CIS countries. However, of the Moldovan firms that export, only about four in ten send more than 30% of their exports to Russia and CIS countries.

RELATIONS WITH SUPPLIERS

The survey found that 43.9% of entrepreneurs work with suppliers who settle payments for goods and raw materials only through advance payment. Only 8.7% of suppliers extend (at least on occasion) credit, and enterprises with such supplier arrangements are generally larger businesses. The enterprises prefer insuring themselves so that they get all that they need for their activities by having a number of suppliers. A large number of businesses (88.6%) reported buying goods and services from a variety of suppliers and only 9.1% of them from just one supplier.

ECONOMIC PERFORMANCE OF ENTERPRISES

The most representative group of Moldovan enterprises (41.5% of all firms) includes those that registered a volume of sales of up to 500 lei per month during the last six months. This translates into annual sales of roughly 476 USD. Most Moldovan businesses are small indeed. Two-thirds of Moldova's businesses have average monthly sales of less than 25,000 lei (less than 24,000 USD per year). While more than half of all firms with sales under 500 lei are located in villages, only 29.2% of businesses with sales between 5,000 and 50,000 lei are in villages, and a mere 7.1% of the largest firms according to sales are village-based.

According to the opinions of proprietors, the monthly volume of sales during the last six months decreased for 50.3% of Moldova's businesses, increased for only 12.3% of all firms, and did not change for the balance. The biggest declines in employment seem to have occurred in transportation and communication, and in wholesale and retail trading. Many of the services, especially social and cultural services, fared somewhat better.

According to the estimations of the proprietors, net profit over the last 6 months decreased in the case of 56.4% of businesses, and increased in the case of 10.7%; 14.9% saw no change. Proprietors of construction and wholesale and retail trading firms are especially likely to report losses, while industries and hotels and restaurants seemed to have done a bit better.

Proprietors' forecasts for the next six months are, in general, rather pessimistic: 40.6% of interviewed firms foresee a decrease in the volume of sale and only 5.8% of them predict an increase. 27.4% consider that the volume of sale will remain at the current levels. The situation at 26.2% of businesses for the next six months is so uncertain that they did not dare to make any forecasts.

Similarly, proprietors are not especially sanguine with respect to general conditions of entrepreneurial activities over the next 6 months. A pessimistic forecast prevails on 45.4% of enterprises. Of these, 29.6% forecast slight aggravation and 15.8% considerable aggravation of the situation. A considerably smaller proportion (15.5%) are optimistic about the next 6 months. Another 12.3% of proprietors find the future to be too murky to make predictions.

BUSINESS INVESTMENT

According to the survey, during the last 12 months 11.2% of businesses invested in purchase or rent of fixed assets. The majority of respondents (88.4%), however, stated that no money has been used for the above purposes. These figures are dominated by the presence of small firms, which are much less likely to make these sorts of investments than are medium firms. The type of activity involved also influences the proportion of businesses making capital expenditures. Of those reporting investments, 63.9% of firms were engaged in industry, and 45.2% of those in hotels and restaurants. However, only 6.2% of firms in construction, and 8.6% of those in wholesale and retail trading made any capital expenditures in the past year.

BUSINESS PROBLEMS

It is interesting to consider what Moldova's entrepreneurs consider to be their most significant problems. Entrepreneurs list low purchasing power, low market demand, or low market prices as their primary problem. Another 22% consider inflation to be their biggest concern.

ACCESS TO CREDIT

Only a handful of Moldova's entrepreneurs are of the opinion that credits are easier to come by as compared with the period six months ago. Nearly one-third report that either credits are harder to get, or that credits were not available in the past or at the time of the survey. The largest proportion of respondents seemed to lack the knowledge necessary to answer the question, perhaps indicating that very few of Moldova's entrepreneurs have much to do with the loanable funds market.

During the last 6 months, only 14.4% of all businesses attempted to get credit for development of their activities. This figure varies considerably by firm size: while only 14.2% of small enterprises attempted to get credit, the figure rises to more than one-third for medium enterprises. Overall, nearly three-quarters of those applying were awarded credits or credit of some nature. Firms engaged in industry are much more likely to apply for credit than firms in any other sort of activity. About one-fifth of enterprises involved in wholesale and retail trading report having applied for a business credit. Least likely to apply are businesses in transportation and communication, and construction firms.

According to the survey, individuals are the main business creditors in Moldova: of the 20,255 enterprises that received credit, 15,657 (77.3%) received the credit from an individual, and only 3,278 (16.2%) received a bank credit. Of all enterprises, 8.0% received credits from individuals, while 1.7% had access to lending from financial institutions.

1. INTRODUCTION

Over the period between November 1999 and January 2000, a baseline survey of businesses was undertaken in the Republic of Moldova. The survey, entitled, “Entrepreneurship in Moldova” was conducted by USAID’s NewBizNet Project (Small and Medium Enterprise Support in Western NIS). The major goals of the survey were to gather information about the state of entrepreneurship and the total number of and employment in small and medium enterprises (SMEs), and to analyze the basic characteristics and needs of the business sector in Moldova.

To the greatest extent possible, the baseline survey for the Republic of Moldova was performed in a similar manner to one carried out in Ukraine in 1999. Experts from Management Systems International (MSI) managed the Ukrainian survey, with assistance from Development Alternatives, Inc. (DAI) and the Kiev International Institute of Sociology (KIIS). In Moldova, international experts from DAI in the USA monitored the survey, with targeted consultations by KIIS. The fieldwork was managed by the Moldovan NGO ADSISTO, and the analysis and report-writing tasks were accomplished by the Center for Strategic Studies and Reforms (CISR). One of our objectives is to have a basis upon which to compare the situation in Moldova to that in other countries; as a result, this report frequently cites the MSI survey².

In organizational terms the survey was carried out in two separate stages. The first stage was data collection (carried out by ADSISTO, manager—V. Munteanu), which included tailoring the survey’s methodology and questionnaire to the conditions of Moldova with expert assistance and input from CISR and Marina Panciuc of USAID/Chisinau, interviewing (which involved traveling throughout Moldova in order to fill in the questionnaires related to businesses and households), control of data, and data coding and data entry (SPSS was employed in this survey).

The second activity was analysis (carried out by CISR, managers—A. Gudym, V. Tsurcan). This stage included a statistical analysis of data, an exploration of its sociological and economic interpretation, the writing of the final report, assistance to the NewBizNet project in further modification of materials comprised in the final report, choosing appropriate mechanisms for disseminating the results of the survey (including to Government structures), as well as presentation of research results.

The findings of the study were prepared based on statistical analyses of responses provided by nearly 1,000 respondents, including 523 households and 398 registered businesses in 5 municipalities, 17 towns, 11 counties and TAU Gagauzia, and 66 villages. The share of

² As indicated in this report’s Executive Summary, the authors draw comparisons between Moldova and neighboring countries where those comparisons provide a useful contrast to the situation in Moldova. The reader should keep in mind the differences in economic structure when considering the comparison. The most important comparison, of course, will be next year and in subsequent years when the situation in Moldova can be compared against that of previous years, using the same survey and methodology.

respondents in the sample corresponds to the share of those territorial units in the overall population of the country.

The survey team comprised: A. Gudym, V. Tsurcan, I. Jigau, I. Stanciu, L. Carasciuc, An. Munteanu, V. Bulan, A. Bucatca, An. Tsurcan. The team wishes to thank Sophia Shulianski of the Ministry of Economy and Reform for her expert assistance and the insight she provided starting with the review of the questionnaire in December 1999 through the final analysis of the survey data in June 2000. The team would also like to thank Marina Panciuc of USAID/Chisinau, who provided assistance and support to the survey team from the start, including input on the sampling methodology, the questionnaire design, and the analysis of the results.

2. METHODOLOGY

2.1 INTRODUCTION AND DEFINITIONS

There are a number of reasons to be concerned about the accuracy of government statistics regarding businesses, particularly in the smaller size categories. Small business owners have several incentives to avoid formally registering with the authorities. The expected costs of registration, including becoming subject to taxes and regulation as well as the monetary and time costs of the registration process itself, may be perceived by business owners to be in excess of the benefits of registration. In addition, smaller businesses may be able to remain in the shadows for nearly indefinite periods, given the government's limited resources for law enforcement in this area. As a result, this survey was designed to gather information on this important sector of Moldova's economy in a different and more accurate manner. The present chapter briefly describes sampling issues of the baseline survey in Moldova. The basic objective of the sample design was to provide good quality estimates for the country as a whole, and for urban and rural areas that were included as the strata into the sample design.

A fundamental problem confronting any researcher interested in studying these enterprises is that there exists no comprehensive list of businesses in Moldova. This is especially true of the microenterprises, which typically do not register with the government. Many, and perhaps most, of these are therefore unknown to the government statistical agencies. In addition, there is no complete computerized administrative listing of population or households in Moldova (such as population register or census enumeration districts). As a result, the most efficient way of sampling was to use voter lists from the 1996 presidential election. Institutional residences such as hospitals, student hostels, prisons, and elderly care centers were not included in the survey. Still, the household-based survey was not the most efficient way to gather information on Moldova's medium-sized businesses. As a result, a second survey was also implemented: this survey gathered information about officially registered businesses by randomly selecting from the Enterprises Registry.

For purposes of the present surveys businesses are defined as for-profit entrepreneurial activities. This definition excludes production of goods for purposes of consumption by the entrepreneurs' families. State-owned enterprises are included in the sample. We divide enterprises into size categories that correspond with internationally accepted norms. Small enterprises have between 0 and 50, and the smallest within this category, microenterprises, have between 0 and 10 employees.³ Medium enterprises range in size from 51 employees to 250 employees. Registration is understood to mean "registered as a legal entity;" this definition excludes entrepreneurs who only hold patents, as well as farmers.

Employment in businesses includes proprietors who work in the business, as well as any paid workers (including family members).

³ Firms with 0 workers have only the proprietor working.

It should also be noted that the 1999-2000 baseline survey was only carried out in Bessarabia; Transnistria was excluded due to unrest there. In this report, therefore, when the term ‘Moldova’ is used it should be understood as excluding Transnistria.

2.2 SAMPLE DESIGN AND IMPLEMENTATION

To take advantage of two separate sources of information, the survey interviewed businesses from two separate populations. As noted above, this effectively means that two separate surveys were undertaken. The first was the household based survey; in this case the ultimate sampling unit was the household. According to the survey plan, 900 persons were to be interviewed from a list of 5,000 addresses: 523 responses were obtained. As mentioned above, these 5,000 households were randomly selected from a list of voters in the 1996 presidential election. The household based survey was intended to gather information on the smallest enterprises; such businesses are seldom officially registered, and as a result little is known about them. As the selection of households was random, an accurate picture of these sorts of businesses can be gleaned from the sample.

The second survey was based on the Enterprises Registry from the Moldovan Ministry of Justice. The intention was to interview 400 of these officially registered enterprises from a list of 600 enterprises randomly selected from the Registry (which contains active data on roughly 19,000 firms); in fact 398 interviews were conducted.

In order that estimates generated by the survey be as accurate as possible, a stratification approach was employed. Moldova was thus divided into 4 strata: Chisinau, Beltsy, other towns, and rural areas. For ease of presentation, this report presents the analysis using 3 categories: cities with populations above 100,000 persons, towns with populations under 100,000, and rural villages. Details about the stratification can be found in Annex 1.

The same survey instrument was used in the household survey and the registry survey, and to the greatest extent possible this questionnaire was the same as the one used by MSI in their survey of Ukrainian businesses. The questionnaires used in the Moldovan survey can be found in Annex 2.

2.3 WEIGHTING AND EXTRAPOLATION

The data were weighted according to accepted statistical methods (described in detail in Annex 1). In this manner, the sample of enterprises is representative of the overall Moldovan business sector.

3. BASIC CHARACTERISTICS OF MOLDOVAN BUSINESSES

3.1 MAGNITUDE

The survey reveals that as of January 2000, there are just fewer than 200,000 enterprises of various sizes in Moldova. This information is summarized in Table 3.1. Small enterprises (those with between 0 and 50 employees) number approximately 193,000 and employ nearly 500,000 Moldovans. Of these small enterprises, microenterprises (firms with 10 and fewer employees) total just above 186,000, and these microenterprises provide employment for nearly 304,000 persons. There are about 1,700 medium (51-250 employees) firms, and these employ 207,000 persons. Overall, Moldovan small and medium firms employ some 705,000 persons. This figure represents nearly 39% of Moldova's working age population. Small enterprises employ over 27% of the working age population. In Ukraine, the MSI survey discovered that small and medium enterprises employ 28% of the working age populace. A similar study of enterprises in Poland found that 26.7% of working age Poles are employed in such businesses.

Table 3.1: Magnitude of the Business Sector in Moldova

Size of Firm (number of employees)	Total Number of Firms	Total Employment	Percent of Firms Registered	Employment in Unregistered Firms
0	138,634	138,634	3.3	134,059
1-5	41,804	116,663	26.1	86,214
6-10	5,629	49,197	86.8	6,494
11-50	7,380	194,094	99.3	1,359
Total, Small	193,447	498,558	14.3	228,126
51-250	1,720	206,727	100.0	0
Total, Medium	1,720	206,727	100.0	0
Total	195,497	705,285	15.0	228,126

Table 3.1 also shows that some 228,000 Moldovans (32.3% of SME employment) work in unregistered enterprises, mostly in the microenterprise category. This is a considerably higher fraction than in Ukraine, where 22.9% of the workers in SMEs are employed in unregistered enterprises. Overall, 31.4% of Ukrainian firms are registered, as compared to Moldova's figure of 15.0. The difference is mainly due to differences in registration rates of microenterprises. In the Ukraine, 27.9% of firms with 10 or fewer workers are registered; in Moldova the comparable figure is 10.9%.

According to official government statistics, as of December 1, 1999 there were nearly 103,000 non-farm enterprises in Moldova. Of these, some 57,000 were firms without employees, and another 16,000 were considered "small" according to the Moldovan government's definition (1 to 75 employees). These figures are dramatically different from those revealed by the present survey. As noted, an estimated 195,000 enterprises exist in Moldova, of which nearly 139,000 are without employees. The survey also reveals the existence of some 55,000 enterprises with between 1 and 75 workers. While the government

figures provide interesting details about some businesses, they are not terribly accurate, especially in measuring the microenterprises (many of which are unregistered).

Two other statistics help to illustrate the magnitude of these enterprises: the number of enterprises and the number of jobs per 1,000 inhabitants. For Moldova, the enterprise density is 54.2. The comparable figure for Poland is 41.0 and for Ukraine is 61.5. The employment density for Moldova is 195.9, while for Poland there are 181.8 and for Ukraine 229.2 jobs in SMEs per 1,000 persons.

3.2 LOCATION AND SIZE DISTRIBUTION

Table 3.2 provides information on the spatial distribution of enterprises. Of the 200,000 total enterprises, 44.3% are in villages. Another 37.6% are in the big cities, and the balance in the smaller towns. In all settlement types, microenterprises make up over 90% of the total number of enterprises.

In all, small enterprises make up 99% of all businesses (microenterprises constitute 95.3%) in Moldova. Medium firms amount to just under 1% of the total. The distribution of Ukrainian firms is very similar: 98.9% of all small and medium firms fall into the small category, with only 1.1% in the medium category. It should be noted, however, that while 86.6% of Ukrainian SMEs have zero employees, only 71% of Moldovan firms do. The proportion of firms with between 1 and 5 employees is substantially higher in Moldova.

Table 3.2: Distribution of Enterprises by Size and by Settlement Type

Settlement Type		Total Number of Enterprises by Size of Firm						
		Small					Medium	Total
		0	1-5	6-10	11-50	0-50	51-250	
Village	Number	58,551	25,984	892	858	86,285	321	86,606
	%	67.6	30.0	1.0	1.0	99.6	0.4	44.4
Small Towns	Number	28,255	3,614	952	1,701	34,522	654	35,176
	%	80.3	10.3	2.7	4.8	98.1	1.9	18.0
Cities	Number	51,828	12,206	3,785	4,821	72,640	745	73,385
	%	70.6	16.6	5.2	6.6	99.0	1.0	37.6
Total	Number	138,634	41,804	5,629	7,380	193,447	1,720	195,167
	%	71.0	21.4	2.9	3.8	99.1	0.9	100.0

3.3 MAIN TYPES OF ACTIVITIES

The distribution of businesses in Moldova according to the main types of activities is presented in Table 3.3. Retail and wholesale trade engage almost 40% of all enterprises. Some 16% of the total number of enterprises is engaged in construction, while services in

various forms represent another 15.7% of all businesses. Industry comprises only 1.2% of Moldova's 195,000 enterprises. Moldova's situation is very similar to that in Ukraine in some respects: 38.8% of all small and medium enterprises are engaged in trading. However, a substantially larger share of Ukrainian SMEs (8.8%) are involved in industry.

The distribution of enterprises by type of activity also depends on the size of the business. Retail and wholesale trading is very common among the microenterprises, but only 23.5% of medium firms are so engaged. In addition, construction and transport seem to be very common among the zero-employee firms, but these are relatively uncommon pursuits among medium enterprises. Evidently, small-scale trading, construction, and transport are activities with low start-up costs and perhaps relatively low skill requirements. Among the medium firms, there is a much more evenly balanced distribution of enterprises, but industry is much more common as compared to small firms.

Table 3.3: Main Types of Activity

Main Types of Activity		Size of Firm (number of employees)					Total
		Small				Medium	
		0	1-5	6-10	11-50	51-250	
Construction	Number	25,359	5,042	930	562	112	32,005
	%	18.3	12.1	16.5	7.6	6.5	16.4
Industry	Number	295	565	340	825	290	2,315
	%	0.2	1.4	6.0	11.2	16.9	1.2
Agriculture and forestry	Number	10,757	5,691	363	490	107	17,408
	%	7.8	13.6	6.4	6.6	6.2	8.9
Transportation and communication	Number	15,183	2,131	35	480	106	17,935
	%	11.0	5.1	0.6	6.5	6.2	9.2
Retail and wholesale trade	Number	47,798	22,050	2,716	3,114	404	76,082
	%	34.5	52.7	48.2	42.2	23.5	39.0
Hotels and restaurants	Number	0	189	356	455	84	1,084
	%	0.0	0.5	6.3	6.2	4.9	0.6
Domestic services and recreation	Number	17,644	1,611	396	470	297	20,418
	%	12.7	3.9	7.0	6.4	17.3	10.5
Social and cultural services	Number	7,292	461	62	635	0	8,450
	%	5.3	1.1	1.1	8.6	0.0	4.3
Scientific services	Number	556	804	257	47	0	1,664
	%	0.4	1.9	4.6	0.6	0.0	0.9
Other types of activities	Number	13,750	3,259	175	302	321	17,807
	%	9.9	7.8	3.1	4.1	18.7	9.1
Total	Number	138,634	41,803	5,630	7,380	1,721	195,168
	%	100.0	100.0	100.0	100.0	100.0	100.0

The distribution of businesses by type of entrepreneurship is also revealing, as Table 3.4 demonstrates. Among private enterprises, the majority is involved in wholesale and retail trade. More than a third of individual entrepreneurs are in trading activities, with another 18.5% in very small-scale construction. Among collective or joint stock firms, retail and wholesale trade is also important, but the share of such businesses involved in industry is

higher. Industrial activities are even more common for joint ventures and state-owned enterprises.

Table 3.4: Percent of Enterprises in Each Type of Activity by Ownership Form

Type of Activity	Ownership Form					
	Private	Individual Activity	Collective/ joint stock, State-Dominated	Collective/ joint stock, Private-Dominated	Joint Ventures	State Owned
Construction	4.1	18.5	17.9	5.4	0.0	0.0
Industry	6.1	0.0	8.4	10.7	23.3	19.7
Agriculture and forestry	9.7	8.8	8.1	6.6	0.0	26.4
Transportation and communication	1.9	10.1	11.3	9.7	0.0	0.0
Retail and wholesale trade	51.8	37.6	37.0	39.5	30.9	19.7
Hotels and restaurants	3.3	0.0	0.0	4.9	13.2	0.0
Domestic services and recreation	8.3	10.7	8.2	12.5	2.9	21.9
Social and cultural services	3.9	4.3	5.6	4.0	10.2	5.3
Scientific services	2.5	0.6	0.0	0.7	14.8	7.1
Other types of activities	8.4	9.3	3.5	6.1	4.6	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Retail and wholesale trade dominates the three types of localities (Table 3.5). The most common sort of enterprise in each type of settlement type is engaged in trade: 37.8% in small cities, 39.0% in large cities, and 39.4% in villages. The second and third places in villages are taken by businesses involved in construction and agricultural activities – 16.7% and 16.6% respectively. Of all the enterprises operating in small towns, 26.7% are construction enterprises and 8.8% are enterprises rendering social and cultural services. In the larger towns, 20.4% of enterprises are involved in the provision of domestic and recreation services, and 11.4% are in construction.

Table 3.5 also presents the proportions of enterprises in each activity type by settlement type. The largest number of trading firms is in villages (44.9%). Villages also dominate in agriculture and forestry, construction, and transport. Industry, hotels and restaurants, and services of various sorts are largely found in the bigger cities.

3.4 AGE OF ENTERPRISES

The majority of Moldova's businesses began operations in the past 4 years, as Table 3.6 demonstrates. More than a quarter of today's firms began operations since 1998. This underscores the point that Moldova's business sector is changing rapidly. Nevertheless, a considerable proportion of businesses are "old": more than one-fifth started in 1993 or earlier.

Table 3.5: Business Activity by Settlement Type

Settlement Type		Main Type of Activity										Total
		Construction	Industry	Agriculture and Forestry	Transport and Communication	Wholesale and Retail Trade	Hotels and Restaurants	Domestic Services and Recreation	Social and Cultural Services	Scientific Services	Other Types	
Villages	Number	14,483	533	14,446	10,412	34,203	0	3,412	855	0	8,498	86,842
	Row %	16.7	0.6	16.6	12.0	39.4	0.0	3.9	1.0	0.0	9.8	100.0
	Column %	44.9	23.0	83.0	58.1	44.9	0.0	16.7	10.1	0.0	48.1	44.4
Small Towns	Number	9,402	635	2,217	1,601	13,306	76	1,981	3,085	37	2,835	35,175
	Row %	26.7	1.8	6.3	4.6	37.8	0.2	5.6	8.8	0.1	8.1	100.0
	Column %	29.2	27.4	12.7	8.9	17.5	7.0	9.7	36.5	2.2	16.1	18.0
Cities	Number	8,356	1,148	745	5,921	28,664	1,007	15,024	4,510	1,627	6,510	73,512
	Row %	11.4	1.6	1.0	8.1	39.0	1.4	20.4	6.1	2.2	8.9	100.0
	Column %	25.9	49.6	4.3	33.0	37.6	93.0	73.6	53.4	97.8	35.8	37.6
Total	Number	32,241	2,316	17,408	17,934	76,173	1,083	20,470	8,450	1,664	17,843	195,529
	Row %	16.5	1.2	8.9	9.2	39.0	0.6	10.4	4.3	0.9	9.1	100.0
	Column %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 3.6: Enterprise Age

Year Enterprise Started Operations	Number of Enterprises	%
1999/2000	18,636	9.5
1998	33,795	17.3
1997	35,021	17.9
1996	24,543	12.6
1995	22,091	11.3
1994	12,015	6.1
1993 and earlier	44,577	22.8
No answer	4,851	2.5
Total	195,529	100

4. EMPLOYMENT IN MOLDOVA

4.1 EMPLOYMENT BY TYPE OF SETTLEMENT

As noted in the previous section, total employment in Moldovan businesses amounts to over 705,000. As Table 4.1 demonstrates, 31.5% of employment is in villages, 22.8% is in small towns, and 45.7% is in large cities.

Table 4.1: Employment by Type of Settlement

Type of Settlement		Number of Employees by Size of Firm						Total
		Small					Medium	
		0	1-5	6-10	11-50	0-50	51-250	
Village	No.	58,552	64,180	6,628	32,844	162,204	59,706	221,910
	%	26.4	28.9	3.0	14.8	73.1	26.9	31.5
Small Towns	No.	28,255	12,143	8,558	41,633	90,589	69,854	206,108
	%	13.7	5.9	4.2	20.2	44.0	33.8	22.8
Cities	No.	51,828	40,035	33,573	119,609	245,045	77,271	322,316
	%	13.3	10.3	8.6	30.6	62.8	19.8	45.7
Total	No.	138,635	116,358	48,759	194,086	497,838	206,831	704,669
	%	19.7	16.5	6.9	27.5	70.6	29.4	100.0

4.2 EMPLOYMENT BY SIZE CATEGORY

In addition to providing information by settlement type, Table 4.1 presents information regarding the employment according to firm size. As noted above, nearly 20% of those employed in SMEs are individuals operating microenterprises with no employees, and about 70% of all workers are in enterprises with 50 or fewer workers. Medium enterprises employ the balance of 30%, despite being very few in number.

It is interesting to compare the distribution of employment by size categories with the situation in Ukraine. In that country, the MSI survey found that 63.1% of total SME employment was in small enterprises (with 23.2% in zero-employee firms), with 36.9% in medium enterprises. In Poland, 65.2% of employment was in small enterprises and 34.8% in medium. The fact that a somewhat larger proportion of Ukrainians and Poles work in medium enterprises may reflect the relative underdevelopment of the Moldovan business sector.

Table 4.2: Average Number of Workers per Firm by Firm Size Category Size

Firm Size Category	Average Number of Workers per Firm
1 – 5	2.79
6 – 10	8.74
11 – 50	26.30
All Small: 1-50	6.55
Medium: 51 – 250	120.19
Total	10.04

The average number of workers per firm can easily be calculated from Tables 3.1 and 4.1, but for convenience, we present these figures in Table 5.2. At 21.35 workers per firm, Ukrainian SMEs are larger on average than their Moldovan counterparts. The average size for Ukrainian small enterprises is 12.07, or nearly twice that for Moldovan enterprises. For enterprises with between 51 and 250 workers, at 127 workers per firm, Ukrainian enterprises are slightly larger than Moldovan medium-sized firms. Polish medium firms are even larger: on average they have 190 workers per firm.

Firms differ in size according to their organizational form-legal status, as Table 4.3 shows. Not surprisingly, individual commercial activity is the smallest, with an average of 2.66 employees per firm. Privately owned firms average just fewer than 10 workers, while collective and joint stock operations average around 35 workers, with state-dominated operations being larger. State-owned enterprises, with an average of 44 employees per firm, employ the largest number of persons per firm.

Table 4.3: Average Number of Workers per Firm by Ownership Form

Ownership Form	Average Number of Workers per Firm
Privately owned	9.34
Individual Commercial Activity	2.66
Collective/joint stock, state-dominated	39.52
Collective/joint stock owned, private-dominated	33.05
Joint ventures	35.99
State-owned	43.83
Other form	7.79
Total	10.04

4.4 EMPLOYMENT BY TYPE OF ACTIVITY

Employment also differs by sector, as Table 4.4 shows. The greatest percentage of employees is engaged in wholesale and retail trade. Besides wholesale and retail trading, Moldovans are commonly engaged in construction and consumer services. Not surprisingly, the most

Table 4.4: Employment by Type of Activity

Type of Activity	Employment by Size of Firm							Total	% of Total
	Small					Medium			
	0	1-5	6-10	11-50	0-50	51-250			
Construction	25,359	13,916	8,547	11,757	59,579	10,077	69,656	9.9%	
Industry	295	2,667	3,072	21,302	27,336	31,372	58,708	8.3%	
Agriculture and forestry	10,757	15,195	3,630	18,419	48,001	16,891	64,892	9.2%	
Transport, communications	15,183	5,264	350	20,314	41,111	8,566	49,677	7.0%	
Wholesale and retail trade	47,798	59,315	23,358	76,791	207,262	30,801	238,063	33.7%	
Hotels and Restaurants	0	1,017	2,973	8,886	12,876	19,572	32,448	4.6%	
Consumer and holiday services	17,644	5,107	3,485	10,411	36,620	29,905	66,552	9.4%	
Social and cultural services	7,292	1,438	496	18,034	27,260	-	27,260	3.9%	
Scientific research	556	2,886	2,185	1,175	6,802	-	6,802	1.0%	
Other types of activities	13,750	9,810	1,481	7,026	32,067	59,706	91,773	13.0%	
Total	138,634	116,615	49,577	194,115	498,914	206,890	705,831	100.0%	

Note: The totals in this table do not match exactly those in Table 4.2 due to rounding.

sorts of employment depend on how large the enterprise is. For microenterprises (0 to 10 workers), over 40% of employment is in retail and wholesale trade, with another 15.7% and 9.7% engaged in construction and agriculture/forestry respectively. As the size of the firm increases, an increasing percentage of employees are involved in industry, while a smaller and smaller share works in wholesale and retail trade. Among the medium firms, 15.2% of the employees are involved in industry (as compared with only 5.4% for small enterprises), while less than 15% of workers in medium enterprises work in retail or wholesale trade (41.5% for small enterprises).

4.5 WORKING PATTERNS

Nearly three-quarters of Moldova's enterprises have only full time workers, although this varies considerably according to the size of the firm (Table 4.5). About 75% of the microenterprises have only full-time workers, while part-time workers are much more common in the medium enterprises. Ukrainian enterprises are similar in this regard: 22.4% of employment in Ukrainian small and medium enterprises is made up of part-time workers.

Table 4.5: Working Patterns: Percent of Firms With Part-Time Workers by Firm Size

Firm Size Category (number of workers)	% with no Part-Time workers	% with at least 1 Part-Time Worker
0	79.1	20.9
1-5	73.7	26.3
6-10	69.2	30.8
11-50	74.4	25.6
Small: 0-50	73.9	26.1
Medium: 51-250	55.8	44.2
Total	72.7	27.3

4.6 EMPLOYMENT AND ORGANIZATIONAL-LEGAL STATUS OF ENTERPRISES

Not surprisingly, individual private entrepreneurship is concentrated in the sphere of microenterprises (see Table 4.6). A large proportion of these are individuals in the whole meaning of this term—they work alone. More generally, the vast majority of employees of microenterprises are working in private firms. As the size of the firm increases, the proportion of employees in private enterprises falls off dramatically, while collective, joint-stock companies employ increasingly large percentages of workers.

Table 4.6: Employment by Different Types of Organizational-Legal Status of Firms

Organizational-Legal Status of Business	Firm Size Category (number of workers)							Total
		Small					Medium	
		0	1-5	6-10	11-50	0-50	51-250	
Private enterprises	No.	3,773	32,358	31,424	64,202	131,757	21,228	152,985
	%	2.7	27.8	64.0	33.1	26.5	10.3	21.7
Individual Commercial Activity	No.	134,796	78,491	5,633	0	218,920	0	218,920
	%	97.2	67.6	11.5	0.0	44.0	0.0	31.1
Collective/joint stock: State-Dominated	No.	0	630	749	18,990	20,369	33,150	53,519
	%	0.0	0.5	1.5	9.8	4.1	16.0	7.6
Collective/joint stock: Private-dominated	No.	33	2,196	8,445	86,472	97,146	107,105	204,251
	%	0.0	1.9	17.2	44.5	19.5	51.7	29.0
Joint ventures	No.	0	1,750	2,185	15,473	19,408	26,047	45,455
	%	0.0	1.5	4.4	8.0	3.9	12.6	6.4
State-owned	No.	0	490	702	7,148	8,340	19,448	27,788
	%	0.0	0.4	1.4	3.7	1.7	9.4	3.9
Other form	No.	33	272	0	1,820	2,125	0	2,125
	%	0.0	0.2	0.0	0.9	0.4	0.0	0.3
Total	No.	138,635	116,187	49,138	194,105	498,065	206,978	705,043
	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0

4.7 TRENDS IN EMPLOYMENT

The process of change in the number of employees has affected enterprises of all sizes. The estimates presented in Table 4.7 show that over the past 6 months microenterprises are fairly stable on the labor market, especially those in the microenterprise size category. The larger microenterprises (with between 6 and 10 workers) were much more likely to report an expansion in the number of employees, but nevertheless over 90% of these either decreased in size or remained the same. As the size of the enterprise increases, there appears to be increasing amounts of volatility in the number of workers. About a fifth of medium enterprises report a decrease in the number of their employees, while roughly 13% of these have added workers. This very likely reflects the ongoing privatization process: many firms are trimming their payrolls in response to the more competitive environment, but some (presumably more efficient) firms are in a position to grow rapidly in response to new opportunities. Overall, Table 4.7 shows that during the last six months 1.7% of Moldovan enterprises have decreased the number of employees, while 1.2% of enterprises have increased the number of employees during the same period. The process of change in the number of employees affected about 3% of firms, while 97% of enterprises did not alter the number of employees. The employment situation in Moldova seems to be more stable than that in Ukraine, where 19.6% of firms decreased in size, 8.3% reported adding workers and 72.1% did not change in size. As in Moldova, the likelihood of changing in size grows with firm size. However, the large number of no-employee microenterprises heavily influences these totals.

The final row of Table 4.7 considers employment change only of firms with at least one worker. Of these 6% have shrunk over the past 6 months, 4.2% have grown, and nearly 90% have remained the same size.

Table 4.7: The Change in the Number of Employees Depending on Firm Size

Size of Firms according to the number of employees	% of Firms Reporting		
	A decreased in employees	An increase in employees	No change in employees
0	0.1	0.0	99.9
1-5	1.7	1.3	97.0
6-10	12.0	7.0	81.0
11-50	21.8	16.4	61.8
Small: 0-50	1.6	1.1	97.3
Medium: 51-250	22.7	13.2	64.1
Total	1.7	1.2	97.1
Total, excluding 0-worker firms	6.0	4.2	89.8

Table 4.8 shows that enterprises in most types of activity remained the same in terms of numbers of employees. The activities with the largest proportion of firms declining in size were industry and hotels/restaurants. Interestingly, these same activities were also the only ones that registered a substantial increase in the number of employees. Evidently, these activities are especially sensitive to the changes in Moldova's economic environment.

Table 4.8: Change in Employment by Type of Activity

Type of activity	% of Firms Reporting that during the Last Six Months the Number of Employees		
	Decreased	Increased	No change
Construction	1.0	0.2	98.8
Industry	19.4	20.7	59.9
Agricultural and forest household	1.7	0.2	98.1
Transportation, communication	3.7	0.0	96.3
Retail and wholesale trade	1.6	1.3	97.1
Hotels and restaurants	6.6	12.4	74.7
Holiday services	1.0	2.4	96.6
Consumer and cultural services	1.1	1.5	97.4
Other form	0.5	0.2	99.3

Out of the total number of enterprises that reduced working places, 24.6% decreased the number of employees on grounds of staff reduction; 75.4% decreased their work force by other means.

How long does it take to fire a worker? Table 4.9 addresses this issue. For the most part, enterprises in Moldova report that it takes a day or less to go through this procedure. However, some 22% of respondents who answered this question reported that the process

takes a considerable amount of time. Evidently some Moldovan enterprises are finding it somewhat costly to reduce their payrolls.

Table 4.9: How Long Does the Lay-Off Procedure Take?

Number of days the process of firing takes to complete	Enterprises	
	Count	%
< 1 day	39	0.2
1 day	13,140	78.2
2 to 9 days	2,041	12.2
10 to 60 days	1,578	9.8

4.8 WORKER CHARACTERISTICS AND WORKER RELATIONS

4.8.1 Women as Employees

Of the 704,669 persons employed in Moldova's enterprises 323,699, or 45.9% are women. By way of contrast, of total employment in Ukrainian enterprises, women comprise 48.6%. Table 4.10 shows that of the 195,167 total enterprises, 88,349 (or 45.2%) employed no women. At 42% of the total number, firms employing one woman make up the second most numerous group of Moldovan firms. Another 11.5% employ between 2 and 20 women.

Table 4.11 provides some additional details about the employment of women in Moldova's businesses. Firstly, the proportion of workers that are female does not demonstrate much variation according to the size of the firm. For all size categories, the percentage ranges from 42% to 53%. Secondly, female workers are much more common in enterprises that are owned or dominated by females. In all women-dominated firms, two-thirds of the workers are female, while in male-dominated firms women make up less than 40% of the employees. A similar pattern was found in Ukraine.

4.8.2 Relatives as Employees

46.3% of all enterprises operating in the country are employing relatives (see Table 4.12). They are working in most organizational-legal forms, though their distribution varies in some case to a great degree, from one form of enterprise to another. Private enterprises and collective joint-stock enterprises dominated by private ownership seem especially likely to hire relatives (about one-third), while enterprises with a large amount of state involvement are less likely to hire relatives: 15.9% of joint stock enterprises in which the state holds the majority of shares and 18.8% of state-owned enterprises employ relatives. A very similar pattern was also observed in Ukraine. Overall, only 26.5% of Ukrainian SMEs employ relatives, and as in Moldova privately controlled enterprises are more likely to do so than are state-controlled enterprises.

There are several reasons why employment of relatives is common in private enterprises. The initial stage of ownership creation requires special trust to persons holding vital position. As a result, the owners tend to appoint their close relatives in these positions. At the same time, under conditions of high unemployment vacancies are frequently offered to close relatives. Finally, this particular type of employment creates possibilities for opening family businesses. This is the most likely reason for employing relatives in private enterprises.

As we can see from Table 4.13, the share of businesses employing close relatives is large for the smallest microenterprises. Just above a half of enterprises with 1 - 5 employees employ relatives, whereas only about one-third of firms with between 6 and 250 workers have relatives on the payroll.

Table 4.10: Women as a Percentage of the Labor Force

Number of women in Firms	Number of Firms	% of Firms	Total female employment	% of total female employment
0 women	88,349	45.2	0	0.0
1 women	82,082	42.0	82,082	25.4
2-9	18,855	9.6	67,124	20.7
10-20	3,668	1.9	56,047	17.3
>21	2,405	1.2	118,446	36.6
No answer	171	0.0	0	0.0
Total	195,858	100.0	323,699	100.0

Table 4.11: Percent of Female Workers by Firm Size and Type

Type of Enterprise	Firm Size Category (number of workers)					Total
	Small				Medium	
	0	1-5	6-10	11-50	51-250	
All Firms	41.6	44.7	44.1	52.9	43.2	45.9
Women-Owned or dominated Firms	56.4	66.8	74.8	70.2	74.7	66.7
Male-Owned or Dominated Firms	8.9	42.7	39.0	46.6	36.4	38.6

Table 4.12: The Distribution of Owners' or Managers' Close Relatives by Organizational-Legal Form of Firm (Percent of Firms)

Organizational-Legal Forms of Entrepreneurial Activity	Does Your Enterprise Employ Close Relatives?		
	Yes	No	Refused/Don't Know
Privately owned	39.0	58.6	2.4
Individual Commercial Activity	55.0	45.0	0.0
Collective/ joint stock, state-dominated	15.9	79.8	4.3
Collective/ joint stock, private-dominated	31.4	66.4	2.2
Joint ventures	23.1	72.3	4.6
State-owned	18.8	72.0	9.2
Other type of ownership	67.6	32.4	0.0
All forms (not including individual proprietorships)	46.3	52.5	1.2

Table 4.13: Participation of Relatives in Business Activities (Percent of Firms)

Size of Firm (Number of Employees)	% of Firms Employing Owners' or Managers' Relatives
1-5	50.9
6-10	34.3
11-50	31.9
51-250	35.5
All firms (not including individual proprietorships)	46.3

Table 4.14 provides information on the likelihood that employed relatives are receiving salaries. The larger is the business, the more common it is that relatives receive salaries. This does not only depend on the size of the enterprise per se, but also on different functions performed by the relatives in a big enterprise. The bigger the enterprise, the more diverse and clear the professional obligations and the higher the professional level of employees. This fact implies more formalized working conditions for all employees, including relatives.

Fewer businesses operating in villages are paying their relatives, in comparison with enterprises located in big cities (Table 4.15). Only about half of enterprises operating in rural areas are paying their close relatives salaries, whereas this indicator is higher in smaller towns and cities at nearly 100%. Apparently the explanation is that informal business relations and ties are rather strong in rural areas. For this reason the work of a relative is in some cases considered a favor, which need not be remunerated. Further support of this hypothesis is provided by the fact that the smallest proportion of firms paying their relatives salaries can be found among agricultural enterprises.

Table 4.14: The Salary of Owners' or Manager's Close Relatives by the Size of the Enterprise (Percent of Firms)

Size of Firm (number of employees)	Are the employed relatives receiving salaries?		
	Yes	No	Difficult to say/ I do not know
1-5	65.8	19.4	14.9
6-10	80.5	19.5	0.0
11-19	98.0	2.0	0.0
20-50	100	0.0	0.0
Total	77.1	14.5	8.4

Table 4.15: Salaries of Owners' or Managers' Close Relatives by Type of Locality (Percent of Firms)

Type of locality	Are close relatives receiving salaries?		
	Yes	No	Difficult to answer/ I do not know
Village	50.4	30.5	19.1
Small Towns	100.0	0.0	0.0
Cities	97.4	2.6	0.0
Total	77.1	14.5	8.4

4.8.3 Share of Salary Received in Kind and Salary Arrears

Table 4.16 shows that 83.4% of Moldova's enterprises with employees are paying salaries in cash. Just over 6% of firms report that more than 40% of their payroll is paid in kind. Interestingly, the larger firms appear to be more likely to pay some of their payroll in kind than are the microenterprises. In Ukraine, 88% of all small and medium enterprises pay salaries in cash. Medium-sized firms are also more likely to pay some of their payrolls on an in-kind basis.

Overall, the situation with respect to salary payment is relatively satisfactory in enterprises that hire workers (see Table 4.17). The survey shows that 79.7% of firms that are paying salaries do so without any delays. Another 13.4% of firms that pay salaries do so with a 1-3 months delay. Only 6.8% of enterprises paying salaries are delaying the payments for more than one quarter. However, when one considers the likelihood of not paying salaries on time

according to the size of the enterprise, the situation is less satisfactory. More than half of medium enterprises report that their payrolls are in arrears. Some 207,000 (29.4% of the total number of persons estimated to be working in SMEs: see Table 4.1) Moldovans are estimated to work in medium-sized enterprises. Evidently a sizeable number of Moldovan workers are owed salary. Nevertheless, in this aspect Moldovan firms' performances are superior to those of their Ukrainian counterparts: only 62.8% of the enterprises in that country report that their payrolls are current. Just as in Moldova, however, the likelihood of a firm's payroll being current declines with firm size.

**Table 4.16: Percent of Payroll Paid In Kind
By Firm Size (Percent of Firms)**

Size of Firm (number of employees)	Percent of Payroll Paid in Kind				
	0%	1%-10%	11%-40%	41%-70%	70%+
1-5	82.6	6.7	3.8	5.9	1.0
6-10	94.7	2.0	0.7	0.0	2.6
11-50	78.4	6.4	7.7	6.5	1.0
51-250	78.8	9.9	4.1	7.2	0.0
Total	83.4	6.0	4.3	5.1	1.2

**Table 4.17: Payroll Arrears By Firm Size
(Percent of Firms)**

Size of Firm (number of employees)	Number of Months Payroll is in Arrears (% of Firms)				
	Current	1-3	4-6	7-12	More than 12
1-5	88.6	5.6	4.4	0.3	1.1
6-10	82.5	12.2	0.7	0.0	4.5
11-50	69.3	22.1	6.5	0.5	1.6
51-250	40.5	45.6	5.5	4.3	4.1
Total	79.7	13.4	4.3	0.5	2.0

5. ORGANIZATIONAL FORM-LEGAL STATUS OF ENTREPRENEURSHIP

5.1 CATEGORIES OF ENTREPRENEURSHIP

The level of organization of entrepreneurship in the Republic of Moldova is typical for the non-stable, transitional economy of new states on the post-soviet area. The entrepreneurship can be divided into two categories:

- # Organized entrepreneurship is implemented within a specified legal status, stipulated by the Law of the RM on Entrepreneurship and Enterprises;
- # Non-organized entrepreneurship, which occurs when a person works outside of an organization. In this case, there are no necessary characteristics of an organization, such as: division of labor, authority and the procedure of staff hiring. In this study, this category of business (in the broad meaning of the word) is called self-employed.

The correlation of the two above-mentioned categories of entrepreneurship is one of the most important characteristics of entrepreneurship in Moldova. The fact that Moldova is in the early stages of market economy formation might be proved by the fact that the category of the self-employed significantly dominates over the category of the organized entrepreneurship. The survey demonstrates that non-organized entrepreneurship in Moldova constitutes 85.3% out of the total legal entities and individuals involved in the entrepreneurial activity (see Table 5.1). In countries with transitional economies, the share of non-organized business is bigger where the income per capita is the lowest, i.e. this pattern prevails in the poorest regions. It is also true that it is high in those countries where the industry of recreation and tourism is well developed. Moldova must be considered a poor country, with the income per capita of 350 - 400 US dollars a year. The industry of recreation and tourism is still on a low level of development. On this basis, we can state that the current predominance of the self-employed business in Moldova is the result of poverty of the population and its attempts to survive through self-employment, at least in the majority of cases.

It should be mentioned that the category of the self-employed entrepreneurs generally includes the category of the owners of private enterprises, involved in small entrepreneurial activity.

Table 5.1: Enterprises by Organizational-Legal Status

Organizational-Legal Status of Firm		Small					Medium	Total
		0	1-5	6-10	11-50	0-50	51-250	
Private enterprises	No.	3,773	9,379	3,654	2,960	19,766	216	19,982
	%	2.7	22.4	64.9	40.1	10.2	12.5	10.2
Individual Commercial Activity	No.	134,796	31,024	617	0	166,437	0	166,437
	%	97.2	74.2	11.0	0.0	86.0	0.0	85.3
Collective/stock, state-dominated	No.	0	126	79	759	964	390	1,354
	%	0.0	0.3	1.4	10.3	0.5	22.6	0.7
Collective/stock, private-dominated	No.	33	545	927	2,813	4,318	827	5,145
	%	0.1	1.3	16.5	38.1	2.2	48.0	2.6
Joint Ventures	No.	0	350	257	533	1,140	121	1,261
	%	0.0	0.8	4.6	7.2	0.6	7.0	0.6
State-owned	No.	0	107	95	263	465	168	633
	%	0.0	0.3	1.7	3.6	0.2	9.8	0.3
Other form	No.	33	272	0	52	357	0	357
	%	0.1	0.7	0.0	0.7	0.2	0.0	0.2
Total	No.	138,635	41,803	5,629	7,380	193,447	1,722	195,169

5.2 NUMBERS OF OWNERS

It is useful to consider how many owners each enterprise in Moldova has. Table 5.2 presents this information in two different ways. The second-to-last column in that table shows that overall nearly 90% of Moldovan enterprises have only one owner. However, this figure is dominated by the inclusion of individual commercial enterprises, which by definition have only one owner. The last column of Table 5.2 shows the distribution exclusive of individual commercial enterprises. In this case we can see that just under three-quarters of Moldova's enterprises have a group form of ownership. Not surprisingly, privately owned enterprises are the most likely to have only one owner, and over 90% of these enterprises have 3 or fewer owners. The survey also reveals that the group form of ownership is more common in small towns and cities than in rural areas (see Table 5.3).

**Table 5.2: Number of Owners By Ownership Type
(Percent of Firms)**

Number of Owners	Ownership Form						Total	Total, excluding Indiv. Comm. Activity
	Privately Owned	Individual Commercial Activity	Collective/Joint-Stock, State Dominated	Collective/Joint-Stock, Private Individual Commercial Activity	Joint	Other		
1	33.9	100.0	0.0	4.0	5.7	0.0	89.8	26.0
2 or 3	56.8	0.0	19.3	33.6	66.6	82.7	7.1	51.5
4 or 5	2.8	0.0	2.7	4.0	10.3	0.0	0.4	3.2
6 or more	6.4	0.0	78.0	58.4	17.5	17.3	2.6	19.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Table 5.3: Number of Owners By Settlement Type
(Percent of Firms)**

Number of Owners	Settlement Type			Total
	Village	Small Town	Cities	
1	37.1	22.6	19.3	26.0
2 or 3	52.3	37.5	56.6	51.5
4 or 5	0.0	5.9	4.5	3.2
6 or more	10.6	34.0	19.5	19.3
Total	100.0	100.0	100.0	100.0

5.3 WOMEN AND ENTREPRENEURIAL ACTIVITY

According to the survey's data as presented in Table 5.4, the share of enterprises in which women own more than 51% of property constitutes 29.8%, which is significantly less than the share of women in the demographic structure of the country's population (according to the official statistics—about 52.0%). As the size of the enterprise increases, the proportion of firms dominated by female owners shrinks: 31.2% of small firms are controlled by women, while only 7.4% of medium firms are. In Ukraine, a very similar overall proportion of enterprises are female-owned: 29.8%. It is also true that in that country smaller firms are more likely to be controlled by women.

In addition, Table 5.5 makes evident that the social and economic conditions and “life circumstances” in a village make the ownership of property of enterprises by women more common than in a big town. The share of female dominated firms in villages and small towns is 48.3%, whereas women control only 19.6% of small town firms and 22.0% of city firms.

Table 5.4: Distribution of Firms Dominated by Women by Firm Size (Percent of Firms)

Size of Firm (number of employees)	% of Firms Dominated by Women	% of Firms Not Dominated by Women	It Is Difficult to Answer	Total
0	41.1	58.1	0.9	100.0
1-5	41.3	57.0	1.7	100.0
6-10	26.6	67.3	6.1	100.0
11-50	14.6	74.5	10.9	100.0
Small: 0-50	31.2	63.8	4.9	100.0
Medium: 51-250	7.4	82.4	10.2	100.0
Total	29.8	65.0	5.3	100.0

Table 5.5: Distribution of Firms Dominated by Women by Settlement Type (Percent of Firms)

Settlement Type	% of Firms Dominated by Women	% of Firms not Dominated by Women	It Is Difficult to Answer
Villages	48.3	51.7	0.0
Small Towns	19.6	77.0	3.4
Cities	22.0	68.8	9.2
Total	29.8	65.0	5.2

As Table 5.6 explains, female-dominated enterprises are most common in the spheres of hotels and restaurants (38.7%), other activities (38.5%), wholesale and retail sale (37.1%), and domestic and cultural services (29.5%). There are no enterprises in which women own at least 51% of the property in transportation and communication, and female ownership is very uncommon in industry and in construction.

Table 5.6: Distribution of Enterprises with Majority Ownership by Women by Types of Settlements (Percent of Firms)

Type of Activity	% of Firms Dominated by Women	% of Firms Not Dominated by Women	It is difficult to Answer/Refused
Construction	6.2	93.8	0.0
Industry	11.0	81.9	7.1
Agriculture/Forestry	24.8	75.2	0.0
Transportation and Communication	0.0	100.0	0.0
Wholesale and Retail Trade	37.1	54.0	8.9
Hotels and Restaurants	38.7	58.0	3.3
Domestic Services and Recreation	29.5	67.8	2.7
Social and Cultural Services	28.6	68.1	3.3
Scientific Services	22.1	77.9	0.0
Other Activities	38.5	61.5	0.0
Total	29.8	65.0	5.3

5.4 CHANGES IN ORGANIZATIONAL-LEGAL FORMS

The most significant changes undertaken in a transition economy are determined and accompanied by modifications in the organizational-legal form of enterprises both in qualitative and quantitative terms. A very dynamic process of modification of organizational-legal form of enterprises indicates the unstable character of this social institution in the society. The general picture of the modifications in the organizational-legal forms of enterprises is presented in Table 5.7. From the table it can be seen that the intensity of the transformation of organizational-legal forms is somewhat high in the Republic of Moldova – more than one of every four firms had a different form in the past. Still, a big part of the business sector – 71.7% of enterprises - did not change their organizational-legal form during the same period. Larger enterprises are more likely to have undergone changes in organizational-legal form: fully two-thirds of medium firms reported a change in their form, presumably reflecting the process of privatization. In this respect, Moldova seems to be similar to Ukraine, where 23.2% of enterprises reported having changed from an earlier form of ownership. There, as in Moldova, the larger firms are much more likely to have changed form than are smaller enterprises.

Table 5.8 presents information regarding the change in organizational-legal form according to location. The most active process of modification of organizational-legal form of enterprises has been observed in small towns – 40.9% of enterprises have modified their form. 18.9% of enterprises in villages have had a different organizational-legal form in the past. The businesses located in big cities modified their organizational-legal form in 27.0% of the cases.

**Table 5.7: Modifications of Organizational-Legal Forms of Firms
(Percent of Firms)**

Firm Size (number of employees)	Did your Enterprise Have Another Organizational-Legal Form Before?			
	Yes	No	Hard to Say/Refused	Total
1-5	11.7	87.7	0.5	100.0
6-10	21.7	78.3	0.0	100.0
11-50	46.1	52.6	1.3	100.0
Small: 0-50	24.5	74.9	0.6	100.0
Medium: 51-250	66.6	33.4	0.0	100.0
Total	27.7	71.7	0.6	100.0

**Table 5.8: Change in Organizational-Legal Form
by Settlement Type (Percent of Firms)**

Type of locality	Did your Enterprise Have Another Organizational-Legal Form Before?			
	Yes	No	Hard to Say/Refused	Total
Villages	18.9	81.1	0.0	100.0
Small Towns	40.9	58.4	0.7	100.0
Cities	27.0	72.2	0.8	100.0
Total	27.7	71.7	0.6	100.0

Of the enterprises that did change their organizational-legal form, from what form did they change? As Table 5.9 demonstrates, the most common previous form was state enterprises, with collective enterprises the next most common sort. This is in accordance with Ukraine's situation: over 72.5% of small and medium enterprises that changed form had been state-owned.

**Table 5.9: What Organizational-Legal Form Did Your Enterprise Have in the Past?
(% of Firms that changed organizational-legal form)**

Firm Size (number of employees)	Previous legal status					
	Private	Collective, joint-stock	Joint venture	State	Other form	Total
1-5	14.0	21.6	0.0	60.7	3.7	100.0
6-10	3.2	6.4	0.0	90.4	0.0	100.0
11-50	0.0	5.0	1.0	92.8	1.1	100.0
Small: 0-50	11.0	12.2	0.5	74.4	1.9	100.0
Medium: 51-250	0.0	21.6	0.0	47.5	30.9	100.0
Total	3.1	11.0	0.5	79.0	6.4	100.0

5.5 DISTRIBUTION OF ENTERPRISES ACCORDING TO METHOD OF CREATION

The enterprises of Moldova differ considerably from each other in the method of their creation. As we see in Table 5.10, most enterprises were created anew, rather than on the basis of enterprises already in existence. 72.7% of today's firms are newly created enterprises; another 20.4% separated from state enterprises or were created through privatization (in other words, these enterprises used to various degrees the capital, equipment, and technology of predecessor enterprises). It is obvious that the latter group of firms enjoys certain advantages over the first one, since their managers had access to assets of state enterprises in the period of mass privatization. Another 3.9% of firms was created by either their separation from kolhoz-cooperative enterprises or by opening joint ventures (with the participation of foreign capital).

**Table 5.10: Method of Enterprise Creation
(Percent of Firms)**

Firm Size (number of employees)	Method of Enterprise Creation					
	Newly Created	Separated from State Enterprises	Created via Privatization	Created by Separation from Other Types of Enterprises	Hard to Say/No Answer	Total
0	97.3	0.0	0.9	1.0	0.9	100.0
1-5	86.8	1.9	5.5	4.3	1.5	100.0
6-10	75.3	3.0	17.8	1.4	2.6	100.0
11-50	48.9	6.0	35.3	5.8	3.9	100.0
Small: 0-50	75.8	3.0	15.3	3.7	2.2	100.0
Medium: 51-250	24.1	11.0	44.4	6.2	14.2	100.0
Total	72.7	3.4	17.0	3.9	3.0	100.0

Table 5.11 describes the method of enterprise creation according to the location of the firm. The dominant method of creation of enterprises in villages was the opening of new enterprises: 86.8% of the respondents stated that their enterprises are newly created. With a big gap from the first place, the second place is taken by the privatization—10.6% of respondents have chosen this method of launching new entrepreneurial activity. None of the enterprises operating in villages were separated from state enterprises, for there were not so many enterprises of this particular type of enterprises in villages. All methods of enterprise creation were reported in small towns, although as in villages, most of enterprises are created anew (57.0%). Apparently, in small towns the privatization of state enterprises (especially in the food industry) has started in big proportions. This explains the fact that 31.1% of enterprises in the small towns either separated from state enterprises or were created through privatization. Newly created enterprises are also dominant in big cities (69.7%).

**Table 5.11: Method of Enterprise Creation
By Settlement Type (Percent of Firms)**

Method of Enterprise Creation	Settlement Type			
	Villages	Small Towns	Cities	Total
Newly created	86.8	57.0	69.7	72.7
Separated from state enterprises	0.0	4.7	5.1	3.4
Created via privatization	10.6	26.4	17.7	17.1
Created by separation from enterprises with different organizational-legal form	2.6	3.9	4.6	3.9
Hard to Say/No answer	0.0	8.0	2.9	2.9
Total	100.0	100.0	100.0	100.0

6. INTERACTION OF ENTERPRISES AND THE STATE

6.1 REGISTRATION

Unofficial entrepreneurial activity in the Republic of Moldova considerably predominates, as Table 6.1 clearly shows. Thus, if the number of registered⁴ enterprises constitutes 15.0%, then unregistered firms constitute 85.0%. This demonstrates that significant numbers of Moldovan businesses are engaged in the shadow economy.

Due to the fact that official registration is mainly the problem of private enterprises and individual entrepreneurs, then it is not surprising that there is a close correlation between enterprise size and registration status. According to the survey results, all businesses with more than 50 employees are registered, but of the small enterprises, only 14.3% are registered.

Moldova is somewhat similar to Ukraine with respect to business registration. A slightly larger proportion overall (31.4%) of Ukrainian SMEs are registered. Ukrainian small enterprises are much more likely to be registered (30.7% for Ukraine, 14.3% for Moldova).

**Table 6.1: Registration Status by Firm Size
(Percent of Firms)**

Size of Firm (number of employees)	% of Firms That Are Registered
0	3.3
1-5	26.1
6-10	86.8
11-50	99.3
Small: 0-50	14.3
Medium: 51-250	100.0
All Firms	15.0

6.2 NEED FOR LICENSES AND PATENTS

There are 13 ministries, 3 departments, 10 other state bodies from the Republic of Moldova, as well as the National Bank of the Republic of Moldova that issue licenses for implementation of certain types of entrepreneurial activity. According to the Law on Licensing and the Regulation on Licensing in the Republic of Moldova, enterprises

⁴ There are at least three types of registration in Moldova. "State registration" implies that an enterprise has been entered in the State's registry of businesses. Other enterprises may hold a "patent," which implies a fiscal relationship with the State. A different sort of registration is required of farmers. Except where otherwise specified, the term registration refers to the first sort: that is, enterprises that have registered as legal entities. Entrepreneurs holding only patents, along with farmers, are considered "unregistered" for purposes of this survey.

undertake specific types of activities only on the basis of licenses, issued by the appointed state bodies. All this includes 106 types of activity.

The majority of enterprises are in fact required to have a license or patent for their business, but as Table 6.2 shows, the greatest proportion of proprietors either do not believe they need a license or patent (46.9%), or are not sure whether or not they do (23.7%). Not surprisingly, this misunderstanding is most common among the smallest of Moldova's firms.

**Table 6.2: Proprietor's Understanding of the Need for a License or Patent
(Percent of Firms)**

Firm Size (number of employees)	Does Your Business Need a License or Patent?			
	Yes	No	Not Sure	Total
0	21.6	50.0	28.5	100.0
1-5	39.3	44.7	16.0	100.0
6-10	76.1	23.9	0.0	100.0
11-50	78.0	22.0	0.0	100.0
Small: 0-50	29.1	47.0	23.9	100.0
Medium: 51-250	62.3	37.7	0.0	100.0
Total	29.4	46.9	23.7	100.0

The need to have several licenses is one of the obstacles for entrepreneurial activity as well as a source of corruption. Of those enterprises that report a need for licenses to undertake activity the majority of enterprises (64.7%) need only one license. However, 12.7% report that two different licenses are required and 18.4% report needing three. Another 4.2% need 4 or more licenses!

6.3 NUMBER OF INSPECTIONS BY STATE BODIES

Besides being required to obtain licenses for their enterprises, proprietors also report a large number of visits from state inspectors. Over the last six months businesses in Moldova were visited over 500,000 times by state inspectors, as Table 6.3 shows. Given that there are just under 200,000 businesses in Moldova, this amounts to an average of 2.7 visits per firm over the last 6 months. Clearly, not all of the enterprises were checked only three times: in some cases, the number of inspections was significantly higher. The biggest number (386,389) of inspections are conducted by the four state authorities on inspection: health-epidemiological service – 115,990 inspections, tax inspection – 77,185, economic police – 121,250 and financial guard – 71,964.

As mentioned just above, Moldovan enterprises were visited by inspectors nearly 3 times in the preceding 6 months. This average varies considerably by the size and location of the enterprise, as shown in Tables 6.4 and 6.5. In general the larger the firm, the more frequently it will be inspected. This is likely to be the result of the higher visibility of medium firms: it is costly for inspectors to find the smallest firms, many of which are unregistered. On average, inspectors visited each medium-sized firm in the medium category 9.55 times over

the past 6 months alone. In a similar vein, firms in small town (and especially) cities are more likely to be inspected than enterprises in the rural areas. Similar to the situation regarding enterprise size, it is costlier to find and visit firms in the outlying areas.

Ukrainian officials are even more zealous than their Moldovan counterparts, and especially so for the smaller enterprises. While Ukrainian medium enterprises were visited 13.19 times, the Ukrainian businesses with no employees were visited 3.59 times. Zero-employee Moldovan firms were visited 2.59 times. Overall, Ukrainian firms were visited 7.1 times, considerably more than Moldovan firms.

Besides providing information on the total number of inspections, Table 6.3 shows the frequency with which inspectors found violations. 81,000 of the 526,000 visits by inspectors revealed violations (15.4%). Controls can be indirectly justified by the number of violations revealed, yet the main reason for the vast number of inspections is, in our view, the willingness of the fiscal bodies to increase the amount of inflows to the budget by way of fines and penalties. In any case, the magnitude of inspections surely presents a substantial regulatory burden to businesses in Moldova.

Table 6.3: Number of Inspections Conducted by State Bodies During the Previous 6 Months

State bodies	Total number of inspections	Number of inspection, which revealed violations	
	Number	Number	%
Tax inspection	77,185	8,108	10.5
Fire-alarm Service	33,038	1,713	5.2
Economic police	121,250	35,155	29.0
Financial guard	71,964	10,896	15.1
Health-epidemiological department	115,990	12,860	11.1
The Ministry of Environment	13,787	117	0.8
Department of standards, metrology and technical supervision	48,264	1,839	3.8
Department of architecture	9,369	144	1.5
Other service	35,566	10,213	28.7
Total	526,413	81,045	15.4

6.4 THE SHARE OF STATE ORDERS IN THE PRODUCTION ACTIVITY OF FIRMS

Only 7.1% of businesses report selling anything at all to the state. For the majority of enterprises (93.0%) this form of collaboration with the state is missing. A slightly lower percentage of Ukrainian SMEs (87.5%) sell nothing to the government, indicating a slightly higher degree of linkage between the private and public sectors in Ukraine. The share of goods and services, which is purchased from the private sector by state order, is presented in Table 6.6. The picture is very clear. On the one hand, the private sector chooses the area of

its activities, mainly as a response to the needs of the private sector and the population. Thus, the role of the state as the customer is very limited. Surely, under these conditions, the bureaucratic regulation of the works and services should be reduced to the minimum. On the other hand, the small share of state orders speaks about the poverty of the state. Meanwhile, the small number of state orders directed to small and medium enterprises are an important form of encouraging entrepreneurship by the state. It is also true that most of state orders that do go to enterprises are for goods and services in the field of transportation and retail and wholesale trade. We should highlight in particular the lack of state orders to enterprises engaged in hotel services, public catering, customer and cultural services and scientific services. The lack of state orders for agricultural products and services is equally surprising for a country such as Moldova.

Table 6.4: Inspections per Firm by Firm Size

State bodies	Number of inspections per firm, by firm size (number of employees)				
	0	1-5	6-10	11-50	51-250
Tax inspection	0.31	0.36	1.01	1.23	1.85
Fire-alarm Service	0.09	0.18	0.56	0.94	1.08
Economic police	0.70	0.23	0.69	0.92	1.49
Financial guard	0.36	0.22	0.87	0.78	1.16
Health-epidemiological department	0.59	0.28	1.09	1.36	2.08
The Ministry of Environment	0.05	0.06	0.17	0.26	0.70
Department of standards	0.23	0.12	0.50	0.69	0.68
Department of architecture	0.03	0.06	0.17	0.06	0.32
Other service	0.23	0.02	0.15	0.25	0.19
Total	2.59	1.53	5.21	6.49	9.55

**Table 6.5: Number of Inspections per Firm
By Settlement Type and State Body**

State bodies	Number of Inspections per Firm, by Firm Location		
	Village	Small Towns	Cities
Tax inspection	0.30	0.42	0.50
Fire-alarm Service	0.11	0.11	0.26
Economic police	0.33	0.66	0.94
Financial guard	0.14	0.68	0.49
Health-epidemiological department	0.47	0.60	0.74
The Ministry of Environment	0.06	0.08	0.07
Department of standards, metrology and technical supervision	0.20	0.42	0.23
Department of architecture	0.03	0.03	0.07
Other service	0.17	0.33	0.13
Total	1.82	3.33	3.43

**Table 6.6: Proportion of Goods and Services
Purchased by the State (Percent of Firms)**

The Proportion of Goods and Services Purchased by State Order	0	1-5	6-10	11-50	51-250	% of All Firms
0%	100.0	96.9	90.5	90.4	70.3	93.0
From 1 to 5%	0.0	0.5	3.5	0.5	2.7	1.1
From 6 to 10%	0.0	2.1	0.9	3.2	4.3	2.0
From 11 to 50%	0.0	0.0	3.6	2.0	8.2	1.6
More than 50%	0.0	0.0	0.8	3.8	14.4	2.0
Hard to Say/Don't Know	0.0	0.5	0.7	0.0	0.0	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

7. INTERACTIONS OF ENTERPRISES WITH THEIR CUSTOMERS AND SUPPLIERS

7.1 THE SHARE OF RAW MATERIALS, EQUIPMENT, AND OTHER GOODS PURCHASED THROUGH BARTER

Contrary to the impression some may have, bartering is not a common means for Moldova's enterprises to procure raw materials, equipment, and other goods, although this depends on the size of the firm. Table 7.1 shows that overall only 5.4% of enterprises purchase raw materials, equipment and other goods and materials on barter contracts. Of the small proportion of businesses that do barter for their inputs, most are medium enterprises, and most do not rely heavily on such means. While 43.8% of medium enterprises do procure some inputs by means of barter, only 11.2% procures more than 10% of their inputs in this manner. Broadly speaking, a similar pattern emerges in Ukraine. In that country, a higher percentage of firms (20%) use barter transactions to procure inputs, but as in Moldova it is the medium firms that are most likely to do so.

Similarly, a considerable part of firms (80.1%) do not accept barter as payment for delivered goods and services, as Table 7.2 demonstrates. Once again, medium enterprises are much more likely to accept barter as payment for their goods than are small enterprises. Of the enterprises that do accept barter payments, very few depend heavily on such arrangements. Only 8.0% of businesses receive more than 40% of their payments in barter. A very similar pattern was observed in Ukraine.

Table 7.1: Percent of Raw Materials, Supplies, and Equipment Procured by Barter By Firm Size (Percent of Firms)

Firm Size (number of employees)	% of Raw Materials, Supplies, and Equipment Procured Through Barter						
	0%	1% to 10%	11% to 40%	41% to 70%	More than 70%	Hard to Say/ Don't Know	Total
0	96.6	1.3	0.9	0.4	0.8	0.0	100.0
1-5	94.5	0.3	3.9	0.2	0.1	1.0	100.0
6-10	78.1	5.8	13.1	1.5	0.7	0.8	100.0
11-50	79.9	12.6	3.1	2.6	1.0	0.7	100.0
Small: 0-50	95.0	1.7	2.0	0.5	0.7	0.1	100.0
Medium: 51-250	56.2	32.5	8.5	0.0	2.7	0.0	100.0
Total	94.6	1.9	2.0	0.5	0.7	0.3	100.0

**Table 7.2: % of Payment Received in Form of Barter
by Firm Size (Percent of Firms)**

Firm Size (number of employees)	% Sales That Are Bartered						Total
	0%	1% to 10%	11% to 40%	41% to 70%	More than 70%	Hard to Say/ Don't Know	
0	82.3	3.6	6.4	5.2	2.4	0.0	100.0
1-5	76.3	8.0	3.9	5.0	5.0	1.8	100.0
6-10	73.7	11.9	10.0	2.1	2.3	0.0	100.0
11-50	71.7	11.7	10.6	2.5	2.1	1.3	100.0
Small: 0-50	80.3	5.1	6.1	5.0	3.0	0.5	100.0
Medium: 51-250	58.3	32.5	6.4	0.0	2.7	0.0	100.0
Total	80.1	5.4	6.1	5.0	3.0	0.4	100.0

7.2 THE SHARE OF EXPORT ORIENTED PRODUCTION

7.2.1 Overall Export Orientation

The degree of export orientation of Moldova's business enterprises (organized and unorganized) can be assessed from Table 7.3. Only 2.8% of all firms export any of their goods and services, and only 1.8% export in huge quantities (30-100%). The conclusion is important: Moldova's enterprises are oriented for the time being on the internal market. The difficult financial situation of the entrepreneurs and the poor quality of their goods and services paralyze their export possibilities. In this aspect, Moldova is very similar to Ukraine, where only about 4% of firms export some part of their product.

Obviously, the main reason of such a situation is low competitiveness of locally produced goods and services. There is another reason as well: difficulties created by the existing norms, the licensing system, and other obstacles related to administrative procedures. High taxes, excessive customs duties and cumbersome procedures for the official registration of exported production as well as other obstacles hinder the ability of entrepreneurs to export. The exporters are facing the problems of corruption to a larger extent than the businesses producing for the local market. It is hard for the enterprises to understand in which cases the law is the principal obstacle and in which cases the officials are the problem. Many business people have complained about the unreasonable demands of customs control and licensing.

Table 7.3: Percentage of Production Exported

The Percentage of Production That Is Exported	Number of Firms	%
From 1 to 10%	863	0.4
From 11 to 30%	851	0.4
From 31 to 70%	1,611	0.8
More than 70%	2,026	1.0
0 %	190,110	97.2
Total	195,460	100.0

7.2.2 Exports to Russia and CIS

Of the small number of enterprises that do export some of their production, 73.8% are orienting at least some of their exports to Russia and CIS countries (see Table 7.4). However, of the Moldovan firms that export only 39.0% send more than 30% of their exports to Russia and CIS countries. After the August financial crisis (1998) exports to this region decreased often to the detriment of the overall volume of export, because losses on the Eastern market could not be compensated by exports to other developed and saturated markets. The Moldovan business sector is similar to the Ukrainian in this matter as well: while about three-quarters of the firms that export send some part of their business to Russia or CIS, very few rely heavily on this market.

**Table 7.4: % of Exports That Go to Russia or CIS
(Of Firms that Export)**

% of Exports Going to Russia or CIS	Number	Percent
zero percent	622	23.6
1 to 10%	111	4.2
11 to 30%	809	30.6
31 to 70%	107	4.0
more than 70%	924	35.0
Hard to Say/Don't Know	69	2.6
Total	2,642	100.0

7.3 RELATIONS WITH SUPPLIERS

Table 7.5 provides information on the relationship between Moldovan firms and their suppliers. 43.9% of entrepreneurs report that suppliers in Moldova settle payments for the supplied goods and raw materials through advance payment only. This is largely because contracts are not reliable since the courts' performance is not satisfactory. Only 8.7% of suppliers extend (at least on occasion) credit, and enterprises with such supplier arrangements are generally larger businesses. The remaining 47.2%, generally the microenterprises, did not deal with regular suppliers.

**Table 7.5: Arrangements with Suppliers By Size of Firm
(Percent of Firms)**

Suppliers...	Size of Enterprise (number of workers)						Total
	0	1-5	6-10	11-50	0-50	51-250	
... practically always require advance payment	38.7	59.0	49.4	51.7	43.9	48.1	43.9
... offer goods and raw materials on credit	2.2	2.9	7.1	5.8	2.6	15.8	2.7
... sometimes require advance payment, sometimes sell on credit	3.6	6.8	25.3	27.2	5.8	23.0	6.0
We do not deal with suppliers	55.3	31.2	18.2	14.5	47.5	13.1	47.2
It's difficult to say	0.2	0.0	0.0	0.8	0.2	0.0	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The enterprises in the sample prefer insuring themselves so that they get all that they need for their activities (goods for sale, raw materials, services and so on) by having a number of suppliers. The majority of enterprises have learned the market mechanism of purchase of goods rather well. As one can see from Table 7.6, 88.6% of businesses that responded to the question reported buying goods and services from a number of suppliers and only 9.1% of them from just one supplier. Although few firms rely on only one supplier, small firms are more likely to be in this position than are medium firms. A justified conclusion is that the network of supply of goods required to ensure the activities of entrepreneurship in Moldova has been formed. The majority of companies and individuals select the goods they require from a number of available sources. Due to a low buying capacity of the population, however, quality of goods and services still remains a vital question.

**Table 7.6: Number of Suppliers By Firm Size
(Percent of Firms)**

Firm Size (number of workers)	% of Enterprises Buying Goods From...			Total
	... one supplier	... a number of suppliers	It's difficult to say, I don't know	
0	7.3	90.0	2.7	100.0
1-5	14.0	83.9	2.1	100.0
6-10	10.0	90.0	0.0	100.0
11-50	5.0	94.1	0.9	100.0
Small: 0-50	9.2	88.5	2.3	100.0
Medium: 51-250	4.7	95.3	0.0	100.0
Total	9.1	88.6	2.2	100.0

8. ECONOMIC PERFORMANCE OF MOLDOVAN ENTERPRISES

8.1 AVERAGE MONTHLY VOLUME OF SALES

The information regarding sales received as a result of the survey should be treated with care. The information from 28.1% of the enterprises in the sample is missing, either because the respondent refused to answer this question or because he or she found the question difficult and was not knowledgeable of the situation. Because the survey was conducted among people involved in businesses, “lack of knowledge of the situation” can be treated as a refusal to answer related to the fear of exposing their revenues. Nevertheless, the understandable caution of the entrepreneurs gives us grounds to think that the obtained results undervalue, rather than overvalue the reality, which allows us to assess the results with consideration of their quality. In short, our results here may be seen as presenting crude but reasonably accurate estimates of monthly sales over the last 6 months.

Table 8.1 presents the results. As we can see, the most representative group (41.5% of all firms) includes enterprises that registered a volume of sales of up to 500 lei during the last six months. This translates into annual sales of roughly \$476. Most Moldovan businesses are small indeed. Two-thirds of Moldova’s businesses have average monthly sales of less than 25,000 lei (less than \$24,000 per year).

Not surprisingly, average monthly sales depend greatly on the type of settlement in which the business is located (see Table 8.2). While more than half of all firms with sales under 500 lei are located in villages, only 29.2% of businesses with sales between 5,000 and 50,000 lei are in villages, and a mere 7.1% of the largest firms according to sales are village-based.

Further insight into business sales can be found in Table 8.3, which presents proprietors’ opinions about changes in the volume of sales in the preceding 6-month period. Overall, the monthly volume of sales during the last six months decreased for 50.3% of Moldova’s businesses. Another 14.8% of enterprises did not register a change, and 12.3% reported an increase in the volume of their sales. This tendency corresponds to the continuing depression of the national economy and decreased activity of enterprises, highlighted in the official statistics for the second half of the last year.

Table 8.4 explores the same issue, but with a focus of the type of activity in which the business is engaged. From that table one can see that the biggest declines seem to have occurred in transportation and communication, and in wholesale and retail trading. Many of the services, especially social and cultural services, fared somewhat better.

Table 8.1: Average monthly sales

Average monthly volume of sales during the last six months	Number of firms	%
Up to 500 lei	81,192	41.5
From 500 to 1000 lei	16,759	8.6
From 1 to 2 thousand lei	12,287	6.3
From 2 to 5 thousand lei	13,144	6.7
From 5 to 10 thousand lei	4,838	2.5
From 10 to 25 thousand lei	2,804	1.4
From 25 to 50 thousand lei	3,840	2.0
From 50 to 100 thousand lei	2,086	1.1
From 100 to 500 thousand lei	2,678	1.4
More than 500 thousand lei	818	0.4
Difficult to answer, I do not know	43,098	22.0
Refusal	11,985	6.1
Total	195,529	100.0

Table 8.2: Average Monthly Sales by Settlement Type (Percent of Firms)

Average Monthly Volume of Sales During the Last Six Months	Settlement Type			
	Villages	Small Towns	Cities	Total
Under 500 lei	55.2	19.3	25.5	100.0
500 to 5000 lei	38.0	21.3	40.7	100.0
5000 to 50000 lei	29.2	30.3	40.6	100.0
More than 50000 lei	7.1	23.8	69.1	100.0
Difficult to answer, Don't Know	44.7	7.4	47.9	100.0

Table 8.3: Changes in Monthly Sales Volume During Previous 6 Months by Firm Size (Percent of Firms)

Reported change in monthly volume of sales	Size of Firm (number of employees)						
	0	1-5	6-10	11-50	0-50	51-250	Total
Decreased by more than 100%	3.5	3.2	1.0	4.1	3.4	0.0	3.3
Decreased from 31 to 100%	20.0	17.9	20.6	17.3	19.5	9.8	19.4
Decreased from 1 to 30%	28.0	27.4	22.9	25.9	27.6	29.1	27.6
Did not change	12.8	19.4	23.3	19.4	14.8	20.6	14.8
Increased from 1 to 30%	5.3	18.0	21.0	22.2	8.8	33.5	9.4
Increased from 31 to 100%	3.3	1.8	0.0	4.1	2.9	2.2	2.9
Increased by more than 100%	0.0	0.0	0.0	0.5	0.0	2.7	0.0
The enterprise was created less than 6 months ago	3.7	2.4	1.7	0.5	3.3	2.2	3.2
Difficult to answer, I do not know	21.9	10.0	8.5	3.7	18.3	0.0	18.1
Refused to answer	1.6	0.0	1.0	2.2	1.3	0.0	1.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Table 8.4: Change in Monthly Sales Volume
by Industry (Percent of Firms)**

Reported Change in Monthly Volume of Sales	Construction	Industry	Agriculture and Forestry	Transportation and Communication	Wholesale and Retail Trade	Hotels and Restaurants	Domestic Services and Recreation	Social and Cultural Services	Scientific Services	Other Activities	Total
Decreased by more than 100%	3.6	10.3	5.0	1.8	1.5	0.0	3.4	0.7	31.6	8.3	3.3
Decreased from 31 to 100%	20.2	11.4	11.4	31.1	21.6	16.5	8.8	20.5	6.3	18.2	19.3
Decreased from 1 to 30%	23.0	26.5	25.4	27.4	33.6	37.0	29.3	8.8	9.5	21.4	27.6
Did not change	9.8	15.2	15.8	14.3	15.3	7.7	15.4	25.5	16.8	15.6	14.8
Increased from 1 to 30%	7.4	27.8	5.5	2.0	12.3	38.8	8.2	18.2	3.8	6.0	9.5
Increased from 31 to 100%	1.4	1.6	5.4	5.0	3.7	0.0	1.6	1.5	2.0	2.9	2.9
Increased by more than 100%	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
The enterprise was created less than 6 months ago	1.0	1.6	4.0	2.7	3.5	0.0	4.3	4.1	0.0	4.9	3.2
Difficult to answer, I do not know	29.2	3.5	24.5	13.8	8.4	0.0	29.0	19.9	30.1	25.6	18.1
Refused to answer	4.4	0.0	2.9	1.9	0.2	0.0	0.0	0.7	0.0	0.0	1.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

8.2 CHANGES IN AVERAGE MONTHLY NET PROFIT FOR THE LAST SIX MONTHS

According to the opinions of the proprietors (see Table 8.5), net profit over the last 6 months decreased in the case of 56.4% of businesses and increased in the case of 10.7%; 14.9% saw no change. While evidently some enterprises had a profitable second half of 1999, a larger proportion felt that they had incurred losses. Of course, these figures should only be seen as crude indicators, as they are opinions of proprietors, and are not calculated.

Proprietors of construction and wholesale and retail trading firms are especially likely to report losses, while industries and hotels and restaurants seemed to have done a bit better (see Table 8.6).

**Table 8.5: Proprietor's Perceptions About Changes in Profits
in the Last 6 Months by Firm Size (Percent of Firms)**

Enterprise's/business's net profit in lei changed during the last 6 months:	Size of Firm (number of employees)						
	0	1-5	6-10	11-50	0-50	51-250	Total
Decreased by over 100%	4.0	2.5	7.5	7.5	3.9	2.7	3.9
Decreased by 31-100%	22.0	28.5	11.1	16.9	22.9	7.1	22.7
Decreased by 1-30%	32.8	21.5	34.8	19.5	29.9	23.0	29.8
Did not change	13.1	18.9	16.5	24.7	14.9	13.2	14.9
Increased by 1-30%	7.4	14.1	13.4	12.8	9.2	41.5	9.6
Increased by 31-100%	0.5	2.8	0.0	3.4	1.1	4.4	1.1
Increased by over 100%	0.0	0.0	0.6	0.0	0.0	0.0	0.0
The business was founded within the last 6 months	4.1	1.7	1.0	0.5	3.3	0.0	3.3
It's difficult to say, I don't know	14.8	8.0	9.5	3.0	12.7	4.1	12.6
Refused to answer	1.3	2.1	5.6	11.6	2.0	4.0	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Table 8.6: Change in Profit By Type of Activity
(Percent of Firms)**

Reported Change in Profit Over Last 6 Months	Construction	Industry	Agriculture and Forestry	Transportation and Communication	Wholesale and Retail Trade	Hotels and Restaurants	Domestic and Recreation Services	Social and Cultural Services	Scientific Services	Other	Total
Decreased by more than 100%	3.3	6.2	5.3	3.9	2.5	0.0	10.2	1.6	3.1	4.0	3.9
Decreased from 31 to 100%	28.0	4.7	27.4	20.9	23.5	10.2	15.9	18.5	31.6	18.5	22.7
Decreased from 1 to 30%	26.6	20.0	13.4	50.4	31.5	32.7	33.1	10.5	11.5	32.6	29.8
Did not change	11.9	41.2	25.4	9.4	12.7	24.3	17.4	34.6	11.4	8.9	14.9
Increased from 1 to 30%	10.4	19.1	7.2	6.4	12.6	26.5	5.1	0.6	2.8	8.6	9.6
Increased from 31 to 100%	0.5	5.6	0.0	0.0	2.4	0.0	0.0	0.0	0.0	0.0	1.1
Increased by more than 100%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0	0.0
The enterprise was created less than 6 months ago	0.0	0.0	6.1	4.2	3.4	0.0	4.3	4.1	0.0	4.9	3.3
Difficult to answer, I do not know	15.9	1.5	15.1	4.7	9.1	0.0	13.1	23.9	37.7	21.2	12.6
Refused to answer	3.4	1.7	0.0	0.0	2.4	6.4	0.9	6.1	0.0	1.3	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

8.3 PROPRIETOR FORECASTS OF CHANGES FOR THE NEXT SIX MONTHS

8.2.1 Forecasts of Changes in Sales Volume

From the point of view of changes in sales, the forecast for the next six months is rather pessimistic, as Table 8.7 shows: 40.6% of interviewed firms foresee a decrease in the volume of sale and only 5.8% of them predict an increase. 27.4% consider that the volume of sales will remain at the current level. The situation at 26.2% of businesses for the next six months is so uncertain that they did not dare to make any forecasts. It should be noted that the survey was conducted in December/January and the next six months comprise the winter-spring period. For Moldova, an agrarian country, this is the most difficult period. The volume of sales in this period is subject to seasonal recession to a larger extent than in the summer-autumn period.

Table 8.8 presents proprietors' forecasts of changes in sales volume over the next 6 months according to type of activity. Those involved in construction seem especially pessimistic, while more than a quarter of industrial firms are somewhat optimistic.

8.2.2 Forecast of Changes In Overall Environment of Entrepreneurial Activities

The trends of change in conditions of entrepreneurial activities over the next 6 months are unclear for managers and owners of 12.3% of businesses. A pessimistic forecast prevails on 45.4% of enterprises. Of these, 29.6% forecast slight aggravation and 15.8% considerable aggravation of the situation. A considerably smaller proportion (15.5%) are optimistic about the next 6 months. This information can be found in Table 8.9.

Table 8.7: Proprietor's Forecast of Changes in the Volume of Sales Over the Next 6 Months by Firm Size (Percent of Proprietors)

Size of Firm (number of employees)	Percent of Proprietors who Believe that sales volume will...						Total
	Decrease Greatly	Decrease Slightly	Remain the Same	Increase Slightly	Increase Greatly	Not Sure/ Hard to say	
0	23.8	17.3	26.2	2.4	0.7	29.6	100.0
1-5	20.4	20.7	28.3	9.6	0.9	20.1	100.0
6-10	8.8	27.2	32.9	8.5	3.0	19.5	100.0
11-50	13.8	23.9	32.7	19.1	3.9	6.7	100.0
Small: 0-50	22.2	18.6	27.1	4.8	0.9	26.4	100.0
Medium: 51-250	13.8	5.8	64.0	10.2	2.1	4.0	100.0
Total	22.1	18.5	27.4	4.8	1.0	26.2	100.0

Table 8.8: Proprietor's Forecast of Changes in Sales Volume Over the Next 6 Months By Industry (Percent of Proprietors)

Reported Change In Monthly Volume of Sales	Construction	Industry	Agriculture and Forestry	Transportation and Communication	Wholesale and Retail Trade	Hotels and Restaurants	Domestic Services and Recreation	Social and Cultural Services	Scientific Services	Other Activities	Total
Decrease Greatly	30.1	28.5	21.8	24.8	22.1	3.2	8.7	15.6	6.3	25.9	22.1
Decrease Slightly	15.0	1.6	22.6	20.5	19.3	25.3	17.8	12.1	9.5	22.4	18.5
Remain the same	18.7	37.8	34.7	26.3	28.1	31.1	39.0	40.9	15.1	13.6	27.4
Increase Slightly	2.1	18.6	0.6	4.0	6.7	15.6	5.4	2.3	8.9	4.9	4.9
Increase Greatly	1.0	9.8	0.0	2.7	0.7	0.0	0.4	2.1	1.9	0.0	1.0
Difficult to answer, I do not know	33.2	3.6	20.4	21.7	23.1	24.7	28.6	27.0	58.4	33.2	26.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 8.9: Proprietor's Forecast of Changes in Entrepreneurial Environment in the Next 6 Months

Trends of Forecasted Changes in Overall Environment of Entrepreneurial Activities	Businesses	%
Will improve considerably	1,119	3.7
Will slightly improve	3,618	11.8
Will remain the same	8,205	26.8
Will aggravate slightly	9,074	29.6
Will aggravate considerably	4,843	15.8
It's difficult to say, I don't know	3,773	12.3
Total	30,632	100.0

9. BUSINESS INVESTMENT

9.1 PURCHASE OR RENT OF FIXED ASSETS

During the last 12 months, according to the survey, 11.2% of businesses invested in purchase or rent of fixed assets (see Table 9.1). The majority of respondents (88.4%), however, stated that no money has been used for the above purposes and that it carried out its activities within the same output limits, without expanding its technical basis, buildings, production premises and agricultural lands. Thus, for majority of businesses survival is more characteristic than development. These figures are dominated by the presence of small firms, which are much less likely to make these sorts of investments than are medium firms. By contrast, approximately 40% of Ukrainian enterprises reported having made capital investments in the year prior to the survey there.

Table 9.1: Percentage of Businesses Making Capital Expenditures in Previous Year by Firm Size (Percent of Workers)

Size of Firm (number of employees)	Did Your Firm Make Capital Expenditures in the Last Year?			
	Yes	No	Hard to Say/ Don't Know	Total
0	6.2	93.8	0.0	100.0
1-5	16.0	82.5	1.6	100.0
6-10	49.4	50.6	0.0	100.0
11-50	46.7	52.5	0.8	100.0
Small: 0-50	11.1	88.5	0.4	100.0
Medium: 51-250	28.7	71.3	0.0	100.0
Total	11.2	88.4	0.4	100.0

The proportion of businesses making capital expenditures is also influenced by the type of activity involved, as Table 9.2 demonstrates. 63.9% of firms engaged in industry, and 45.2% of those in hotels and restaurants, reported investments. However, only 6.2% of firms in construction, and 8.6% of those in wholesale and retail trading made any capital expenditures in the past year. As noted above, these industries are dominated by microenterprises, and as such may have less access to investment funds.

Table 9.2: Percentage of Businesses Making Capital Expenditures in Previous Year by Type of Activity (Percent of Workers)

Type of Activity	Did Your Firm Make Capital Expenditures in the Last Year?			
	Yes	No	Hard to Say/ Don't Know	Total
Construction	6.2	93.8	0.0	100.0
Industry	63.9	33.6	2.5	100.0
Agriculture and Forestry	8.9	91.1	0.0	100.0
Transportation and Communication	15.5	84.5	0.0	100.0
Wholesale and Retail Trade	8.6	90.6	0.9	100.0
Hotels and Restaurants	45.2	54.8	0.0	100.0
Domestic Services and Recreation	14.5	85.5	0.0	100.0
Social and Cultural Services	14.9	85.1	0.0	100.0
Scientific Services	28.7	71.3	0.0	100.0
Other Activities	14.1	85.9	0.0	100.0
Total	11.3	88.3	0.4	100.0

Table 9.3 shows that of firms that spent money in the previous year on purchases or rental of equipment, machinery, transport vehicles, real estate and land, nearly half spent 10,000 lei or more. Once again, the larger businesses tend to make larger capital investments.

Table 9.3: Capital Investment (in lei) by Size of Firm (Percent of Firms)

Capital Expenditures	Size of Firm (number of employees)						Total
	0	1-5	6-10	11-50	0-50	51-250	
Less than 500 lei	22.2	16.6	4.6	1.0	10.0	0.0	9.6
From 500 to 1000 lei	6.8	17.3	1.9	3.0	8.3	0.0	7.9
From 1 to 2 thousand lei	0.0	0.8	1.4	1.5	1.0	0.0	1.0
From 2 to 5 thousand lei	12.1	7.8	14.6	4.1	8.8	0.0	8.5
From 5 to 10 thousand lei	17.8	7.9	14.1	3.9	9.5	0.0	9.1
From 10 to 25 thousand lei	2.6	11.3	21.7	9.6	12.1	16.6	12.3
From 25 to 50 thousand lei	2.6	4.1	23.5	15.8	11.8	0.0	11.4
From 50 to 100 thousand lei	0.0	4.7	5.0	26.7	10.6	0.0	10.1
From 100 to 500 thousand lei	0.0	9.4	3.6	14.9	8.5	45.5	9.9
Over 500 thousand lei	0.0	0.0	2.2	4.8	1.9	7.1	2.1
Refused	16.8	7.4	0.0	4.1	5.9	0.0	12.4
Hard to Say/ Don't Know	19.0	12.8	7.3	10.4	11.6	30.9	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

10. PROBLEMS FACED BY MOLDOVAN ENTERPRISES

10.1 GENERAL PROBLEMS

Entrepreneurial activity in Moldova is developing within the background of multiple problems. In general, this multitude of problems is generated by the unstable and uncertain financial, economic, legal, administrative, technical and organizational situation in the country at the present moment. Uncertain conditions create more problems than unfavorable but stable and predictable situations. Another possible cause is the state of underdevelopment of small businesses in Moldova and lack of state support (acceptable interest rates on credit, preferential taxes, active lobbying in the Parliament, etc.).

It is interesting to consider what Moldova's entrepreneurs consider to be their most significant problems. As Table 10.1 shows, problems involving poor market conditions predominate. Some 36.5% of Moldova's entrepreneurs list low purchasing power, low market demand, or low market prices as their primary problem. Another 22% consider inflation to be their biggest concern. Table 10.2 shows the most commonly reported problems according to the size of the enterprise. Market-related problems and high inflation seem to affect the microenterprises disproportionately, whereas larger firms are more likely to be constrained by tax and regulatory problems. Finally, Table 10.3 separates the incidence of various problems according to settlement type. In the villages, low demand and low purchasing power of the populace are the most significant problems, while inflation seems to dominate in small towns and cities.

When we consider the second-most important problem, a somewhat similar pattern emerges. In Table 10.1, one can see that low purchasing power of the populace is the most commonly cited secondary problem, with high inflation, lack of demand for the product, and low market prices also being important.

Table 10.1: Most Commonly Cited Business Problems

Problems	Most important		Of secondary importance	
	Number	%	Number	%
Low purchasing capacity of the population	43,129	22.0	47,348	24.2
High inflation	45,117	23.0	24,450	12.5
Deficiencies in the existing tax system	13,574	6.9	7,748	4.0
Lack of demand for production	19,394	9.9	24,677	12.6
Low market prices	20,507	10.5	23,994	12.3
Lack of working capital	9,036	4.6	7,947	4.1
Legal conditions	4,402	2.2	5,835	3.0
Unavailability of other important resources	8,465	4.3	7,171	3.7
Shortage of raw materials	5,421	2.8	6,136	3.1
Administrative control	3,520	1.8	4,530	2.3
Difficulties in obtaining credits	2,075	1.1	2,983	1.5
High interest rates	1,521	0.8	398	0.2
Inadequate equipment	2,285	1.2	3,137	1.6
Unavailability and expense of labor	1,941	1.0	3,421	1.7
Lack of marketing/ advertising campaign	833	0.4	2,121	1.1
Others	5,750	2.9	6,449	3.3
Difficult to answer/I do not know	8,889	4.5	17,515	8.9
Total	195,858	100	195,858	100

**Table 10.2: Primary Business Problem Reported
By Firm Size (Percent of Firms)**

Most Important Problem	Firm Size (number of employees)						
	0	1-5	6-10	11-50	0-50	51-250	Total
Low purchasing capacity of the population	22.4	20.9	25.6	19.1	22.0	12.5	22.0
High inflation	26.3	16.0	18.3	10.8	23.2	11.0	23.1
Deficiencies in the existing tax system	3.1	11.2	24.9	34.5	6.7	21.7	6.9
Lack of demand for production	10.7	8.1	3.0	11.4	9.9	13.1	9.9
Low market prices	11.5	10.9	0.0	0.4	10.6	0.0	10.5
Lack of working capital	3.9	6.1	8.5	6.5	4.6	6.3	4.6
Legal conditions	2.0	1.8	0.9	8.3	2.2	6.3	2.2
Unavailability of other important resources	3.5	7.3	7.0	1.9	4.4	0.0	4.3
Shortage of raw materials	2.5	4.3	0.7	0.0	2.7	10.3	2.8
Administrative control	1.9	1.2	3.3	2.2	1.8	0.0	1.8
Difficulties in obtaining credits	0.8	0.9	2.9	0.5	0.9	18.7	1.1
High interest rates	0.6	1.5	0.7	0.8	0.8	0.0	0.8
Inadequate equipment	1.3	0.9	2.9	0.0	1.2	0.0	1.2
Unavailability and expense of labor	1.4	0.0	0.0	0.0	1.0	0.0	1.0
Lack of marketing/ advertising campaign	0.5	0.0	0.0	1.1	0.4	0.0	0.4
Others	3.1	3.0	0.7	1.2	3.0	0.0	2.9
Difficult to answer/I do not know	4.5	6.0	0.6	0.6	4.6	0.0	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 10.3: Most Important Business Problem by Settlement Type (Percent of Firms)

Most Important Problem	Village	Small Towns	Cities	Total
Low purchasing capacity of the population	29.2	16.3	16.3	22.0
High inflation	9.3	39.7	31.2	23.0
Deficiencies in the existing tax system	7.1	7.0	6.6	6.9
Lack of demand for production	10.9	13.0	7.2	9.9
Low market prices	11.8	3.5	12.2	10.5
Lack of working capital	5.0	4.9	4.1	4.6
Legal conditions	2.8	2.4	1.6	2.2
Unavailability of other important resources	8.5	2.2	0.4	4.3
Shortage of raw materials	4.7	3.2	0.3	2.8
Administrative control	0.9	2.1	2.7	1.8
Difficulties in obtaining credits	1.2	1.1	0.9	1.1
High interest rates	0.8	0.2	1.0	0.8
Inadequate equipment	1.2	1.2	1.2	1.2
Unavailability and expense of labor	0.6	0.9	1.5	1.0
Lack of marketing/ advertising campaign	0.0	1.0	0.6	0.4
Others	3.5	1.3	3.1	2.9
Difficult to answer/I do not know	2.5	0.1	9.1	4.5
Total	100.0	100.0	100.0	100.0

10.2 CHANGES IN AVAILABILITY OF CREDIT

Only a handful of Moldova's entrepreneurs are of the opinion that credits are easier to come by as compared with the period six months ago, as Table 10.4 shows. Nearly one-third report that either credits are harder to get, or that credits were not available in the past or at the time of the survey. The largest proportion of respondents seemed to lack the knowledge necessary to answer the question, perhaps indicating that very few of Moldova's entrepreneurs have much to do with the loanable funds market.

Table 10.4: Change in Availability of Credit Over Previous 6 Months by Size of Firm (Percent of Firms)

Size of Firm (number of workers)	Are credits easier or harder to get compared with 6 months ago?					Total
	Credits Not Available Then or Now	Harder to Get Now	The Difficulty is About the Same	Easier to Get Now	Hard to Say/Don't Know	
0	12.3	16.4	24.6	13.9	32.8	100.0
1-5	22.9	10.0	15.9	2.4	48.8	100.0
6-10	22.7	12.1	12.0	0.9	52.3	100.0
11-50	23.6	10.8	19.3	5.3	41.1	100.0
Small: 0-50	21.6	11.5	17.3	4.5	45.0	100.0
Medium: 51-250	12.8	7.7	35.2	4.1	40.3	100.0
Total	21.0	11.3	18.4	4.5	44.8	100.0

10.3 DEMAND FOR AND ACCESS TO CREDIT

As Table 10.5 demonstrates, during the last 6 months only 14.4% of businesses attempted to get credit for development of their activities. This figure varies considerably by firm size: while only 14.2% of small enterprises attempted to get credit, the figure rises to more than one-third for medium enterprises. It seems likely that the unfavorable lending situation hinders development of small business.

Table 10.5 also includes information about the percentage of applicants who received credits for their businesses. Overall, nearly three-quarters of those applying were awarded credit of some nature.

Table 10.5: Application for and Access to Credit in Last 6 Months by Firm Size

Firm Size (number of employees)	During the last 6 months...	
	% of Firms Applying for Credit	% of Applicants Receiving Credit
0	10.2	70.7
1-5	24.1	78.1
6-10	25.4	38.0
11-50	26.8	69.1
Small: 0-50	14.2	71.6
Medium: 51-250	36.1	82.2
Total	14.4	72.0

According to Table 10.6, firms engaged in industry are much more likely to apply for credit than firms in any other sort of activity. About one-fifth of enterprises involved in wholesale and retail trading report having applied for a business credit. Least likely to apply are businesses in transportation and communication, and construction firms.

10.4 SOURCES OF CREDIT

According to the survey (Table 10.7), individuals are the main entrepreneurial creditors in Moldova: of the 20,255 enterprises that received credit, 15,657 (77.3%) received the credit from an individual, and only 3,278 (16.2%) received a bank credit. Of all enterprises, 8.0% received credits from individuals, while 1.7% had access to lending from financial institutions. This fact tells about the instability and underdevelopment of financial market, the lack of venture capital, and the high rates of interest.

**Table 10.6: Application for and Access to Credit
in last 6 months by Type of Activity**

Type of Activity	During the last 6 months...	
	% of Firms Applying for Credit	% of Applicants Receiving Credit
Construction	7.3	40.3
Industry	48.9	69.4
Agriculture and Forestry	6.8	27.0
Transportation and Communication	5.2	76.5
Wholesale and Retail Trade	22.3	79.3
Hotels and Restaurants	13.3	63.9
Domestic Services and Recreation	9.7	57.4
Social and Cultural Services	10.4	59.5
Scientific Services	18.3	0.0
Other	13.2	98.5
Total	14.4	71.9

Table 10.7: Sources of Business Credit

Who Provided This Credit to the Enterprise/You?	Number of businesses	%
Banks	3,278	16.2
Individual	15,657	77.3
Other	1,320	6.5
Total	20,255	100.0

11. CONCLUSION

Private sector entrepreneurship is a new and most dynamic part of the transition economy in the Republic of Moldova. According to official statistics, as of the end of 1999 the private sector accounted about 60% of GDP and employed 66% of the labor force. Property reform and mass privatization carried out in Moldova in the 1990s led to the formation of many new businesses, which will assist the state in solving the problems of employment, production of goods and services, and increasing incomes of the population.

At the same time the relations between the state and the business sector are far from being unclouded. According to EBRD estimates (Transition Report, 1999), the quality of governance and the environment for entrepreneurship in Moldova are among the worst among the countries in transition.

The major goal of the present survey is to get “first hand” information about the situation of the business sector, both in the part recorded by official statistics (about 19,000 registered enterprises), as well as in the field of unorganized business and self-employment. This assessment of the situation will make it possible to identify the impediments faced by businesses in the sense that this will make it possible for state bodies to implement legal, economic, and administrative measures aimed at resolving the problems of enterprise development.

11.1 THE SURVEY

The findings of the study “Entrepreneurship in Moldova” were prepared by a team from the Center for Strategic Studies and Reforms (CISR) in Chisinau, in close conjunction with the Kiev International Institute of Sociology (KIIS).

In most respects, the survey in Moldova was performed in compliance with a similar one that was carried out in Ukraine in 1999 by Management Systems International and KIIS. In Moldova, Development Alternatives, Inc., with assistance from KIIS provided the overall leadership for the survey. In organizational terms the Moldova study was carried out in two stages: data collection, carried out by ADSISTO, and analysis, carried out by CISR.

A stratified random sampling approach was used in the design of the survey. The household based survey involved selecting 526 households from a list of voters in the 1996 election. It was expected that this portion of the survey would provide valuable insights into the nature and magnitude of the smallest enterprises, businesses that are typically not captured in government statistical nets. A separate survey conducted with the same questionnaire was based on the Enterprises Register, from which nearly 400 enterprises were randomly selected and interviewed. Taken together, the household and registry samples provided the data needed to project the total number of businesses, employment, and other indicators of business development.

11.2 THE QUESTIONNAIRE

The questionnaire used for the survey in Moldova, with minor changes, is the same as the one that was used in MSI's study in Ukraine. The purpose was not only to analyze the situation of businesses in Moldova but also to permit an inter-country comparison in this regard.

The questionnaire contained about 90 questions covering basic information such as legal status and methods of enterprise creation, number of enterprises by types of settlements and economic performance. One of the questionnaire compartments dealt with identification of problems of the businesses' relationships with state authorities, including registration, inspections, licensing, etc. The questionnaire is included as Annex 2.

11.3 MAJOR FINDINGS

11.3.1 Nature of Enterprises, Number of Businesses and Employment

Moldova's small and medium enterprise sector is a network of enterprises with different legal origins and sizes. The "core" of business sector (20.4% of the total) forms the privatized and broken-up former state enterprises. However, the vast majority of businesses (72.7%) are newly created, particularly in agri-business, constructions, transport, wholesale and retail trade, eating and drinking places.

Based on survey data, the study estimates that there are about 195,000 businesses operating in Moldova. The largest part of them (about 166,000 or 85.0%), operate in the field of unorganized (that is, not officially registered) business as self-employed individuals. The organized business, operating "within the legal framework", as estimated from extrapolation on both samples (households and registered businesses) amount to nearly 30,000. The survey estimates that about 705,000 Moldovans are employed by businesses, and of these about 228,000 work in unorganized businesses. The former figure represents more than 39% of Moldova's working age population.

According to the survey, wholesale and retail trading engages some 40% of all Moldovan businesses. Construction operations are also very common (16%), especially among the microenterprises. Evidently, these sorts of activities involve low initial costs, and may not require a great deal of specialized training. Services of various sorts occupy another 16% of Moldova's businesses, while industrial firms account for only 1.2% of the total. Another 9.1% account for other types of activities.

Three-quarters of all businesses in Moldova was founded after 1993, shortly after the first laws were introduced allowing the creation of private enterprises. During 1995 - 1999 the

number of enterprises increased by 68.6%, an annual growth of 13.7% per year.¹ This period is characterized by the implementation of privatization; thus, the state enterprises were transferred into private "hands", i.e., the private sector was increased at the expense of the state sector.

In 1999 and the first month of 2000, as the result of the drop in business activity (regional financial crises and etc), the number of new enterprises slightly decreased and constitutes 9.5%.

11.3.2 Employment

As noted earlier, when taken together the two surveys indicate that at least 705,000 Moldovans are employed in the SME sector. Of these, 70% work in small enterprises and 30% in medium enterprises. At present, one type of activity provides most of the jobs: wholesale and retail trade (mainly in small enterprises). More than one-third of all employment is in this type of activity.

Small enterprises are prevalent in both rural and urban areas, although a larger proportion of business employment in villages is in the small size category. The majority of Moldova's businesses employ only full-time workers: 72.7%. However, part-time workers are more common in medium enterprises. In addition, 46.3% of all the firms operating in the country are employing relatives.

According the data of the survey, the 195,000 enterprises in Moldova employ 324,000 women. Of these more than 50% are hired by enterprises where women amount for more than 20 employees.

The availability of many relative-employees by enterprises apparently is one of the reasons that a considerable part of them are stable and have relatively small payroll arrears. Nearly all (97%) of Moldova's businesses reported not changing the number of employees in the previous 6 months. In addition, the vast majority of firms pays their payrolls in cash (rather than in kind) and does so in a timely fashion.

For the businesses that reported firing workers in the previous 6 months, most said that the process of firing a worker took a day or less to complete. However, nearly 10% of businesses reported that the process took between 10 and 60 days to complete. Evidently, while most businesses do not face a great deal of bureaucracy in this regard, some are certainly constrained.

¹ This figure does not take into account enterprises that may have closed during the period. This statistic then should only be taken as a general indicator.

11.3.3 Ownership

If in the early 1990's in the Republic of Moldova the share of state ownership accounted for over 80%, then during the last decade the picture changed dramatically. The survey's data reveal that at present the legal status of enterprises is as follows: individual entrepreneurs – 85.3%; private enterprises – 10.2%; collective/stock companies, where the main part of shares belong to individuals – 2.6%; collective/stock companies, where the majority of shares is owned by the state – 0.7%; and other types – 1.2%.

Enterprises with a group form of ownership prevail in Moldova - 74% have two or more owners. Single-owner firms are more common in villages, and much less common in cities.

Proceeding from the survey's data, it was discovered that the share of businesses in which women own more than 51% of property constitutes only 30%, which is significantly less than the share of women in the demographic structure of the country's population. Women-dominated businesses are more commonly encountered in wholesale and retail trading, and in hotels and restaurants. Female-dominated firms are especially rare in construction and industry, and women dominate no firms in transportation and communication.

More than one-quarter of Moldova's enterprises reported that their firms had changed organization-legal forms in the past. Two-thirds of the medium firms had changed form, no doubt reflecting the ongoing process of privatization. Indeed, of the enterprises that did change organizational-legal status, nearly 80% were once state-owned enterprises.

Overall, most of Moldova's businesses (72%) were started as new businesses. Another 17% were started as a result of privatization. Small firms and village-based firms are much more likely to have started new, while medium firms were more likely to have started as a result of privatization.

11.3.4 Entrepreneur and State

The general environment for business in Moldova is unfavorable. It can be observed in the "uncomfortable" aspect of the legal framework and regulatory methods (registration, licensing, taxes and inspection), the unfavorable climate for investments, the limited access to bank credits, and the weakness of business infrastructure. A special concern involves the constant existence of entrepreneurial risk and non-protection of his life and property.

The vast majority of Moldova's enterprises are part of the "shadow economy" – they are not registered. The unregistered firms fall entirely in the small size category (and most of these with between 0 and 5 workers), reflecting in part the relative ease such businesses have in avoiding detection. The cost in terms of time and money may also be especially burdensome to these smallest of businesses.

Obviously there is a need to streamline the registration, licensing, and administrative procedures, because the current procedure is known for a high level of bureaucracy. The

most onerous of these for businesses is licensing. There are 13 ministries, the National Bank, 3 departments and 10 other state bodies issuing licenses for 106 types of activities. Most inspections (73.4%) are made by four bodies - health-epidemiological, fiscal inspection, economic police and financial guard. On average, each Moldovan enterprise was visited nearly 3 times in the preceding 6-month period. The frequency of visits increases with firm size: each medium-sized enterprise was visited nearly 10 times on average. Their efficacy however is less tangible: violations were registered in only 15% of cases. The population, which at the beginning of the '90s had a suspicious attitude towards businessmen and considered the private business as something semi-legal, has now after 10 years come to understand the positive importance of entrepreneurship, initiative and self-engagement as an important mean for survival in crisis conditions. On this background, unfortunately, the state, which was the initiator of the reforms, could not yet fully execute its role as a "protector" of the private sector.

The State plays an insignificant role in creation of the new outlets for products and services produced by Moldovan businesses: only 6.7% of enterprises are involved in activity pursuant to state orders.

11.3.5 Customers and Suppliers

The majority of Moldova's businesses do not rely on barter either in procuring their inputs or as payment from their customers. Medium firms much more commonly participate in such arrangements; a similar pattern was observed in Ukraine. Only a few proprietors report that their businesses are able to obtain their inputs on credit; most must pay up front.

An insignificant number of Moldovan enterprises export any part of their production: clearly at present these firms are oriented towards the domestic market. Of the few that do export, the majority export to Russia or CIS countries.

11.3.6 Economic Results and Proprietor Expectations

Businesses in Moldova were more likely to have seen decreases in volume of sales and profitability over the previous 6 months than increases, according to survey results. More than half of businesses registered a drop in sales for the last 6 months, and only about 12% registered an increase. Similar pattern emerged with respect to levels of profitability. Not surprisingly, Moldovan proprietors are generally pessimistic about changes in sales volume and the general environment for entrepreneurship in the coming 6 months. Less than 15% predicted any improvement in either of these situations.

11.3.7 Business Investment

The prospects for the business sector are considerably related to investments. Unfortunately most businesses work for "survival", and only 11.2% of them made capital investments in the

previous year. Most of these were medium firms, with firms engaged in industry and in hotels and restaurants the most likely to make capital investments. Firms in wholesale and retail trade, and in construction, are especially unlikely to have made this sort of investment.

11.3.8 Business Problems and Access to Credit

Moldova's entrepreneurs general low purchasing power, low market demand, or low market prices as their primary problem. Another 22% consider inflation to be their biggest concern.. Larger firms complain more frequently about taxation and regulation issues.

Access to credit continues to be a very difficult issue. Eighty-five percent (85.6%) of businesses did not try to obtain credit during the last 6 months. Given the number of unregistered enterprises, this is not entirely surprising: the movement of cash predominates in shadow economy, which allows one to avoid paying of taxes, expensive banking services, etc. The possibilities of innovation for small enterprises are very limited given the weak banking system in Moldova, and the lack of specialized banks concerned with businesses (especially those at the small end of the spectrum).

11.4 ASSESSMENT AND PROSPECTS

Unfortunately, the incompleteness of the legal framework, the failure of the state to protect the property and persons of entrepreneurs, as well as corruption, seriously darken the everyday activity of the entrepreneurship. Complete implementation of legal, economic, and administrative reforms would stimulate entrepreneurship and diminish the shadow economy segment by eliminating the barriers that impede the day-by-day activity of the businessmen.

ANNEX 1

SAMPLING, EXTRAPOLATION, AND WEIGHTING ISSUES

A1.1 SAMPLING OF THE SURVEY BASED ON HOUSEHOLD REGISTRY

A1.1.1 Definitions of PSUs

In order to sample geographical territories at the first stage of sampling it was necessary to prepare a sampling frame of geographical areas or primary sampling units (PSUs). PSUs were formed on the base of polling districts that were created for the presidential election in Moldova in December 1996. All persons of age 18 years and more were included into the lists of voters. During this election, the whole territory of Moldova was divided into 2,391 polling districts each containing from 500 to 3000 persons. On this base, PSUs were formed with approximately equal size (with the number of voters from 1,500 to 3,000). As a rule a polling district served itself as a PSU. Nevertheless if the polling district contained less than 1,500 persons, it was merged with another neighboring district in order to obtain large enough PSU. If some polling district contained more than 3,000 persons, it was divided into two PSUs of equal size. Thus each of PSU is a sate (village), or two or more neighboring sates, or a compact part of a town. Altogether 1,295 PSUs were formed with 1,091 of them in Bessarabia and 204 in Transnistria. The baseline survey was conducted only in Bessarabia.

A1.1.2 Stratification of PSUs

As a rule, certain information is known about the elements of the population under study. In the baseline survey of Moldova the information on the location of the geographical area, its type (urban or rural area), the total number of population in the Republic of Moldova, and in large towns, is available. Such information can be used to improve the sample design through the technique of stratification. For this reason four strata were used in the survey:

- Chisinau
- Beltsy
- Other towns in Moldova
- Rural areas (villages) in Moldova.

The sample allocation between strata is made proportional to the strata population sizes. In other words, approximately the same sampling fraction is used within strata.

A1.1.3 Selection of the PSUs

Within each stratum simple random sampling is used in the first stage to obtain the sample of PSUs. From the total set of 1,091 Moldovan PSUs, 114 were selected for inclusion in the survey sample. Table A1.1 contains information about distribution of the selected PSUs between strata.

Table A1.1: Sample allocation for the Survey

Stratum	Number of population	Number of PSUs formed	Number of PSUs selected	Number of Hhs	Number of localities
Moldova	3,600,000	1091	114	5016	84
Chisinau	720,000	208	22	968	1
Beltsy	155,000	43	5	220	1
Other Urban Areas	630,000	184	19	836	14
Rural areas	2,100,000	656	68	2992	68

A1.1.4 Selection of Households

A complete list of households was prepared for 114 PSU selected at the first stage. This list was prepared on the basis of the polling districts that form each PSU sampled at the first stage. From the polling lists only one person for each household was included in the list of households. Thus there is a one-to-one correspondence between the households of PSU and the records in the list of households of this PSU.

The number of households in the sample PSUs varies from 786 to 1,724. The total number of households in the 114 selected PSUs is 111,251 (about 9% of the total number of households in Moldova). The households in the register are classified into four strata (*see: **Stratification of PSUs*** and Table A1.1). In the register households are sorted in the ascending order of the stratum code and code of PSU. Within each of the PSU households are randomly ordered and each household has its own order number for identification in the survey.

A1.1.5 Selection of the Sample Households

The selection of households to be included into the sample in the second stage within each of PSU is made by the simple random sampling procedure. The sample allocation of households is given in Table A1.1. The total amount of 5,016 households was selected, 44 households for each PSU. From these households it was considered necessary to find and interview at least 900 households with persons involved in small business.

A1.2 SAMPLING OF THE SURVEY BASED ON ENTERPRISES REGISTER

A1.2.1 Description of Sampling Frame

The second survey is based on a register of active enterprises. After considering several possible sampling frames, including the Enterprises Register from State Registry Chamber (RENIM), the Enterprises Register from State Fiscal Inspection, the Balance Report (Form Nr.2), and the RENUS database,¹ the most suitable was determined to be the Balance Report (Form Nr.2). This database contains all active enterprises as of October 1 1999, and has the following advantages:

- it contains the newest set of active enterprises,
- the set is the fullest one (according with the results of other surveys).
- It contains enough codes (like registration number, fiscal code, territorial code, etc.) that it is possible to link it with other databases.

The total number of enterprises in Form Nr. 2 is 19,026.

A1.2.2. Sample Stratification

Based on this database, the survey team requested a sample of 600 enterprises, stratified according to firm size and organizational-legal form.

As separate strata all 5 districts of Chisinau and Balti were pre-selected. The first stage of sampling was selection of ten localities in which the survey would be implemented. The probability proportional to size method was used for selecting these localities. As a result of a random selection the following cities were included in the sample: Cahul, Criuleni, Drochia, Edinet, Hancesti, Nisporeni, Stefan -Voda, UTA Gagauza. Because Chisinau is the biggest, it was divided in 5 districts: Botanica, Buiucani, Centru, Ciocana and Riscani.

The allocation of PSUs was done proportionally to locality size. Thus, 10 PSUs were selected in Chisinau (2 in each district), 2 PSUs in Balti and 1 PSU in the rest of localities. The total number of PSUs equals to 20. One interviewer worked in each PSU. For each interviewer a list of 30 enterprises was selected by simple random sampling without replacement. From this list 20 enterprises were interviewed, other ten were a reserve list. From the list of 19,026 of active enterprises 14,227 were covered in the survey.

¹ The RENUS database is the intersection of the RENIM database and the Balance Report (Form Nr.2) database.

A.1.3 ESTIMATION

A1.3.1 Principles of Extrapolation

The basic interest of the survey is in parameters that can be defined as population totals, population means, or ratios of two population totals. If only a part of the whole population is considered then the corresponding parameters of interest are domain totals, domain means or ratio of two domain totals.

The implication is that it is necessary to determine how these parameters must be estimated using the data collected in the survey. A very important characteristic of an estimate of a parameter is its accuracy. If the estimate is unbiased its accuracy is determined by the standard deviation of estimate (square root of the variance of estimate). Another frequently used characteristic of accuracy of an estimate is its relative error or the coefficient of variation (the ratio of the standard deviation and the estimate itself). It is necessary to describe also how these quality characteristics of the estimates can be calculated using the survey data.

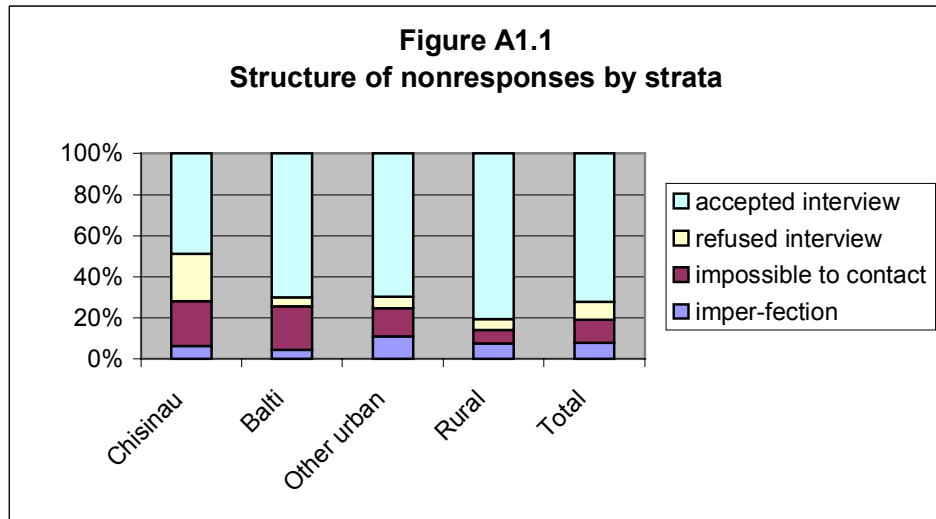
An important feature of implemented surveys is their probabilistic nature that permits computation of estimations of population totals, mean values and ratios and variances of estimators, design effect, coefficients of variation and confidence intervals. Detailed estimation formulae are given in the next section.

The calculation of extrapolated estimates was done by means of weighting coefficients, based on Horvitz-Thompson estimators. A more detailed description of the extrapolation formulae can be found in the next section.

A1.3.2 Quality Issues

A1.3.2.1 Non-responses

The highest non-response rate was established in large cities: 51% in Chisinau and 30% in Balti and other towns of Moldova. In contrast, in the rural areas of Moldova the non-response rate averaged 19%. The average percentage of non-response at the country level is 27.8 %. It is interesting to compare the obtained results with another survey that is based on the same sample register, the Labor Force Survey (LFS). The average non-response rate for latest LFS is 8.8 %. The main reasons of such low response rate in the present survey are very the short time period for interviews, the lack of electricity, cold weather, and the fact that the content of the questionnaire involves the financial activity of people, certainly a sensitive topic. Figure A2.1 shows non-responses by strata and at the country level.



A1.3.2.2 Precision

As noted above, the household based survey is a stratified two-stage SRS one. For this type of surveys it is possible to compute weighting coefficients and a confidence interval. It is also possible to compute variance and a confidence interval that permits an estimate of the quality of the results. For the household survey the coefficient of variation is more than 10 %. This is a low precision but still acceptable for our goals. Any future surveys should enlarge the number of interviewed persons in order to increase the precision of results.

As for the Registry survey, circumstances dictated that the most practical sample design be used. At the first stage, the selection probability proportional-to-size without replacement approach was used for the small cities and rural strata. At the second stage the SRS without replacement was used. For this type of sample design it is possible to compute weighting coefficients, but no precise formulae for variance exist. As in the case of the household survey, it is recommended that any future surveys increase the number of interviewed enterprises.

A1.4 CALCULATION OF WEIGHTS

A1.4.1 Notation

Let us use the following notations:

U – population (the set of all households),

R – the set of households responding during the survey,

D – domain of study (the set of all households of interest), ($D \subset U$),

$R_D = D \cap R$.

The mean value of variable X in the domain of study D ($\bar{X}_D$) is estimated by $\bar{x}_D$,

$$\bar{x}_D = \frac{\sum_{i \in R_D} w_i x_i}{\sum_{i \in R_D} w_i},$$

where N_D is the number of elements of the set D ,

x_i is the value of variable X of the i -th household within the corresponding set (D or R_D).

D is the set of indexes corresponding to the set of households D ,

R_D is the set of indexes corresponding to the set of households R_D ,

p_i is the probability of inclusion into the sample of i -th household of the set R_D ,

$w_i = \frac{1}{p_i}$ is the corresponding weighting coefficient of i -th household of the set R_D .

The total X_D , is estimated by $\hat{X}_D$,

$$\hat{X}_D = \sum_{i \in R_D} w_i x_i.$$

The ratio of two totals $R_D = \frac{X_D}{Y_D}$ is estimated by $\hat{R}_D$,

$$\hat{R}_D = \frac{\sum_{i \in R_D} w_i x_i}{\sum_{i \in R_D} w_i y_i}.$$

A1.4.2 Weighting In general

The calculation of the weighting coefficients is determined by the sampling procedures. A two stage stratified probability sampling approach was used in the baseline survey of Moldova.

A1.4.3 Weighting the Household Based Survey

At the first stage within each stratum the primary sampling units (PSU) were selected using simple random sampling (SRS) without replacement. At the second stage simple random sampling of households was made within each of the sample PSU's. The computations of weighting coefficients are provided separately in each stratum, and for simplification of notations the stratum index is omitted.

Let m_h denotes the number of selected PSUs in stratum,

M_h - the total number of PSUs in the stratum,

N_i - the total number of households in i -th PSU,

n_i - the number of households that have been responded in i -th PSU.

The inclusion probability is the following

$$p_{ir} = (m / M) \cdot (n_i / N_i) \quad (1)$$

Weighting coefficients w_i are computed as

$$w_i = 1 / p_{ir} = (M / m) \cdot (N_i / n_i) \quad (2)$$

Using formula (2), the weights for all strata were computed.

Due to sampling variation the estimated values of parameters differs from the values of these parameters known from other sources. Therefore the weights (2) were corrected in order to obtain the estimated value of the total population size of equal to the pre-known values.

A1.4.4 Weighting the Registry Based Survey

Let N - denotes the total number of enterprises,
 N_i - is the number of enterprises in the i -th locality,
 n_i - is the number of interviewed enterprises in I - th locality
 m - total number of localities extracted at the first stage,
 and let $f_i = N_i / N$.

The inclusion probability is

$$p_i = (1 - (1 - f_i)^m) * n_i / N_i \quad (3)$$

The weighting coefficient w_i will be computed as

$$w_i = 1 / p_i \quad (4)$$

The formula (4) was used to compute weighting coefficients for enterprises - based survey.

Previous surveys in the Department of Statistics have shown that there are a small number of active enterprises, which were not included in the Register. Thus, after the calculation of weighting coefficients (4), the correction of data was done by a coefficient of inflation.

ANNEX 2

QUESTIONNAIRE FOR SURVEY ENTREPRENEURSHIP IN MOLDOVA

NGO ADSISTO

<i>Types of selection:</i>	
selection of households	1
random selection.....	2

Interviewer's code

1) FOR SELECTION OF HOUSEHOLD:

number of the household
in the chain :

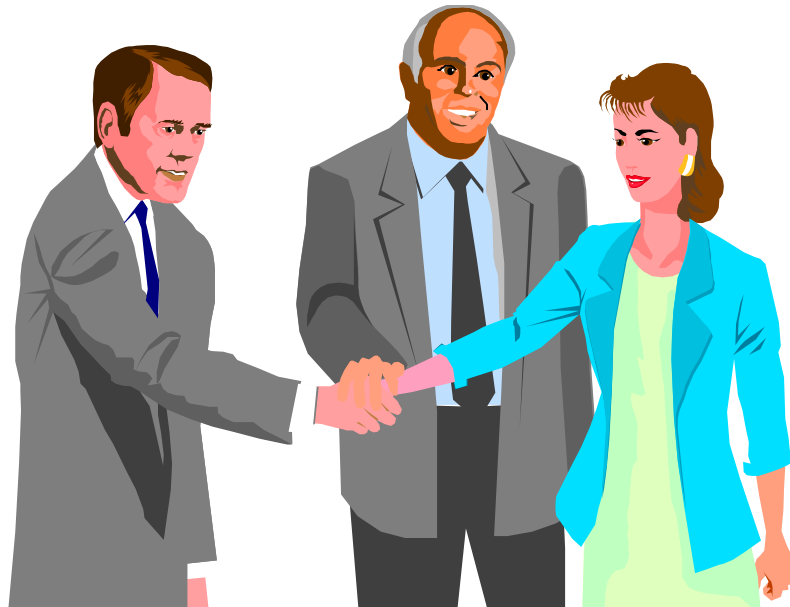
number of the respondent
in the household:

2) FOR RANDOM (ROUTE) SELECTION :

number of enterprise in chain

“ENTREPRENEURSHIP IN MOLDOVA”

Sociological questionnaire



Chisinau, 2000

A0. STARTING TIME OF THE INTERVIEW: ____ H. ____ M.

Part A.

[HERE AND FORTH EVERYTHING IN ITALIC SHALL BE USED ONLY FOR INTERVIEWING SELF-EMPLOYED] I would like to discuss your business activity in more detailed. (FOR INTERVIEWING HOUSEHOLD REFIRE TO THE INFROMATION FROM THE REGISTER)

If you undertake several types of business activity let us discuss one which took most of your time for the last 30 days.

A1. Name of the enterprise?

PLEASE RECORD THE ENTERPRISE NAME
IF THE RESPONDENT IS SELF-EMPLOYED - WORK OUT OF ANY ENTERPRISE OR ORGANISATION - RECORD HIS/HER NAME AND **SKIP TO A4**

A2. How many people are owners of this business?

Number

Owners are not physical persons, etc0.1

Refused -2

A3. Is 51 % or more of the business owned by a woman /women?

Yes 1

No 2

HS/DK -1

Refused -2

A4. What is the ownership form of your enterprise (business):

SHOW CARD A4

Private, owned by physical persons 1

Collective / Joint-Stock with 50% held by the state 2

Collective / Joint-Sock with the majority held by private or juridical persons..... 3

Joint venture where the majority belongs to private or juridical persons..... 4

Joint venture where the majority belongs to the State 5

State-owned 6

Individual commercial activity..... 7 ➔A11

Other types of ownership, List 8

HS/DK -1

Refused..... -2

A5. Did your enterprise have a different ownership form before?

Yes 1

No 2 ➔A7

HS/DK -1 ➔A7

Refused -2 ➔A7

A6. Which ownership form did it have?

SHOW CARD A6

Private enterprise 1

Collective / Joint-stock 2

Joint venture 3

State-owned..... 4

Other types of ownership 5

HS/DK -1

- A7. Your Enterprise... ..1
 ...is a newly created firm1
 ...has separated from a continuing
 but larger state-owned enterprise.....2
 ...was privatized form an entire
 state-owned enterprise.....3
 ...has separated from an enterprise
 of a different ownership form4
 HS/DK-1
- A8. Did any part of your current enterprise ever separate into another independent firm? Yes..... 1 → A8a.When? No 2 Month:..... HS/DK...0
 HS/DK.....-1 Year:19..... HS/DK...0
 Refused-2
- A9. Does your enterprise have subsidiaries or other companies where it owns over 50% of the equity? Yes 1 → A9a.How many firms? No 2
 HS/DK.....-1
 HS/DK...-1
- A10. Does a different (holding) enterprise own more than 50% of the equity of your enterprise? Yes..... 1
 No 2
 HS/DK .. -1
- A11. Principal type of activity of your enterprise(*business*):
 [select the one bringing the largest income?]
-
- PLEASE RECORD A PRODUCT OR A SERVICE PRODUCED BY THIS ENTERPRISE. IF THERE ARE SEVERAL SPECIALIZATIONS PLEASE RECORD THE ONE ,WHICH GENERATES THE LARGEST INCOME
- A12. Principal sphere of activity of your enterprise (*business*):
 SHOW CARD A12
 THE ANSWER TO THIS QUESTION HAS TO CORRESPOND TO THE ANSWER TO THE QUESTION A11.
- Construction 1
 Industry (including processing, mining, electrical energy, gas, water) 2
 Agriculture and Forestry 3
 Transportation and Communication 4
 Wholesale or Retail Trade..... 5
 Eating and Drinking Places 6
 Domestic services, hotels, recreation 7
 Social and cultural services (health care, education, culture
 fine arts, etc.)..... 8
 Finance, Insurance, or Real Estate..... 9
 Consulting services (advertisement, marketing, Consulting)..... 10
 Other business services (employment etc.)..... 11
 Other 12
 HS/DK -1

Part B.

- B1. Number of Employees (Full or part-time)?**
DON'T SHOW THE SCALE TO THE RESPONDENT

Number of employees:

PLEASE RECORD THE ANSWER IN THE ICON AND CODE IT BY THE SCALE

From 1 to 51
From 6 to 102
From 11 to 503
From 51 to 2504
Over 2505
HS/DK..... -1

- B2. How many of them are employed...**

(IF THERE ARE NO FULL OR PART TIME EMPLOYED RECORD "0")

...part time
(less then a norm accepted at your enterprise)

...full time
(according to a norm accepted at your enterprise)

HS/DK...-1

HS/DK...-1

- B3. How many hours per week on average at your enterprise (*in your business*) is...**

...part time employment

...full time employment

HS/DK...-1

HS/DK...-1

- B4. What is the number of women among all employed at your enterprise (*business*)? Estimate the percentage of women from the total number of employees.**

NUMBER OF WOMEN

%

HS/DK...-1

- B5. Are there any members of immediate families of owners and managers or relatives working in the firm?**

Yes.....1

No2

..... →B7

HS/DK..... -1

..... →B7

Refused..... -2

..... →B7

- B6. Are these family members compensated for their work?**
- Yes..... 1
 No 2
 HS/DK -1
 Refused -2

- B7. In the past 6 months has the number of workers:**
- ...decreased 1
 ...increased 2
 ...same? 3
 The enterprise was created less than 6 months ago.. 4
 HS/DK -1
- B7a On how many persons ?
 → B10
 → B10
- HS/DK...-1

- B8. ASK THIS QUESTION IF THE ANSWER TO THE QUESTION B7 WAS 1(THE NUMBER OF EMPLOYEES HAS DECREASED). IN OTHER CASES - SKIP TO B10.**

- If the number of employees decreased, did you fire some employees? (at least in one case)?**
- Yes..... 1
 No 2 → B10
 HS/DK -1 → B10
 Refused -2 → B10

- B9. How many people were fired?**

HS/DK...-1

- B10. How many days does the procedure of firing normally takes at your firm?**

HS/DK...-1

- B11. Did you put any employees on extended unpaid layoff ?**
- Yes 1 → B11a. How many employees?
 No 2
 HS/DK...-1

HS/DK.....-1

Part C

C1. Year enterprise (*your business*) started under present ownership? month: year: 19
HS/DK.....-1 HS/DK.....-1

C2. Is your enterprise (*your activity*) officially registered? Yes..... 1
 No 2
HS/DK-1
Refused-2

C3. Is it necessary to obtain a license (licenses) from government agencies or bureaus for the operation of your enterprise (*business*)? Yes 1 → **C3a. How many licenses you need?**
No..... 2
HS/DK-1 HS/DK...-1

C4 Please look at the list of public agencies that are related to the procedure of registration and to the process of licensing and keeping the activity of an enterprise (*business*) under the control.
 GIVE THE CARD WITH THE LIST OF AGENCIES AND ASK THE FOLLOWING QUESTIONS. PLEASE RECORD AGENCIES INSPECTED THE ENTERPRISE /BUSINESS IN THE FIRST COLUMN OF THE TABLE

C4 a. How many times was your business inspected by each of these agencies during the last 6 months?

C4 b. What proportion of the time did each of these agencies find violations resulting in fines or other administrative penalties?

C4 Name of Agency	C4a Number of Times Inspected in Last 6 months	C4b Proportion of Time When Violation Found
1. Tax Agency		
2. Fire Department		
3. Police Department		
4. Financial Department		
5. Sanitary-Epidemic Station		
6. Ministry of Environment		
7. Committee of Standardization, Certification, and Metrology		
8. Department of Architecture		
9. Other Agency (Specify)		
11.DIDN'T INSPECT BY ANY AGENCIES		

Part D

- D1. What % of your products / services is purchased by government agencies through so-called “state contracts”**
- None 1
 1-5 percent 2
 6-10 percent 3
 11-50 percent 4
 More than 50 percent 5
 HS/DK -1
- D2. What percent of your enterprise's (*business's*) raw materials, supplies and equipment are obtained through barter?**
- Zero percent 1
 1-10 percent 2
 11-40 percent 3
 41-70 percent 4
 more than 70 percent 5
 HS/DK -1
- D3. What percent of your sales are bartered rather than cash receipts?**
- Zero percent 1
 1-10 percent 2
 11-40 percent 3
 41-70 percent 4
 more than 70 percent 5
 HS/DK -1
- D4. What percent of your payroll is paid in kind?**
- Zero percent 1
 1-10 percent 2
 11-40 percent 3
 41-70 percent 4
 more than 70 percent 5
 NO
 EMPLOYEES
6→D6
 HS/DK
 -1
- D5. How many months is your payroll in arrears?**
- Current (zero months) 1
 1 – 3 months 2
 4 – 6 months 3
 6 – 12 months 4
 Over 12 months 5
 HS/DK -1
- D6. What part of your enterprise's (*your*) product or services is exported?**
- Zero percent 1 → **D8**
 1-10 percent 2
 11-30 percent 3
 31-70 percent 4
 more than 70 percent 5
 HS/DK -1

D7. If you have exports, what percent of exports is to Russia and other CIS states?	Zero percent.....	1
	1-10 percent.....	2
	11-30 percent.....	3
	31-70 percent.....	4
	more than 70 percent.....	5
	HS/DK.....	-1

D8. What is the single..... problem facing your enterprise (*business*) today.

**...most
important ...next most
important**

SHOW CARD D8

**WITH ALLOWABLE RESPONSES, NOT MORE THEN 1 IN EACH
COLUMN**

Existing tax system	1	1
Administrative controls by public agencies.....	2	2
Legislative conditions	3	3
Inflation.....	4	4
Obtaining credit.....	5	5
Interest rates - (the charges by banks or other lenders for loans to the business)	6	6
Shortages of raw materials / inputs	7	7
Lack of working capital	8	8
Labor availability and cost.....	9	9
Availability of other necessary resources	10	10
Low market prices for my products	11	11
Inadequate equipment.....	12	12
Lack of marketing plan and advertisement campaign organization	13	13
Lack of demand for goods and services produced (needs discussion)	14	14
Low purchasing power	15	15
Other	16	16
HS/DK	-1	-1

D9. During the last 6 months what were your gross sales or revenues for the entire period?

WRITE THE EXACT ANSWER IN THE ICON AND CODE IT BY THE SCALE.
IF THE RESPONDENT DOES NOT GIVE THE EXACT ANSWER SHOW THE CARD D9.

Under 500 lei 1
500-1,000 lei 2
1,000-2,000 lei 3
2,000-5,000 lei 4
5,000-10,000 lei 5
10,000-25,000 lei 6
25,000-50,000 lei 7
50,000-100,000 lei 8
100,000-500,000 lei 9
500,000 and more
10

HS/DK -1
Refused -2

D10. During the last six months has your sales volume IN LEI become:
SHOW CARD D10.

More than 100% Lower 1
Between 31%-100% Lower 2
Between 16%-30% Lower 3
About the same 4
Between 1%-30% Higher 5
Between 31%-100% Higher 6
More than 100% higher 7
The enterprise was created in the last six months
8 → D12

HS/DK -1 → D12
Refused -2 → D12

D11
What do you think are the three major reasons for sales for your enterprise to...
(CHOOSE AN ANSWER SELECTED IN THE PREVIOUS QUESTION D10)?
SHOW CARD D11.

D11b.
Inflation 1 1
Changes in economic conditions 2 2
Change in sales prospects for my products or services 3 3
Changes in interest rates and credit availability 4 4
Changes of average sales prices 5 5
Changes of prices for raw materials & inputs 6 6
Change of regulatory environment (inspections, regulated prices, administrative interference) 7 7
Changes in the political environment 8 8
Usual seasonal changes 9 9
Other 10 10
HS/DK -1 -1

D12. Do you think that your business sales will change in the next six months?

SHOW CARD D12

Will go down substantially 1
 Will go down slightly 2
 Will remain the same 3 → D12a
 Will go up a little 4
 Will go up substantially 5
 HS/DK -1 → D12a

D11b. What do you think is the major reason for sales for your enterprise to...
 (CHOOSE AN ANSWER SELECTED IN THE PREVIOUS QUESTION D12)
 SHOW CARD D11. ANSWER TO THIS QUESTION RECORD IN THE COLUMN **D11b** IN THE SCALE TO THE QUESTION D11.

D 12a Has your enterprise (*business*) have in the past six months the following costs:

SHOW CARD D12a.	Yes	No	HS/DK
Purchase of stationery	1	2	-1
Costs for fuel (petrol, diesel oil)	1	2	-1
Transport	1	2	-1
Equipment (modernization)	1	2	-1
Public utilities	1	2	-1
Payroll for employees	1	2	-1
Other costs (list)	1	2	-1

D12b

ASK THIS QUESTION IF THE ENTERPRISE HAD ANY COSTS,
ACCORDING TO THE ANSWER TO QUESTION D12A.

What was the total cost in the last six months. (ON ALL COST CATEGORIES FROM QUESTION D12A). WRITE THE EXACT ANSWER IN THE ICON AND CODE IT BY SCALE. IF THE RESPONDENT DOES NOT GIVE THE EXACT ANSWER SHOW CARD D9.

	lei
--	-----

Under 500 lei1
 500-1,000 lei2
 1,000-2,000 lei3
 2,000-5,000 lei4
 5,000-10,000 lei5
 10,000-25,000 lei6
 25,000-50,000 lei7
 50,000-100,000 lei8
 100,000-500,000 lei9
 500,000 and more10
 HS/DK-1

Refuse-2

D13 Do you think that GENERAL business conditions six months from now will be better or worse?
 SHOW CARD D13.

Much better1
 Somewhat better2
 About the same3
 Somewhat worse4
 Much worse5
 HS/DK-1

D14. During the last six months has the average net profit of your enterprise (*business*) IN LEI become:
 SHOW CARD D14.

More than 100% Lower1
 Between 31%-100% Lower2
 Between 1%-30% Lower3
 About the same4
 Between 1%-30% Higher5
 Between 31%-100% Higher6
 More than 100% higher7
 The enterprise was created in the last six months8 →
 D16

HS/DK-1 → D16

Refused-2 → D16

D15. If higher or lower, what are the most important reasons? Respondent may list up to three. Hand the respondent a response card with the following entries:

(CALL THE ANSWER CHOSED BY THE RESPONDENT TO THE PREVIOUS QUESTION)?

SHOW CARD D15

Changes of the market conjuncture (between demand and supply)1
 Inflation2
 Change of the volume of sales3
 Change of the average sales price of products4
 Changes of prices for raw materials & inputs5
 Change of labor cost6
 Change of regulatory environment (inspections, regulated prices, administrative interference)7
 Level of taxation8
 Changes in expenses (rental, depreciation)9
 Usual seasonal changes10
 Other11
 HS/DK-1

- D16. What do you expect to happen to the volume of production the goods or services that your enterprises (*business*) will produce during the next six months?**
SHOW CARD D16
- Decrease Significantly 1
Decrease Somewhat 2
Stay about the Same 3
Increase Somewhat 4
Increase Significantly 5
HS/DK -1
- D17. How are your average selling prices IN LEI for your goods or services today compared to six months ago?**
SHOW CARD D17
- More than 100% Lower 1
Between 31%-100% Lower 2
Between 1%-30% Lower 3
About the same 4
Between 1%-30% Higher 5
Between 31%-100% Higher 6
More than 100% higher 7
The enterprise was created in the last six months
8
HS/DK -1
Refused -2
- D18. Are loans easier or harder to get than they were six months ago? (interest rate and conditions)**
SHOW CARD D18
- They were not available then and are not available now 1
Harder to Get Now 2
The Difficulty of Getting Them is About the Same Now as it was Six Months Ago 3
It is easier to get loans now 4
HS/DK -1
- D19. Did you attempt to borrow money for your business within the last six months?**
- Yes 1
No 2 → D21
HS/DK -1 → D21
- D20. Did your enterprise get the credit/loan?**
- Yes 1
No 2 D 21
HS/DK -1 D21
- D20a Who provided the loan to you (*your*) enterprise?**
SHOW CARD D22a.
- Bank 1
Physical person 2
Other 3
HS/DK -1

- D21. During the last year has your firm made any capital expenditures to improve or purchase equipment, buildings or land.?**
- | | |
|------------|---------|
| Yes..... | 1 |
| No..... | 2 →D24 |
| HS/DK..... | -1 →D24 |

- D22. What sort of expenditures and whether the items were purchased (title and ownership acquired) or leased (rented without acquisition of ownership and title)**

SHOW CARD D22.	...Purchased	...Leased
Production premises and structures.....	1	1
Vehicles.....	2	2
Equipment.....	3	3
Fixtures, Furniture.....	4	4
Land	5	5
HS/DK	-1	-1

- D23. ASK THIS QUESTION IF THE ENTERPRISE HAS PURCHASED SOMETHING (ANSWERS 1-5 IN THE COLUMN 1 TO THE QUESTION D22). IF NOT - SKIP TO D24**

What was the total cost of the purchasing...(CALL THE SORT OF EXPENDITURES FROM THE PREVIOUS QUESTION D22) ?
 WRITE THE EXACT ANSWER AND CODE IT BY THE SCALE. IF THE RESPONDENT DOES NOT GIVE THE EXACT ANSWER SHOW CARD D23.

lei

Under 500 lei	1
500-1,000 lei.....	2
1,000-2,000 lei.....	3
2,000-5,000 lei.....	4
5,000-10,000 lei	5
10,000-25,000 lei	6
25,000-50,000 lei	7
50,000-100,000 lei ...	8
100,000-500,000 lei ..	9
500,000 and more.....	10
HS/DK.....	-1
Refused.....	-2

- D24. Do you (your) suppliers**
- | | |
|--------------------------------------|--------|
| ...demand cash payment | 1 →D26 |
| ...extend credit..... | 2 |
| SOME REQUIR CASH SOME EXTEND CREDIT3 | |
| WE DON'T WORK WITH SUPPLIERS | 4 →D28 |
| HS/DK | -1 |

- D25. If your suppliers extend credit, under what terms?**
SHOW CARD D25
SEVERAL ANSWERS ARE POSSIBLE
- By providing goods on consignment until sold 1
By providing goods with no payment due for 30 days (one month) 2
By providing goods with no payment due for 31-60 days (two months) 3
By providing goods with no payment due for 61-90 days (three months) 4
By providing a discount (lower price) for payment within 10 days, but allowing 30 days for payment 5
HS/DK -1
- D26. Your enterprise (you) buys all goods from...**
- single source 1
multiple sources 2 → D28
HS/DK -1 → D28
- D27. Why does your enterprise work only with one supplier?**
SHOW CARD D27
SEVERAL ANSWERS ARE POSSIBLE
- Believe that you have a variety of potential suppliers, but you choose one supplier because that is most convenient 1
Purchase from one supplier because here is only one supplier in the marketplace 2
When working with multiple suppliers there is a growing risk of violence, extortion of money, etc
Other reasons 4
HS/DK -1
- D28. Is your enterprise doing retail trade?**
- Yes 1
No 2
HS/DK -1
Refused -2
- D29. If you are a seller of goods in a public market place, do you pay rent for the space (and/or facilities such as a kiosk) you occupy ?**
- Yes 1
No 2
HS/DK -1
Refused -2
- D32

- D30. If yes, to whom do you pay the rent or leasing fees?**
SHOW CARD D30
SEVERAL ANSWERS ARE POSSIBLE
- Municipal or local authorities..... 1
.....
Individuals who own or control space to be rented2
An enterprise or private person in whose territory your trading place is located (marketplace, store ,etc.)3
A state-owned enterprise / organization 4
Other..... 5
HS/DK.....-1
Refused.....-2
- D31. How would you describe the impact of your rental payment for your retail location?**
SHOW CARD 31
- It is a minor cost, which I can easily pay 1
It is a significant cost, but I can pay it without much difficulty 2
It is a significant cost, and it is a real burden to sell enough to be able to pay it 3
HS/DK.....-1
- D32** END OF THE INTERVIEW
- HOUR_____ MINUTES_____

Part E. Questions to the Interviewer

E1. DATE OF THE INTERVIEW:

DATE: «____» MONTH: 11 November; 12 December

E2. DURATION OF THE INTERVIEW IN MINUTES: _____ minutes.

E3. PLEASE RECORD THE NAMES AND POSITIONS OF MANAGERS AND EMPLOYEES WHO WERE ANSWERING QUESTIONS:

1. _____

2. _____

3. _____

E4. TO WHAT EXTENT THE RESPONDENTS WERE SINCERE WHEN ANSWERING QUESTIONS:

1. Absolutely sincerely
2. Rather sincerely
3. Sometimes sincerely, and sometimes - not
4. Fully insincerely
5. Absolutely insincerely

E5. JUDET (COUNTY) WHERE THE INTERVIEW WAS CONDUCTED

E6. MUNICIPALITY WHERE THE INTERVIEW WAS CONDUCTED: _____

E7. TYPE AND SIZE OF THE MUNICIPALITY

Village	1
town of 100 thousand residents	2
town from 100 500 thousand residents	3

INTERVIEWER, READ THE FOLOWING STATEMENT AND SIGN IT:

I hereby confirm that the interview was conducted according to the instruction by the method of personal interview with a respondent selected according to the Instruction:

E8. INTERVIEWER'S NAME, FAMINILY NAME: _____

SIGNATURE: _____

E9. NAME OF THE TEAM LEADER: _____

E10. CODE OF THE ENCODER

E11. CODE OF THE OPERETOR

THANK YOU DEAR COLLEAGUES!