

NGO “Promo-Terra”
Competitiveness Enhancement Project

COST OF DOING BUSINESS SURVEY
FINAL REPORT

Chisinau, June 2005

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EXECUTIVE SUMMARY

Investigation period

The 2005 year survey was carried out in May 2005 and reflects the situation of the last three years. The data is compared with the results obtained during the three similar surveys carried out in 2002-2004 and with the survey done in 2004 in Ukraine.

Data processing was done using SPSS program. The average indicators were calculated only for Companies interviewed which reported the data. The aggregate data was calculated for all the enterprises involved in the corresponding process / activity.

The sample

The sample consists of 619 businesses randomly selected. The survey was representative by the legal form, number of employees, type of business and geographical distribution.

To make comparisons at the regional level, “raions” have been grouped in four regions. Each of the four regions includes from 6.5% to 8.7% of the total. About 70% of questioned businesses are from Chisinau, which was analysed as a separate region.

About 74% are Limited Liability Companies. Agricultural enterprises and individual enterprises were not included in the sample. More than 80% of all Companies interviewed have 50 employees or less.

General time indicator

The average time share spent by the top managers to meet all the mandatory requirements fluctuated insignificantly during the last years. In 2005 it reached 17.1%. Companies located in the centre and in the north spend more time to comply with the regulatory requirements.

General perception

The general perception about the overall business environment was very different. About 21% feel improvements and 35% believe that the situation got worse.

Businesses' Registration

The time spent by businesses to get registered during the last three years represented 20.4 days. Additionally, Companies spent another 8 days to prepare the requested documents at the Registration Chamber. Almost the same value was observed during the previous survey (27.6 days). The average registration costs decreased comparing to the last survey, representing \$78.

Companies spent 13.6 days for registering the documents amendment, slightly less than during the last survey. The cost associated with this procedure amounted to \$49.

Premises

A polled business during the last three years spent on average 157 days and \$374 on obtaining permits related to premises construction. Both the time spent and the costs decreased comparing to the previous period. These figures include the time and the cost of obtaining initial permits and approvals to begin constructions (105 days and \$202) and permits for their use (52 days and \$172).

A similar trend could be remarked in the procedures related to premises **renovation**. In average, during 2002-2004, the polled businesses spent an average of 66 days and \$145 to receive permits related to buildings renovation, including 36 days and \$93 to receive permits for beginning the construction and 29 days and \$52 for their commission.

Although the costs and the time spent decreased during the last year, a quarter of Companies mentioned that the situation got worse. Only 4% feel some changes for the better.

Licensing

Currently, 49 types of business activities are subject to licensing. Most of them (37 types) are issued by the Licensing Chamber. About 68% of all the businesses questioned perform licensed activities with an average of 1.9 licenses per company. The average license validity is 3 years. Companies spent 25 days and \$303 to receive one license.

Authorisations

About 63% of all the businesses questioned need different kind of authorisations to perform the business activities. Companies spent 18 days and \$174 to receive one authorisation. As in the case of licenses, the general perception is that the situation didn't change during last year.

Equipment certification

About 55% of the businesses bought new equipment during the last three years. About 63% have a certificate confirming the compliance of the purchased equipment to Moldavian standards. Almost 17% from them, or 6% from the total number of respondents, obtained the certificate by themselves. The procedure took in average 13 days for the price of \$62. The time and the costs decreased significantly comparing to the previous period.

Import

About 34% of the respondents have been involved in total in import transactions with different countries in the last three years, the share remaining practically at the level of the previous survey. About 74% from them were obliged to obtain certificates confirming the compliance of imports with Moldavian standards (70% during 2001-2003). They spent 11 days on imports certification, which constitutes 2 days less than during 2001-2003. The cost incurred by these operations was \$83, decreasing comparing to the previous period (2001-2003).

It took the polled businesses in average 3 days and \$114 to meet all the customs requirements. The cost decreased 5 times comparing to the previous period.

Export

About 12% of Companies have exported to other countries over the last three years in average 23 transactions per year. An exporting company spent in 2002-2004 about 2.2 days and \$82 to meet all the customs requirements for a single deal, much less than during the previous period.

During 2002-2004, about 53% of all the exporters submitted officially documents to obtain the paid VAT, a similar figure as during 2001-2003. Companies prefer to use VAT to "pay" other taxes, than to request it.

Certification of Goods and Services

Out of all businesses, 32% certified their goods and services in 2004. The share decreased significantly comparing to the previous year (46%). In average, economic entities that certify separate batches are obliged to go through certification procedures 6.7 times per year. Those certifying production lines -1.4 times per year.

The production line certification requires 16 days and \$163. Individual batches certification needs less resources – 10 days and \$111.

Hygienic Certification

About 70% from all polled participants were subject to hygienic registration in 2004, a little more than in 2003. The polled enterprises perform hygienic certification 1.9 times a year. It takes 13 days and \$59 for a company to receive one hygienic permit. Both costs and time spent decreased comparing to the previous period.

Inspections

During the last year Companies were inspected 11 times in average. It is 7 inspections less than during the previous period. The inspectors spent in average 19 days per year on a single enterprise, or 8 days less than in the previous year. About 4% of the surveyed Companies reported no inspections at all. The costs caused by inspections stand at about \$99 per year. Most of them represent fines (\$83). These figures are much less than during the previous periods.

Tax Administration

To ensure the timely payment of all taxes, 89% of the respondents employ full-time accountants. Companies employ in average 1.4 accountants, less than during the previous surveys.

Price Control

About 33% of Moldavian businesses are subject to a varying degree of price controls; the share increased significantly during the last years. Most often the state limits the commercial margin. Usually the price control is done by the Tax Inspectorate and by different ministries and departments.

Labour Regulations

About 80% of the respondents have a sufficient number of personnel. Another 16% - mentioned the insufficiency of labour resources. The most important problem regarding the labour regulation is the obligation to obtain and return medical insurance certificates in due time (2 weeks for fired personnel).

Contracts Monitoring

About 6% of the polled enterprises mentioned that the state interfere in the process of contract signing. The share is decreasing every year.

Promotion of personal interests of the public servants

Nearly 6% of the polled enterprises stated that public servants are involved in companies' activities to promote personal interests. Only in a few cases (6%) Companies were initiators of such involvement.

Legal System

During 2003-2004 about 24% of Companies had to solve conflicts, the share decreasing continuously during the last years.

When having litigations with other businesses, Companies usually appeal to the Court (in 69% of cases), the share decreasing comparing to the previous period (86%). The use of unofficial methods to solve the litigations decreased significantly during the last year and represents only 24%. The appeal to the state bodies for solving the conflicts with economical agents maintained the decreasing trend and arrived to only 23% of all the cases.

A similar behaviour have Companies when arriving to solve litigations with the state agencies. The most preferred method remains the Court (64%). In this case the share also decreased considerably comparing to the previous period (79%). Other methods are less chosen: 26% of the respondents appealed to the state entities and 21% - to the unofficial methods.

INTRODUCTION

The survey, carried out in May 2005, illustrates the business climate in Moldova and the changes over the last 3 years (2002-2004). This is the fourth consecutive survey of this type. Similar surveys were carried out in 2002-2004.

The *main objective* of the survey is to establish the benchmark for monitoring the status of business environment and assessing the impact of state policies, requirements, and institutional arrangements on business entities operating in Moldova. In particular, **the objectives** of this assignment include the following:

- ✍ Provide the Government of Moldova, as well as the institutions of civil society and international organisations with reliable quantitative data on the costs Moldavian businesses incur, while complying with national and local business regulations.
- ✍ Enable Moldavian Government to make high quality policy analyses and implement decisions aimed at improving the overall business environment and investment climate in Moldova.
- ✍ Enable institutions of civil society to make high quality policy recommendations and monitor their implementation as well as impacts.
- ✍ Provide an instrument for monitoring changes in the costs of doing business over time and for measuring the impacts that specific policies of Moldavian Government have on reducing administrative barriers for businesses and corruption.
- ✍ Enable cross-country comparison of the quality of business environment.

METHODOLOGY

Selection of the businesses entities

To perform the field survey, a number of 600 companies were randomly selected using the SPSS software from the universe of companies, depending on four parameters (region, type of business, organisational form and number of employees). The universe doesn't include farmers and individual enterprises.

Companies not questioned because of different reasons (refusal, temporarily not operational, "the company is not at the indicated address", etc.) were replaced with similar companies, according to the same criteria. Only 32% from the initial pool were found and questioned.

The universe of companies was defined according to the data presented by Companies at the state authorities (statistical office). The number of employees, declared by the Company, varied from the official one in many cases.

The distribution by "raions" of the actually interviewed companies and the geographical distribution of the universe are practically the same. The biggest discrepancy has the share of Chisinau-based companies – 0.8%. The remaining shares differ from 0.0 to 0.4%.

The deviation of the distribution by type of activity varies from 0.6% (trade) to 2.9% (juridical, consultancy, research and development). Many businesses that were registered as consultancy, research and development companies perform also other types of services and stated that their main business is "services".

Interviewing

The businesses entities were informed about the goals of this study. The managers and entrepreneurs were face-to-face interviewed in their native language. After interviewing, more than 10% of the randomly selected enterprises were contacted to confirm that the enterprises have been in fact interviewed.

Data processing

The statistical data from the survey performed was analysed using SPSS program. The average data were counted only for the respondents who reported some figures, e.g. the average of the unofficial payments was calculated only for those who reported the payments made; the average of the time spent for customs clearance procedures was calculated only for those businesses, which reported such spent time. To make comparisons, the data obtained during the previous survey was recalculated if the calculation methodology was different.

Exchange Rate, MDL per one USD

The following annual average exchange rates were used to calculate the costs:

| | | |
|-----------|---|-------|
| 2002 | - | 13.57 |
| 2003 | - | 13.94 |
| 2004 | | 12.33 |
| May, 2005 | - | 12.60 |

SURVEYED ENTERPRISES

The sample comprised 619 businesses from the whole country (see Table 1).

Table 1. Polled enterprises broken down by “raions”

| Raion | Number of surveyed enterprises | Share, in percentage points |
|--------------|---------------------------------------|------------------------------------|
| Anenii-Noi | 7 | 1.1 |
| Balti | 24 | 3.9 |
| Basarabeasca | 2 | 0.3 |
| Briceni | 3 | 0.5 |
| Cahul | 7 | 1.1 |
| Calarasi | 5 | 0.8 |
| Cantemir | 3 | 0.5 |
| Causeni | 5 | 0.8 |
| Chisinau | 432 | 69.8 |
| Cimisia | 4 | 0.6 |
| UTA Gagauzia | 13 | 2.1 |
| Criuleni | 4 | 0.6 |
| Donduseni | 3 | 0.5 |
| Drochia | 4 | 0.6 |
| Edinet | 5 | 0.8 |
| Falesti | 4 | 0.6 |
| Floresti | 5 | 0.8 |
| Glodeni | 3 | 0.5 |
| Hincesti | 10 | 1.6 |
| Ialoveni | 10 | 1.6 |
| Nisporeni | 4 | 0.6 |
| Ocnita | 3 | 0.5 |
| Orhei | 11 | 1.8 |
| Rezina | 4 | 0.6 |
| Riscani | 4 | 0.6 |
| Singerei | 3 | 0.5 |
| Soldanesti | 1 | 0.2 |
| Soroca | 8 | 1.3 |
| Stefan-voda | 5 | 0.8 |
| Straseni | 8 | 1.3 |
| Taraclia | 4 | 0.6 |
| Telenesti | 4 | 0.6 |
| Ungheni | 7 | 1.1 |
| TOTAL | 619 | 100.0 |

To make comparisons between the regions, the “raions” have been grouped in four regions:

Table 2. Polled enterprises broken down by regions

| Region | Share, % |
|---------------|-----------------|
| Chisinau | 69.8 |
| North | 8.7 |
| Centre-North | 6.5 |
| Centre | 8.1 |
| South | 6.9 |
| TOTAL | 100.0 |

By legal form, the Limited Liability Companies (74%) and Joint-Stock Companies (16%) account for the bulk of the businesses surveyed (see Table 3).

Table 3. Distribution of enterprises by legal form

| Organisational form | % of enterprises |
|--------------------------------|-------------------------|
| Limited Liability Companies | 74.0% |
| Joint - Stock Companies | 16.0% |
| State or municipal enterprises | 3.7% |
| Others | 6.3% |
| Total | 100% |

Small businesses that employ up to 50 employees account for 84% of the respondents and, thus, make up the bulk of the polled enterprises (see Table 4).

Table 4. Distribution of enterprises by number of employees

| Number of employees | % of enterprises |
|----------------------------|-------------------------|
| 1 – 10 | 43.1% |
| 11 – 50 | 41.0% |
| 51 – 200 | 11.1% |
| 201 – 500 | 3.2% |
| > 500 | 1.5% |
| Total | 100% |

The table below sets forth the breakdown of the enterprises by line of business. The majority of the polled enterprises are involved in trade (42.6%), services (27.6%) and manufacturing (27.2%), while only 2.6% of all the interviewed businesses are legal, consultancy and knowledge-based Companies.

Table 5. Distribution of enterprises by line of business

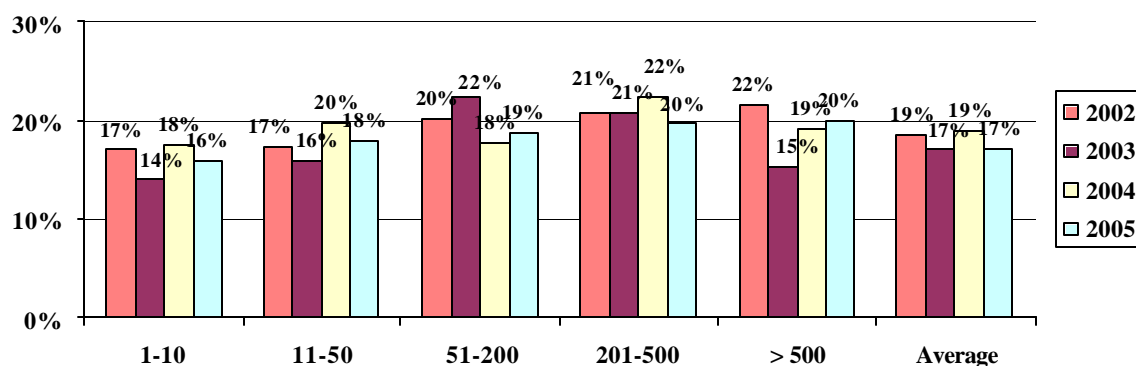
| Major lines of business | % of enterprises |
|---|------------------|
| Manufacturing – food processing | 9,9 |
| Manufacturing – other | 17,3 |
| Wholesale and retail trade | 42,6 |
| Services | 27,6 |
| Research and development, Science, Legal, Consultancy | 2,6 |
| Total | 100,0 |

General Time Indicator

The management of the polled businesses reported to spend in average **17.1%** of their time on meeting the mandatory requirements. No major changes in comparison to previous years were recorded (see Figure 1). It dropped down by 2% comparing to the last year. However, it doesn't show some significant trends during last years.

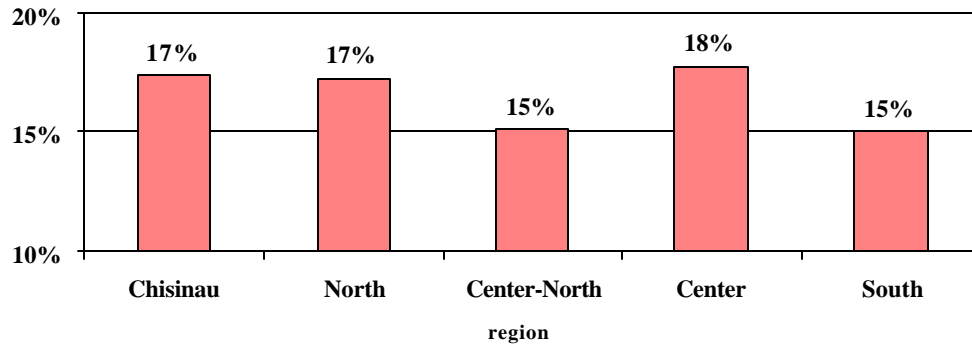
The respective indicator is slightly higher in Moldova than in Ukraine (15.8%).

Figure 1. Time share spent on meeting the mandatory requirements for enterprises with various number of employees, %



The amount of the time required for fulfilling the mandatory requirements varies by region (see Figure 2). Companies located in the centre (including Chisinau) and in the north (including Balti) spend more time to comply with the regulatory requirements.

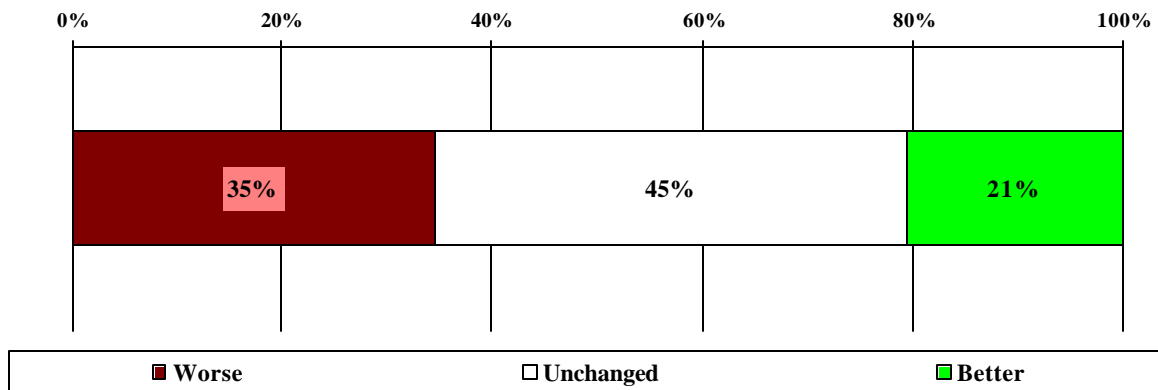
Figure 2. Time share spent on meeting the mandatory requirements for enterprises from different regions



General perception

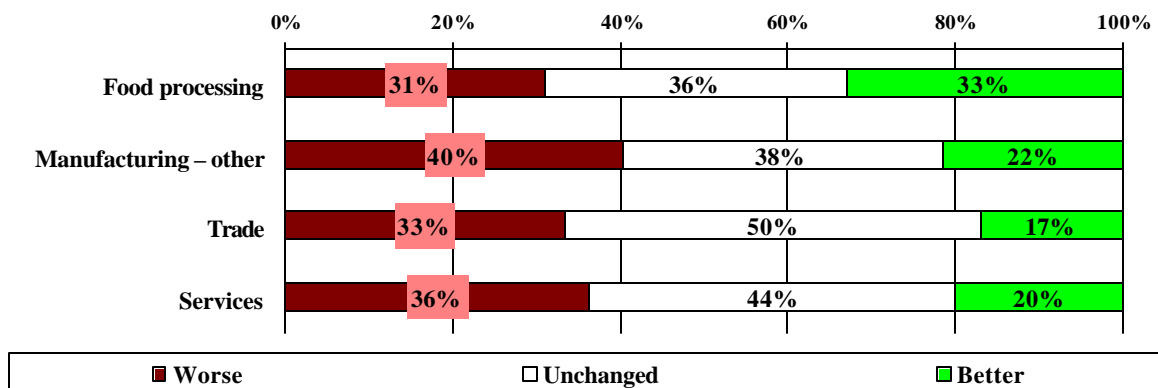
More than a third of all the respondents feel that the business environment became less friendly during the last year. Nevertheless, there are 21% of all businesses that remarked an improvement (see Figure 3).

Figure 3. Respondent’s assessment of changes in the business environment



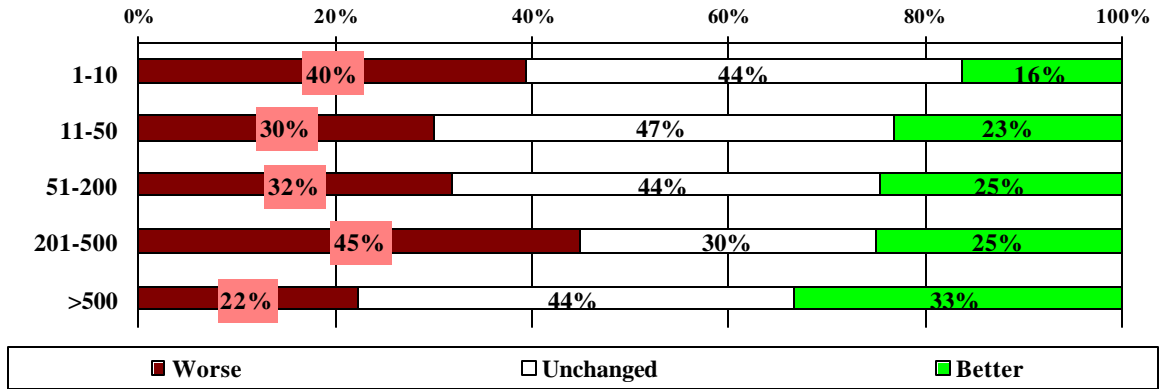
Companies from food sector feel a higher improvement comparing to others (see Figure 4).

Figure 4. Changes in the business environment broken down by sector



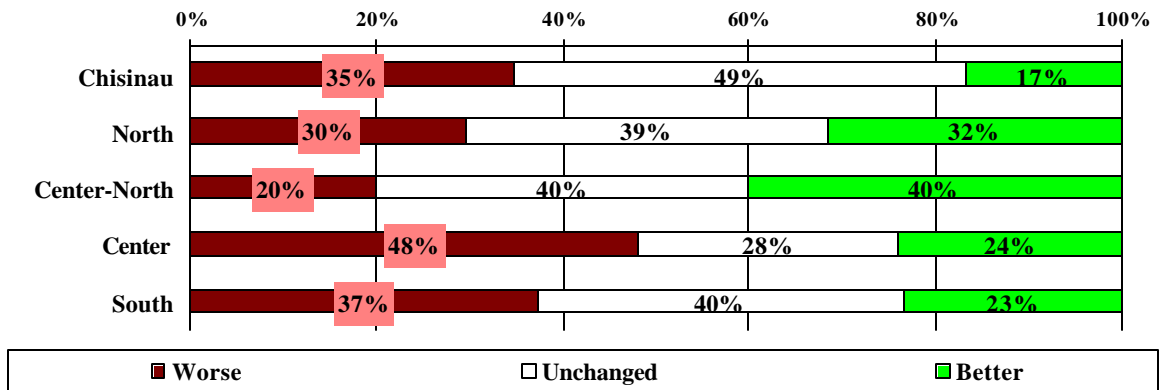
As seen from Figure 5, the number of companies feeling an improvement of the business environment is higher for the bigger enterprises. Only a few number (16%) of companies with 1-10 employees mentioned an improvement of conditions for running a business.

Figure 5. Changes in the business environment broken down by the company's size



Businesses from the north have a positive opinion regarding the business climate trend. The most pessimistic answers were received in Chisinau (see Figure 6).

Figure 6. Changes in the business environment broken down by region



The unmodified level of the General time indicator during the last years and the General perception indicator suggest that Companies perceived no change in the regulatory framework.

1. REGISTRATION PROCEDURES

1.1 Regulatory Environment

1.1.1. Registration at the State Registration Chamber

1.1.1.1. General information

State registration of the enterprises and organisations is performed by the **State Registration Chamber** in the following cases: set-up of a new enterprise, newly created enterprise as a result of reorganisation of already existed enterprises, as well as in case of changes operated in the incorporation documents as result of changes of founders, manager, type of activity, legal address, and other information included in the State Registry. The national system of business registration is organised at both national and local levels.

1.1.1.2. Legal procedures

According to the Government Decision No. 926, the State Registration Chamber offers assistance in preparing the documents required for the state registration and for amendments to the registration documents.

The documents required for the state registration of the enterprises are the following:

- a) Application Form, according to the standard of the State Registration Chamber;
- b) Decision on the enterprise's foundation and incorporation act;
- c) The identification document of the founders and the managers;
- d) The Bank Certificate confirming the transfer of the social capital;
- e) Payment check of the Stamp duty – for the enterprises with social capital;
- f) Receipt of payment of the registration fee.

The founders have to submit also the document issued by the fiscal territorial office confirming the fact that they do not have any debts to the national public budget. According to the Law No. 336-XV founders could not be the persons who are the founders of a company that is not acting and that was not liquidated according to the legislation in force nor has debts to the national public budget.

The registration process ends with Enterprise's registration in the State Registry and a Registration Certificate is issued to the company's manager.

In accordance with the legislation, the state registration of an economic entity can take up to 15 days. The registration and other services may be provided in urgent regime for double price. In all cases time is counted starting with the day of order receipt by the State Registration Chamber.

1.1.1.3. Registration Fees

The payment system for registration and additional services before registration consists of many payment levels that can be incorporated into **three groups**.

The first includes the service fees for:

- ? Enterprise and organisation registration.
- ? Operation of the amendments in the incorporation documents.
- ? Issuing a duplicate of the state registration certificate.

The second includes the service fees for information on registered enterprises provided.

The third includes the fees for other services as follows:

- ? Pre-registration procedures.
- ? Issuance and authentication of the documents' copies.
- ? Amendments in incorporation documents.
- ? Familiarisation with the documents.

The total cost of such services varies, depending on the number of services provided and the type of company, from \$20 to \$80. All registration fees are paid in Moldavian Lei in the bank located in the premises of the State Chamber of Registration.

The seals can be obtained currently at the State Registration Chamber simultaneously with the company registration and are produced by the Ministry of Informational Development.

1.1.2. Post-registration procedures

After the state registration, the enterprise and organisation has to be register at the National House for Social Security by submitting the registration certificate and incorporation documents and at the local tax authority, by submitting the copy of the registration certificate and the incorporation documents, the confirmation of the property on the premises where legal address is located or the rent contract and the confirmation of the ownership.

During the registration and post-registration process some documents have to be authenticated by the notary.

1.2 Duration of registration procedures

During the last three years 58.5% of the polled enterprises registered or modified their registration documents. The number increased slightly comparing to the previous survey. About 18% from them registered and 82% made changes to statutory documents.

Businesses that had to register or make changes to their registration documents in the last three years spent in average 14.6 days to comply with the appropriate statutory procedures.

The businesses that had to register during the last three years, it took them 20.4 days to fulfil these statutory procedures. It represents the time from the official submission of documents and does not include the preparation of necessary documents which takes about 8 days. The results obtained during the last survey were about the same – 27.6 days, including the preparation of the necessary documents.

The time spent to make changes for registration documents slightly decreased comparing to the results obtained during the last survey and represented 13.6 days, excluding the time for preparing the necessary documents.

Table 6. Average duration of the registration procedures

| Procedures | % of businesses that reported | Duration, days |
|--------------------------------------|-------------------------------|----------------|
| Registration | 18% | 20.4 |
| Amendments to registration documents | 82% | 13.6 |

The time spent by the Registration Chamber servants to register the company is relatively low – 8.4 days. However, managers should spend another 8 days until their documents will be officially submitted.

Table 7. Duration of the registration process broken down by state agencies

| State Agency | % report | Duration, days |
|---|----------|----------------|
| Preparation of the necessary documents | 94.8 | 8.0 |
| Registration Chamber, from the moment of official submission of the documents | 94.8 | 8.4 |
| Department of Statistics and Sociology | 54.0 | 2.3 |
| Tax Inspectorate | 77.0 | 2.5 |
| Police /stamps | 68.3 | 3.5 |
| National House for Social Security | 69.4 | 1.8 |

About 30% of all the respondents used intermediaries to get registered. The time spent for registration was a little lower – 17.5 days. The intermediaries support when making changes to statutory documents didn't reduce the time spent, which was even higher by 1.2 days (14.8 days).

1.3 Cost of the registration procedures

The total registration costs for an enterprise over the last three years amounted to \$78, decreasing in comparison with the period 2001-2003. This amount includes both official and unofficial payments. The cost of making amendments to statutory documents is much lower (\$49). As seen from Table 8, the share of Companies paying unofficially is decreasing.

It should be mentioned that the data obtained during the 2005 year survey and presented in the table below does not include Companies that used intermediaries to get registered. Respondents that used intermediaries during the registration processes spent much more - \$137. Those who get registered spent \$149 and Companies that made changes in the statutory documents - \$132.

Table 8. Registration Procedures Fees, \$

| Survey time Procedures | Average total costs | | Unofficial payments, % | |
|---------------------------|---------------------|------|------------------------|------|
| | 2004 | 2005 | 2004 | 2005 |
| Registration | 151 | 78 | 10.2 | 5.6 |
| Amendments | 136 | 49 | 8.9 | 1.5 |
| All procedures | 142 | 53 | 9.6 | 2.0 |

The highest payments are made to the Registration Chamber. During the registration procedures unofficial payments were made only to the Registration Chamber and only in a few cases.

Table 9. Registration costs broken down by registering agency

| State Agency | Official payments | | Unofficial payments | |
|--|-------------------|--------|---------------------|--------|
| | % reported | amount | % reported | amount |
| Notary services | 57.3 | 22.8 | 0 | - |
| Registration Chamber | 81.0 | 31.8 | 2 | - |
| Department of Statistics and Sociology | 17.0 | 10.7 | 0 | - |
| Tax Inspectorate | 15.0 | 12.7 | 0 | - |
| Police /stamps | 54.9 | 22.5 | 0 | - |
| National House for Social Security | 12.3 | 11.4 | 0 | - |

1.4 Registration procedures perception

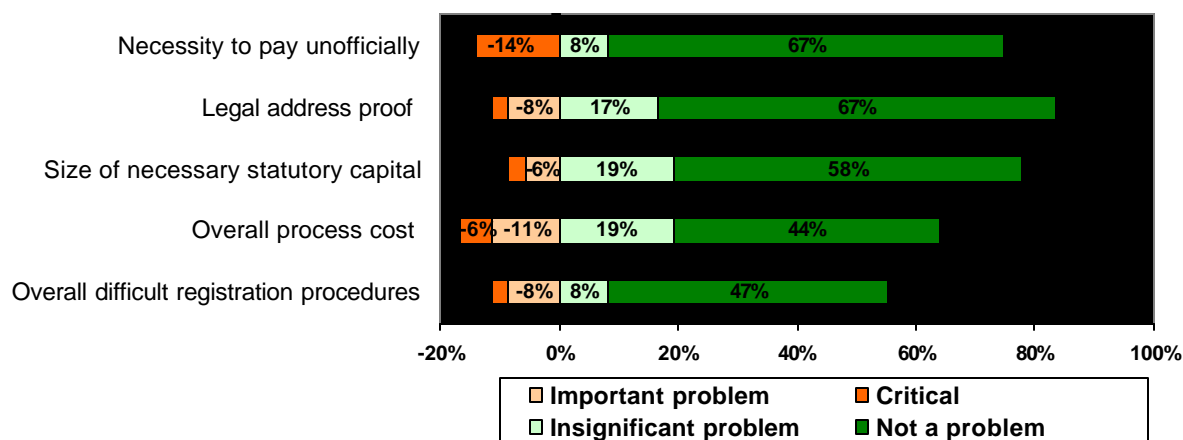
Respondents that registered during the last three years were asked to assess the problems of registration procedures by evaluating them on a 5-point scale, where value of 1 meant no problems at all and value 5 meant major problems. The table below illustrates the assessment of the problems by entrepreneurs connected with the registration procedures.

Table 10. Registration problems perceived by the surveyed entrepreneurs

| Possible problems statements | 2004 | 2005 |
|---|------|------|
| Overall difficult registration procedures | 2.8 | 2.1 |
| Overall process cost | 2.5 | 2.1 |
| Size of necessary statutory capital | 1.3 | 1.7 |
| Legal address proof | 1.2 | 1.6 |
| Necessity to pay unofficially | N/A | 1.9 |

The survey results demonstrate convincingly that the registration procedures are not a substantial administrative barrier in business; the polled enterprises evaluated them below average level. As well, the registration cost does not represent a problem for the major part of all respondents (see Table 10 and Figure 7). Only 17% of them see the registration process cost as a barrier. Almost 14% see the necessity to pay unofficially as an important obstacle. Other issues are seen as a problem by even a lower share of respondents (see Figure 7).

Figure 7. Registration problems perceived by the entrepreneurs surveyed



1.5 Analysis Summary

Compared to other fields of regulation, the registration process is not causing serious problems to the businesses. Only 9-17% of the respondents encountered some problems during the registration process. However, about 30% of all the respondents used intermediaries to get registered.

The average time to register a company at the Registration Chamber showed negative trends during the last years – it amounted from 11.3 days (during 1999-2001) to 17.0 days (during 2001-2003), but decreased to 16.4 days (during 2002-2004). In fact, the official registration time is much less – only 8.4 days. Another 8 days are spent by communicating with the Registration Chamber’s servants, receiving different type of paid consultancy from them. The overall registration duration is much lower than in Ukraine (see Table 11).

The registration costs decreased during the last years and amounted to \$78. In Ukraine the registration cost is even lower. The number of respondents who paid unofficially when registering the company became insignificantly – 2%.

Table 11. Registration time and costs during the last years

| Survey time | 2002 | 2003 | 2004 | 2005 | Ukraine |
|---|------|------|------|-----------------|---------|
| Indicators | | | | | |
| Registration time, days | 23 | 26 | 28 | 23 ¹ | 31 |
| Registration costs, \$ | 132 | 137 | 142 | 78 | 50 |
| Share of respondents that made unofficial payments, % | 26 | 26 | 10 | 2 | 6 |

¹ to be comparable, the figure was adjusted by adding 8 days for documents coordination

2. PREMISES : REGULATIONS FOR THEIR USE

2.1 Regulatory Environment

The Civil and Land Codes of the Republic of Moldova as well as a multitude of legal acts, which are presented below, regulate processes related to constructions:

- ? Law No. 721-XIII dated on February 2, 1996 regarding the “Quality in constructions”;
- ? Law No. 835-XIII dated on May 17, 1996 regarding the “Principles of urban development”;
- ? Government Decision No. 246 dated on May 03, 1996 regarding the land lots’ attribution;
- ? Governmental Decision No. 285 dated on May 23, 1996 regarding the “Approval of the Regulation on the adjacent constructions and installations commissioning”;
- ? Governmental Decision No. 360 dated on June 25, 1996 regarding the “State Control of the constructions quality”;
- ? Governmental Decision No. 361 dated on June 25, 1996 regarding the “Assurance of the constructions quality”;
- ? Governmental decision No. 360 dated on April 18, 1997 regarding the “Approval on the Regulation of urban development certificate and the authorisation for construction works”;
- ? Governmental decision No. 382 dated on April 24, 1997 on Controlling the exploitation, intervention in due time and post-utilisation of the premises;
- ? Law No. 1543 dated on February 25, 1998 regarding the real estate cadastre.

The utilisation of land-lots and real estate, as well as the design and construction works are governed by the procedures of authorisation through the certificate for urban development and authorisation for construction. The State Inspection for Constructions ensures constructions’ compliance to the quality manual.

The main points in this field are as follows:

- o The construction works can be made only based on the project developed by the authorised legal or physical persons (article 13 of the Law. No. 721).
- o Project activities for all types of constructions are subject of licensing (article 14 of the Law. No. 721).
- o For each construction object the people interested have to get the certificate of urban development and the authorisation for construction works and to develop the technical book of the building (article 22 of the Law. No. 721).
- o State control on the quality of the construction is carried out by the inspections at different levels and persons (articles 6 and 7 of the Governmental Decision No. 360 dated on June 25, 1996).

The design and construction activities are subject to licensing by the Licensing Chamber, according to Law No. 451-XV dated on July 30, 2001 concerning the “Licensing of Certain Types of Activities”. For entities that have a negative impact on the environment, a state environmental appraisal is required at the stage of design.

2.2 General information

During the last three years 32.3% started to use new premises. Before beginning to use these premises, 28.5% of the respondents built them and 39.5% repaired them or changed their function. Almost 32% of the respondents did not do anything of the above. However, about 16% from them were still obliged to receive permits for premises utilisation.

2.3 Construction

Before starting the construction, the respondents must obtain different construction permits. In 33.3% of cases, the permits for construction were obtained by designing companies.

During the last three years, on average, the polled economic entities spent 105 days to obtain these permits (128 days during 2001-2003). Companies that obtained these permits by themselves spent \$202 (\$534 during 2001-2003).

The share of respondents paying both officially and unofficially didn't change significantly during the last year (see Table 12). However, the sum of the official payments decreased considerably.

Table 12. Costs incurred by the polled economic entities while trying to obtain construction permits

| Payments categories | Survey time | % reported the made payments | | Average payments, \$ | |
|-------------------------------------|-------------|------------------------------|------|----------------------|------|
| | | 2004 | 2005 | 2004 | 2005 |
| Official fees | | 88% | 87% | 426 | 155 |
| Notary payments | | 38% | 55% | 68 | 52 |
| Lawyers and intermediaries payments | | 7% | 13% | 35 | 33 |
| Travelling expenses | | 41% | 34% | 63 | 21 |
| “Voluntary contributions” | | 19% | 5% | 200 | - |
| Unofficial payments | | 34% | 34% | 195 | 188 |

For the premises commissioning, Companies should get the permits from instances which approved the project. During 2002-2004 it took in average 52 days and \$172 for the polled businesses to receive such permits (46 days and \$202 in 2001-2003).

Official payments made by the respondents decreased during the last year, but the share of those who paid officially increased (see Table 13). The share of the respondents paying unofficially and the amounts paid slightly increased.

Table 13. Costs incurred by the surveyed companies while commissioning newly constructed premises

| Survey time | % reported the made payments | | Average payments, \$ | |
|-------------------------------------|------------------------------|------|----------------------|------|
| | 2004 | 2005 | 2004 | 2005 |
| Payments categories | | | | |
| Official fees | 68% | 83% | 219 | 163 |
| Notary payments | 19% | 21% | 29 | 42 |
| Lawyers and intermediaries payments | 3% | 2% | 119 | - |
| Travelling expenses | 28% | 32% | 40 | 30 |
| “Voluntary contributions” | 4% | 5% | 38 | - |
| Unofficial payments | 26% | 28% | 122 | 135 |

In average the polled business spent 157 days and \$374 to obtain all the permits for beginning the construction and for premises commissioning (170 days and \$716 in 2001-2003).

2.4 Renovation

During the last three years the polled businesses spent on average 36 days and \$93 to obtain permits for premises renovation, much less than during 2001-2003 (73 days and \$309). This is due to the fact that both the amount of payments and the share of paying respondents decreased (see Table 14).

Table 14. Costs for obtaining permits to start premises renovation

| Survey time | % reported the made payments | | Average payments, \$ | |
|-------------------------------------|------------------------------|------|----------------------|------|
| | 2004 | 2005 | 2004 | 2005 |
| Payments categories | | | | |
| Official fees | 73% | 53% | 262 | 134 |
| Notary payments | 35% | 27% | 63 | 29 |
| Lawyers and intermediaries payments | 4% | 8% | 61 | 38 |
| Travelling expenses | 27% | 23% | 43 | 31 |
| “Voluntary contributions” | 12% | 5% | 102 | - |
| Unofficial payments | 32% | 14% | 221 | 176 |

After completing the renovation, the businesses spent 29 days and \$52 to take out permits for premises utilisation (\$437 in 2001-2003). The figures are much lower than during the previous survey mostly due to the decrease of the official payments and of the paying respondents share (see Table 15).

Table 15. Costs for obtaining permits to start using renovated premises

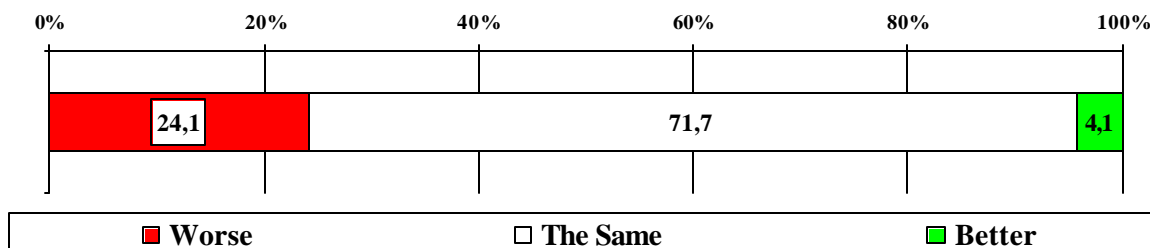
| Survey time | % reported the made payments | | Average payments, \$ | |
|-------------------------------------|------------------------------|------|----------------------|------|
| | 2004 | 2005 | 2004 | 2005 |
| Payments categories | | | | |
| Official fees | 67% | 43% | 555 | 74 |
| Notary payments | 16% | 5% | 28 | 29 |
| Lawyers and intermediaries payments | 4% | 5% | 117 | 37 |
| Travelling expenses | 14% | 10% | 34 | 16 |
| “Voluntary contributions” | 13% | 0% | 238 | - |
| Unofficial payments | 18% | 13% | 111 | 140 |

In average the polled business spent 66 days and \$145 to obtain all the permits for premises renovation (\$712 in 2001-2003).

2.5 Procedures perception

The respondents were asked to assess changes, which occurred in the procedures regulating the premises use. Their replies are outlined in Figure 8. Most of the respondents stated that the conditions related to construction permits remained unchanged during the last year. But there are a quarter of respondents mentioning that the conditions became more complicated. Similar situation was registered during the previous survey.

Figure 8. Respondent’s assessment of changes in the premises use regulation



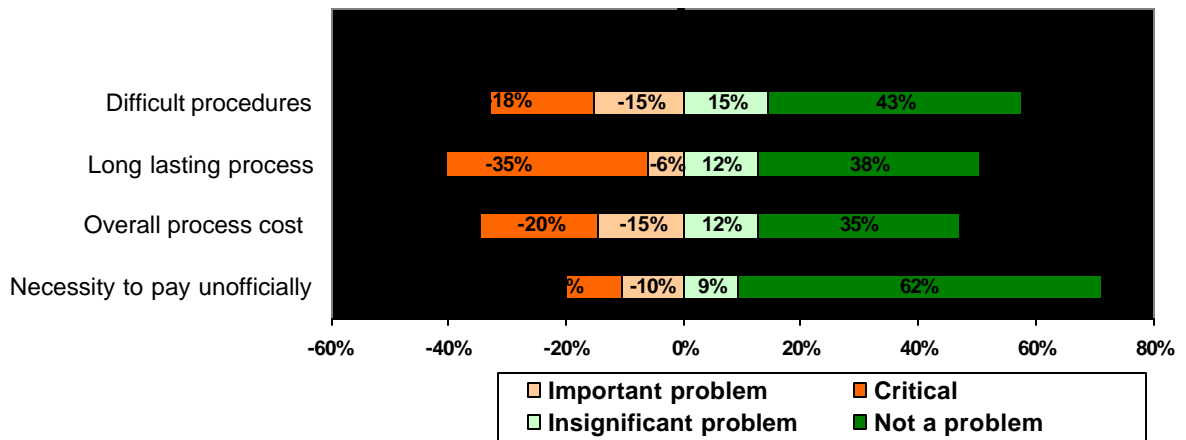
The respondents that started to use new buildings during the last three years were asked to assess the problems of receiving permits by evaluating them on a 5-point scale, where value of 1 meant no problems at all and value 5 meant major problems. The duration of permits receiving is the most important problem mentioned by the respondents (see Table 10 and

Figure 9).

Table 16. Problems related to obtaining the authorisation for construction and renovation

| Possible problems statements | 2005 |
|-------------------------------|------|
| Difficult procedures | 2.51 |
| Long lasting process | 2.87 |
| Overall process cost | 2.73 |
| Necessity to pay unofficially | 1.97 |

Figure 9. Problems related to obtaining the authorisation for construction and renovation



2.6 Analysis Summary

The procedures to obtain authorisation regarding the constructions are very complicated and long lasting. However, after a substantial increase of the costs and time spent to comply with the regulations in construction sector, the last year presented a more favourable situation (see Table 17).

Table 17. Average costs and duration of the procedures related to premises

| Activity | Survey time | 2002 | 2003 | 2004 | 2005 | Ukraine |
|---------------------------|-------------|------|-------|------|------|--------------------------------------|
| Duration, days | | | | | | |
| Construction | | 141 | 171 | 170 | 157 | 117 (only for starting construction) |
| Reparation / renovation | | 32 | 53 | 73 | 66 | 80 |
| Costs, \$ | | | | | | |
| Construction ² | | 764 | 1,082 | 716 | 374 | 625 |
| Reparation / renovation | | 313 | 876 | 712 | 145 | 481 |

During the previous survey (in 2004) there were pointed up some minor improvements regarding the costs implications, the trend being confirmed during the current survey. The costs in Moldova decreased to a significant lower level than in Ukraine. The time to obtain permits is lower than in Ukraine. The 117 days presented in the table above represent the time only for begging the construction in Ukraine, which equalled to 105 days in Moldova.

Despite the remarkable reduction of the costs, the time consumed remains a disturbing problem when receiving permits. The number of paying unofficially and the amount paid decreased when receiving permits for premises renovation, but increased when starting and commissioning new constructions.

The share of Companies that used assistance from lawyers and intermediaries decreased slightly comparing to the previous period.

² The 2005 survey figures don't include the inspection costs. However, the number of inspected enterprises registered during the previous survey was insignificant. The figures regarding constructions in Ukraine don't include premises commissioning.

3. LICENSING

3.1 Licensing Regulation

The basic principles of the procedures of licensing are set in the Law No. 451-XV dated on July 30, 2001 concerning the “Licensing of Certain Types of Activities”. The main licensing body is the Licensing Chamber, issuing 37 licenses from a total of 49.

To get involved in a licensed activity, an entrepreneur is obliged to submit an application to the Licensing Chamber. The license fees are determined by Law No 451-XV:

- 1800 MDL (\$146) per license for the majority of activities;
- 900 MDL (\$73) per license for the retail sale of the alcohol and tobacco products;
- different fees from 3 600 MDL to 180 000 MDL (import and wholesale of gasoline and liquefied gas);

The Licenses are issued for 5 years (most of them), for 1 year (five activities), for 3 years (one activity) and for 25 years (two activities).

3.2 Number of Licenses

To carry out its business activities, a Moldavian company needs to take out on average 1.87 licenses in 2005 (2.6 licenses in 2004). Only 32% of the surveyed economic entities do not perform licensed activities.

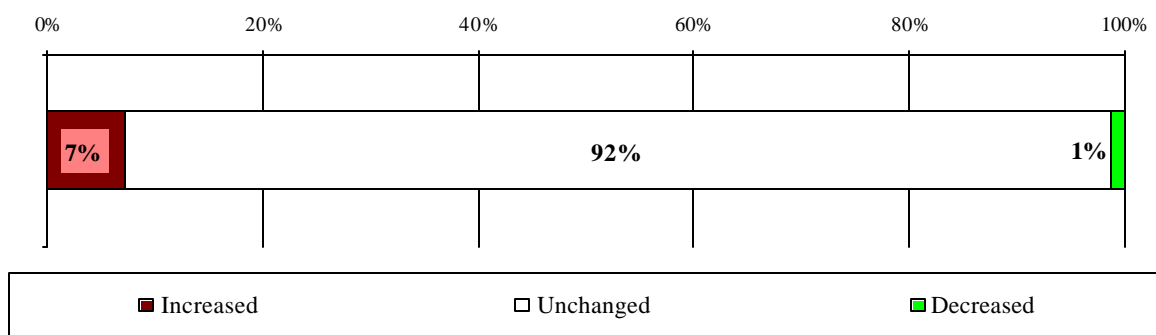
Companies located in Chisinau have more licenses – 2.15. Less affected by the licensing are Companies from the north (see Table 18).

Table 18. Number of licenses, broken down by region

| Region | Number of licenses |
|---------------|---------------------------|
| Chisinau | 2.15 |
| North | 0.94 |
| Centre-North | 1.60 |
| Centre | 1.42 |
| South | 1.67 |
| TOTAL | 1.87 |

Usually the number of licenses doesn't change over the time. About 7% of the respondents increased their number of licenses during last year and only 1% – reduced (see Figure 10).

Figure 10. Changes in the number of licenses

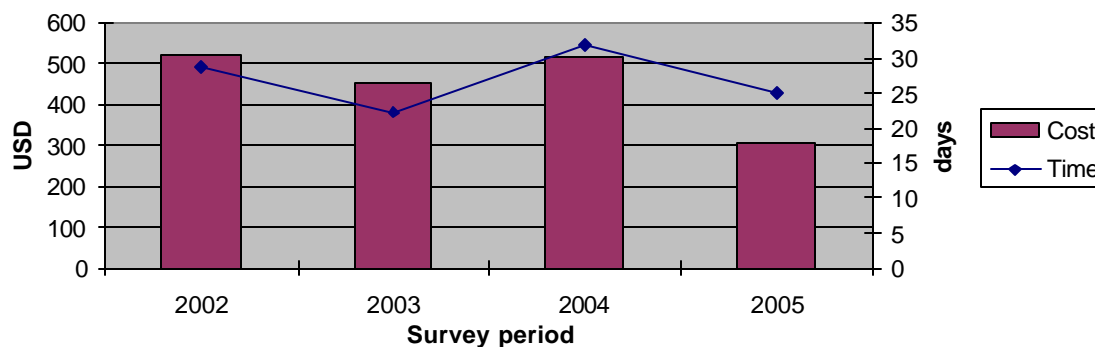


A license is valid on average for 3 years (3.1 years in 2004). About 40.7% of the respondents claimed that their licenses were valid for five years and 40.3% – for one year.

3.3 Costs and time

In 2005 it took on average 24.8 days and \$303 to take out one license. The situation improved comparing to the last years (see Figure 11).

Figure 11. Average time and cost to get one license



The licensing costs are broken down by type of payment in the table below.

Table 19. Average costs incurred by the polled businesses to obtain one license

| Elements | Survey time | % reported paying | | Average amount paid, \$ | |
|-----------------------------------|-------------|-------------------|------|-------------------------|------|
| | | 2004 | 2005 | 2004 | 2005 |
| Official payments | | 97% | 96% | 461 | 291 |
| Expert assessment fees | | - | 19% | - | 76 |
| Notaries' fees | | 31% | 16% | 24 | 30 |
| Lawyers' and intermediaries' fees | | 7% | 5% | 31 | 71 |
| Unofficial payments | | 13% | 8% | 375 | 147 |
| Travelling expenses | | 32% | 28% | 37 | 21 |

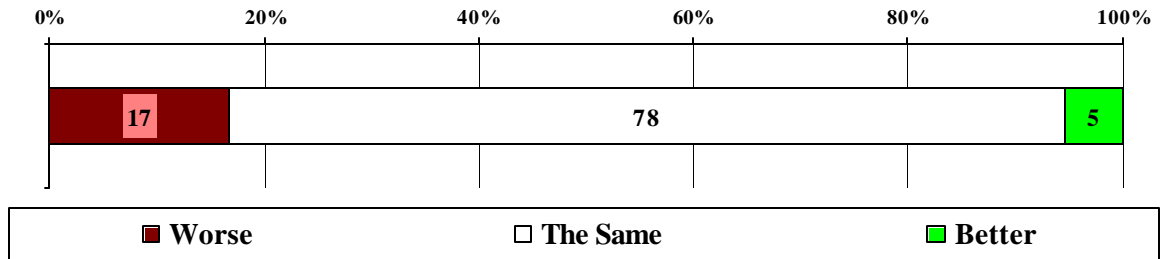
Note: "official payments" for 2004 survey include the expert assessment fee.

The share of the respondents which paid unofficially and the amount paid decreased during the last year.

3.4 The perception of the licensing procedures

The respondents were asked to assess changes, which occurred in the licensing conditions during the last year. Their replies are outlined in Figure 12.

Figure 12. Changes in the licensing conditions as assessed by the polled entrepreneurs



About 17% of the respondents claimed that the licensing conditions have become more complicated during the last year. Although, most of the respondents assessed licensing conditions as the same.

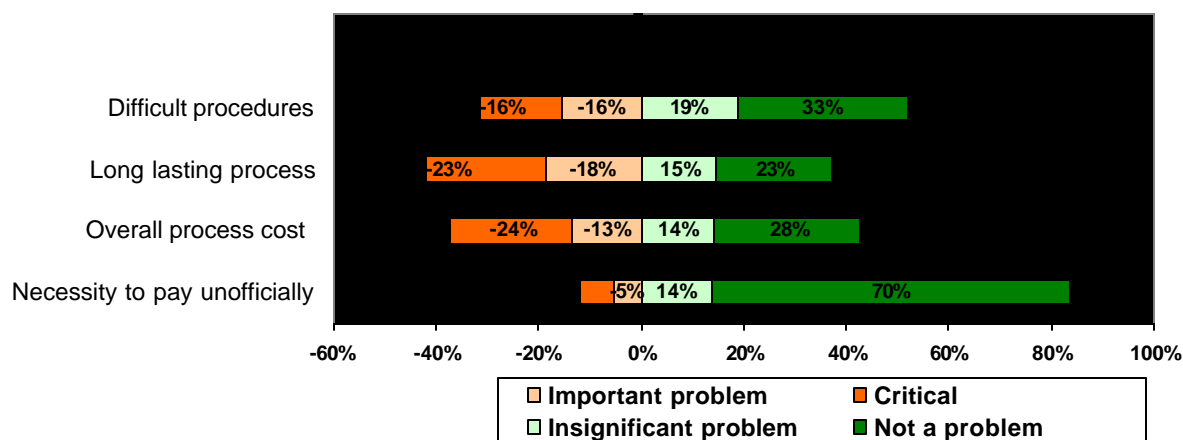
The respondents were asked to assess the problems of receiving licenses by evaluating them on a 5-point scale, where value of 1 meant no problems at all and value 5 meant major problems (see Table 20 and Figure 13).

Table 20. Problems related to licensing conditions

| Possible problems statements | 2005 |
|-------------------------------|------|
| Difficult procedures | 2.62 |
| Long lasting process | 3.05 |
| Overall process cost | 2.91 |
| Necessity to pay unofficially | 1.66 |

Almost a half of all the respondents mentioned that the licensing process takes a lot of time. The licensing process cost and difficulties of licensing procedures are also impeding Companies in their activity.

Figure 13. Problems related to licensing conditions



3.5 Analysis Summary

The 2005 year survey presents some improvements comparing to the previous year (see Table 21). Although all the indicators decreased, most of them are much higher than the same indicators in Ukraine. The licensing coverage is also at a very high level.

Table 21. Comparison of licensing regimes in different countries

| | 2002 | 2003 | 2004 | 2005 | Ukraine |
|-------------------------------|------|------|------|------|---------|
| License coverage | - | - | - | 68% | 56% |
| Average number of licenses | 3.0 | 2.2 | 2.6 | 1.9 | 1.9 |
| Time to get one license, days | 28.6 | 22.4 | 31.8 | 24.8 | 20.6 |
| Average costs, \$ | 522 | 456 | 517 | 303 | 164 |
| % paid unofficially | 38% | 28% | 13% | 8% | 21% |
| Amount paid unofficially, \$ | 62 | 154 | 375 | 147 | 74 |

According to the respondents' opinion, they spend less time when receiving licenses from the local authorities. The most difficulties are encountered when receiving licenses from different state bodies.

4. AUTHORISATIONS

This subject was not analysed during the previous surveys. It comprises different kinds of permits needed to perform the business activity.

4.1 Costs and time

To carry out its business activities, about 63.3% of Moldavian companies need to take out authorisations. It took on average 17.6 days and \$174 to take out one authorisation.

The costs encountered during the authorisations obtaining are broken down by type of payment in the table below.

Table 22. Average costs incurred by the polled businesses to obtain one authorisation

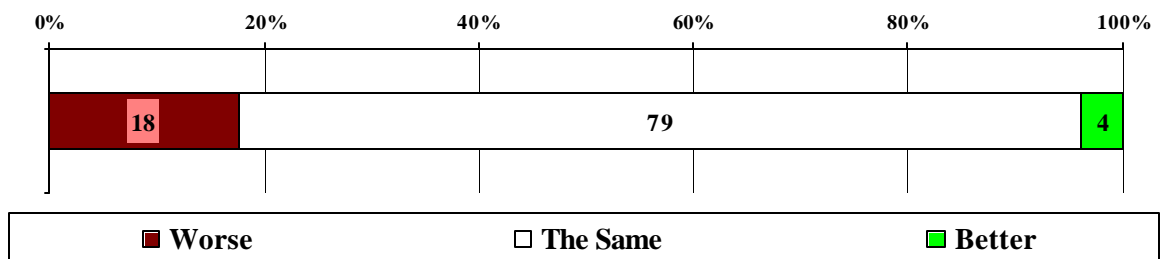
| Elements | % reported paying | Average amount paid, \$ |
|-----------------------------------|-------------------|-------------------------|
| Official payments | 95% | 173 |
| Expert assessment fees | 16% | 56 |
| Notaries' fees | 7% | 20 |
| Lawyers' and intermediaries' fees | 2% | - |
| Unofficial payments | 7% | 62 |
| Travelling expenses | 21% | 18 |

The official fees represent the bulk of the authorisation cost. Only a limited number of companies (7%) are paying unofficially.

4.2 Procedures perception

The respondents were asked to assess how changed the procedures related to the obtaining of the authorisations during the last year. Their replies are outlined in Figure 14.

Figure 14. Changes in the process of obtaining authorisations



The process of obtaining authorisations has become more complicated during the last year. A similar situation was noticed in the licensing conditions.

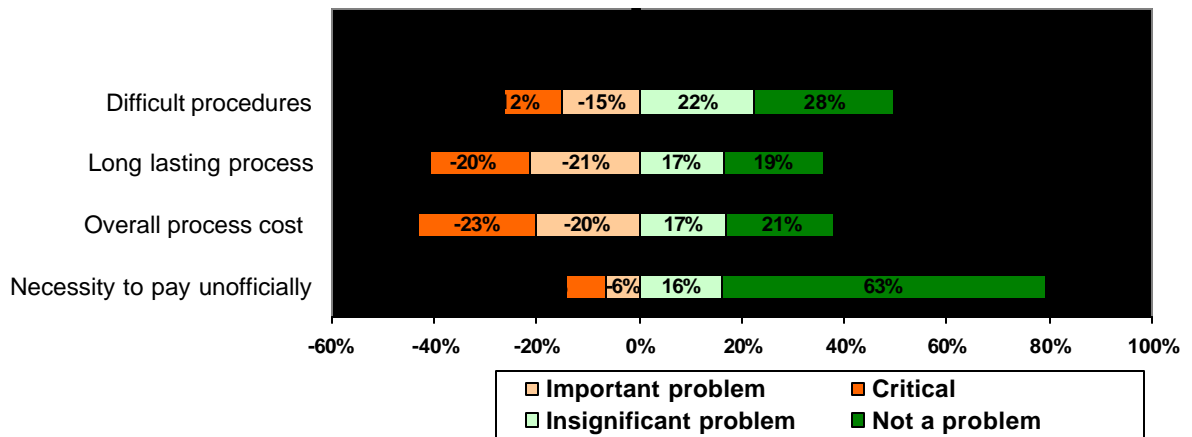
The respondents were asked to assess the problems of receiving authorisations by evaluating them on a 5 point scale, where value of 1 meant no problems at all and value 5 meant major problems (see Table 23 and Figure 15).

Table 23. Problems related to authorisations

| Possible problems statements | |
|-------------------------------|------|
| Difficult procedures | 2.61 |
| Long lasting process | 3.06 |
| Overall process cost | 3.07 |
| Necessity to pay unofficially | 1.8 |

Almost a half of all the respondents mentioned that the process of obtaining authorisations takes a lot of time and it costs too much. The necessity to pay unofficially is perceived as a problem only by 14% of all the respondents (see Figure 15).

Figure 15. Problems related to authorisations



4.3 Analysis Summary

The process of obtaining authorisations is simpler than the licensing one, taking less time and money. However, the cost to obtain an authorisation and the length of the overall process are considered to be a problem by more than 40% of respondents.

5. EQUIPMENT

5.1 Regulation framework

The acquisition of the equipment is regulated by the civil legislation, including the provisions of the Civil Code of the Republic of Moldova.

The import of the equipment and installations, which have a negative impact on the environment, requires the technical documentation from the manufacturer and the state environmental appraisal, executed by the National Institute of Ecology.

5.2 Certification to ensure compliance with Moldavian standards

Out of all polled businesses, 55.3% have purchased equipment over the last three years. Out of these, 63.2% had a certificate confirming the equipment's compliance with the Moldavian standards. In most cases (82.9%) these certificates were supplied along with the equipment, whereas 17.1% had to certify the equipment by them.

During 2002-2004 it took on average 12.6 days to take out a certificate confirming the compliance of the purchased equipment to the Moldavian standards at an average cost of \$62, which is much lower than the data obtained during the previous survey (23 days and \$278 during 2001-2003). Because of low number of respondents certifying their equipment and a very high standard deviation, the data comparison over time is not so representative. For example, in the surveys fulfilled in 2002 and 2003 these figure represented 14 days and \$135 and respectively 21 days and \$195.

Table 24. Certification costs incurred by the surveyed companies

| Survey time | % reported that made payments | | | Average payments, \$ | | |
|------------------------|-------------------------------|------|------|----------------------|------|------|
| | 2003 | 2004 | 2005 | 2003 | 2004 | 2005 |
| Official payments | 99% | 96% | 94% | 95 | 254 | 75 |
| Expert assessment fees | 53% | - | - | 141 | - | - |
| Notaries' fees | 20% | 23% | - | 26 | 15 | - |
| Unofficial payments | 29% | 17% | 11% | 48 | 120 | - |

Note: the "official payments" for 2004 year survey include the expert assessment fee; the "official payments" for 2005 year survey include the expert assessment fee and notaries' fees.

About 83% of those who had to receive such a certificate by themselves reported that the equipment had a certificate issued in the country of origin. The geography of the imported equipment is very diverse. In 34% of cases the equipment was bought in the European Union, and 24% - in Russia.

5.3 Other equipment permits

About 7.4% of the respondents have been obliged during 2002-2004 to obtain additional equipment permits that took **14.1** days and **\$46** to get them (14.8 days and \$91 in 2001-2003).

Table 25. Costs associated with other equipment permits

| Elements | Survey time | | % reported that made payments | | Average payments, \$ | |
|---------------------|-------------|------|-------------------------------|------|----------------------|------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Official payments | 77% | 80% | | | 83 | 46 |
| Unofficial payments | 16% | 0% | | | 58 | - |

It should be noted that no one mentioned that made unofficial payments for additional permits.

5.4 Analysis Summary

During the period 2002-2004 the procedures for obtaining a certificate confirming the compliance of the purchased equipment with the Moldavian standards consumed less money and time. The share of the respondents paying unofficially decreased as well (see Table 26).

Table 26. Comparison of the duration and costs for obtaining equipment permits

| Indicators | Survey time | | | |
|--|-------------|------|------|------|
| | 2002 | 2003 | 2004 | 2005 |
| Time to get a certificate of compliance to Moldavian standards, days | 14 | 21 | 23 | 13 |
| Average costs, \$ | 135 | 196 | 278 | 62 |
| % Paid unofficially | 28 | 29 | 17 | 11 |
| Time to get an additional equipment permit, days | 25 | 17 | 15 | 14 |
| Average costs for the additional permit, \$ | 162 | 221 | 91 | 46 |

The regulation regarding the equipment is not seen by the respondents as being an oppressive one. Only in a few cases the equipment certification is required (6% from total respondents).

6. IMPORT-EXPORT ACTIVITIES

6.1 Regulatory Environment

The most important document regulating the import-export activities is the Customs Code of the Republic of Moldova (Law No 1149-XIV on 20.07.2000). Another important document guiding customs procedure is the Governmental Decision No. 207 dated on February 26, 2003 concerning the “Approving of the regulations regarding the customs procedures application”.

To get involved in foreign economic activities, a Moldavian company is obliged to register with an appropriate state the custom office. Companies have the right to enter into import/export contracts starting from the date of their state registration.

For registration at the state custom office, the company has to submit the following documents:

- a) Application Form, according to the custom office standard;
- b) Copy of the state registration certificate;
- c) Copy of the certificate confirming the statistical code;
- d) The contract, invoice and other acts indicating the quantity and value of the goods to be imported;
- e) Other documents according to current legislation.

Other conditions that governed the export activities are stated by Law No. 1466-XIII dated on January 29, 1998 concerning the “Regulation of the repatriation of the financial resources, goods and services under foreign trade transactions”. The funds for the exported goods must be transferred within one year from the goods’ shipment or 60 days from the end of the technological cycle, and at least once a year for the goods under leasing contracts. The import of goods should be done within one year from the payment day.

According to the provisions of the Fiscal Code, Title III “Value Added Tax” No. 1415-XIII dated on December 17, 1997, the Central Fiscal Inspectorate has issued the “Instruction for restitution of the value added tax” on December 30, 2002. According to this instruction, the taxpayers are divided into three groups depending on their credibility degree: high, average and low. The process of restitution depends on the group to which belongs the taxpayer and on the amount of the tax to be paid back. VAT restitution procedures are very complicated, requiring a large number of various documents, including reports of general and thematic inspections. For Companies with low degree of credibility a thematic inspection is mandatory, upon which the decision on VAT restitution is taken.

6.2 Import transaction

About 34% of the respondents have been involved in import transactions in the last three years with an average of 18 transactions per annum. The share of the importing companies increased insignificantly, comparing to the previous period (32%). About 74% from them were obliged to obtain certificates confirming the compliance of imports with the Moldavian standards.

6.2.1 Costs related to imports certification

In average the polled enterprises spent 10.7 days on import certification during the last three years, 2 days less than during 2001-2003. The cost incurred by these operations during 2002-2004 was \$83, decreasing by \$65, comparing to the previous period (2001-2003). During the last year both official and unofficial payments decreased. In the same time decreased the share of unofficially paying.

Table 27. Average costs to get a certificate confirming the compliance of imports with the Moldavian standards

| Survey time Elements | % reported paying | | Average payments, \$ | |
|-------------------------|-------------------|------|----------------------|------|
| | 2004 | 2005 | 2004 | 2005 |
| Official payments | 96% | 91% | 116 | 102 |
| Unofficial payments | 24% | 16% | 55 | 38 |

The majority of the polled importers (90%) which were imposed to get a certificate confirming the compliance of imports with the Moldavian standards had the certificates proving the compliance of imports with the standards of the origin country.

6.2.2 Customs costs

During the last three years it took on average of 3 days to meet all customs requirements, which is about the same figure as during 2001-2003. The costs incurred by the respondents averaged at \$114 during the last three years, including fines, unofficial payments and confiscations.

Table 28. Costs and time spent on complying with customs' procedures for one transaction.

| | % reported | | Amount | |
|---|------------|------|--------|------|
| | 2004 | 2005 | 2004 | 2005 |
| Days | 99 | 100 | 3.0 | 3.0 |
| Official payments, \$ | 94 | 80 | 426 | 151 |
| Penalties (including confiscations), \$ | 5 | 5 | 752 | 180 |
| Other payments (unofficial), \$ | 33 | 23 | 130 | 55 |
| Total, aggregate figures, \$ | 100 | 100 | 552 | 114 |

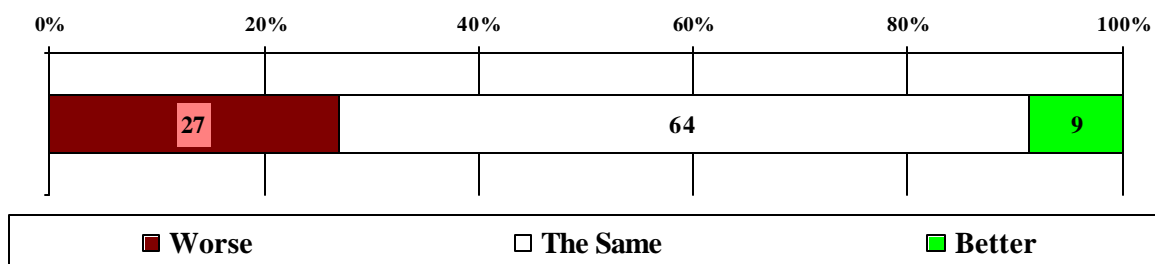
During the last year decreased both official and unofficial payments.

6.2.3 Perception of import procedures

About 35% of all importers claimed that they passed the pre-shipment inspection. The share of companies passing such an inspection decreased continuously during the last years.

An important part of the respondents claimed that the conditions have deteriorated markedly over the last three years (see Figure 16). However, there are about 9% of all the importers that mentioned some improvements in the customs procedures.

Figure 16. Evolution of the procedures and conditions related to import transactions



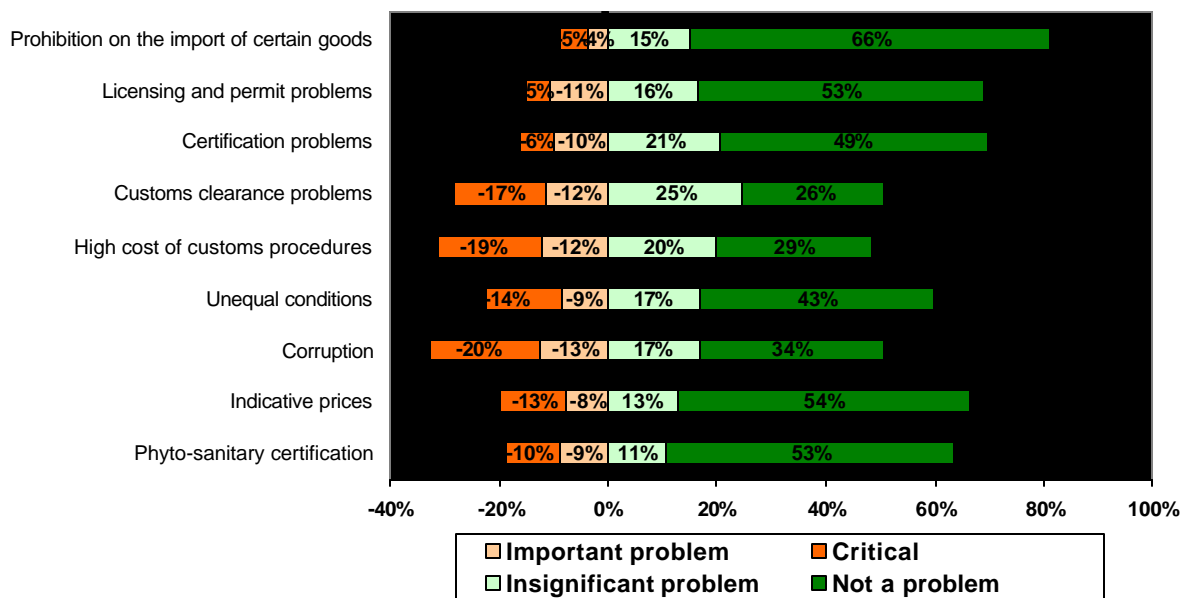
The importers experience the most serious difficulties when going through the customs procedures. However, the Table 29 shows some improvements in this field. The cost of the customs procedures and the corruption are also an important barrier to importers (see Figure 17).

Table 29. Reasons of the most serious difficulties related to import transactions

| Elements | Survey time | |
|--|-------------|------|
| | 2004 | 2005 |
| Prohibition on the import of certain goods | 1.5 | 1.7 |
| Licensing and permit problems | 1.8 | 2.0 |
| Certification problems | 2.2 | 2.0 |
| Customs clearance problems | 3.7 | 2.7 |
| High cost of customs procedures | | 2.7 |
| Unequal conditions | | 2.3 |
| Corruption | | 2.7 |
| Indicative prices | | 2.1 |
| Phyto-sanitary certification | | 2.1 |

Note: problems are rated using a 1 to 5 scale: 1 – no problems and 5 – very serious problems

Figure 17. Perception of difficulties related to import transactions



6.3 Export Transaction

About 12% of the polled companies have exported over the last three years (17% during the previous period), with an average of 23 transactions per annum.

Most of Companies export to CIS countries (see Table 30). Only few of them export to Romania and European Union.

Table 30. Exports destination

| Destination countries | Share from total exporters |
|-----------------------|----------------------------|
| CIS | 64% |
| European Union | 28% |
| Romania | 28% |
| Other | 14% |

6.3.1 Customs costs

During the last three years it took on average 2.2 days to meet all customs requirements for a single deal, which is less than during 2001-2003, but similar to the period 2000-2002. The costs incurred by the respondents equalled \$82, or twice less than in the period 2001-2003. It is a similar situation as in the period 2000-2002. The cost comprises official payments, fines and confiscations. It does not include customs duties.

Table 31. Approximate costs and time spent on complying with customs procedures for one transaction.

| Indicators | Survey time | | Amount | |
|---|-------------|------|--------|------|
| | 2004 | 2005 | 2004 | 2005 |
| Days | - | - | 3.5 | 2.2 |
| Official payments (except for customs duties), \$ | 74 | 84 | 136 | 99 |
| Penalties (including confiscations) , \$ | 2 | 8 | 562 | 87 |
| Other payments (unofficial) , \$ | 30 | 9 | 98 | 29 |
| Total, aggregate figures, \$ | - | - | 223 | 82 |

6.3.2 VAT pay back

About 53% of all exporters requested officially the paid VAT. Usually Companies used VAT to pay other taxes, which is an easier procedure than the VAT restitution. The permission of fiscal authorities to pay most of the taxes using the VAT to be returned made this procedure more and more attractive (see Table 32).

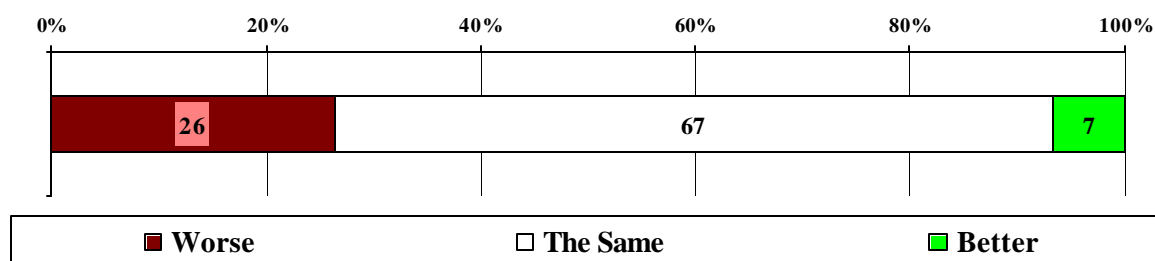
Table 32. Restitution of paid VAT.

| Elements | Survey time | | |
|--|-------------|------|------|
| | 2003 | 2004 | 2005 |
| Received 0%-100% from the requested amount | 95 | 78 | 13 |
| Used VAT to pay other taxes | 5 | 22 | 87 |

6.3.3 Assessment of export procedures

A significant share of surveyed companies points out that during the last year the conditions have become less-business friendly (see Figure 18).

Figure 18. Evolution of the procedures and conditions related to export transactions

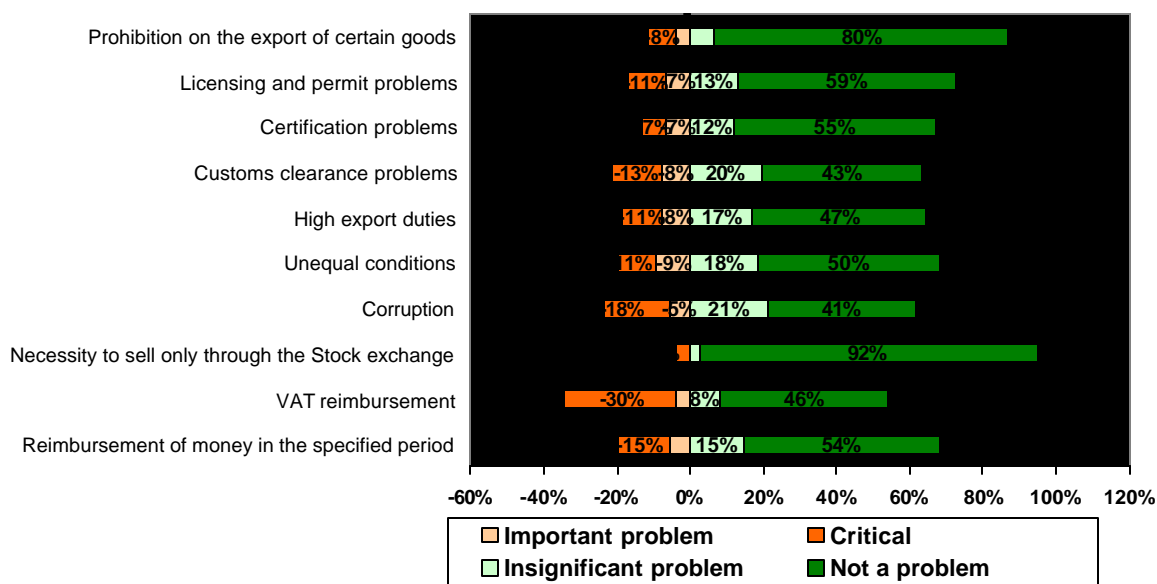


The VAT reimbursement and the corruption are seen as the main problems hindering the activities of the exporters. The customs clearance problems are also considered by exporters as important problems in their activity (see Table 33, where the problems are rated using a 1 to 5 scale: 1 – no problems and 5 – very serious problems.). Comparing to the previous year the situation didn't improve.

Table 33. Reasons of most serious difficulties related to export transactions

| Elements | Survey time | | |
|--|-------------|------|------|
| | 2003 | 2004 | 2005 |
| Prohibition on the export of certain goods | 1.5 | 1.3 | 1.5 |
| Licensing and permit problems | 1.8 | 1.7 | 2.0 |
| Certification problems | 2.0 | 1.9 | 2.0 |
| Customs clearance problems | 3.2 | 2.2 | 2.3 |
| High export duties | 3.2 | 2.0 | 2.2 |
| Unequal conditions | - | - | 2.1 |
| Corruption | - | - | 2.4 |
| Necessity to sell only through the Stock exchange | - | - | 1.2 |
| Problems regarding VAT reimbursement | 3.9 | 2.7 | 2.6 |
| Problems regarding the reimbursement of money in the specified by NBM period of time | 3.5 | 2.3 | 2.1 |

Figure 19. Perception of difficulties related to export transactions



6.4 Analysis Summary

The trend analysis of the import and export procedures shows that the time and costs for clearing customs decreased during the last years (see Table 34). All of them are below than the average Ukrainian indicators.

Table 34. Dynamics of import and export procedures and regulations

| Indicators | Survey time | | | | Ukraine |
|--|-------------|------|------|------|---------|
| | 2002 | 2003 | 2004 | 2005 | |
| Time for clearing customs when importing, days per one transaction | 4.3 | 2.7 | 3.0 | 3.0 | 4.9 |
| Costs for clearing customs when importing, USD per one transaction | n/a | 400 | 552 | 114 | 132 |
| Time for clearing customs when exporting, days per one transaction | 4.4 | 1.7 | 3.5 | 2.2 | 3.2 |
| Costs for clearing customs when exporting, USD per one transaction | 78 | 104 | 223 | 82 | 157 |

As mentioned above, more and more exporters prefer not to receive the VAT paid, but to “pay” other taxes using these amounts. This is due to the fact that the procedure of taxes “payment” using VAT paid in advance became more flexible and the chance to receive the paid VAT is very low for small companies.

7. REGULATION OF GOODS AND SERVICES

7.1 Regulatory Environment

The Law No. 590-XIII dated on September 22, 1995 “On Standardisation” stipulates that the certification and standardisation are required in cases where legislation applies. The list of goods and services subject to certification can be determined by legal acts, rather than exclusively by laws. There are two types of certification in Moldova: mandatory and voluntary. The goods which are covered by statutory safety requirements aimed at protecting the life, health and property of individual citizens as well as environment are subject to mandatory certification in accordance with the National Certification System of the Republic of Moldova.

The Department for the Standardisation and Metrology develops the list of goods and services subject to certification.

7.2 Certification costs

From all polled businesses, 32% certify their goods, much less than during the previous period (46%).

On average, the economic entities whose production lines are subject to certification are obliged to go through the certification procedures 1.4 times per year. Businesses that have to certify separate batches of goods are annually subject to this procedure 6.7 times.

From all respondents obliged to go through the certification procedures, about 35% of Companies have to certify their production lines and 65% – individual batches of goods.

The averages time spent by surveyed enterprises on product batches certification is 10.4 days, slightly less than during the previous year. The time spent for the certification of the production line is about 15.6 days, or by 22% less than during the previous year.

The cost engendered by the certification of a production line was about \$163, while in the case of the certification of individual batches it was \$111 per one certificate.

Table 35. Certification cost of a production line and individual batches of goods

| Indicators | Survey time | Production Line | | | Individual Batches | | |
|--|--------------------|------------------------|-------------|-------------|---------------------------|-------------|-------------|
| | | 2003 | 2004 | 2005 | 2003 | 2004 | 2005 |
| Time needed to obtain a certificate, in days | | 14.8 | 20.3 | 15.6 | 11.2 | 12.2 | 10.4 |
| Aggregate costs, \$ | | 347 | 198 | 163 | 152 | 200 | 111 |

The official payments and expert assessment fees account for the bulk of all payments made during the certification procedure (see Table 36).

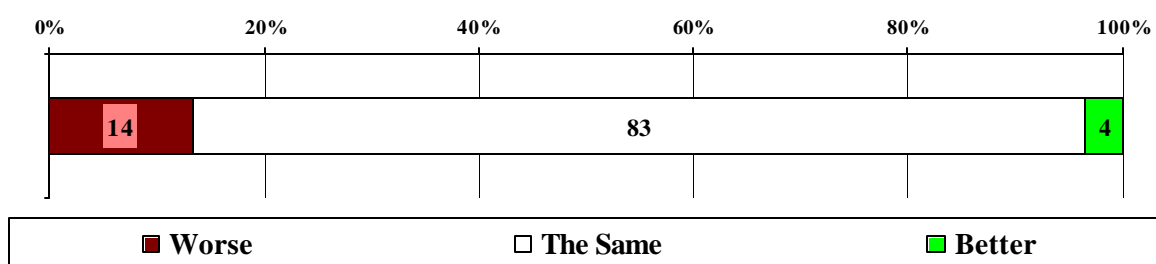
Table 36. Average costs incurred by polled businesses to obtain one certificate

| Elements | % reported paying | Production line, \$ | Separate batches, \$ |
|-----------------------------------|-------------------|---------------------|----------------------|
| Official payments | 95% | 126 | 91 |
| Expert assessment fees | 53% | 86 | 40 |
| Notaries' fees | 5% | 5 | 20 |
| Lawyers' and intermediaries' fees | 2% | - | - |
| Travelling expenses | 26% | 11 | 33 |
| “Voluntary” contributions | 4% | - | 36 |
| Unofficial payments | 13% | 37 | 38 |

7.3 Perception of certification procedures

Most of Companies surveyed points out that during the last year the conditions didn't significantly change (see Figure 18).

Figure 20. Evolution of procedures and conditions related to product certification



The cost of the certification procedure is seen as the main problem encountered during the certification procedures (see Table 37).

Table 37. Difficulties encountered during the certification procedures

| <i>Problem</i> | <i>Importance</i> |
|--|-------------------|
| Long period of certification | 2.64 |
| High cost of certification | 2.97 |
| High requirements for company's products | 2.47 |

7.4 Analysis Summary

About 32% of the economic entities were obliged to have their goods or services certified. The results obtained during the current survey are notably lower from those, revealed during the previous survey (see Table 38), but are not significantly lower than those from Ukraine.

Table 38. Product Certification Procedures Trend

| Indicators | Survey time | | | | Ukraine ³ |
|--|-------------|------|------|------|----------------------|
| | 2002 | 2003 | 2004 | 2005 | |
| Time to obtain a certificate for production line, days | 19.1 | 14.8 | 20.3 | 15.6 | 11.6 |
| Costs incurred by the certification of production line, \$ | 255 | 347 | 198 | 163 | 178 |
| Time to obtain a certificate for a batch, days | 12.7 | 11.2 | 12.2 | 10.4 | 11.6 |
| Costs incurred by the certification of batches, \$ | 229 | 152 | 200 | 111 | 178 |

Figure 21. Evolution of production line certification

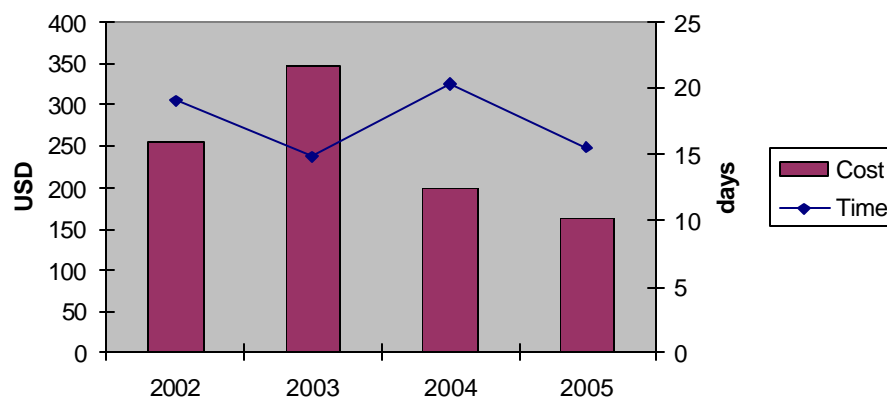
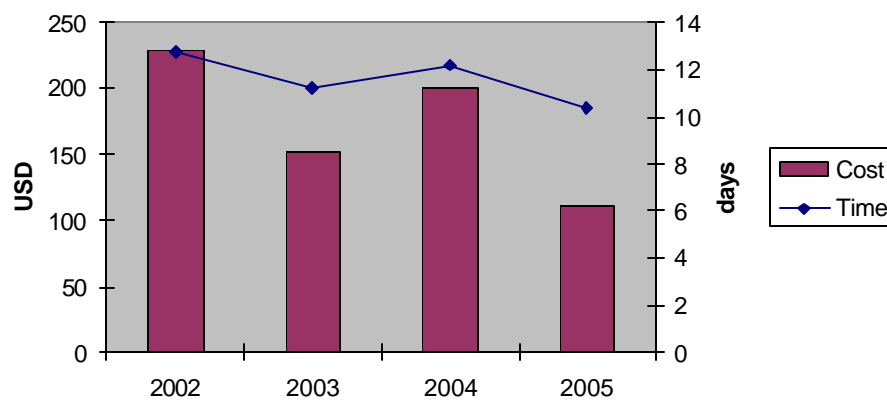


Figure 22. Evolution of products batches certification



³ The data for Ukraine was not calculated separately for production line and individual batches certification

8. HYGIENIC CERTIFICATION

8.1 Regulatory Environment

The Law No. 1513-XII dated on June 16, 1993 “On the Sanitary and Epidemiological Welfare of the Population” stipulates that the chemical and biological agents, either locally-produced or imported, that could involve a hazard for public health, as well as industrial and consumer goods, including foodstuffs, are subject to sanitary registration. The Centres for Preventive Healthcare should issue a hygienic certificate on the basis of a complex laboratory research.

8.2 Certification procedures

Of all the participants surveyed, 70% are subject to hygienic registration. On average, the polled companies have to undergo hygienic registration 1.6 times a year.

On average, it takes 13 days to receive a hygienic permit, a little less than in 2003. To pursue this procedure an enterprise spent \$59 in 2004, or 19% less than in 2003.

Table 39. Costs incurred by economic entities in the process of hygienic certification

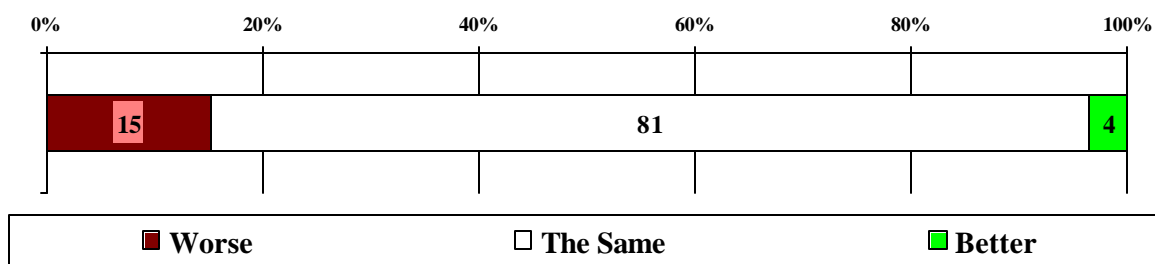
| Elements | Survey time | % of replies obtained | | Amount paid, \$ | |
|-----------------------------------|-------------|-----------------------|------|-----------------|------|
| | | 2004 | 2005 | 2004 | 2005 |
| Official payments | | 98 | 99 | 61 | 53 |
| Notaries' fees | | 6 | 4 | 9 | 11 |
| Lawyers' and intermediaries' fees | | 1 | 1 | 34 | - |
| Travelling expenses | | 21 | 17 | 13 | 10 |
| “Voluntary donations” | | 7 | 4 | 30 | 33 |
| Unofficial payments | | 19 | 16 | 37 | 33 |
| Aggregate data | | - | - | 73 | 59 |

During the last year the unofficial payments paid to get hygienic certification decreased. In the same time decreased the share of the respondents who paid unofficially.

8.3 Perception of hygienic certification procedures

Most of the surveyed companies points out that during the last year the conditions didn't change significantly (see Figure 23).

Figure 23. Evolution of procedures and conditions related to product certification

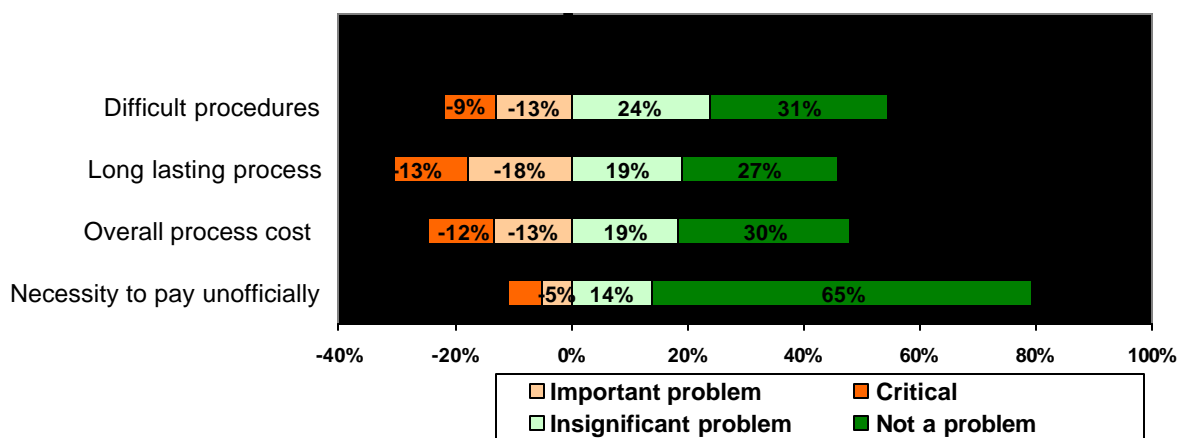


The long period of hygienic certification procedure is seen as the main problem encountered during the certification procedures (see Table 40 and Figure 24).

Table 40. Difficulties encountered during the hygienic certification procedures

| <i>Problem</i> | <i>Importance</i> |
|---------------------------------------|-------------------|
| Difficult procedures | 2.45 |
| Long period of hygienic certification | 2.71 |
| High cost of hygienic certification | 2.59 |
| High unofficial payments | 1.72 |

Figure 24. Problems related to hygienic certification



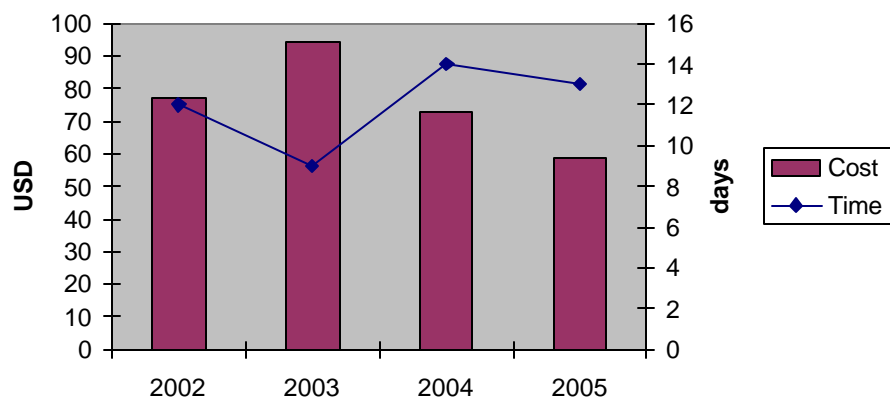
8.4 Analysis Summary

The duration of the hygienic certificate obtaining remained practically at the level of the previous year and is much more than in Ukraine (see Table 38 and Figure 25). The cost to obtain such a certificate decreased notably comparing to the previous years, but still remains higher than in Ukraine.

Table 41. Hygienic Certification Procedures Trend

| Indicators | Survey time | | | | Ukraine |
|--|-------------|------|------|------|---------|
| | 2002 | 2003 | 2004 | 2005 | |
| Time needed to obtain a hygienic certificate, days | 12 | 9 | 14 | 13 | 9 |
| Costs incurred by the hygienic certification, \$ | 77 | 94 | 73 | 59 | 57 |

Figure 25. Evolution of hygienic certification



9. INSPECTIONS

9.1 General Information

To reduce the excessive number of inspections on economic agents, the Government has adopted on April 01, 2003 the Decision No. 395 regarding controls' regulation. According to this decision the control authorities will organise supervision and control activities at the enterprises as follows:

- ? not more than once in two calendar years – controls, regarding the economic-financial results of one and the same enterprise;
- ? not more than once a year – controls, regarding the maintenance by the goods production enterprises of the technical, technological, sanitary, ecological, labour organisation and other norms and codes.

9.2 Number and duration of inspections

In 2004, on average, the polled enterprises have been inspected 11.4 times, which is 7 inspections less than in 2003. The inspectors spent on average 19 days per year on a single enterprise, or 8 days less than in the previous year. About 4.4% of the surveyed companies reported no inspections have been carried out at all.

The average number and duration of inspections broken down by the control agency are set forth in Table 42. Practically all authorities reduced the frequency of their inspections. The inspection duration changed insignificantly during the last year.

Table 42. Average number and duration of inspections

| Survey time Inspection authority | % responses obtained | | Frequency | | Number of days per 1 visit | |
|--|----------------------|------|-----------|------|----------------------------|------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Tax inspectorate | 78 | 75 | 2.5 | 2.1 | 3.9 | 4.7 |
| Fire fighting authority | 77 | 70 | 2.8 | 1.8 | 1.0 | 0.9 |
| Sanitary authority | 70 | 59 | 4.1 | 3.5 | 0.9 | 0.9 |
| Police | 55 | 48 | 5.9 | 5.5 | 1.2 | 0.9 |
| Price control authorities | 17 | 16 | 3.2 | 3.0 | 0.9 | 1.0 |
| Standard control authorities | 38 | 39 | 3.7 | 1.8 | 1.2 | 1.5 |
| Environment protection bodies | 48 | 38 | 3.1 | 2.0 | 1.1 | 0.9 |
| Licensing bodies | 29 | 22 | 3.9 | 1.3 | 1.0 | 0.9 |
| Department for corruption and organised crimes combating | 50 | 38 | 3.4 | 2.1 | 2.2 | 2.7 |
| Ministries | 18 | 17 | 2.1 | 1.6 | 1.8 | 1.2 |
| Local government | 27 | 20 | 3.4 | 2.4 | 0.9 | 0.9 |
| Labour inspection | - | 53 | - | 1.4 | - | 1.2 |

9.3 Inspection costs

The average inspection costs equalled to \$99. It includes fines (\$83) and unofficial payments. Only 12% of all respondents declared that paid bribes of about \$16. The average costs of the inspections carried out by different state control agencies are given in Table 43.

Table 43. Inspection costs suffered by surveyed companies over the last year

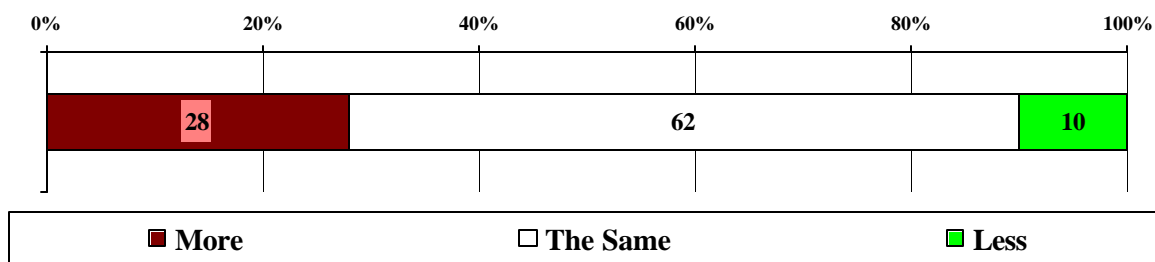
| | Fines | | Unofficial payments | |
|---|------------|-------------|---------------------|-------------|
| | % reported | Amount paid | % reported | Amount paid |
| Tax inspectorate | 36.5 | 263 | 6.7 | 122 |
| Fire fighting authority | 9.0 | 14 | 5.3 | 22 |
| Sanitary authority | 8.5 | 44 | 4.1 | 26 |
| Police | 13.1 | 45 | 4.8 | 67 |
| Price control authorities | 2.0 | - | 1.0 | 0 |
| Standard control authorities | 6.7 | 168 | 1.7 | 0 |
| Environment protection bodies | 6.3 | 41 | 3.0 | 47 |
| Licensing bodies | 2.3 | - | 0.8 | 0 |
| Centre for Economic Crimes and Corruption Combating | 15.8 | 176 | 9.4 | 109 |
| Ministries | 8.8 | - | 2.9 | 0 |
| Local government | 1.6 | - | 9.0 | 119 |
| Labour inspection | 16.5 | 19 | 3.4 | 24 |

The most frequently fines were imposed by the tax inspectorate (36.5%) and by the Department for corruption and organised crimes combating (15.8%).

9.4 Perception of inspections number and problems

Most of Companies surveyed points out that during the last year the conditions didn't change significantly (see Figure 26). However, there are 28% of all respondents that mentioned an increase of the inspections number.

Figure 26. Evolution of the inspections number



Most of the businesses consider that inspectors have preconceived attitudes (see Table 44). Only few of them believe that the public servants are disinterested when checking the business activity.

Table 44. Fair-mindedness of public servants

| | Yes | Partially | No | Do not know |
|---|-----|-----------|-----|-------------|
| All business are equally treated by Law | 15% | 21% | 57% | 7% |
| Law is enforced selectively | 53% | 25% | 11% | 11% |

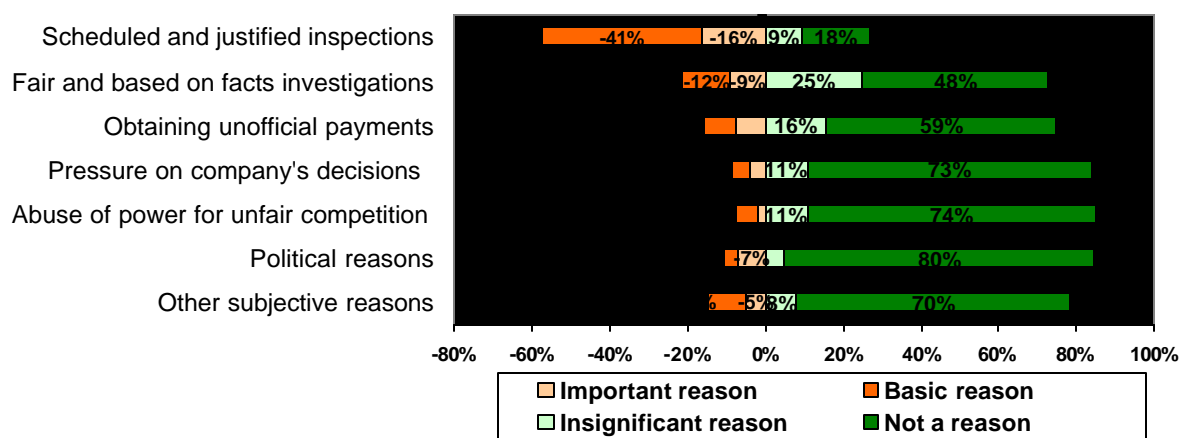
Despite the fact that most of the businesses consider that the Law is applied unequally, they regard the inspectors' visits as "scheduled ahead and legally justified" (see Table 45 and Figure 27).

Table 45. Reasons for inspectors' visits

| Reasons | Importance |
|---|------------|
| Scheduled ahead and legally justified inspection or audit | 3.5 |
| Fair and based on facts attempt to investigate the possible violation | 2.2 |
| Attempts to obtain unofficial payments or "voluntary contribution" | 1.3 |
| Attempts to pressure the company to make certain economic decisions | 1.6 |
| Abuse of power for unfair competition | 1.6 |
| Political reasons | 1.5 |
| Other subjective reasons | 1.8 |

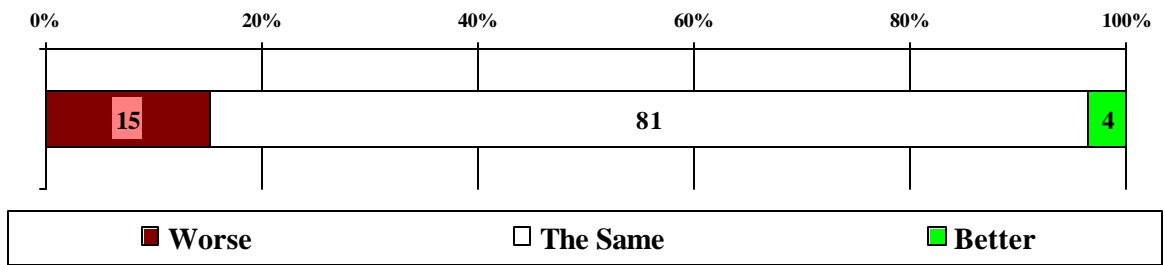
Note: the reasons are rated using a 1 to 5 scale: 1 – was not a reason and 5 – the most important reason

Figure 27. Reasons for inspectors' visits



Most of the respondents believe that the conditions related to inspectors' visits didn't change during the last year. But, there are 15% of respondents that see a worse situation (see Figure 28).

Figure 28. Evolution of procedures and conditions related to inspections



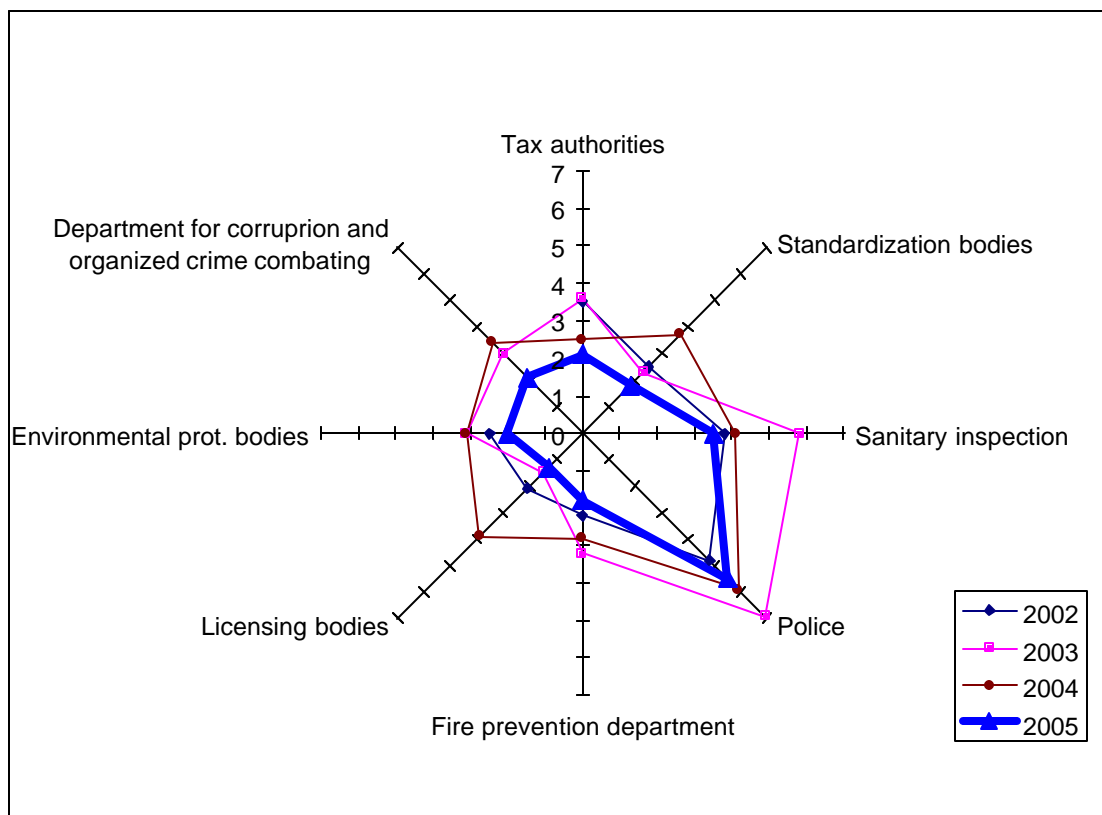
9.5 Analysis Summary

The most frequent are the inspections carried out by the police, although its frequency decreases slightly during the last year (see Table 46 and Figure 29). The sanitary inspection frequency has a similar trend, but still remains at a very high level. The Fire prevention department, Standardisation bodies, environmental inspections and licensing bodies decreased significantly their number.

Table 46. Inspections Frequency Trend

| Survey time | 2002 | 2003 | 2004 | 2005 |
|--|------|------|------|------|
| State bodies | | | | |
| Tax authorities | 3.5 | 3.6 | 2.5 | 2.1 |
| Sanitary inspection | 3.8 | 5.8 | 4.1 | 3.5 |
| Fire prevention department | 2.2 | 3.2 | 2.8 | 1.8 |
| State Standardisation bodies | 2.5 | 2.3 | 3.7 | 1.8 |
| Environmental agency | 2.5 | 3.1 | 3.1 | 2.0 |
| Licensing bodies | 2.1 | 1.5 | 3.9 | 1.3 |
| Police | 4.8 | 6.9 | 5.9 | 5.5 |
| Department for corruption and organised crimes combating | - | 3.0 | 3.4 | 2.1 |

Figure 29. Inspections Frequency during the last years



During the last years, both the duration and the frequency of the inspections decreased. The results for the last year (2004) obtained during the 2005 year survey confirmed the trend (see Table 47). The number of days per year spent with inspectors decreased from 93 to 19 days during the period 2001-2004.

The cost entailed by the inspectors' visits decreased in the period 2001-2004 as well. During the previous surveys the aggregate data was calculated only for businesses that reported some payments. Thus, to have comparable data, figures for 2004 year survey were adjusted. For the 2002 and 2003 the data for adjustment was not available.

The total inspection costs in Moldova reached a lower level than in Ukraine - \$99 versus \$123. The inspections frequency remained higher.

Table 47. Inspections Trend

| Survey time | 2002 | 2003 | 2004 | 2005 | Ukraine |
|---|---------|---------|-------|------|--------------------|
| Indicators | | | | | |
| Average number of inspections per business | 16.6 | 19.5 | 18.1 | 11.4 | 10.0 |
| Number of days per year business is inspected | 93 | 48 | 27 | 19 | - |
| Fines paid annually | \$1,418 | \$1,280 | \$683 | \$83 | \$123 ⁴ |
| Fines paid annually, adjusted data | n/a | n/a | \$341 | \$83 | |

⁴ The data represents the overall inspections cost

10. TAX ADMINISTRATION

10.1 Regulatory Environment

The main document regulating the taxation system of the Republic of Moldova is the Fiscal Code approved on 24.04.1997 and completed during further years. Now it contains eight titles :

1. General provisions
2. Income tax
3. Value added tax
4. Excise tax
5. Fiscal administration
6. Taxes on real estate
7. Local taxes
8. Taxes on natural recourses

10.2 Number of taxes

An economic entity in 2005 pays a total of **8.25** taxes (8.5 taxes in 2004).

To ensure the payment in-time of all taxes, 89.2% of the respondents employ full-time accountants. Some of them hire outside accountants (see Table 48).

Table 48. Labour resources needed to ensure the correct and in-time payment of taxes

| Resources \ Survey time | 2004 | 2005 |
|---------------------------------------|-------------|-------------|
| Full-time accountants | 84.7% | 89.2% |
| Number of full-time accountants | 2.1 | 1.4 |
| Part-time accountants | 7.1% | 9% |
| Handle all tax issues themselves | 5.2% | 4.5% |

About 86% of all the respondents stated that they pay 100% of all taxes. Another 14% mentioned that they pay in average 69% of all needed taxes.

The businesses from the north part of the country use different methods to diminish the payable taxes in a fewer cases than those located in the centre part (including Chisinau).

Table 49. Taxes payment broken down by region

| Region | % of respondents paying all taxes | Average percent of paid taxes by the remaining respondents |
|--------------|-----------------------------------|--|
| Chisinau | 87 | 64 |
| North | 91 | 92 |
| Centre-North | 90 | 80 |
| Centre | 80 | 77 |
| South | 88 | 68 |
| TOTAL | 86 | 69 |

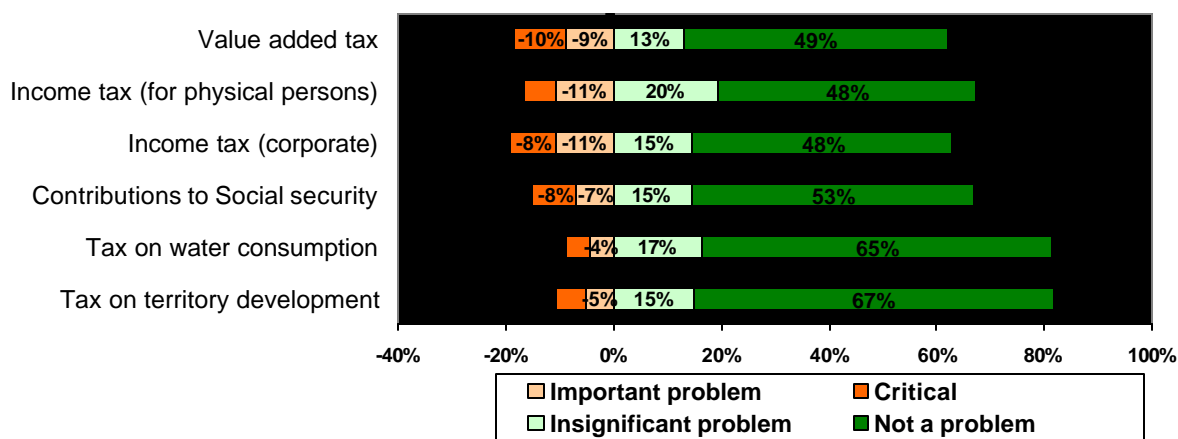
10.3 Main taxation problems

As mentioned by the respondents the taxation methodology is not creating them problems (see Table 50 and Figure 30). Only 10-20% encountered problems when dealing with different taxes.

Table 50. Taxes generating more problems

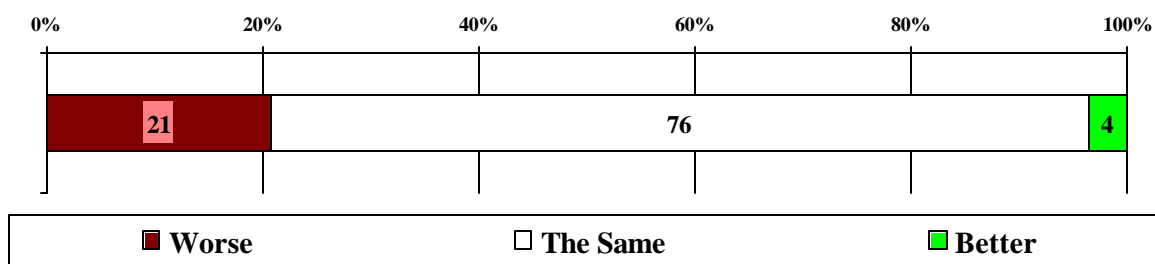
| Reasons | Importance |
|-----------------------------------|------------|
| Value added tax | 2.17 |
| Income tax (for physical persons) | 2.06 |
| Income tax (corporate) | 2.16 |
| Contributions to Social security | 2.04 |
| Tax on water consumption | 1.67 |
| Tax on territory development | 1.67 |

Figure 30. Taxes generating more problems



Only a small share of businesses mentioned some improvements in the taxation system (see Figure 31). Most of them don't see any improvement and about 21% feel that the situation is worsening.

Figure 31. Evolution of the taxation system as assessed by the respondents

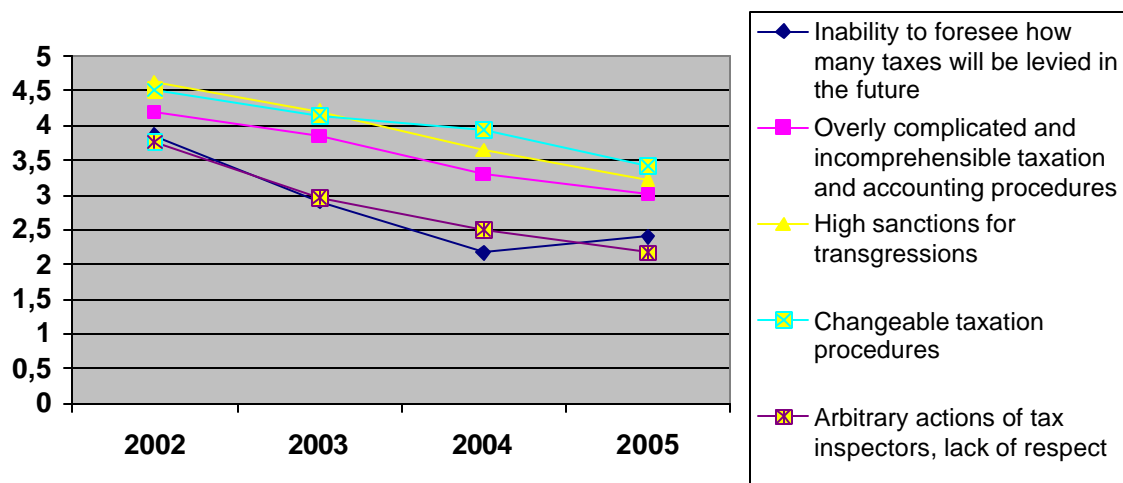


The survey participants were also asked to rate taxation problems using the 5point scale. The most serious problems come from the instability of taxation legislation, severe penalties for accidental mistakes and overly complicated and incomprehensible taxation and accounting procedures. However, a positive trend of Companies' perception could be seen (see Table 51 and Figure 32)

Table 51. Assessment of taxation problems by the polled economic entities

| Problems | Survey time | 2004 | 2005 |
|--|-------------|------|------|
| Inability to foresee how many taxes will be levied in the future | | 2.17 | 2.40 |
| Overly complicated and incomprehensible taxation and accounting procedures | | 3.29 | 3.02 |
| High sanctions for transgressions | | 3.65 | 3.23 |
| Changeable taxation procedures | | 3.95 | 3.42 |
| Arbitrary actions of tax inspectors, lack of respect | | 2.51 | 2.17 |
| High taxes | | - | 2.96 |
| High unofficial payments | | - | 1.72 |

Figure 32. Assessment of taxation problems by the polled economic entities



10.4 Analysis Summary

Most of the respondents don't feel some changes in the taxation environment during the last year. About 21% have the opinion that things are moving worse and a very small percentage of the respondents felt some improvements in the taxation system.

The most serious problems are caused by the instability of taxation legislation and high sanctions for mistakes. The overall magnitude of mentioned problems decreased during the last years.

Table 52. Comparison of tax administration related procedures in Moldova

| Indicators | Survey time | | | | Ukraine |
|---------------------------------|-------------|------|------|------|---------|
| | 2002 | 2003 | 2004 | 2005 | |
| Average number of taxes | 10.0 | 8.6 | 8.5 | 8.3 | 9.1 |
| Number of full-time accountants | 2.3 | 2.5 | 2.1 | 1.4 | 2.2 |

11. PRICING CONTROLS

11.1 Regulatory Environment

The Law No. 105-XV dated on March 13, 2003 “On Consumers’ Protection”, Law No. 906-XII dated on January 29, 1992 “On the Restriction of the Monopolistic Activity and Competitiveness Development”, the Government Decision No. 547 dated on August 4, 1995 “On Pricing and Tariffs State Regulation”, the Law No. 1308-XIII dated on July 25, 1997 on the normative price and the procedure of the selling-buying of the land and the State Budget Law are the main legal acts in the field of pricing.

Most of the products can be sold at free established prices. The state retains the right to regulate prices on land and bowels; coal sold by the state company “Moldova-Combustibil”; the transportation services, except the taxi and common use transport; technical inventory of the buildings, land evidence; telecommunication, telegraph, post services provided to the population; precious metals; medicines, medical services; freight transport by railway transport; removal of snow, garbage, mechanical streets handling for enterprises, organisations and population; funeral services; services of centralise heating and water supply; rent services; natural gas; thermal energy and power supply.

For some products with greater social impact the ceiling on commercial margin is established.

11.2 The Extent of Pricing Controls

The survey revealed that 33% of the respondents are affected by pricing controls, the share increasing during the last years: 31% in 2004, 28% in 2003 and 19% in 2002. About 20.5% of the prices are regulated by the state.

11.3 Perception of pricing control methods

Most often the state resorts to margin ceilings when regulating the price (see Table 53).

Table 53. State control of prices for goods and services

| Methods | |
|--|-------|
| Through restrictions placed on profitability | 17.6% |
| Through the prices ceilings | 32.2% |
| Through the margin ceilings | 50.2% |

11.4 State agencies authorised to control prices of goods and services

The survey demonstrated that the prices are primarily controlled by the Tax Inspectorate and by different ministries and departments (see Table 54).

Table 54. State agencies that control prices

| | 2005 |
|--|-------------|
| Tax inspectorate | 53.2% |
| Ministry of Finance | 15.6% |
| Price control authorities (antimonopoly) | 4.9% |
| Licensing bodies | 4.9% |
| Ministries | 41.5% |
| Local governments | 16.1% |
| Department of commerce | 17.1% |
| ANRE | 2.4% |

11.5 Analysis Summary

About one third of the Moldavian economic entities are subject to pricing controls. Percentage of the economic entities subject to pricing controls increased in comparison with the previous year. Usually the influence is materialised by the commercial margin ceiling.

Table 55. Comparison of pricing control associated procedures in Moldova

| | 2002 | 2003 | 2004 | 2005 |
|--|-------------|-------------|-------------|-------------|
| Percentage of economic entities subject to pricing control | 19% | 28% | 31% | 33% |
| Average percentage of prices regulated by state | 19.2% | 15.8% | 17.2% | 20.5% |

12. LABOUR REGULATIONS

12.1 Regulatory Environment

The main legal acts regulating this subject are the Labour Code of the Republic of Moldova (Law No. 154-XV dated on March 28, 2003), Law No. 847-XV dated on February 14, 2002 on labour's remuneration, Governmental Decision No. 198 dated on March 12, 2001 regarding the approval of the Labour collective contract, Governmental Decision No. 152 dated on February 19, 2004 regarding the tariff salary of the employees of the 1st category from the entities with financial autonomy.

12.2 Availability of labour resources

All the respondents were asked to assess the availability of the labour resources to ensure the most effective operation of their businesses and maximise profits. About 79% declared that they have optimal staffing levels. The personnel shortage was mentioned by 16% of the respondents.

Table 56. Assessment of the staffing level

| | Survey time | |
|------------------|-------------|-------|
| | 2004 | 2005 |
| More than enough | 7.2% | 3.6% |
| Sufficient | 68.6% | 78.8% |
| Less than enough | 23.6% | 16.2% |
| Do not know | 0.6% | 1.5% |

The survey participants were asked to rate problems related to labour regulation using the 5-point scale. To obtain and to return the medical insurance certificates in due time became the most serious problem during the last year.

Table 57. Assessment of main difficulties related to labour regulation

| Difficulty | 2004 | 2005 |
|--|------|------|
| Authorisations receiving from Labour inspection to start the activity | - | 1.7 |
| Necessity to engage only on the individual contract base | 1.7 | 1.8 |
| Necessity to pay the minimum salary | 1.4 | 1.8 |
| Frequent controls from Labour inspection | 1.3 | 1.7 |
| Complicate procedures to lay-off personnel | 2.0 | 1.8 |
| Complicate procedures of personnel accounting | 1.7 | 1.8 |
| Obtaining and returning the medical insurance certificates in due time (2 weeks) | 1.2 | 2.9 |

12.3 Analysis Summary

Most of the respondents (79%) consider that they have sufficient staffing levels to ensure the most effective operation of their businesses. The share is increasing over time.

About 16% of the respondents assess that the current staffing level is less than enough. The share of such companies decreased slightly during the last year. Less than 4% of Companies mentioned that have overstaff. The share is decreasing during the years.

The biggest problem regarding the labour regulations is the necessity to obtain and return the medical insurance certificates in due time (2 weeks). This requirement is relatively new and during the 2004 year the survey was not yet seen as an important problem. Other problems are insignificant.

13. CONTRACT EXECUTION

13.1 Regulatory Environment

The freedom of contract principle is protected by the Moldavian Civil Code. The commercial contracts are not subject to state registration.

13.2 State control over the conclusion and execution of contracts

About 6.5% of the polled enterprises pointed out that the state oversees the conclusion and the execution of their contracts (12% in 2004). In most of the cases (75%) the matter concerns the contracts with local partners.

Conditions of the contract, partners and contractual prices are subject to the closest state supervision (see Table 58)

Table 58. Contracts aspects most controlled by the state

| | 2004 | 2005 |
|--------------------|-------|-------|
| Prices | 48.0% | 42.5% |
| Contract size | 17.3% | 30.0% |
| Payment conditions | 49.3% | 55.0% |
| Partners | 24.0% | 20.0% |

Tight state supervision of commercial contacts in 2005 precluded 15% of the respondents from meeting their contractual obligations.

13.3 Analysis Summary

About 7% of the businesses mentioned that the state oversees the conclusion and the execution of their contracts. The share is decreasing during the last years (see Table 59). It is much lower than the same indicator in Ukraine. Usually the state is checking prices and payment conditions.

Table 59. Comparison of contract execution associated procedures in Moldova

| | 2002 | 2003 | 2004 | 2005 | Ukraine |
|--|-------|-------|-------|------|---------|
| Percentage of respondents affected by state control of contracts | 32.8% | 17.8% | 12.3% | 6.5% | 20.4% |

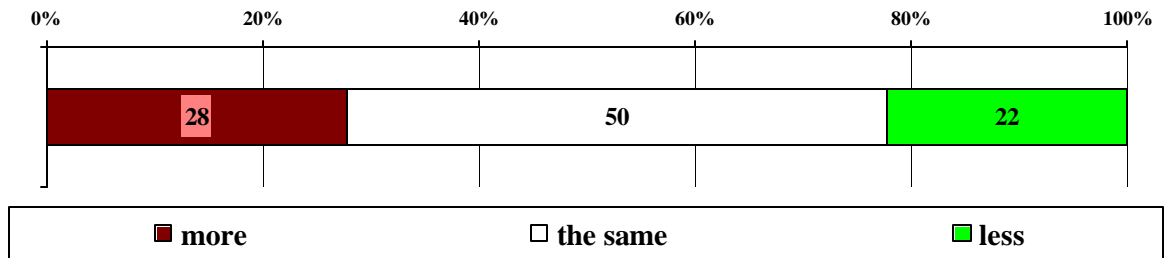
14. PROMOTION OF PERSONAL INTERESTS OF THE PUBLIC SERVANTS

The survey participants were asked about the public servants interference in the company's activity in order to promote personal interests. Nearly 6% of the polled enterprises confirmed that the state authorities interfered in the company's activity. Another 80% mentioned the contrary.

In 94.4% of the cases the public servants were initiators of such involvement. About 13% from the profit are used to pay the public servants' "support". About 6% mentioned that the public servants are owners in the company; another 86% stated the contrary.

In 28% of the cases the public servants involvement increased during the last year (see Figure 33).

Figure 33. Evolution of the public servants involvement



15. EVALUATION OF THE LEGAL SYSTEM

15.1 Regulatory Environment

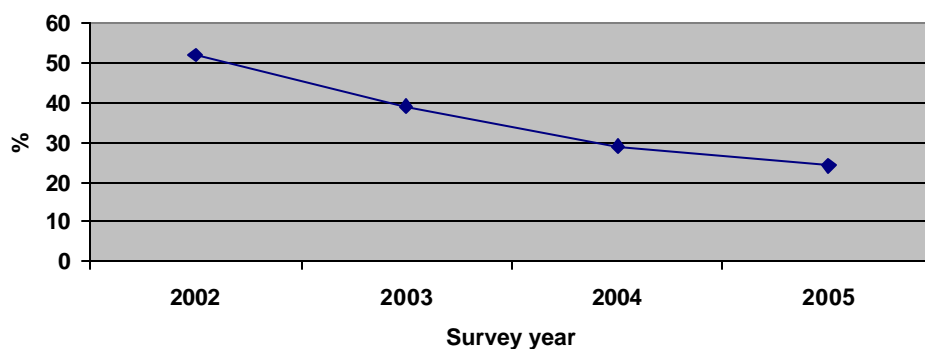
The settlement of the disputes between Companies in the Republic of Moldova is done by a legal Court, according to the Law No. 225-XV dated on May 30, 2003 “On Civil Code Procedures” or by an external trade Court, according to the Law No. 129 dated on May 31, 1994 “On Arbitrage Court”.

The disputes with the state authorities are regulated basically by the Law No. 793-XIV from February 10, 2000 on “Administrative court”.

15.2 Methods used to solve conflicts

During the last two years (2003-2004), about 24% of Companies had to solve conflicts (with partners, clients or state entities), the share decreasing continuously during last years.

Figure 34. Companies that had to solve conflicts



Note: The data shows the situation for two years before the survey time

In 74% of the cases the conflicts were solved with other businesses and in 26% of the cases – with state agencies.

When arriving to some conflicts with other economic agents, Companies usually appeal to the Court (69%). In 23% they appealed to the state agencies and in 24% of the cases – to unofficial methods. A similar situation is observed when solving conflicts with state agencies.

Table 60. Effectiveness of different methods to solve problems

| | % of respondents that applied (from those who reported conflicts with economic agents) | | % of respondents that applied (from those who reported conflicts with state agencies) | |
|--------------------|--|------|---|------|
| | 2004 | 2005 | 2004 | 2005 |
| State entities | 29 | 23 | 68 | 26 |
| Court | 86 | 69 | 79 | 64 |
| Unofficial methods | 44 | 24 | 51 | 21 |

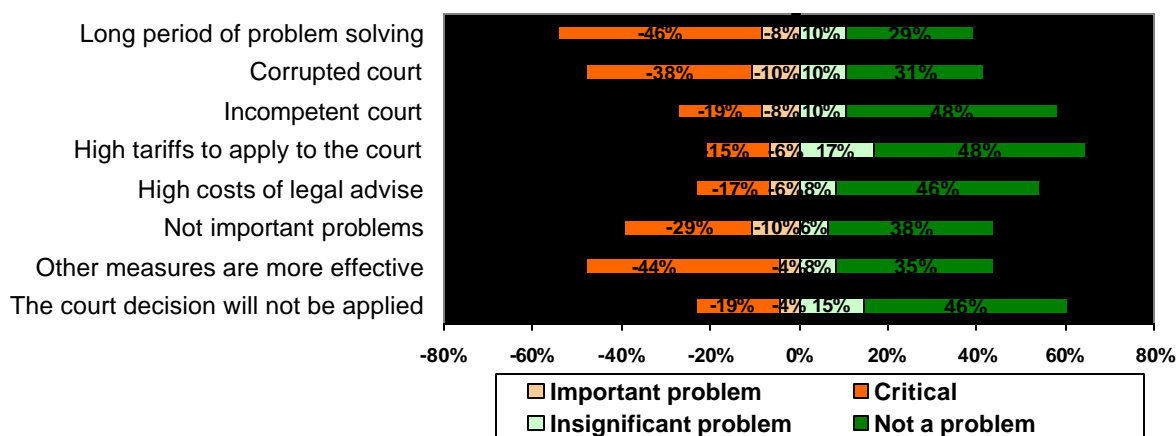
15.3 Evaluation of the Court's services

The most important reasons for not appealing to the Court are the long period of problem solving, the corruption and the presence of other measures to solve the problems (see Table 61 and Figure 35, where the problems are evaluated on a scale from 1 to 5: 1 – not important reason, 5 – important reason).

Table 61. Reasons for not appealing to the court

| Reasons | |
|--|------|
| Long period of problem solving | 3.31 |
| Corrupted court | 3.13 |
| Incompetent court | 2.40 |
| High tariffs to apply to the court | 2.23 |
| High costs of legal advise | 2.40 |
| Not important problems | 2.88 |
| Other measures are more effective | 3.13 |
| The court decision will not be applied | 2.35 |

Figure 35. Reasons for not appealing to the Court



15.4 Legal assistance

Companies are usually satisfied by the legal assistance provided. They evaluated it at the level of 3.21 points, or 55%.

15.5 Analysis Summary

During the last two years, about 24% of Companies had to solve conflicts (with partners, clients or state entities).

The most preferable method to solve conflicts is to appeal to the court: 69% of the respondents when solving conflicts with other economic agents and 64% - when solving conflicts with the state authorities. The appeal to the state authorities and unofficial methods is less used.

The most important reasons for not appealing to the court are: the long period of problem solving and the corruption.

The satisfaction level of the respondents that requested legal assistance to solve litigations was 3.2 points from 5 available (55%), decreasing slightly during the last year.

CONCLUSIONS

The procedures costs registered during the current survey are generally lower than during the previous survey. Usually this is due to the decrease of the amount of unofficial payments and of the respondents' share that made such payment. The number of the days spent to comply with different procedures decreased also comparing to the level registered during the previous survey.

The general picture (see Table 62) suggests that during 2001-2003 years the regulation burden increased considerably. The period 2003-2004 brought some improvements: the 2004 survey presented insignificantly changes for some indicators, the 2005 survey – remarkable improvements comparing to the 2003 year survey. Usually the time spent and the costs engendered by the state regulation decreased till the level of 2002 year survey.

The regulation coverage in most of the cases didn't change. In some cases it increased.

Despite the fact that in most of the state regulation fields the situation became less oppressive, in all the cases the number of the respondents stating that the situation is worse is higher comparing to the number of those that feel improvements.

Registration

This field of state regulation is one of the less oppressive. Both registration duration and costs are not higher. The share of the businesses paying unofficially decreased during the last year to an insignificant level.

The business's perception reflects that the paper work before the registration procedures is a weak point. The Registration chamber can provide consultancy to the managers and charge for it before receiving officially the statutory documents.

Only a few number of the respondents (from 9 to 17%) encountered important problems during the registration process.

Premises regulation

The system for issuance of construction authorisations is not transparent and it is needed a huge period of time to get them. Even during the last year some positive trends were registered, the time spent during the last three years to receive permits was much higher than during the 1999-2001 years (2002 year survey).

The cost of the procedures of premises regulation is relatively high, but it decreased substantially during the last year. The share of companies paying unofficially is very high comparing to other fields of the state regulation.

The most important barrier still remains the process duration, a fact mentioned by 41% of the respondents. The necessity to pay unofficially is mentioned to be a problem by a higher number of businesses, comparing to other fields of the state regulation.

Licensing

About 68% of all the businesses are obliged to get licenses. The number of licenses per company decreased comparing to the previous period. Both, unofficial and official costs and the share of Companies paying unofficially decreased even bellow the 2002 level.

The duration of the license obtaining slightly decreased, but it doesn't show a clear decreasing trend. More than 40% of the respondents stated that the licensing process takes a lot of time and this represents an important problem for them.

Some important changes in the licensing conditions are not seen by most of the respondents.

Authorisations

The respective subject was for the first time analysed during the CODB surveys performed in Moldova. The general perception about this field of the state regulation is similar to the licensing one. Companies stated the same problems, the same coverage it has; the only cost and time are almost twice lower.

Equipment regulation

The regulation of the equipment usage has limited coverage – only 6% from the total respondents certified their equipment. The relatively low level of impact decreased during 2004. Both official and unofficial costs decreased and the unofficially paying is less.

Import regulations

About 74% of the respondents were obliged to certify the imported products, slightly more than during the previous period (70%). However, the average costs and time associated with the respective procedures decreased. The share of the businesses paying unofficially also decreased.

During 2002-2004 the customs clearance procedures required the same duration as during 2001-2003. The costs are much lower than during the previous period. The amount of unofficial payments and the share of respondents paying them decreased.

The corruption was mentioned as the most hindering factor regarding the customs procedures. A third of all respondents see it as an important problem.

Export regulation

The time and the costs related to customs clearance when exporting are much lower during the last three years than during 2001-2003.

The main problem faced by the exporters, is the complexity of the VAT restitution procedure. As a result, 87% of them used VAT to “pay” other taxes.

Certification of goods and services

The “coverage” of the certification process decreased substantially during the last year (from 46% to 32%).

Both, the time spent and the costs decreased comparing to the previous period. However, the main problem mentioned by Companies is the high cost of the certification.

The respondents' perception of the procedures trend is almost neutral – about 83% stated that felt no major changes during the previous year.

Hygienic certification

The coverage of the hygienic certification increased during the last year from 64% to 70%. From the other side the amount of the payments made, officially and unofficially, decreased. The time

spent in 2004 to obtain a hygienic certificate remained at the level of the 2003 year (2004 year survey). Usually companies are

Inspections

The number of the inspections decreased substantially in 2004. Although, almost a third of all the respondents feel the contrary. Only a few number of Companies reported no inspections. The frequency of the inspections made by the police and the sanitary authorities is the highest. However, the duration of the inspections made by them is the shortest. The longest duration has the Tax inspectorate visit, which increased during the last year.

The average inspection duration remained the same, but the visits frequency decreased. The level of the fines and unofficially payments decreased substantially comparing to the previous periods. Most of the respondents consider that the Law is enforced selectively.

Tax administration

The most serious problems perceived by the respondents are caused by the procedures of changing taxation and high sanctions for mistakes.

Pricing control

The level of the pricing control is increasing every year. About one third of all respondents are affected. The most diffused method is the limitation of the commercial margin.

Labour regulation

The labour regulation is considered by the polled enterprises to be less oppressive comparing to other state regulation fields. The only problem perceived as being important is the necessity to obtain and return the medical insurance certificates in due time (2 weeks).

Contract supervision

The number of businesses, which contracts are supervised by the state, decrease continuously during the last years and came to an insignificant level.

Promotion of the public servants' personal interests

About 6% mentioned that the public servants facilitate the company's activities, and another 14% hesitated when answering to this question. In almost all of cases initiators of the "help" were public servants. This phenomenon is increasing over time.

Legal system

The number of Companies that appealed to the Court when have to solve some conflicts decreased during the last year. However, it remained the most used method – more than 60%. The use of other methods to solve conflicts – unofficial requests, appeal to the state authorities – decreased as well. The satisfaction level of the business that appeals to the legal assistance is decreasing every year.

Table 62. Comparison of main indicators

| Indicators | Survey time | | | |
|--|-------------|-------|------|-------------------------|
| | 2002 | 2003 | 2004 | 2005 |
| Registration (including amendments to foundation documents) | | | | |
| Time, days | 22 | 26 | 28 | 23 (15+8 ⁵) |
| Costs, \$ | 132 | 137 | 142 | 78 |
| Share of respondents that made unofficial payments, % | 26 | 26 | 10 | 2 |
| Premises | | | | |
| Construction, days | 141 | 171 | 170 | 157 |
| Renovation and reconstruction, days | 32 | 53 | 73 | 66 |
| Construction, \$ | 764 | 1,082 | 716 | 374 |
| Renovation and reconstruction, \$ | 313 | 776 | 712 | 145 |
| Licenses | | | | |
| Number per average business | 3.0 | 2.2 | 2.6 | 1.9 |
| Time to get one license, days | 29 | 22 | 32 | 25 |
| Average costs, \$ | 522 | 456 | 517 | 303 |
| % Paid unofficially | 38 | 28 | 13 | 8 |
| Amount paid unofficially, \$ | 62 | 154 | 375 | 147 |
| Authorisations | | | | |
| Time to get one authorisation, days | - | - | - | 18 |
| Average costs, \$ | - | - | - | 174 |
| % Paid unofficially | - | - | - | 7 |
| Amount paid unofficially, \$ | - | - | - | 62 |
| Certification of equipment | | | | |
| Time spent to obtain a certificate of compliance, days | 14 | 21 | 23 | 13 |
| Average costs, \$ | 135 | 195 | 278 | 62 |
| % paid unofficially | 28 | 29 | 17 | 11 |
| Import | | | | |
| Time spent on import certification, days | 14.7 | 18.3 | 13.1 | 10.7 |
| Amount spent on import certification, \$ | 208 | 195 | 148 | 83 |
| Time for customs clearing, days | 4.3 | 2.7 | 3.0 | 3.0 |
| Amount spent for customs clearing, \$ | - | 400 | 552 | 114 |
| Export | | | | |
| Time spent for customs clearing, days | 4.4 | 1.7 | 3.5 | 2.2 |
| Amount spent for customs clearing, \$ | 78 | 104 | 223 | 82 |
| Certification of goods and services (batches) | | | | |
| Time spent to obtain a certificate, days | 13 | 11 | 12 | 11 |
| Total costs, \$ | 229 | 152 | 200 | 111 |
| % made unofficial payments | 31 | 28 | 23 | 13 |

⁵ The period of 8 days is the time spent at the Registration Chamber before documents are officially submitted.

| | | | | |
|--|-------|-------|------|------|
| Unofficial payments, \$ | 88 | 86 | 66 | 38 |
| Certification of goods and services (production line) | | | | |
| Time spent to obtain a certificate, days | 19 | 15 | 20 | 16 |
| Total costs, \$ | 255 | 347 | 198 | 163 |
| % made unofficial payments | 57 | 35 | 34 | 13 |
| Unofficial payments, \$ | 130 | 74 | 39 | 37 |
| Hygienic permits | | | | |
| Coverage, % | 59 | 59 | 64 | 70 |
| Time spent to obtain a certificate, days | 12 | 9 | 14 | 13 |
| Official costs, \$ | 42 | 55 | 61 | 53 |
| % made unofficial payments | 32 | 27 | 19 | 16 |
| Unofficial payments, \$ | 58 | 56 | 37 | 33 |
| Tax administration | | | | |
| Average number of taxes | 10.0 | 8.6 | 8.5 | 8,3 |
| Number of full-time accountants | 2.3 | 2.5 | 2.1 | 1,4 |
| Inspections | | | | |
| Average number of inspections per business | 16.6 | 19.5 | 18.1 | 11,4 |
| Number of days per year business is inspected | 93 | 48 | 27 | 19 |
| Fines paid annually, \$ | 1,418 | 1,280 | 683 | 83 |
| Pricing control | | | | |
| Economic entities subject to pricing controls, % | 19 | 28 | 31 | 33 |
| Average percentage of prices regulated by state | 19 | 16 | 17 | 21 |
| Contract execution | | | | |
| Respondents affected by the contract control, % | 33 | 18 | 12 | 7 |
| Legal system | | | | |
| % of respondents that applied to the state bodies in solving problems with economic agents | 47 | 45 | 29 | 23 |
| % of respondents that applied to the court in solving problems with economic agents | 79 | 86 | 86 | 69 |
| % of respondents that applied to the unofficial methods in solving problems with economic agents | 50 | 55 | 44 | 24 |
| % of respondents that applied to the state bodies in solving problems with state agencies | 70 | 52 | 68 | 26 |
| % of respondents that applied to the court in solving problems with state agencies | 73 | 74 | 79 | 64 |
| % of respondents that applied to the unofficial methods in solving problems with state agencies | 41 | 48 | 51 | 21 |
| Satisfaction level of those who applied to the legal assistance, % | 72 | 67 | 68 | 55 |