THE SYSTEM OF UNOFFICIAL TAXATION

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Acknowledgments

This study was conducted by experts of the IDSI „Viitorul" with support of the American Center for International Private Entrepreneurship (CIPE) in June 2006 – February 2007. The research aimed at analyzing a number of specific peculiarities of business environment in the Republic of Moldova characteristic to the phenomenon of „unofficial taxation", formulating conclusions and recommendations able to improve the business environment quality in the Republic of Moldova. We believe this subject has a decisive importance for a systemic and serious approach to unofficial economy in the Republic of Moldova, establishing causality relations between economic growth and business environment quality, between normative framework simplicity and subjective perception of small and medium-size entrepreneurs. Researching the unofficial taxation phenomenon has its excellence in formulating questions to which the state, through central government agencies, professional and business associations, political elite and academic community should answer in order to clearly define an economic model which would be optimal for the Republic of Moldova; what actions and policies can guarantee a greater functional stability of the business environment, of local and foreign investors, to what extent current taxation and regulation systems help and du not discourage private initiative? We wanted to understand how the nature of these relations change in Chisinau and in localities; what kind of resources play a decisive role in relations between central authorities and big businesses, as well as in the countryside; to discover both general and specific tendencies of economic and political adaptability of entrepreneurs to permanently changing rules of the game.

We are convinced that business autonomy from political power is the main element for effective economic and political stability of the country, as well as for the establishment of a sound and credible rule of law system. Within the framework of administrative decentralization, this development paradigm shapes an important goal of economic regulation framework policies simplification and a critical step towards building a functional economy. Our research represents an attempt to approach the complexity of relations between the state and the business environment, trying to establish reasons why certain things occur in spite of the normative framework, mainly through influence of some unwritten rules or 'inertial habits', or suspicious motivations, that build up many especially negative effects and outcomes for the entire society.

We ascertain that the state levies double or even triple „taxes" on the business environment. The large majority of economic entities in the Republic of Moldova have to pay along with official taxes, established by the legislation, important payments of a regular nature to public authorities in form of „imposed donations" and „requested by state bodies social assistance from the business sector", thus setting up a rather ambiguous and unbalanced framework of relations between the state and the business. We point out that all of these „unofficial" relations, as a matter of fact, set up a parallel taxation system, through which, a part of business, in complicity with certain administrative authorities is able to negotiate for itself various advantages and „transactional" benefits, a situation which nourishes political clientele, unbalanced application of legislation and various antisocial behaviors (most often known as: corruption, economic protectionism or favoritism). These phenomena deserve an extremely serious attention of decision-makers and civil society as a whole.

Until recently, problems that appeared in relations between the business and the authorities in Moldova at unofficial level have been seen especially through the prism of shadow economy, corruption and bribery. At the same time, shadow economy represents only a part of a much larger unofficial economy and corruption only one of the most evident forms, which is far from being the only manifestation of unofficial relations of political and business elites in Moldova. Defined as a „systemic abuse" or as „coercion to participation" the phenomenon of unofficial taxation does not represent a form of corruption, but can generate it; it is not a derivative of bribery, but creates it through its forms of manifestation; it does not imply components of organized crimes, but contributes to creation of such a system where „imposed constraint" and „administrative guardianship" represent indispensable elements for maintenance or development of businesses. These distinct features attribute to unofficial taxation some particularly dangerous effects, because those help in setting up an exclusively clientelist, oligarchic and unjust system.

Concepts of „unofficial taxation", „coercion to charity", „imposed sponsorship", „voluntary social contributions" are no longer some inoffensive terms which describe entirely some situations when public authorities in need resort to business, but rather describe a severe functioning problem of the political and administrative system, which procreates fiscal evasion and preferential regimes for those who offer resources to „political clientele". Thus, unofficial taxation has transformed into a system of parallel taxation, which claims the right of separate existence form the official system of taxes collected by the state through its multitude of fiscal agencies, and, as a consequence, influences the country political agenda.

Evidences collected during personalized interviews and focus groups organized for this purpose are confidential, in order to protect our information sources, questioned in this regard. We have tried to describe when, how and why these contributions are ultimately paid by the business. We sought to evaluate the volume and frequency of these payments according to questioned business categories and the nature of purposes these contributions were demanded for. The applied methodology allowed us to work not only on the basis of some official statistics and reports, but also on the basis of certain qualitative data, collected during the aforementioned time period through personalized interviews and some focus groups, conducted in a number of the country localities.

We mention that a „captured" state, usually describes setting up and functioning of informal rules, which are preferred to official normative framework, facilitating transfer of values (financial, material, or of any other nature) from the business sector to decision-making structures, as a tribute of clientele and prone-to-corruption political system. The result of „voluntary participation" of business in various ideological „constructions" or „building yards" produces effects not only on businesspersons, but also on administrative and political decision-makers; it either corrupts them, or creates a superiority complex based on a false idea that they can manage by administrative means capitalist economy entities. In such conditions, we can talk about symptoms of a „captured state" in the Republic of Moldova.

Thus, we can observe that currently the phenomenon of „unofficial taxation" accurately reflects a rather tensioned and asymmetrical situation between the public authorities and the business environment. Business survives only in case when it silently and implicitly accepts its dependence of this system of unofficial relations, while the complexity of relations between state authorities and business is determined by lack of trust in justice power, existence of an insufficient, or underdeveloped legal framework and lack of a rigid delimitation between business and authorities. Without eliminating instruments through which administration abuses its power instruments it will not be possible to eradicate „the big corruption".

We hope that on the basis of recommendations and proposals of lex ferenda, presented at the end of the study, civil society along with representatives of business community and democratic political forces will be able to interfere in on legislative level in order to bring into accordance the normative framework and existent practices with norms and standards that would guarantee a democratic and prosperous development of the country. We are convinced that more attention will be paid to these aspects from now on.

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ABBREVIATIONS

LPA	Local Public Administration
BEEPS	Business Environment and Enterprise Performance Survey
WB	World Bank
CCECC	Center of Combating Economic Crimes and Corruption
CDB	Costs of Doing Business
EEC	European Economic Community
CEMI	Central Economics and Mathematics Institute
CIPE	Center for International Private Enterprise
CIS	Commonwealth of Independent States
CSRC	Conflict Studies Research Center
EBRD	European Bank for Reconstruction and Development
SIFM	Social Investments Fund of Moldova
IMF	International Monetary Fund
SMSE	Small and Medium-Size Enterprises
MACPI	Moldovan-American Center for Private Initiative
MFAEI	Ministry of Foreign Affairs and European Integration
MEC	Ministry of Economy and Commerce
OECD	Organization for Economic Cooperation and Development
CPRM	Communist Party of the Republic of Moldova
GDP	Gross Domestic Product
ROSC	Reports on Observance of Standards and Codes
NSPCPM	National Scientific and Practice Center for Preventive Medicine
EGPRS	Economic Growth and Poverty Reduction Strategy
ISS	Information and Security Service
EU	European Union

1. INSTITUTIONAL FRAMEWORK AND RELATIONS BETWEEN BUSINESS AND PUBLIC AUTHORITIES IN MOLDOVA

1.1. "Unofficial taxation": methods of assessing relations between authorities and business

This study aims at defining the structure of relations between the state and business environment through the effects that regulatory policy has over the quality of business, how these policies are perceived by the business entities, and which are the implications that certain "unofficial" rules existing in Moldova produce over the general economic growth and economic trends. The study has integrated various types of data: statistical, analytical, subjective and synthetic. Qualitative measurement of business community perception was performed in June – December 2006[1]. Questions formulated within focus groups and personalized interviews aimed at evaluating the institutional framework and current relations between the state and the business, evolution of regulation policies and conditions necessary for shaping of a public-private partnership in the Republic of Moldova.

The study also aims at diagnosing "position roles" between business and public authorities in the Republic of Moldova in the process of their interaction, having as main subject payments demanded from business by authorities in a form of donations and assistance, supplementary to official taxes paid currently by them. Lack of information about the informal sector of the national economy of the Republic of Moldova, deficit of essential data for evaluation of the level of cooperation and interaction between the power and the business during the transition to market economy period requests from the very beginning to clarify the concepts and methods we will resort to, included in this study.

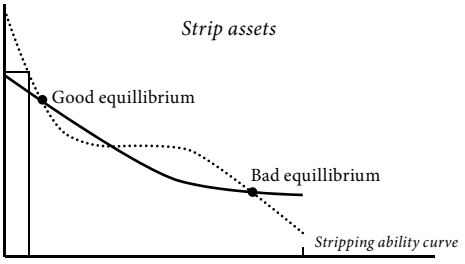
Thus, by "unofficial economy" we understand "any economic activity outside fiscal evidence and official statistics". By "system of unofficial taxation" we understand "a sum of informal rules, accepted or less accepted by authorities and business representatives through which financial and material resources are collected for arbitrarily defined purposes". By "public authority" we understand "any administrative entity invested with (1) distinct public competences and, at the same time (2) with the right to take decisions compulsory to economic entities and/or with power to control their execution". By "business"

[1] See methodology applied within this research in Annex # 1

we understand "all entrepreneurial structures, which carry out economic activities on the market in order to obtain a commercial private profit".

Non-institutional economics theory (Krouz R, 1993; Willamson O, 1996; Nort V, 1997) correlates unofficial payments to one of transactional costs[2] categories. Unofficial taxation appears at the moment when certain actors of the institutional framework – public authorities – whose mandate would be to guarantee from the legal and economic viewpoint, the fulfillment of guarantor obligations of the "rules of the game" and producer of public goods – infringes this mandate, exceeding the functions established by law and thus disrupting the "rules of the game" in the economy. In this context, we have resorted to a number of outstanding bibliographic references (studies, articles, analytical reports, which are of utmost importance for the understanding of the post-communist transition mode, such as: Stiglitz J., 2006; Nort D., 2004; Радаев B., 2005; Stiglitz J., 2004; Roderic, 1999; de Melo M., 1995), trying to assign causality and interconnection links to identified cases and analyzed institutions (Nort D, 1997; Polterovich V, 1999), bringing explanations to the relations between macroeconomic changes and existent institutions efficiency[3]. Finally, we have taken into account considerations and conclusions presented in the latest works of J. Stiglitz[4], where it is emphatically demonstrated the idea that mass privatization, without establishment of relevant efficient institutions, which would limit the possibility to withdraw assets from privatized enterprises substantially lowers the need of a state based on the rule of law.

Figure No. 1 Institutional Design of the Market-Based Transition



Source: The Transition from Communism to Market: A Diagrammatic Exposition of Obstacles to the Demand for the Rule of Law, Karla Hoff and Joseph Stiglitz, WPS3352, March, 2004, p. 11.

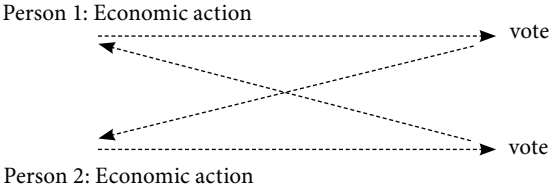
[2] Transaction costs are costs which represent expenditures connected with entering of exiting a market, access to resources, transmission, specification and protection of property rights, conclusion and maintenance of business relations.

[3] Victor Polterovich, Institutional Traps and Transition, CEMI and New Economic School, 1999.

[4] Karla Hoff, Joseph E. Stiglitz, The transition from communism : a diagrammatic exposition of obstacles to the demand for the rule of law, American Economic Review, 94(3), June 2004.

Moreover, J. Stiglitz proved that in such post-communist countries as Moldova there is a real connection between economic activity and political position of certain participants to mass privatization.

Figure No. 2 Interdependence between economic actions and political positions



Source: The Transition from Communism to Market: A Diagrammatic Exposition of Obstacles to the Demand for the Rule of Law, Karla Hoff and Joseph Stiglitz, WPS3352, March, 2004, p. 18

J. Stiglitz expressly and quite correctly labels some of those persons "kleptocrats", who will use their political and economic influence and connections for impeding emergence of the rule of law, until the moment when incomes from withdrawal of assets in conditions of a weak state surpass incomes from the legal protection of property.

Another conclusion underscores the interdependence between economic and political activities of individuals and the system of independent justice. Particularly, it is stated that a radical macroeconomic policy weakens the output from increase in the value of comparative assets and thus also weakens the need for a state based on the rule of law and respect of individual rights.[5] In specialized literature, various models of interdependence between public authorities and business are presented, as a mean of communication and partnership in conditions of establishing the rule of law and transition to market economy.

Usually, there are the following models of relationship between public authorities and business: ideal, national, statutory and institutional.

The Ideal image reflects, in fact, a theoretical model of the way in which these relations should be built up "in conditions of an ideal market economy". This model describes the role of interdependent actors as follows: "actors, who represent business interests, agree on the rules of the game, and entrust control

[5] J. Stiglitz, 2006. "Broad private ownership didn't create a constituency for strengthening and enforcing the new Civil and Commercial Codes. Instead, company managers and kleptocrats opposed efforts to strengthen or enforce the capital market laws. They didn't want a strong Securities Commission or tighter rules on self-dealing transactions. And what they didn't want, they didn't get."

on observance of those to an arbitration institution, i.e. the state, as a structure that offers firm guarantees of honest games among the actors". Obligations of parties within this model are established in such a way that business undertakes the responsibility to pay taxes and to produce economic consumption resources, while the state guarantees favorable conditions for functioning of the business, a predictable and stable climate, able to encourage development of business environment, production of public goods necessary for business reproduction, through a multitude of its components (production infrastructure, social, financial and institutional resources).

Institutional approach gives the possibility not only to describe symptoms of the phenomenon of unofficial taxation, but also to analyze functioning of the system existent in the Republic of Moldova of money collection from the private sector. In research literature on this subject, there are clearly distinguished two analysis methods of unofficial economy – structural and institutional. Institutional approach describes "unofficial economy" as being a "sum of unofficial rules", which regulate economic entities behavior at the same level with the official ones and regards unofficial economy as a basic element of understanding real economic processes. The authors of this study have followed this very approach, however studying not only the phenomenon of "unofficial taxation" in its academic definition, but also its practical aspects, related it to the system of illegal collection of unofficial payments existent in the Republic of Moldova.

Table No. 1. Models of interaction between business and public authorities

Ideal Model „how it should be"	*National Model „how it is"*
Statutory Model Norms, formal rules and practices	*Institutional Model Norms, normal and informal rules and practices*

When describing of peculiarities of relations between the state and the private sector – three interaction zones are distinguished usually: white, black and gray. The "white zone" contains official practices, such as: fiscal regulation of relations through legislation, administrative and economic regulation of business (registration, licensing, control and enforcement of established norms observance etc.), auctions for public purchases, other government contractual works, as well as other benefits granted for "merits" considered as such by bureaucrats. The "gray zone" contains illegal practices of the money

squeezing out of businesses, not necessarily related to corruption and practices of unofficial negotiations with authorities of concrete business functioning conditions. The "black zone" contains unofficial practices, illegal and criminal, especially corruption.

Table No. 2 Areas of interaction between power and business

„White zone" contains formal practices:	*„Gray zone" contains unofficial practices:*	*„Black zone" contains informal practices, especially:*
- fiscal relations - regulation of business - tenders and auctions	- financial resources taken out from the business, but which are not necessarily corruption phenomena - practices of informal negotiations between business and power of conditions of functioning of certain types of businesses	- illegal practices - criminal practices, corruption

A distinct feature of public-private (state-business) relations in the "gray" and "black" zones is associated with unlawful advantages, selective nature and favoritism used in application of sanctions connected with business investments in maintenance of useful relations with authorities. The "white zone" is based on setting up single game rules for all entrepreneurs and on enforcement of observance of these state imposed rules, without exceptions in case of infringements. The "black zone" and the "gray zone" on the contrary favor setting up and maintaining preferential rules and selective application of sanctions by the state in case of infringements of official norms. They are based on "good relations" between business and authorities. Relations in the "black zone" are based on individual interests of a certain official, while the instrument of fulfillment of the interest is bribery and involvement of the official in business.

Specific national features of the "gray zone" in the Republic of Moldova are linked to the existent system of inter-budgetary relations and problems of local development. If, in the Republic of Moldova, forms of interactions between officials and entrepreneurs in the "black zone" on a whole coincide with general corruption features in other countries, then in the "gray zone" practices of the economic system of Moldova there are specific particularities, affiliated

to existing relations of local inter-budgetary systems and the local official institutions need to solve local development problems. The "gray zone" relations are based on interest of parties to survive in the territory, an instrument of fulfillment of the entrepreneur's interests becomes voluntary or voluntary-enforced contribution (in form of money or goods) to supplementary financing in the territory where he carries out activities. Violation of the principle of separation of private sector from political power, in the space referred to as the "gray zone", is generally characterized by: *(I) predominance of informal*[6] *norms and rules over the official normative framework, (II) selective character of application of sanctions and (III) interventionism of the state decisions into the private business sphere.*

State intervention in economy in its turn is characterized by a number of distinct traits, among which we underline: (a) combination of official and unofficial norms and rules, with an explicit prevalence of the latter; (b) selective application of the state coercion and the fact that unofficial practices, as a rule, do not directly violate legal norms; (c) authorities employ illegal practices for performance of their functions, turning thus from a guarantor of the "rules of play" into a "playing referee".

The widespread traditions of instituting informal relations between the business and the power, as well as acceptance of mechanisms that transform formal rules into "amenable ones", originate in the Republic of Moldova and in other former soviet countries in the soviet system of command economy.[7] The system of unofficial taxation represents a phenomenon attributable to the

[6] Duglass North understands by „informal rules" in his monograph «Institutions, Institutional change and Economic Performance», 1996, means „rules that are established voluntarily in the process of numerous relations between actors, as a tool of reducing transaction costs. Thus, a formal rule in the author's opinion is „a formalized informal rule". In other words, from the beginning we attest appearance of contradictions to questions related to a certain social behavior, to which, somewhere inside the economic system a certain reply is elaborated, which ends to be codified in a statutory act legally adopted. The informal rule appears as an action of stable crystallization of certain behavior rules, while the informal rule as a peripheral behavior in a changing dynamic. If to transpose these definitions on relations existent in the Republic of Moldova, where the law transformed as a result of elimination of the soviet legal system, did not followed the same logical trajectory through codification of „collisions allowed/approved" by the society and respectively, representation about laws as „actions of stable crystallization of a nucleus of social behaviors" does not fully materialize. This situation explains to a certain extent the „quite loyal" attitude to the existing difference between juridical norms and everyday conventions, while any reference of actors to the power of law creates problems or are regarded as „radical measures".

[7] Features of such relations have been excellently described by the theory of "dependence on the previous development pattern".

enormous mismatch between the legislative norms and the practices of public institutions and private sector operation. It has been repeatedly argued that the legislation in the Republic of Moldova does not function altogether or functions very poorly.[8]

Especially extensive ramifications of the "gray zone" in Moldova have been linked, during last years, to the specific of the system of transfers between various levels of governance, seriously affected by the lack of efficient progresses in the process of fiscal decentralization. More often this phenomenon has produced decisions of placing legal responsibilities on local authorities' shoulders in the absence of adequate financial support and thus a desperate search for extra-budgetary resources for covering, more than obvious, shortages in local and district budgets, regardless of the type of institution and level of public authority. At the same time, the official amount of local budgets deficit does not even slightly reflect the volume of insufficient financing of territories.

1.2. Institutional and legal risks for the private sector in Moldova

The system of unofficial taxation represents a state of affairs which appears from the great disparities existing between the legislative framework (laws, normative acts, regulations) and effective practices, which shape the every-day life of the most dynamic actors of the society: business, private entities and public organizations. It has been repeatedly stated that in Moldova the laws are poorly implemented[9]. The natural conclusion drawn from this statement is that, despite the adoption of relatively good laws or even perfect laws, there is good chance that informal rules would prevail in the end over many interrelated economic and social practices. This situation comes to a great surprise to the politicians who believe that reforms mean usually adoption of new laws. Equally true is that the prevalence of unofficial rules over legal norms creates a parallel world, with their myriad of tricks and secrets, rather far from the intended objectives of the political elites and ordinary citizens. To assess the intensity of this sentiment, we had collected several statements from the business-respondents, included in our national-wide survey:

[8] Nations in Transit, 2003, 2004, 2005, Freedom House, Democratization in East Central Europe and Eurasia, Rowman / Littlefield.

[9] Ibidem.

«… there is a big split, in our country, between what is officially stated and what really happens. Unfortunately, the state authorities look at the business environment as to an evil that has to be tolerated somehow, and not a possible partner. And when they talk about partnership they think only about the ways of taking some more money from our pockets. Small business is looked at with great disregard and even aggressively by some of the officials, and this is like we have always been against the interests of the state, and not for the state". (FG)

Lack of a national consensus on the direction of social and economic development, foreign policy priorities and the "European choice" as a long-term evolution strategy, has been continuously pressing towards the creation of a legislative basis in Moldova outside the space of the European legal doctrine, accompanied by massive imports of legislative norms and institutions alien to the jurisdictional specifics and to the continental-European regulations.

Contradictory nature of adopted legislation has created in its turn a favorable environment for ambiguous interpretation of laws and their selective application, in the interest of a small but influential group of kleptocrats that weaken trust in power of law and impartiality of judicial system. In an interview with an influential business person, examples of "legislative traps" specific for Moldova are presented:

„…it is very unfortunate that we've launched our market reforms before setting up where we wanted to go (integration in EU or CIS. Market economy or state-monopolies), thus, today we witness the results of incomplete reforms, for instance the capital market is rather dead than alive... but what can one expect if the privatization model was Czech, the model of capital market – American and the model of laws implementation was soviet..., or let recall that the law on joint-stock companies entirely repeated the Russian model and was adopted in the forth reading!".

In Moldova, as in other post-Soviet economies, an environment has been created, in which every official institution is entangled in unofficial relations[10] and personal contacts that prevail over the institutional tasks devolved on these public authorities. Absence of healthy traditions of operation of the public service, protected from influence of the governing groups, favors dependence of bureaucratic apparatus (public officials of any category or rank) of the length of political cycles, as well as of the way political power appreciates the loyalty level of public service to own party interests.

[10] We perceive the term "formal institutions" as the legislative-statutory basis, representing the foundation for the operation of institutions of state power, and the term "practices" as the operation of such institutions.

On the one hand, this contributes to the cultivation of a conditioned reflex among civil servants to perceive their mandate according to ideological affiliation and not individual performances. On the other hand, this transforms the logic of alternation in power in almost personal dramas, for those who cannot fulfill their duties of public officials without the political umbrella to which they are attached, or for those who are released from their public services due to the fact that they are not seen as loyal to the political group in power. This foments dangerous reshuffles in the public service, and allow stability of jobs only for those who prefer to serve as 'party guardians and servicemen' and not public 'guardians' and honest servants of the society.

As a result, public institutions slowly change into genuine intercommunicated vessels through which ideological directives and not critical thinking on possible political options circulate. These institutions are subject to a kind of successive mutations and as a result become unable to exert their fundamental functions: to regulate established rules of the game. Period of weakening of institutional systems inevitable for all societies in transformation in our case has extended and has taken a firm and stable form: the society has found itself in a situation unknown until now - "of permanent institutional instability"[11].

Interviewing our experts reinforces this conclusion with concrete examples:

„…recently, a peculiarity that reflects general weakness of administrative structures is characteristic to the public authorities in Moldova, i.e. ... incapacity to formulate policies and visions in political categories". This lack of policy-making capabilities is substituted in the best case by drafting laws. As a result we have a multitude of laws that do not function, which are not backed up either financially, or organizationally and which, create, on one hand, a basis for feverish deregulation activities, and on the other hand – prerequisites for selective application of legislation "when it is necessary" - has pointed out one international expert.

Among the large number of reasons determining the relation between official norms and real practices in post-communist transformations, as a rule, four basic causes emerge: (I) legislative value; (II) eligibility/selective application of legal-official norms; (III) efficiency of control on behalf of the state over observance of laws and norms; (IV) level of information of social players. Since practically all these requirements are violated, as it happens in the Re-

[11] Капелюшников Р. "Где начало того конца? "(Notions on the institutional nature of societies in transition). "Вопросы экономики", 2001, №1.

public of Moldova, it is hard to rely on the fact that the legal system emerging in Moldova shall operate efficiently, and that the gap between official norms and unofficial practices shall decrease.

Among the main obstacles for the rule of law, interviewed respondents within this study have mentioned the following:

(I) *lack of systematization when creating an aggregate of legal-official norms.* The established legislative basis is incomplete, contradictory, many norms are really unrealizable in current conditions, while emergence of some laws per se is frequently conditioned not by "building a firm core of the established regime"[12] , but rather by a bizarre perception of the process of developing acts of legislation or by the demand for certain laws on the part of different interest groups. At the same time, there is nothing more detrimental to a legal state than establishment by leadership authorities of some legal norms, which are unrealizable ab initio, without the conditions required for that, undermining thereby irreparably the conviction in the incontestable and compulsory nature of laws.

(II) *liberal economic norms. old social concepts and expectations of mass groups.* Thus, "the major expectations of population, related to state obligations, combined with the established practice of "cheating the state", underlie the paternalist pattern of transformation of the RM".

(III) *insufficient state control over law enforcement and lack of efficient management mechanisms.* A widespread practice is when the state inspection authorities are used to record offences, when the results of inspections, even upon being published and having acquired a considerable resonance, do not entail any constraint actions.

(IV) *level of information of social actors about legal official norms that regulate various kinds of activities.* The greater part of Moldova's population is not educated adequately as regards institutions and legal norms, governing their life and aimed at regulating their behavior. Many of them, including those engaged in entrepreneurial activity, acquire knowledge about the laws currently in force and about their rights not from official sources, aimed for legal training, but rather from past social experience, occasional messages in the mass-media, from inspection authorities, from communication with neighbors, friends, and colleagues.

"Laws are badly known", also "there is a stability only to protected businesses" because "in our country the laws are done in order to be infringed,

[12] Douglass North, "Institutions, Institutional Change and Economic Performance", Cambridge University Press, 1996

first of all by officeholders" and, as a result "from the very start of a business a businessman already has a preset stereotype, a strategy and a tactics elaborated by him or voiced by somebody else on how to evade paying taxes and, if you want, how to evade a free competition. Otherwise he will not become competitive"(FG)

Thus, we can ascertain that laws are not implemented and relations between the state and the business community are based mainly on an informal framework. Accordingly, major changes meant to regulate the general and particular framework of relations of guaranteeing the ownership rights, protection of rights in justice, developing new businesses, or regulation of the "rules of the game" (including through autonomous regulation agencies) are continuously shadowed by the role of informal over-personalized relations, often of criminal nature, between the business and the state. Ultimately, these practices become an integral part of new public institutions, conditioning their deviation and regeneration comparing with foreign models[13]. In politics such tendencies appear when the state keeps important control instruments over public press that generates discomfort at the political level and bureaucracy resistance to changes, keeping in "secret" of important public interest subjects and also manipulation with public opinion in electoral interests.

Excessive state intervention in private business is motivated, by the following factors: (I) overregulation of economic activities; (ii) lack of transparency during adoption of formal rules; (III) selective nature of legislation application; (IV) discrepancy between formal and informal institutions.

Discrepancy between legal and daily norms, extremely typical to post-Soviet states, manifests itself especially when various economic contradictions and controversies emerge; in such cases decisions are taken not "in compliance with laws, but in their shadow". In other words the law is not perceived as a routine way of settlement or conciliation of conflicts, but as a "cover measure", often unwanted by parties involved in the conflict.

«…what court trial???! ... I better come to an understanding of any kind than go to court, because if you decide to go to a court for "justice", one needs so much money that no one could afford to lose. The same is true for good lawyers. For me to consult a lawyer is like it was in the childhood to go to a dentist... notaries are so-so, but lawyers! thank you, but no! do you think they will solve my problems? They will better use you to resolve their own problems, here (in Moldova) this is a very foggy affair... and no guarantees that the trial will be honest and

[13] V. Polterovich, "Institution traps: Is There a Way Out?", Social Sciences, 2005,v.36, N1

independent. If you want to pay, then you first should know if the other part will pay no more. That is what they (lawyers) say, but you know yourself how things are here... But I also will not be brought to court, we do not live in Paris... we always come to an agreement, its better and cheaper this way…» says a medium-size enterprise manager.

In the Republic of Moldova stable practices of "cultivating relations" according to the model "how it is necessary" and "how it is no way possible" to behave in relations with control bodies have been established. An action of "searching for justice" or filing an appeal against an abusive decision is usually regarded as "inappropriate" by officials and even by entrepreneurs themselves. Common perception is that entrepreneurs that take to court a decision that, in their opinion, is abusive commit an offence against the acting "control bodies" for which, regardless of the final court decision, they will find out necessary to impose sanctions on business, so that no one will dare to follow the example of challenging them. Thus, one may see quite a good deal of 'informal rules' flourishing in the relations between the business and the controlling bodies, and that is how the entire system actually functions.

When the government influence upon judiciary is considered to be essential in judging various economic cases, appealing to justice could mean to some of the officials a challenge of power itself, and this has its costs. Many would tell you immediately that this kind of behavior is "unreasonable and blameworthy", first and foremost for future business development. Non-fulfillment of official rules, in a situation when certain regulations can and others cannot be fulfilled, may produce preconditions for seeking "subjective deals", very widespread in Moldova, as well as in other former Soviet countries, as which, as long as "everyone does it" it is not logic at all to apply the law and "they will not catch everyone". There have been established quite stable practices of "how one should behave with control institutions" and how to avoid testing their anger, as they have large possibilities in preserving and implanting clientele relations. Thus, it does not surprise us to find out among businessmen various successful strategies:

«…they imposed a fine on me and I had to go to the Praetor's Office[14]; there they suggested to me to employ a consultant for a quarter-time job for 100$ per month, but she (the consultant) was only 20 years old, however she has the same, very uncommon, surname as the Praetor's Office official».

[14] Praetor: Municipal official, appointed by the Municipal Council in Moldova to oversee and implement municipal policy and activities. Chisinau Municipality has 5 preturas (sectors), which are directed in Chisinau by 5 Praetors.

But, there are also strategies that do not yield the desired results, and thus are considered as "unsuccessful":

«Chairman of Orhei rayon has instigated the Financial Guard against the business operators, who refused to finance a museum complex, as well as a church reconstruction, a monument to heroes of the WWII and putting in order the adjacent territory. You can imagine that during 2 weeks we - all local and central control agencies had a headache and as a result some firms were forced to close down»[15].

As a matter of fact, there are many situations when justice and law enforcement bodies are used as one conflict part "resource", instrument used exclusively to punish "the one who crossed over the line".

«…all people know who decides in our country, who should live "according to the law" or be exempted from taxes... it is clear that this depends on the good relations with the "upper crust", but at a certain moment maintenance of "good relations" becomes rather expensive for the business... and then you are either removed from the market or your business changes the owner, or you should build up such a business that they do not understand where the profit is coming from... this is really a minefield...».

The above was stated by an entrepreneur who took the decision to move his business from Moldova to a neighboring country. Non-fulfillment of official rules, in a situation when certain regulations can and others cannot be fulfilled, produce preconditions for seeking "subjective deals", widely spread in the Republic of Moldova, as well as in other former Soviet countries, after which, as long as "everyone does it" it is not logic at all to apply the law as "they will not catch everyone". It is worth mentioning that in real terms the expression "all" means that there is at least an action plan originating both in business environment and control structures, which verifies these schemes in order to facilitate transfer of benefits.

«I believe I will not make a mistake by saying that in our country those who really understand well the crossing line between "legal and illegal", see the border lines that should not be crossed, succeeded in "business" especially nowadays, because tomorrow all these can change... I believe I did not get a legal case because... I have had an inventive attitude, balancing between development (of the enterprise) and law, because it is simply impossible not to commit offences... for example with my accountant we calculated that with the taxes that exist today in our country we had had to pay around 99,9% …» – from an interview with a prosperous businessman, one of the leaders of the Moldovan business community.

[15] Молдавские ведомости, N76, 1 ноября 2006.

Nonetheless, it is well known that official taxes are far from being the only payments an entrepreneur has to pay today in the Republic of Moldova.

„This is a contextual discussion, we speak about income taxes as it is often discussed; in our country the income tax is very low - 15%. But, we forget about indirect taxes – 20% VAT that sums up to 35% , well, it is not a direct sum, but to give an idea. Local taxes emerge, thus emerge expenses linked to dealing with administrative structures, which are involved regardless of our will. In this case, it is very clear that those that have capabilities, on one hand gamble and on the other hand have the protection of those who cover, beginning with law enforcement structures, Center for Combatting Corruption and Organized Crime (CCCOC), police and so on. Thus, those who do not assume this fact and want to openly enter into business, from the very beginning are not competitive. I talk about the price", - argues one consultant of Moldovan business.

Unlike the entrepreneur, for whom fulfillment of law provisions is just "one of the strategies to optimize the business", a civil servant sees fulfillment of law as a "maximum possible sanction in framework of some economic transactions". In this case incompetence of official rules leads to even worse consequences, especially in "victim free" situations, when, on one hand, an entrepreneur is the offender and on the other hand a civil servant represents the state.

«Center for Combating Economic Crimes and Corruption charges MegaDat. Com company with misappropriation of a building through "transfer of building ownership rights in contravention with the law", while the defense bases on the fact that in this case there is no victim, because the participants in this 4 years old transaction do not have any claims to each other».[16]

Favoritism and selective application of legislation is the most notable feature of the existing relations between the economic entities and the fiscal supervision authorities in the Republic of Moldova. The well-known formula, according to which "the laws do not function, but are applied" is quite tipical in the Republi of Moldova, and it is realized through operation of a legal regime on two levels: (I) in the regime of the norms currently in force that form the real framework of operation of the business, the observance thereof is hard to pass by, such as, for instance, payment of VAT; (II) in the regime of *applicable norms*, which are *"infriged by everybody"*, but the sanctions for their violation are applied selectively.

[16] More details and an interesting point of view on this subject can be found on the address: http://www.reporter.md/ru/Interview.asp?NewsType=FullDocument&idDocType=3&idDocument=94470.

In addition to the legal regime in two levels, experts also mention presence of two kinds of companies in the RM: among which the group of those *"especially privileged"* is outlined in the foreground – those who easily obtain various tax remissions, privileged access to contracts for the performance of public works, "green light" to any investments they want and, as a rule, a favorable regime in terms of "ad-hoc inspections" and "the others" - those who face consequences of continuous discrimination as a result of legal system erosion through "informal" exceptions from formal rules. In fact, the regime of "especially privileged" can be perceived as a model of stability in conditions of a vulnerable economy, rather unstable in terms of domestic regulations, which tunes "informal" rules as a genuine "safety belt" against any investment risks.

«All participation activities, tenders, auctions, and too many things are done in the way as they are done in our country, often differently from how it should be done right. I do not want to open the brackets here... but I want to say that it is always done incorrectly for one simple reason, when we participate we offer a real price, but then comes other participant and offers an unreal price, a much lower price for such volume of work, paying and doing many dirty and dishonest things... But when emerges this factor of "coercive" participation to a state guaranteed financing, in capital investments... this year I have lost two auctions and last year I lost too.» says a manager of a big construction company.

Finally, the most important distinction of the empirical data obtained by us, corroborating the hypothesis of the study, lies in the fact that the formula "everybody breaches" and "everyone can be caught cheating" is perceived by businessmen and by civil servants as an expression of the state arbitrariness per se, which violence is applied rather systematically than episodically to subjects-taxpayers, according to the whims and mercenary needs of the state administration.

This "leviathan" authority of the state is not limited by a framework of certain corruption corridor as, for example, in the West. In the Republic of Moldova the very possibility to apply unlimited sanctions, in any moment, results in business community tolerance to abuses, as well as in the feeling of "absolute power" one civil servant can apply to individual entrepreneurs, generating replication of similar scenarios as instruments of pressure on business. Most often these instruments contribute to institutionalization, through informal agreements, of informal rules accepted by both parties.

«There are outrageous cases when rayon administration conditions business access to various economic benefits (agricultural fund) by loyalty and individual contributions to rayon. Thus, diesel allocated to farmers is distributed only to selected persons, those who do not dare to think not to pay».

«… Everyone perfectly understands that there is no charity... it was interesting to hear how veterans at the opening ceremony were speaking almost the same thing, but in loud voice, as if especially for us, the "sponsors" to hear it...» , shares his opinions a leader from a rural community.

«…this is already a classical autochthonous material, when the political power changes, Entrepreneur X has big troubles with fiscal control bodies and these continue until Mr. X participates in a project of supplying with computers of the village school and everything comes back to normal...», from an interview with an entrepreneur involved into the "computers" deal.

One of the basic contradictions, which limits progressive development of political and economic transformations in the Republic of Moldova is that formal right of ownership of economic assets is secondary as related to opportunity to actually control economic, administrative, and media resources. Legislative and institutional risks emerge due to deformations that have occurred in the process of social transformations or of some incomplete or prematurely completed stages of transition to a market economy.

1.3. Legal framework and existing practices

One of the main contradictions, which limits progressive development of political and economic transformations in the Republic of Moldova is that formal right of ownership of economic assets is secondary as related to opportunity to actually control the economic, administrative, and media resources. Respondents surveyed by us in questionnaires[17] state univocally that the title of ownership without a real control over resources in the Republic of Moldova does not mean almost anything. Moreover, the respondents argue that the title of ownership represents a natural attachment to the instruments of real control over assets; such control can also be set up without purchasing property. Evidently, under such conditions the system of the right of ownership, including the right to private property, does not represent an axiom guaranteed by the law. This distinct feature of the institutional system in the Republic of Moldova testifies that neither loyal behavior towards the legislation currently in force nor even the compliance with the "unwritten rules" automatically guarantee protection for the rights of ownership, including the safeguarding of legal owners against some attempts, frequently forcible ones, on the part of some subjects, who are stronger in the economic, political and administrative terms.

Authorities do not trust business community sufficiently, while the latter, in its turn, does not trust the political power; while population does not trust

[17] Costs of Doing Business, Final Report, Chisinau, June 2005, BEEPS/MD, February 2006.

either the power or the business, inasmuch as the guarantee of performance of obligations by economic entities is offered not by the state institutions, through legal institution, but rather by opportunities and possibilities to which one can have access, outside the formal legal framework. Possibilities can be bought or inherited, in a situation when certain business circles are "co-opted" to the group of "business entities privileged by the state", composition of this group having a changeable geometry, fluctuating in dependence of the current mood of the political decision-maker. Deficit of trust in its turn leads inevitably to limitation of the horizon of economic planning for every economic subject apart, when long-term investments can be ventured only by the strongest, confident of their "informal authority" capacities and influence over some decision-making structures. Certain scandals in the business sphere demonstrate that sometimes even the partnership assumed in relation to the power does not spare one from the risk of losing the business.

In this context, it is noteworthy that even such organizations with reputation as EBRD[18] have not been able to avoid business failures, in the Republic of Moldova, generated by initiatives of some corrupted civil servants or green-raiders[19] protected by the political power. Even for the few foreign investors in the Republic of Moldova investments are linked to increased risks and, as a rule, they considerably reduce the attraction of credit resources from private investors in decent conditions[20]. For the greater part of businessmen, terms of concrete planning of business and that of profitability of investments are limited to maximum 1.5 – 2 years, that practically leaves out the possibility to enter big perspective markets or access high-end technologies.

Mass disregard of minority stakeholders' rights in the Republic of Moldova, as well as in other countries in transition to market economy leaded to over-concentration of capital in hands of kleptocratic groups, which make fabulous profits out of operations with assets and property takeover on the background of institutional weakness of the state and conscious limitation of independent justice application demand[21]. Already back in 1999, the Nobel Prize Laureate Josef Stiglitz demonstrated that conducting a mass privatization under the conditions of weak states, diffuse in institutional terms, and representation of a company as a complete prerogative of majority shareholders, accompanied

[18] E.g. EBRD's Project Victoria Bank Credit Line, www.ebrd.com etc.

[19] Green-raiders, entrepreneurs who specialized in taking the lead in merging business.

[20] Proposal of Improvement of the Investment Climate in Moldova, Foreigner Investor Association, Chisinau, 2005

[21] Karla Hoff, Joseph E. Stiglitz, The transition from communism : a diagrammatic exposition of obstacles to the demand for the rule of law, American Economic Review, 94(3), June 2004.

by a disregard of other interested persons, leads to establishment of a mercantile model of the market, inefficient from the economic viewpoint.

Thus, according to the World Bank data for 2004, "the five strongest investors out of ten biggest societies, controlled, in average, 71% of capital"[22], and nevertheless, the amount of profit declared by all joint-stock companies that presented their annual reports to the National Commission for Securities of the Republic of Moldova (49.1%) summed up only to 70 million US dollars[23]. It is noteworthy that a generalized comparative analysis of the Republic of Moldova and EU legislations lets us observe that even the basic term describing a "company" is missing in the legal doctrine instituted in the Republic of Moldova, as well as the "corporate law" is missing as a separate and autonomous chapter, it being instead integrated into what is referred to as the Business (or Commercial) Law.

Another serious risk to business in the Republic of Moldova is unfair competition. Although the first law on protection of competition had been adopted already in 2000[24], this law entered into force only in 2007, due to an outright unwillingness of some influential leaders of the informal sector. Establishment of an independent agency to safeguard competition and antimonopoly policies has been obstructed for a long time despite numerous alarm calls about gross violations of the civilized market relations in the Republic of Moldova, as well as of some cases of flagrant interference of the state in the business[25]. In its turn, the increase in the state involvement in economy contributes to corruption growth, and that correlation reveals itself in the comparative analysis of all states, including the RM, although we remark certain peculiarities in our case.

Interference of the state in economy paradoxically contributes to preservation of high-scaled corruption in society. This conclusion is based on comparative analysis of states monitored by the Transparency International, as well as by the Integrity Global Survey[26]. Of course, in the case of the Republic of Moldova we have to talk about certain peculiarities of the social-economic transition model after 1991. Thus, a particularly important factor, that generates serious risks to competitiveness potential is associated with the effects of territorial secession and current existence of two parallel customs and fiscal regimes. This situation procreates an increased area of unofficial affairs in the

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22 Report on compliance with standards and codes (ROSC). Country assessment of corporate governance. Moldova, WB, May, 2004

23 NCSRM, decision on results of monitoring specialized annual reports of open-type joint stock companies 2004, Nr. 32/3 din 14.07.2004

24 Law on protection of competition no. 1103-XIV dated June 30, 2000, Official Gazette no. 166-168/1205, December 31, 2000

25 Proposal for the Investment Climate in the Moldova, Foreign Investor Associations, 2005

26 www.globalintegrity.org and www.transparency.org

majority branches of the economy (banks, communications, energy, export-import). This parallel regime of economy functioning has a decisive impact on the quality of market environment, competitiveness of the Moldovan economy and behavior of the state relevant actors.

It is obvious that maintenance of differences of such scale in customs and taxation regimes taking into consideration the lack of an internal delimitation of administrative nature between the territory controlled by the separatist regime and the rest of the territory of the country, generates excellent conditions for unfair competition. That happens because it is more profitable for individual firms to reduce costs by avoiding existing laws, by giving bribes, rather than by increasing competitiveness in the framework of a loyal and healthy competition.

Bribes contribute to initiation of the "economic cannibalism" phenomenon, which manifests through: erosion of loyal business due to an exaggerated taxation, on a background of some gates of avoiding administrative obstacles, in conditions of protection offered to a selected group. In order to evaluate the real expansion of the informal sector of the national economy it is necessary to go beyond an analysis of its component parts, such as contraband, and pay more attention to analysis of existent schemes of "optimization of taxes", taking into account the maximum possible use of the "Transnistrian offshore"[27].

Establishment of a favorable business environment in Moldova represents a key issue of transformation of the post-soviet society, because they refer to conditions that stimulate private initiative, being directly proportional with dynamics of the country economic growth, poverty reduction, and creation of a promising perspective for the future. There are several basic parameters in international practice, used for assessment of progress in terms of liberalization of business environment. In this context, it is necessary to mention that the Government of the Republic of Moldova in the Memorandum signed in May 2006 with the IMF "On economic and financial policy" undertook, among others, a commitment, also rather ambitious, to implement a regulatory reform in order to create an "open and flexible business environment, with low costs in order to favor investments and innovations in business".[28]

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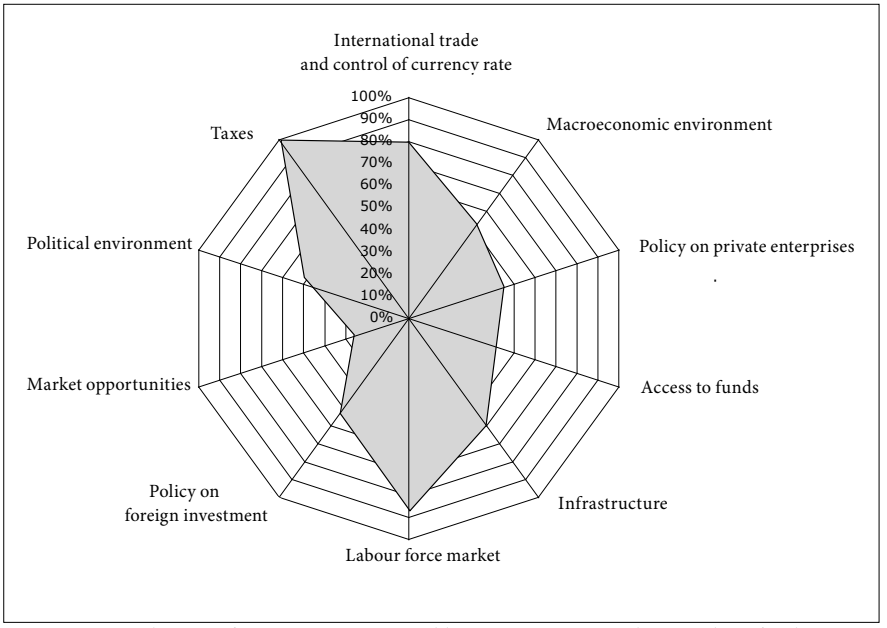
[27] Economic Monitor, IDSI Viitorul, nr. 8, 2006

[28] Additionally, the Government, undertakes the obligation, in the second half of 2006 to move to the second part of regulatory reform, called "Guillotine II", within which is envisaged approval by the Parliament of a Law on the basic principles and mechanisms of regulating entrepreneurial activity, establishing a regulatory impact assessment system for improving transparency and the application of laws and regulations. likewise, using the example of the one-stop shop for the registration of enterprises, a similar mechanism will be put in place for licensing - www.imf.md.

Figure No. 3. Political regime in Moldova as compared with EU main principles and institutions



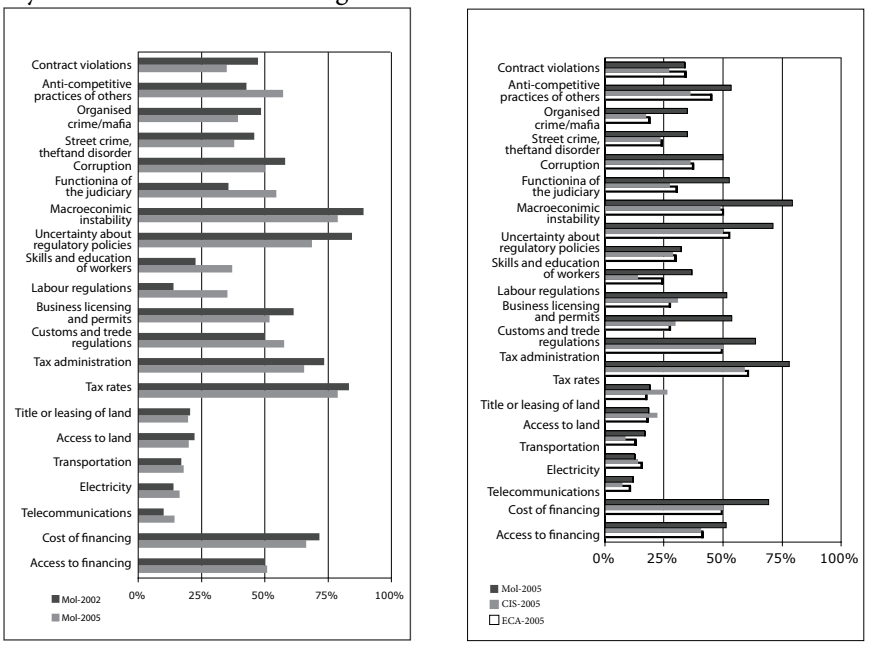
Source: Evaluation of competitiveness in Moldovan economy. A study carried out for the USAID by the DIYPRO Project, implemented by DAI Inc., Chisinau, July 2004.

Data obtained in the framework of this empiric research confirm the basic conclusion of international monitoring of business activities and business sociological surveys, such as: Analysis of business environment and functioning of enterprises (BEEPS/MD), Business costs (Doing Business Survey), conducted on a regular basis by the World Bank and the European Bank for Reconstruction and Development. In these investigations the Moldovan business environment is evaluated on the basis of perception (qualitative measurements) the business has about the institutional and legislative situation, but also on the basis of some indices collected through representative surveys (quantitative measurements) of administrative barriers and obstacles the firms from the Republic of Moldova face with. Comparative analysis of empirical data obtained by us within this research, correlates with fundamental tendencies of the previous years surveys and offers us a possibility to better evaluate business risks in the Republic of Moldova, inclusively, the risks generated by infringement of the principle of separation between the power and the business.

The main tendency reflected in the BEEPS/MD (1999, 2002, 2006) is that entrepreneurs from the Republic of Moldova have begun to understand better current legislation and state policies of economic process regulation in Moldova.

For example, data of the previous BEEPS/MD (1999 and 2002) research showed that, in Moldova, the quality of businessmen' perception of the business environment was increasing: firms informed about some improvements of the general economic development, there was noticed a certain tendency of leveling of conditions of functioning for different types of firms - newly established SMEs, as well as large state owned enterprises. Nonetheless, in the last BEEPS/MD (2005) research we have identified some developments that deserve, in our opinion, a closer attention, especially from the perspective of the "unofficial taxation" in the Republic of Moldova study.

Figure No. 4. The Business Environment and Enterprise Performance Survey – www.info.worldbank.org



Source: BEEPS/MD, 2006

Thus, according to BEEPS/MD in 2005, as in past years, the biggest number of economic agents was especially concerned with: (1) macroeconomic instability, (2) lack of clearness in regulatory policies, (3) high taxes and (4) limited access to financial resources. Although, these indicators have diminished in comparison with 2002, the number of companies that perceive the general economic situation as "instable" is by one third higher than in other Central European and CIS countries. According to the BEEPS/MD in 2005 more than 75% of companies continued to consider the fiscal burden in the Republic of Moldova as being an obstacle difficult to endure. However, they pointed out a tendency of impro-

vement in fiscal administration. According to these indicators the Republic of Moldova in 2005 was superior to many Eastern Europe and CIS countries.

The institutionalization of administrative corruption in the RM has been accompanied for a period of time by a visible growth of unofficial taxation. Thus, according to the BEEPS, a contradictory picture emerged in the RM in 2002, when on the one hand, companies were stating that the costs for administrative corruption had decreased and that in general, the influence of corruption over them had dwindled, but at the same time, the frequency of bribes had increased[29]. In all cases, it was in that very period (1999 - 2002) to what many refer to as the "institutionalization and adaptation of the phenomenon of administrative corruption", occurred.

Figure No. 4
Tax rates as a problem doing business Percent of firms indicating tax rates as a problem doing business

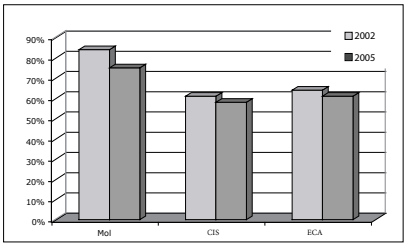
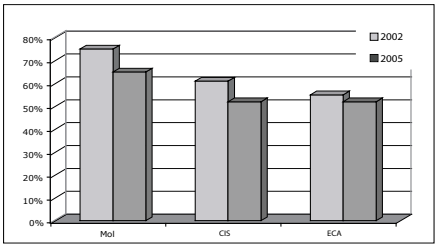


Figure No. 5
Tax Administration as a problem doing business Percent of firms indicating tax administration as a problem doing business



Source: The business environment in the CIS-7 Countries, 2004, EBRD/BEEPS/MD, 2006

a. Rule of law and regulation framework in Moldova nr. of replies/average mark

To what extent the regulation framework has became more transparent and more predictable in 2006?		
a. transparency of regulation framework	24	2,5
b. predictability of regulation framework	18	2,39

"Institutional framework is the RM in rather developed, but, nonetheless there are many barriers for developing businesses. Probably, the reason is the post-soviet style of thinking, when public institutions are better accustomed to control than to assistance… Changing mentality from control to assistance would be the most important goal for our state." (IP)

"Today, the biggest part of the problems a citizen can face, are solved at the level of mayoralties, or better saying at the level of municipal councils; any ques-

[29] BEEPS/MD, 2002

tion, any decision on management of public money passes through MC, and this is the very place where lobby and corruption through the mayoralty executive structures instrument, which is lobbying takes place." (IP)

"There are different mechanisms of putting constrains on business, including prolongation of the term of examination of documents in exchange for certain sponsorship for churches, roads, etc. The current relations mechanism nourishes corruption expectations among civil servants in administrative structures. Civil servants who talk about reducing corruption are the same people who stimulate corruption actions, including favor of the state and not necessary in favor of the mayor or the civil servant himself, but in favor of the state… In this situation the state, that creates such conditions, sometimes unbearable for business should be trialed. Obviously, it is necessary that press is better documented and more active, so that public opinion is familiarized with corruption real roots and not with interpretations the state administration would like sometimes to give, so that customs of bribing and provoking corruption are eliminated from public life." (FG)

Apparently, companies in the Republic of Moldova got accustomed to the obligation to give bribes to the representatives of local administration and for that reason the financial consequences are rather predictable[30]. By 2005 the tendency to reduce the "corruption" tax has increasingly gained stability. The number of companies that have mentioned graft as an obstacle for business has continued to decline, as well as the indicator of bribe frequency.

Reduction of tax in the form of bribery and other corruption payments has been thus compensated in the Republic of Moldova through a rapid rise in informal/unofficial payments in the form of a long series of "optional" contributions or "coercive sponsorship" of various, greater or smaller, projects of public authorities of different levels. In 2002-2005, over a half of the registered companies in the RM declared that they were very concerned with the justice lack of independence and with the unfair competition at the level of national economy. According to the reference studies, the Moldovan economy exceeds significantly the same indicators in other Central and Eastern Europe and CIS countries.

In 2005, in the Republic of Moldova the number of companies that expressed their dissatisfaction with the way the justice functioned was two times higher than in other CIS countries, not to mention countries of Central and Eastern Europe. Additionally, these evaluations witness a direct link between the level of corruption and the number of evaluated administrative barriers

[30] Steves Franklin, Samuel Fankhauser and Alan Rousso The Business Environment in the CIS – 7 Countries, EBRD, 2004

the business faces in maintaining and developing business activities. Our empirical data support this conclusion. In 2006 both strong companies from the capital and representatives of small businesses from the countryside believed that "there are too many taxes and they are too big", for this reason "there are many ways of tax evasion".

b. Tax policy regarding small business # of replies/general mark

How would you evaluate the small business taxation system stability and transparency		
a. stability of taxation system	25	1,72
b. transparency of taxation system	23	2,17

"We talk about the taxation system... I believe that a natural person should not pay any taxes until he reaches a salary equivalent with the minimal consumption basket, because, how would one imagine that person who barely make ends meet will gladly pay to fiscal agents their scare resources, earned with such difficulty? In other words, there should be defined certain, very clear criteria: what is the sum of money necessary to a natural person to be able to purchase essential food products and this sum, estimated at 1500 lei, should be exempted from taxes. In the RM we have a very poor society and we levy taxes exactly on those who need to be helped…" (IP)

"The tax on personal income calculation scheme is very complicated; taxes are collected through the central system and afterwards distributed on local level" (Interview)

„The reason of the current situation is the fact that taxes are too big. And here two dangers appear: first, many social issues appear because of the double accountability of firms who prefer to avoid contributions to the social funds, and second, inequality of business conditions, as those business entities who use to implement the laws of the state are challenged with unfair competitors, who enjoy a preferential treatment, and therefore, have more profits from their business operations. (Interview)

Finally, inherent limits of access to financial resources[31]. Nonetheless, in the last BEEPS/MD (2006) research we have identified some developments that deserve, in our opinion, a closer attention, especially from the perspective of the "unofficial taxation" in the RM study. Thus, according to the BEEPS, a

[31] BEEPS/MD, 2006

contradictory picture has emerged in the RM in 2002, when on one hand the companies were stating that the costs for administrative corruption had decreased and that in general, the influence of corruption over them had dwindled but, at the same time, the frequency of bribes had increased[32].

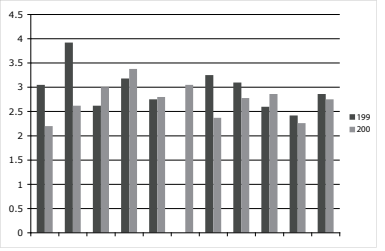


Figure No. 6

Costs of administrative corruption correlated to the frequency of bribes

Source: The Business Environment in the CIS – 7 Countries, 2004, EBRD

In all probability, it was in that very period (1999 - 2002) that what many refer to as the "institutionalization and adaptation of the phenomenon of administrative corruption" occurred. Companies in the RM have gotten accustomed, apparently, to the obligation to give bribes to the representatives of local administration, thus, calculating their costs and benefits from the point of view of the juridical regime "purchased" in such a way. Institutionalization of these practices of collecting unofficial payments has become a "rule" and not an exception of the system. In this circumstances, the state has become the main agent which collects resources for philanthropy and charity from the private sector and, at the same time, the single authority that decides on destination of these resources, that leads to a situation when philanthropy becomes "forcefully imposed", while voluntary charity – negligible.

Public control has been completely ignored, or sporadic in relation with concrete modalities in which collection and distribution of money in society function, the civil society still being "the big absentee" and totally lacking effective mechanisms of verification, monitoring and evaluation of the impact of "circulation of this money". The consequences imposed in this way on business at the national level, which functions on many jurisdictional levels (privileged and discriminated) can be easy foreseen. We underline that this model of "philanthropy" is totally different from the way philanthropy as a field of voluntary and associative activity functions in democratic states.

By 2005 the tendency to reduce "corruption" tax has increasingly gained stability. The number of companies that have mentioned graft as an obstacle in the way of business has continued to decline, as well as the indicator of bribe

[32] BEEPS/MD, 2002

frequency, meaning that business has adapted to corruption. Reduction of tax in the form of bribery and other corruption payments has been thus compensated in the Republic of Moldova through a rapid rise in informal/unofficial payments in the form of a long series of "optional" contributions or "coercive sponsorship" of various, greater or smaller, projects of public authorities of different levels. In 2002-2005, over a half of the registered companies in the Republic of Moldova declared that they were very concerned with the lack of independence in the sphere of justice and with the unfair competition at the level of national economy. Our data confirm the increasing tendency of the state interference in business, thus strengthening the fundamental traditions of the "unofficial taxation" system.

c. Unofficial taxation and traditions of state interference in business

How would you evaluate the relations of private business with local and central authorities?		
a. relations of private business with local authorities	23	2,7
b. relations of business with central authorities	23	2,26

"There is a proportionality principle: state should not undertake measures that are not directly linked with its main functions: national security and public order, protection of environment and protection of human rights."(IP)

"An entrepreneur should conduct his activities declaring conformity of his practices with norms in force. For example, he declares that his activities correspond to sanitary and fire safety norms and the state should trust him based on contracts signed according to regulations. In case when some declarations are false entrepreneurs should bear full responsibility." (IP)

"In the Republic of Moldova the law on philanthropy does not stimulate charity actions. To create an appropriate framework enabling business entities to give money from their profit, and receive tax facilities for this kind of social entrepreneurship is of special importance. There should be a legal framework adopted to European and international norms and not to conduct business according to informal agreements..."

„The state attitude towards business entities is an attitude that totally lacks the respect. The administration often abuses its powers in order to impose to the business decisions that are in severe contradiction with free market and democratic state principles. When the business is accused that it is speechless, that it does not manifest itself, it should be taken into account what are the reasons of such a behavior... " (Interview)

"But when the state treats us coercively to get quick money for what officials think would be good to encourage, many of the business entities simply try to avoid. Sometimes, forcing the business to pay for state-led sponsorship campaigns is transformed into a clientele-based affair. Thus, this year I have lost already two tenders and last year I lost at least an equivalent number of tenders, because my sponsorship was not considered 'enough' by tax-authorities. We still have to do a lot to build up honesty and correctness in relationship between state authorities and business. In the business community there is such a wish, the biggest majority of businessmen want to work honestly, but there is also a part of them who undertake dishonest steps" (IP)

Nevertheless, the representatives of the business community have listed among the first three most important issues in the business development, on the first place: issues related to power, such as bureaucracy: "fewer inspections on behalf of authorities, relations with local public authorities, poor training of administrative staff" (4 out of 12), regulatory policy: "numerous inspections, the state pursuing a rigid policy for operation of private business, obtaining certificates, political instability" (4 out of 12), heavy taxes: "a heavy social tax, a single tax would be preferable" (2 out of 12) and legislative instability: "lack of a law protecting private property, legislative instability" (2 out of 12). On the second place, as a rule, businessmen set the shortage of qualified resources, including of the state officials: "poor qualification of experts, personnel, shortage of personnel, incompetence of local public authorities", corruption and issues related to the legislation currently in force, while the high interest rates for credits ranked third. In general, the data obtained within our research have coincided with the obstacles identified by the CDB/MD 2005 and the BEEPS/MD 2005.

Obviously, both empirical measurements of our research and broad evaluations done by EBRD and WB are under the influence of the subjective nature of qualitative indicators. An important role in experts', managers', businessmen', former and current officials' answers is played by their assumptions, including, in terms of the risk of eventual sanctions and punishments. From this perspective, the understanding of reasons of refusals to participate in interviews also contained valuable information, as it was explicitly formulated by one of the most successful businessman, who was questioned within our research: "I will not tell you the truth, but I cannot tell you lies either".

Chapter I conclusions:

1. Initiation of the process of building an independent state in conditions of a limited national consensus and uncertainty concerning the European orientation has lead to edification of a legislative basis, alien to the European law doctrine and determined the need of successive imports of legal norms and institutions outside the European reference area. Contradictory nature of adopted legislation in its turn has created a favorable environment for ambiguous interpretation and selective application of laws, in interest of a small but influential group of kleptocrats, what weakened the trust in supremacy of law and impartiality of the legal system. The system of unofficial taxation represents a phenomenon resulted form an enormous disparity between legislative norms and practices of public institutions and private sector functioning.
2. Widespread traditions of establishing informal relations between business and power, as well as acceptance of some mechanisms that transform formal rules in "rules that can be modeled" in the Republic of Moldova, as well as in other post-soviet countries have their roots in the soviet administrative command system.
3. Another characteristic of the Republic of Moldova initial transformation step was linked to setting up a "paternalistic market model", characterized by abusive interferences of the state in private businesses, on the background of an underdeveloped system of free market stimulation, what delayed development of small businesses. Violation of the principle of autonomous functioning of business from public authorities in the Republic of Moldova is characterized by application of various forms and instruments of "business capture", as well as "capture of control of certain state institutions" at central and local level.
4. Distinct nature of public-private relations in the "gray" and the "black" zones consists in unlawful advantages, selective approach and favoritism used in application of sanctions, related to business investments in maintaining of some useful relations with authorities. Specific national features of the "gray zone" in the Republic of Moldova are related to the existent system of inter-budgetary relations and problems of local territorial disbalances and underdevelopment.
5. Remarkably vast ramifications of the "gray zone" in the Republic of Moldova have been connected, especially during last years, with the system of transfers between various levels of governance, seriously affected by lack of effective progresses in the fiscal decentralization process.

6. Violation of the ownership right and stimulation of unlawful competition represent main institutional and legal risks for the private sector in the Republic of Moldova. Formal right of ownership over economic assets has become secondary to the possibility of real economic, administrative and media resources control.
7. Violation of the ownership right and especially of the rights of minority shareholders in the Republic of Moldova has lead to a situation of over-concentration of capital in the hands of certain kleptocratic groups, which make fabulous profits out of operations with assets and property takeover on the background of institutional weakness of the state and conscious limitation of the demand of independent justice application.
8. A particularly important factor, which generates serious risks for competitiveness is connected to the effects of territorial secession and presence, in fact, of two separate customs and fiscal regimes.
9. Institutionalization of administrative corruption in the Republic of Moldova has been accompanied for a period of time by a visible unofficial taxation growth. Reduction of tax in the form of bribery and other corruption payments has been thus compensated in the RM through a rapid rise in informal/unofficial payments in the form of a long series of "optional" contributions or "coercive sponsorship" of various, greater or smaller, projects of public authorities of different levels.

II. PRIVATE SECTOR AND POLITICAL POWER

2.1 The power formula and the "playing referee" issue

The market economy has become an institutionalized reality in Moldova, but, yet, non-functional. Over 93.2% of the number of business companies are registered today as private ones, whereas the share of companies with public capital or of those in which the state has maintained a share holding amounts to only 3.5%. Approximately 90% of the officially registered companies are either micro-enterprises or small enterprises[33]. Over 93% of the 121.637 economic entities represent local private companies and this number has been constantly increasing (by 3.4% in 2002 and 9,6% in 2003, according to the DSS data). Yet, in 2003 private companies produced only 57% of the GDP and created only 71% of jobs on the market, while only 4% of companies with state participation produced 24% of the GDP and thus, created 23% of jobs.

One of the explanations would be that for economic entities the business environment is discouraging, that makes a number of private companies to hide their profits, employing workers on the "black market" or having a double bookkeeping, because managers do not have enough trust in the legal system and the state. Otherwise, we would assess that enterprises with state capital have a management superior to those with private capital, which would be in contradiction with what we know about capitalist market and modern business environment. Official statistics ascertain that only 20% of officially registered companies are in fact "economically active", i.e. periodically report to fiscal and statistical institutions about their current activities, while others are associated with the unofficial economic area and do not report in any way what they are currently involved in.

As a rule representatives of this group of companies argue that "the only reasons they work unofficially is that they cannot afford to pay all official taxes[34]". Important documents, officially adopted by the Government of the RM, as well as numerous independent reports and surveys to assess the business climate have identified a series of obstacles and barriers in the way of business

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[33] According to the Law on support and protection of small businesses, no. 112-XIII dated May 2002, 1664 small enterprises employ up to 9 people and have an overall turnover of under MDL 3 M (USD 250,000), while medium-size enterprises employ 10 to 50 people and register an overall turnover of approximately MDL 10 M (USD 833,000).

[34] Only 21.5% of the total number of economic companies registered in the RM presented statistical and financial reports in 2001 (DSS, b) – data presented in the framework of the conference "Developing Entrepreneurship and SME in Moldova" (June 29-30, 2004),

development. The Economic Growth and Poverty Reduction Strategy Paper (EGPRS) mentions clearly among the main obstacles in the way of business development in the Republic of Moldova: a) instability of legal and regulating norms, b) red tape manifested in an exaggerated number of licenses and authorizations, increasing the costs of business management, c) interference of inspection authorities in private business, d) restricted access to the market of crediting resources, e) limitation of access to external markets, as well as absence of external marketing services, g) corruption and other factors determining a decline of the interest in legalizing businesses or connecting them to external capital flows, investments, and technologies.

Lack of an efficient economy increases the risk of systematic corruption, because it offers a possibility to buy certain "advantages" that are not offered by the free market economy. But these business rules reduce the governance credibility, defined as an exercise of public authorities; influence economic growth expectations and social consensus. Private investors, domestic and foreign want an investment environment based on trust and observance of legal norms, governance efficiency, predictable and transparent state policies. A number of "re-nationalizations of businesses" conducted in 2001-2002 are widely presented in analysis and studies of some international organizations as classical cases of "state interventionism" and "elimination of competition", this argument being much more powerful than hundreds of conferences on attracting foreign investments[35].

The governance quality, especially during the last 5 years, was the obstacle that severely deteriorated the image and international ratings of the Republic of Moldova. These tendencies have strongly contrasted with generally positive developments in neighboring countries of Eastern Europe, even if the situation in the Republic of Moldova could have served as a standard in relation with certain states of the former soviet area. Diminished performances of the Repu-

[35] From 2001 to 2005 28 privatization contracts have been canceled, on the reason of non-fulfillment of initial investment obligations. Among the most well-know cases are mentioned: in 2003, Dacia Hotel contract, privatized in 1999 and declared void as a result of some irregularities identitied by the state; other cases - Farmaco, Moldova-Tur and NIS Struguraş, which privatization contracts were cancelled, and thus made investors to lose money. IMF Country Report. No.05/54, Republic of Moldova: selected issues, P.76. www.imf.org/external/pubs/ft/2005. We mention that cancellation of investment contracts have not solved at all the problem of efficient management of these enterprises. Products and services of these enterprises have become more expensive, the state trying to solve the problem by administrative means. Thus, in 2006 the Government forced medical-sanitary institutions of the Republic of Moldova to buy antibiotics from FARMACO, although the medications produced by this enterprise are the most expensive on the market, 28.12.2006, www.economie.moldova.org/stiri. and www.e-democracy.md/e-journal/2006.

blic of Moldova have aroused, on one hand foreign criticism and on the other hand generated frustration among the Republic of Moldova officials. Often, initial reforms have been limited to loud declarations and incompetent policies, while the few changes were directed to organizational conversions guided not by strategic, but clientele interests.

International scores confirm the lack of major progresses in improvement of economic attractiveness of the Republic of Moldova. The economy of the Republic of Moldova is free to 59.5%, according to the global assessment in 2007, ranking 81 in the world. The general score for the Republic of Moldova has declined by 0.1% as compared to 2006, reflecting partially a change in the assessment methodology. Moldova occupies the 33rd place out of 41 in the European space, i. e. way under the average regional rank[36]. The Republic of Moldova score evaluated by EBRD for the structural and institutional reforms progress is under the average indicators at regional level. Varying in intensity and payments this phenomenon ruthlessly hits any business: private, joint-stock and even foreign investors, making them to practice double bookkeeping, in order to be able to survive in conditions imposed by the state.

A summary analysis of main monitored indicators at international level discredits the myth that exists in certain power circles that "there are excellent conditions for business in Moldova", because, in real terms, the business climate is still in very difficult conditions, unstable and lacks predictability. In fact, even the public authorities in the Republic of Moldova recognize that the business climate is not sufficiently favorable for developing businesses.

Important documents, officially adopted by the Government of the Republic of Moldova, as well as numerous independent reports and surveys to assess the business climate have identified a series of obstacles and barriers in the way of business development. The afore described picture suggests that the state functions in the process of transformation of property and appearance of a predominant private sector in economy should have also radically changed. Unfortunately, this process of state accommodation, through its regulatory agencies, to the dynamic and rules of a viable market economy has not sufficiently progressed, therefore unofficial economy, informal rules and omnipresence of corruption have progressively increased in the RM. There are three major causes of this situation: (a) complicated regulatory framework increases administrative influence (b) rigidity of the taxation system (c) pressure of remittances on state policies.

A. Business climate is still in very difficult conditions, unstable and lacks predictability. The context of regulatory policies, as well as political

[36] Index of Economic Freedom, Washington DC, 2007.

instability characteristic to economic transition are often mentioned as obstacles for foreign investments. They also determine maintenance of an important market relations segment in the area of unofficial economy, i. e. maintenance of a double bookkeeping and last but not least of a clientele system of relations with state administrative authorities. Concurrently with decrease of proportion of economic sector controlled by the state, slowly increased the proportion of foreign investments. These investments in 2005 summed up to about 2,9% out of about 128,000 of private companies registered in the RM. Yet, the statistical increase of the number of private companies (annual rate of 4-6%) does not have an effect on the rate of development of the country gross domestic product.

B. Inefficient management of national fiscal systems, as corruption increases the share of informal economy[37]. As a rule, private sector is mostly discouraged by the regulatory and administrative burden, by political uncertainty, criminality rate, corruption and poor quality of the legal profession. In that regard, the business environment in the Republic of Moldova is one of the most difficult ones on the regional level. According to the estimates of the National Bureau of Statistics (NBS) of the RM, the share of unofficial economy the GDP was estimated at 17.5% in the first half of 2006, which is 0.2% higher as compared to the similar period of the previous year. The highest share (7.4%) of unofficial economy has been registered in the sector of wholesale and retail trade (4.9%), in agriculture, pisciculture, hunting (4%), and industry (2.6%)[38] Instability of statutory acts and complexity of reporting procedures and external supervision over private companies require additional costs that many private companies can not bear. An example - in 2004 a SME has spent 18 to 29 business days to draw up monthly financial reports to fiscal inspection authorities, in order to comply with the fiscal legislation and other legal regulations.

C. Massive dependence of economy on currency transfers coming from the outside, (amount of remittances reaching approximately 26% of the GDP in 2004 and about 35% in 2006), has determined an increasing lack of interest of the state in the contribution and operation conditions of the domestic business, as long as the greater part of budget resources

[37] S.Johnson, D.Kaufmann, and P.Zoido-Lobaton (Corruption, Public Finances, and Unofficial Economy. World Bank Policy Research Working Paper #2169, 1999).

[38] Chişinău, November 15 (INFOTAG).

are collected anyway at the customs (around 70% derive from excise-duties). The transfers received from abroad place the Republic of Moldova today among the states most dependent on external transfers. VAT and customs duties amount to 70% of the state budget that creates an impression that certain authorities can easily do without the small amount of money brought to the budget by small and medium-size enterprises, especially by domestic ones. Accordingly, such double dependence (on imports for consumption and on the influxes received by the households remaining behind) creates a profoundly anomalous situation in the structure of national economy[39]. Only 7% of these resources are attracted to financing investments, although the afflux of transfers from abroad causes the growth in the population's incomes, and accordingly, in domestic prices. As a rule, private sector is mostly discouraged by the regulatory and administrative burden, by political uncertainty, criminality rate, corruption and poor quality of the legal profession.

According to the estimates of the World Bank, Moldova is a country with increased costs in business management, as compared to the 145 surveyed nations. A survey performed by the WB in 2006, "Costs of doing business", estimates that the expenses related to setting up a business amount to approximately 18.6% of the per capita GDP, in comparison with the average estimated costs in the countries of the region (15.5%) or in the OECD countries (8%). These scores testify to a regress as compared to other nations and even if we were to take into consideration the recalculation of the 2005 Index as a consequence of changes in methodology and of the addition of 20 new countries, the business environment does not seem to have become more attractive in terms of economic growth expectations.

[39] Form 2006, the volume of annual remittances is the sum of all foreign investments in the Republic of Moldova. Available gross domestic income (AGNI) per capita In 2006 increased faster (2000-2005) than GDP - in average by 21% compared to 18% per year. In 2006 the volume of annual remittance was equal to the sum of all foreign investments in our country after the declaration of independence (1991) of the Republic of Moldova, respectively the contribution of domestic and foreign investments. AGNI per capita increased faster (2000-2005) than GDP - in average by 21% compared to 18% per year. Only 7% of these financial infusions were directed to financing investments, while the rest being lost in the catacombs of unofficial economy. Analyzing the role of the fiscal system and bribes based on data collected in some 49 Latin-American, OECD and transition countries the World Bank researches discovered that unofficial economies hold a bigger segment in GDP in countries where inefficiency and red tape voluntarism are greater and where private sector faces a tougher regulatory and fiscal regimes, along with corruption and officially quasi-recognized bribes. Obviously, the more deficient is application of laws the more difficult is collection of revenues.

Table No. 3 Matrix of international scores to Moldovan economy

Ease of ….	**2006 rank**	**2005 rank**	**Change in rank**
Doing business	103	88	- 15
Starting a Business: steps necessary for registering a new business	84	74	- 10
Dealing with licenses: time, cost and procedures for licenses and authorizations	119	74	-45
Employing workers: procedures of employing and firing of employees	128	127	-1
Registering properties: legal protection of property	47	41	-6
Getting Credit: information about credits and credits legal rights	101	96	-5
Protecting Investors: protecting investments dimension, transparency of transactions, material responsibility to shareholders	99	96	-5
Paying Taxes: amount of taxes an average company pays to the sate	119	113	-6
Trading Across Borders: time and procedures for a standard export	1005	99	-6
Enforcing Contracts: time, cost and procedure evaluation of disputes	55	52	-3
Closing a Business: time and cost of closing a business	78	82	+4

Source: WB, 2002-2006

It is worth mentioning that the proportion of informal economy in the real economy of the RM has fuelled numerous controversies. Independent experts estimated the share of informal economy at approximately 60% in 1999 (Centre of Strategic Investigations and Reforms), whereas governmental officials admit that the informal economy is twice smaller and accounts for only 30%. The IMF and the WB data ascertain a proportion of 35%, whereas the paper of Economic Growth and Poverty Reduction Strategy (2004) has estimated the share of informal economy at 44%. Such different estimations are explained both by the complexity of this phenomenon and the methodology applied for estimation of this indicator.

It is obvious that the influence of the unofficial economy on society and economic growth is very significant. A rigid regulatory framework is the major cause of unofficial economy perpetuation (laws, statutory and sub-statu-

tory acts) on the background of tense relations between the state and the business. First of all, due to the fact that increased fiscal pressure deepens existent gap between official economy and unofficial economy, inclusively shadow or criminal economy (see definition in Chapter I). Shadow economy is, generally, defined as a "space where activities that do not generate incomes collected by the state take place, or activities that are not reflected in the state official registers"[40]. Or, to use the ILO definition, unofficial economy is a component part of "unobserved"[41] economy that comprises: illegal production, clandestine production, informal production and subsistence economy.

A well-know Peruvian economist Ernesto de Soto, calls them „pirates who hide their incomes, thus avoiding to contribute to settlement of urgent social problems", but he comes to a paradoxical conclusion. He says that "black market is not to be blamed, but the state, because the disorganized (unofficial) market represents a spontaneous reaction of population to the state incapability to satisfy the needs of impoverished population"[42]. Thus, there is a legal normative framework, more or less adjusted to the norms and requirements of the market economy and many other "practices" unrecognized as legal, but which explain the best real behavior of business environment. In case when business is forced to accept other than legal rules, this has also an impact on public moral. Numerous economies in transition can be better understood by explaining "unofficial relations" which imprint an especially important negative impact, also in the RM, on relations between economic and business elites of the state, on public moral and expectations of how the state interacts with the rest of the society.

2.2. Reform of regulatory policies and its effects over business

Good governance is essential for economic growth[43]. If the first wave of economic reforms aimed at creating the main institutions and pillars of the general

[40] Gutmann, 1977; Feige, 1979; Tanzi, 1980; Frey, Pommerehne, 1984.

[41] International conference of labour statisticians (ICLS). Resolution concerning statistics of employment in the informal sector, 2000 Edition, Geneva (www.ilo.org/bureau/public

[42] Ernesto de Soto, The third way. About the invisible revolution in the third world. Moscow 1995

[43] S.Johnson, D.Kaufmann, and A.Shleifer (The Unofficial Economy in Transition. Brookings Papers on Economic Activity, 1997) Transition in majority of Central and Eastern European countries was accompanied by growth of unofficial sector, where companies try to avoid official taxes and regulations and was not measured by official statistics. The authors have examined the influence of political, institutional and economic incentives on unofficial economy and the way this segment affects economic performance. This situation is described as a "negative equilibrium"; discretionary application of fiscal and regulatory burden, massive corruption, deficient application of law.

regulatory framework, initiation of structural reforms through definition of the model of transition to market economy – the second wave of reforms – contained sustained efforts of assimilation of good governance principles, manifesting through: increasing efficiency of state responsibility, reducing corruption and political instability, setting up of a precise and adapted to modern business regulatory framework, in parallel with creating of democratic mechanisms of approach of citizen to decision-making authorities and the rule of law state.

Authorities admit that the business environment in the Republic of Moldova is a difficult one and represents an additional impediment to the economic growth and development of the private sector. It is known that a complex business environment is costlier to business, since various obstacles businessmen face with function as an additional tax, reducing net incomes of the entrepreneurial sector, making it less competitive on the domestic and foreign levels. Aware of this handicap, the authorities in the Republic of Moldova have launched numerous policies in recent years in order to improve the business environment by reducing the regulatory and administrative burden. The Ministry of Economy and Trade (MET) has initiated essential reforms in 2004, aimed at reducing the burden of administrative regulations and the costs for obtaining licenses, authorizations, permits, other costs related to the services delivered by the state supervision and control institutions. In order to integrate informal economy and legalize informal business the government should create legal and institutional conditions for reducing these obstacles, continuing the search for answers of how to reduce fiscal policies framework instability.

On August 10, 2005, based on the estimates made by the State Commission on reorganization of entrepreneurship, the Government of the Republic of Moldova decided to adopt the Single Register of official acts regulating the operation of SMEs (Official Gazette, October 3, 2005). The Register comprises 426 acts, a list made up of 99 repealed acts, a list of statutory acts proposed for repeal (7), a list of statutory acts subjected to amendment and subsequent publication in the Official Gazette (285) with the engagement to make the required amendments in this regard prior to January 1, 2006. At the beginning of 2007, the MET declared the launch of the second stage of the "guillotine" reform as a priority deregulation policy and priority of the governance program. Thus, the "guillotine" law has been one of the most comprehensively covered by the media reform action of relevant authorities (MET). At the moment of elaboration of the "guillotine" law, there were approximately 65 inspection authorities and approximately 3,500 laws, regulations and other normative acts, regulating the business operation.

The deregulation process implies a rationalization of the acts regulating the business operation and experience of other states proves that this policy

contributes to economic growth by diminishing administrative obstacles, encouraging private sector and reducing costs of business. This process has to face not only obstacles per se of imperfect legislation, or inadequate practices of control structures, but also perception inertness of the business environment representatives and their perceptions are overwhelming. The research performed in July 2006 – February 2007 allowed us to collect a solid database of perceptions, opinions and observations on the quality of business climate in the Republic of Moldova. In broad lines, the survey results point out to:

1. the majority of entrepreneurs are willing to participate in various charity activities, because that contributes to a positive image of the company, but also due to a moral responsibility they claim to have towards the society;
2. There is no clear understanding of the semantic context of "social responsibility" and what are the mechanisms of its formation; although there are many private socially oriented and charity projects, business participation is limited by the legal framework instability and selective treatment of business environment;
3. Power–business relations in definition of "social needs" are complicated and unclear, because often social responsibility is substituted by an administrative obligation;
4. Being aware of the need to establish a dialogue with power, business environment would like to have a cooperation relation, based on a system of stable, transparent and structured legal incentives and facilitations and not on preferential or temporary agreements.
5. There are few members of business community, who would regard charity as a component of business development strategic planning, due to the lack of a strong tradition of western management, modern practices of analysis and promotion;
6. There is a major deficit in the Republic of Moldova in regarding charity as a result of social partnership initiatives; also due to a narrow corporative sectarianism, subordinated to a heavy and unclear communication on the goals of public organizations.

Respondents know about some of this law effects, because "the law of 6 August 2005 reduced 99 legislative acts and set up a register of normative acts for the business". Yet, one of the respondents appreciates the law as being "declarative" because it dealt only with "laws that contradicted each other, but the system was not essentially changed". A part of the respondents argue that the behavior of control structures has become "more decent" and that today "either due to a fear to lose their jobs, or due to other reasons employees of sta-

te agencies cannot afford that defiant attitude they demonstrated a couple of years ago"[44]. Over 75% know about the program of regulatory framework simplification, but only 55% say that in 2006, the number of control inspections decreased in comparison with 2005. However, another part asserts that the instability of the normative framework[45] contributes to cessation of business activities and numerical decrease of active companies in 2005. There are other opinions that allege that "abusive" controls, inclusively with engagement of police units and representatives of the CCECC (Center for Combating Economic Crimes and Corruption) continued in 2006 as well.

„It is true that controls have become rarer comparing to previous years, when each week there were controls. Yet, there are still cases of police involvement in various business control activities. Reasons why police assumes such tasks are in general inconclusive. Unfortunately, the "guillotine" law has not changed essentially the role and the statute of central ministries, which continue to keep various enchiridions and regulations of internal use, which once applied can harm business and free entrepreneurship. This omission, apparently inoffensive, makes the relation with the state to continue to be rather unclear. The taxations system is still rather complicated and "forms and reports change very often, so that for a SMSE one accountant is not sufficient".

The interviewed respondents[46] argue that normative framework instability contributed to a significant decrease of small firms in 2005, and that "abusive" controls continued, inclusively with engagement of police units and representatives of the CCCEC (Center for Combating Economic Crimes and Corruption).

„In only one year a business entity was visited by representatives of the CCCEC 16 times and 32 times by representatives of fiscal inspectorate. Entrepreneurs claim that the number of controls has reduced: once per one or two years. The biggest number of controls remains in retail trade. There is a sensation that fiscal structures and police "do not have a task to observe customers' protection, but their own profits", which depend on the number of imposed fines. The respondents claim that fiscal structures have fine plans. The same system works in the road police, the Fiscal Inspectorate and the Sanitary-Epidemiological Inspectorate. Fines are bigger than in previous years and inspectors take advantage of that. We founded our company in 1994 and since then we have changed 4 times our cash register and fiscal invoices..."

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44 Data on focus group, No.5/13.03.07, Chişinău

45 The research questioner included 120 respondents, involved in 5 regional focus groups and 18 thematic interviews in Cahul, Hînceşti, Orhei, Soroca, Chişinău.

46 Questioner conducted by IDIS included 120 respondents, who participated in 5 regional focus groups and 18 thematic interviews in Cahul, Hînceşti, Orhei, Soroca, Chişinău.

Figure No. 7

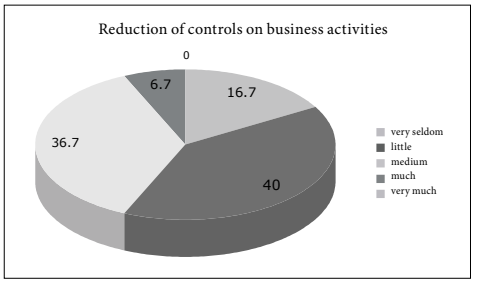
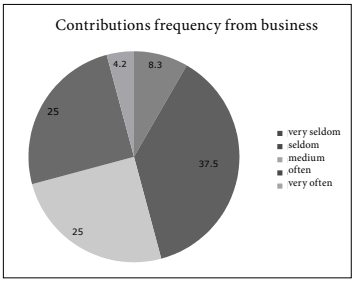


Figure No. 8



Official reports announce decrease of fiscal burden from 34.0% in 1995 to 26% in 2000 and 19% in 2006[47]. However, analysis of the Centre for market economy (2002, p.33) show that SMSEs fiscal burden is rather high in comparison with other sectors of national economy. Difficult calculation of VAT and extremely bureaucratic procedures of reporting represent a big problem on the way of companies' development and involve additional personnel. Thus, creation of an environment favorable to SMSEs implies not only decrease of the taxes number, but also decrease of some taxes, simplification of bureaucratic procedures, excessive regulations and significant decrease of controls of business entities.

„Since registration of the company (1994) I have changed 4 times cash registers in 25 commercial units of the company and these sums up to unbearable costs! Change of invoices has the same impact, because it imposes additional costs for business. I believe that with the "guillotine" law there was also a trick. Somebody wanted to repeal some laws but has done it awkwardly...threw dust in the eyes, in other words. Probably they want to show to EU that things are moving in the right direction in the Republic of Moldova, but it has no impact so far. Unfortunately, other fundamental problems are not solved, as for example banks that do not give any credits and financial guarantees for obtaining a credit are very high to be reasonable..."

We shall also include into the same category contributions made by the private sector currently at the explicit demand of officials in the framework of numerous "national campaigns to raise money", estimated as amounting to tens and hundreds of millions of Moldovan lei yearly. Unofficial taxes represent a complex structure of unofficial rules, which nourish deficiencies of the political-administrative system. It would be wrong to believe that this phenomenon is isolated or exceptional, as cases of corruption disclosed by speciali-

[47] National Bureau for Statistics and Sociology, www.statistica.md

zed agencies are not either. Observations and evidences collected during this study prove existence of a rentier system of fraudulent use of administrative position for levying taxes on private business. Under a form of "innocent" rent, collected on various grounds this system fraudulently takes advantage of an entire structure of administrative and political positions, which leads to accumulation of unjustified and illegal funds, under the pretext of covering some public expenditures. Unlike the official viewpoint, entrepreneurs almost unanimously (90%) consider the payments demanded by authorities as a "burden" and "illegal constraints".

About 80% of respondents have mentioned that they paid these contributions in cash, without any bookkeeping or check, or expenses registry; on the local level, payments varying depending on the size of the business and the authority that demands them.

Data collected within the survey show that 4 out of 5 respondents were asked in 2006 by certain public authorities to pay money, in addition to official taxes envisaged by the fiscal legislation of the Republic of Moldova. Thus, on the basis of the data supplied by respondents we can conclude that "SMSEs pay little but very often". Sums demanded as one time contribution vary in between 1000 – 5000 lei. Respondents claim that they paid more times than they wanted to for various sponsorships (average value 2.79), but they will continue to pay in future for various charity actions (2.32)

Cumulated value of contributions paid by small business varies very much subject to frequency, size, destination and pressure. Thus, payments are more often requested form companies involved in retail trade, as well as transport; agricultural companies as a rule pay in-kind rather than in cash money. Big companies are more inclined to pay for social projects on demand, while small and medium-size business prefers to pay only then it has no other choice and in such situation is inclined to pay in cash, at first request, getting instead facilities that are negotiated with the public authority. It is very difficult to estimate dimensions of these payments. For comparison, in the Russian Federation local companies pay about 17% of their profits (or 1.5 billion USD in 2003) for philanthropic activities[48], against 2-3% paid by western companies. Russian Association of Managers (RMA) underlines that social investments of business represent values between 8 and 30% after payment of taxes. The Russian Union of Industrialists and Entrepreneurs has estimated social projects at 150 billion rubles per year, but verification of these estimations is very difficult.

[48] Data Charities Aid Foundation, Mecenat Internet Portal, http://www.maecenas.ru/portal/main.html

The institutionalized tradition of state bureaucracy to extort money from "prosperous" companies makes them hide their real volumes of business as a self-defense mechanism against rigid conditions of the business environment. Payments that nourish this phenomenon are handed over in cash to certain authorities (conventional corruption), but can turn into other forms as well (unconventional) such as: transfer of material and non-material benefits to these officials' relatives, rendering of nonrefundable services. However, on the other hand, unofficial payments are not intended only for one single part/person. Some businessmen pay authorities requests (oral or written) on the ground that in such a way "they pay a guaranteed insurance policy" against any possible "problems" with the legislation in force.

There are companies that have announced enormous sums of money for authorities "ideological" projects, but only to get rid of certain court cases, or to polish their reputation. The business wants in this way to obtain a recognition of its relative value for a certain segment of administrative or political hierarchy of the state, which helps to be introduced in various official facilitation schemes, granted publicly or discreetly, or to overcome, more or less discreetly crisis situations. As a consequence the private sector is linked to partisan bureaucracy interests, eliminating even slightest appearances of free economy and rule of law. We mention that half of the respondents claimed that "if they do not pay, they will be targets of authorities reprisals".

"Why to pay these contributions? Because if you do not accept voluntarily, you can quickly feel the result, controls have become much more tough than a couple of years ago and till the hearing of you case in court, you own business can be easily destroyed..".

These failures have produced additional costs for the state and citizens: image, trust and lost opportunity costs. The situation when business prefers to work unofficially, assuming increased risks, has generated, on one hand, a vacuum of efficient communication, and on the other hand, deprived society of real incentives to create viable partnerships. In the RM there is not yet an appropriate legal framework of cooperation between state and business, business and society, citizens and business, inclusively in fields of common interests. Thus, today, do not exist formulas that would encourage an active participation of citizens and foreign investors in business development, as well as of setting up conditions for the business social responsibility. We point out that social responsibility represents a complex phenomenon, which cannot be understood only through moralizing tirades or copied-pasted reports from international sites. Its characteristics relate to:

- orientation to production of socially visible results, in the business interest of the company and the society;
- product of a common cooperation between a company, public authorities and citizens, and not of some "requests from above"
- complex and innovative nature, which orients it to support and application of a number of social techniques and structural reforms in social field.
- employment of certain management mechanisms and techniques, which insure projects sustainability, equitable distribution of resources, transparency of decisions regarding utilization of public resources, co-participation in financing major public projects, monitoring and evaluation of social and economic results.

Business Instability and vulnerability generated mistrust. Communication between decision-makers and beneficiaries of state policies is weak, occasional, resembling a monologue rather than a dialogue (OECD b.). Lack of interaction mechanisms (feedback) on the part those who bear the consequences of some decisions in the state makes state agencies insist in perpetuating institutional failures, devising policies that are not adapted to the changing environment and the real needs of development of the private sector, which forces the latter to keep its actual "assets" in the obscure sector of informal economy. The private sector is going to stay there as long as the rules imposed by the state shall remain unstable, and taxes – extremely heavy.

Figure No. 9
Consultation with the Government

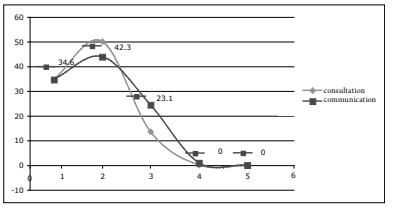
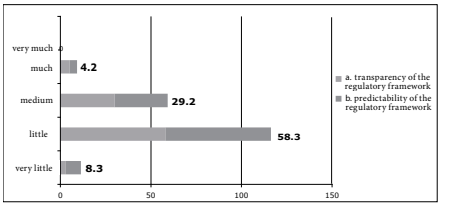


Figure No. 10
Predictibility of state policy for business



Source: Survey made by IDIS (July-October, 2006)

In is difficult to evaluate, without any doubts, the ratio of these entities in the total number of registered companies. Unfortunately, there are almost no legal remedies that might serve the business, if some private companies would endeavor to rebuff or withhold the payment of such contributions.

Figure No. 11

Stability of taxes

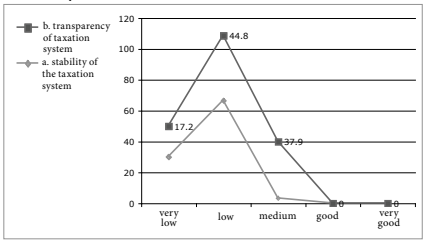
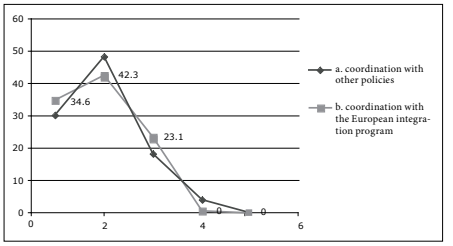


Figure No. 12

Coordination among different state policies



Source: IDIS Survey on Business Environment, 2006

Respondents have noted that:

„There are often changes in legislation. It is necessary that at the first control the inspector only warns about the irregularities and not destroys the business. It is believed that taxes are not very high, but capital turnover is very slow. Entrepreneurs have proposed a number of modifications to the taxation system: inclusively 10% taxes to the social fund, so that the entrepreneur discloses the entire salary, because 26% is too much. Consultation with the state is unsatisfactory. Social payments are too big. Existing taxes are illogical and business community is never consulted on them".

Administrative corruption affects free competition to the highest degree, hampering access of new entities to the market, particularly in the lucrative sectors. New statutory acts are usually adopted without any mechanisms of regular, comprehensive and democratic consultation with the private sector. The forms of consultation are traditionally rigid and appear only under a pressure from external factors. It would have been however definitely inappropriate to blame only the central government for this state of affairs, inasmuch as the presently existing business associations are also culpable. Yet, we can ascertain that business associations are practically absent in the territory, while the biggest number of respondents are resolute to solve themselves their problems, suggesting that they do not expect any positive changes in the near future. The business associations are ephemeral as long as the private sector is instable, whereas instability is an instrument to keep the lucrative sectors under control by the state red tape.

The absolute majority of respondents has never filled in any social reports, subtracting social expenditures from their overall annual taxes. As a result, the business understands these contributions, which are demanded on a regular basis as another supplementary "tribute" and not as an assumption of social responsibility towards the community. Authorities will easily accept the role of an unwanted "supervisor" of private business, inventing new reasons for attracting resources, because they will always cut a piece for their own pocket.

In absence of an appropriate framework of clear to use procedures and rules of utilization of these resources (collecting-using-monitoring-reporting), public authorities cannot refrain from self-corruption by practicing small illegalities. Purposes the money will be requested from the private sector will become more ridiculous and alien to charity purposes in a normal state. Thus, there will soon appear tens of establishments built on private and public money, which do not correspond to population's needs: enormous community halls without any educational or cultural activities, empty and disarranged churches, but also numerous local projects with the only merit to preserve a rigid and inefficient structure of labor employment. Another effect of current practices of collecting philanthropic contributions in the Republic of Moldova is cutting down business motivation to participate voluntarily in charity actions. Abuses in this field create real obstacles in business development and discourage attractive investment projects.

2.3. Payments imposed by authorities: contributions demanded from business

Social contributions have long since become an attribute of operation of public authorities in the Republic of Moldova; whether the matter concerns schools, fiscal, customs or medical authorities, local, central or district power, social contributions are commonly perceived as an inevitable evil, without which schools would not function at the proper time, without which hospitals are not heated sufficiently during the winter time, and the elderly do not receive in due time the subsistence consumption ratio, which they can not afford out of their pension. These systematic payments to various funds and with manifold destinations have somehow accustomed the citizen to the idea that the public authority may demand a voluntary effort for solving social issues. Thus, charity activities function as an instrument for the redistribution of public-private resources, at the absolute disposal of the political red tape, of state authorities and district or local administrations, in the absence of an appropriate regulation framework of such activities.

When such rents become a quasi-general practice, as is demonstrated by the evidences gathered within this research, a phenomenon is established, known as the "state capture". A captured economy is an economy, in which unofficial payments represent common variables in the framework of the decision-making procedures in the state. Negative impact of the state capture is not negligible, even for a short while. Surveys by the World Bank demonstrate that the growth rate in the number of companies in a captured economy is much lower than in economies free from such constraints. Weak institutions,

the non-transparent legal state, insecure property rights make these social contributions into a kind of "survival rent", instituting a kind of a quasi-legal patronage of the private business.

Although the legislation does not explicitly prohibit demanding contributions for charitable activities, levying such contributions creates a vast space for abuse and corruption. Moreover, such practices stimulate the extraction of productive resources from the active business. Like it or not, private business is forced to participate with financial contributions, as a rule, in cash, without any cash register, bills or expense records, almost monthly, if not weekly, losing important resources, vitally needed for the development of the business or reinvestment in business under the conditions of a restricted access to banking resources in the Republic of Moldova. The standpoint of officials in the Republic of Moldova is that this kind of contributions describes the "product of harmonious cooperation and agreement between the authorities and the business", and if we were to accept the arguments of authorities, it would have resulted that the private business flourishes in the Republic of Moldova, whereas this is far from the truth.

Under the conditions of a deficient economy, very few businessmen pay these contributions voluntarity, even more so as the amount and the frequency of financial contributions do not influence in any way whatsoever the structure of the taxes to be paid by the business to the state. Asked about the percentage they could pay in form of "charity" from their profits, the majority of respondents agreed on an amount of 1-3% at the most. Even in this case the respondents have specified that they would like to subtract charity payments from taxes paid to the state.

Table no. 4. Average contributions regularly paid by the business on the demand of local and state authorities in the RM

Typical contributions from the business:	Sustenance for children at schools/ kindergartens	Various repairs of social institutions	Meals for the needy, elderly and other social categories	Reconstruction of churches, monasteries, crucifixes, etc.	Financial aid for various social categories	Sundry
The average demanded amount of money	800	1,250	1,875	1,820	1,200	4,300
The average given amount of money	1,000	1,210	695	2,050	1,600	2,300

Source: Survey performed by IDSI/CBS Axa in July – September, 2006[49]

[49] Questionnaire applied for the 5 focus-groups, approximately 70 respondents in 5 localities: Soroca, Orhei, Ungheni, Cahul, and Comrat.

Insistence, with which the money is levied on businessmen for various charitable causes, creates the impression that the business subsidizes society's problems directly. The shortage of money in local budgets, as well as the dispiriting social realities in the recent years seems to justify the requisitioning of money from the private sector, without discussions, and such transfer of resources is usually accompanied by manipulation and intimidation. Refusals to pay the social "contributions" are rapidly penalized on the demand of the public authorities, by the very financial authorities, controlled by political authorities. Frequently, the same departments of financial inspection that review the accounts of economical companies are in charge of collecting the money demanded by authorities or of speeding up some favorable decisions to this end.

"The mayor comes. Fellow countrymen I have a question, in you village a hora (round dance) is organized, be good, give 150 lei for the dancing (hora[50])! Well, we give, no problem, but how do I account this money, I gave you a receipt so that I can add this money to expenditures, this is charity, there is a paragraph in the declaration on such activities. Here, when he started to insult me with all kind of word, which a mayor should never use, I was sick of it, I did not give the 100 lei, I did not give him anything".

In the opinion of entrepreneurs, there are too many influence leverages for them to ignore these reiterated warnings. Which are the reasons behind this behavior? The evidences gathered by IDSI in its research dated July – October 2006 prove that, as a rule, contributions made by the business are neither voluntary nor disinterested. As a matter of fact, the real motivation of the private sector is quite opposed to the one claimed by authorities, when they insistently demand funds for their social, ideological, electoral or infrastructural projects. Such actions testify not to the proportions of charity in the RM, but rather to the scale of instruments for forced collection of payments through administrative mechanisms.

"Control structures demand protection taxes. Sanitary service, fire brigade demand money as a sigh that you respect them. You are left without any profit if you pay all taxes. Many entrepreneurs prefer to live the country with all their relatives".

The penalties imposed by inspections, the payment of some state duties in addition to the official taxes may differ in the instance, but – as entrepreneurs argue – the courts do not help in the least and do nothing but worsen the fate of those who dare to rise in opposition to abuses committed by the state inspectors. Sometimes entrepreneurs are urged to deposit certain money amounts on

[50] Hora – a traditional popular dancing in the Moldovan villages

certain accounts; otherwise they are threatened with inspections by police and other services. At other times the public authorities use to selfish ends the special and extra-budgetary funds, which are also replenished at the expense of services delivered in the framework of ministries (at the level of central administration) or of local authorities. Often, the state fiscal agencies demand payment of contributions of this kind bluntly while performing inspections, so that the entrepreneurs have no choice: they decide either to pay these impressments or to pay the penalties, which the fiscal agencies are going to impose on such companies.

Corruption in the public sector perpetuates a form of illicit hierarchy, which appoints political authorities of the national level to manage the "tributes" originating from the largest businesses, district authorities – from the medium business, and the local public authorities of the first level remain to tackle the small business. Decision-makers may abuse their offices to obtain various kinds of benefits from the private sector, the businessmen not having any efficient countermeasures. There are standard procedures through which contributions demanded from the business could be independently monitored, in the interest of a respective community, these resources being transferred on accounts opened for this purpose by bodies which mission would be to competently supervise establishment and management of such public-private funds.

"When it is found out that someone has the business going, the state impatiently waits to strip him of the money... In our country laws are made in such a way that they are violated first of all by authority representatives. Conditions for business operation are not equal. At the city markets sellers have patents, but operate without any bills, that helps hiding profits. You are left without any profit if you pay all taxes. Many entrepreneurs prefer to live the country with all their relatives."

Thus, entrepreneurs must be ready to pay for almost any public authority self-assigned task. In their turn, public authorities are permanently seeking new purposes to exert control functions over private business, achieving thus a double benefit: on one hand, the resources required for the reproduction of political interests are ensured, on the other hand the business community is processed "therapeutically" to establish "the required contacts" with the political environment. However, it would not suffice to describe the decision-makers only as "passive players" who have been involved or captured by the system employing them. Public officials can pass on their influence and powers to those who pay more. The knowledge of laws is rather poor, as the entrepreneurs surveyed by us have acknowledged, but overall, "there is stability only for the shielded businesses" in the Republic of Moldova.

"There are different mechanisms of putting constrains on business, inclusively prolongation of the term of examination of documents in exchange for cer-

tain sponsorship of churches, roads, etcetera. The current relations mechanism nourishes corruption... In this situation the state, which creates such conditions should be tried. Here it is very important that the forth power works in favor of the society, the public opinion being familiarized and informed, and such customs are eliminated from the public life."

Even under such conditions, the authorities manifest a different attitude to different business groups. Contributions are smaller for those who are not very visible, or if certain business circles are in kin relationship with the Local Public Administration representatives. Contributions demand increases exponentially if business is luring for interest groups protected by respective authority. There is nevertheless a certain "division of labor" in terms of obtaining contributions from the business: local and district authorities are connected and usually exert influence in particular over the small business, whereas the central authorities and the church representatives generally deal with the medium and large scale businesses, which press in their proceedings in particular towards the authorities able to ensure their protection, even when the laws of the Republic of Moldova are evidently violated.

As a matter of fact, in the Republic of Moldova it is impossible to slip unpunished if you do not pay a wealth of extra-taxes, demanded directly and systematically by authorities and often by those bodies that have to apply fiscal legislation. Such asymmetric systems of influence create informal systems of patronage and "clientele", which are suspected of disseminating corrupt practices, illegal financing of political parties sector, financial strongholds that block the reform of the public sector in its complexity. Thus, the highest degrees of corruption, characterized as forms of state capture, are fastened by bureaucratic means to administrative corruption; they create a degrading culture of alliances, in which power and influence run around in a circle. The influence trafficking generated that way is reciprocal in its nature.

Figure No. 13

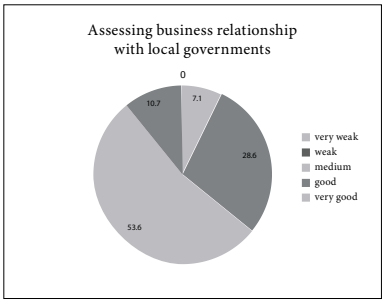
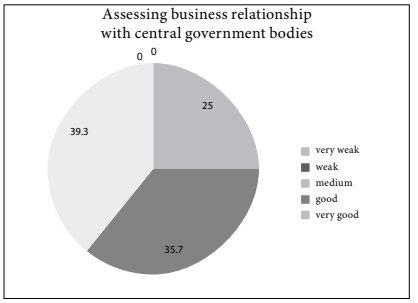


Figure No. 14



Source: IDIS Survey, 2006

The research of the authorities "imposed" contributions estimation has supplied us the following data. The inspection authorities not only check the correctness of payment of taxes by the business, but also take an active part in levying social contributions in the name of public authorities. At the district level, inspection authorities are those that penalize the business community, when the latter does not "hurry" to finance the costs demanded by the authorities of the 2nd level. Given the circumstances, it is not surprising that, according to the reports of the Court of Accounts, it is those very businessmen of transition, who have laundered tens of millions of US dollars through declared business, who have benefited from the most perfect immunity clause, ensured through various unofficial or official channels by those in power. After all, the corrupt business is always predictable and at hand. We are far from the intention to "white-wash" anybody, laying the entire blame on district authorities. In fact, they are also exposed to administrative pressures and of another nature, as a consequence of a strong centralization of the state power.

Particularly in the recent years, local authorities of the 2nd level (rayon administrations) have been portrayed in Moldova as being a part of the central executive power[51], and therefore, they acted as "true territorial arms of the Government", and not as effective and autonomous local governments. The power vertical, instilled after 2001 in the RM, has determined use of local public authorities of both levels as subsidiaries of the central Government, on the political, administrative, economic and cultural levels. The districts have been forced to fulfill some delegated tasks of the central administration, and implement policies that belonged to the it, and even supplement from their own budgets the existing shortage of funds, following 'indications' of the central government.

Following the same detrimental logic, the ministries have made decisions to allocate resources out of local budgets, ignoring the principle of decentralization, local autonomy and eligibility (Art. 109 of the Constitution of the RM), forcing these authorities to hunt for money on local level. This makes allocation of resources to replenish budgets managed by the Ministry of Culture for „Mărțișor", or for the "Wine Festival" (which are in no way unexpected and extraordinary) a direct intervention of the Government in administration of local affairs (Art. 109 of the Constitution defines the right to local self-government). On local level, natural limits of district reserve funds (2%) are compensated by sponsorships and donations, obviously "totally impartial". In addition

[51] See 'Evaluation of effective democratic local governments in Moldova', Independent Report prepared by IDSI to the Council of Europe Congress of Local and Regional Authorities, July 2006, pp.1-19

contributions are demanded from the business, when local public authorities launch infrastructure projects, projects of connection to gas pipelines with the involvement of the MSIF, while the reluctance of companies to contribute to these expenses is considered an "act of defiance", or disloyalty to the leadership of this very authority.

One of the conclusions that can be drawn as a consequence of the above statement is that the state interferes way too easily in the private sphere in the Republic of Moldova, so that business can be easily determined to give in. Districts use their reserve funds to replenish the funds of the Ministry of Culture, e. g. for organizing the international festival „Mărțișor 2004" (in 2004, transfers ranging from MDL 4,800 to 10,000 were made by all districts of the RM), for the National Day of Wine (MDL 12,200 – 20,000) or for the construction of churches (MDL 10,000 – 90,000). It is noteworthy that the formation of district reserve funds is performed annually by District Councils, such funds are aimed at "covering extraordinary and contingent activities", but may not exceed 2% of the amount of expenses of the budget at issue, in compliance with Art. 18, Law no. 397-XV on Local public finances (of October 16, 2003). As a rule, the expenses made out of a reserve fund are at discretion of districts chairmen and are not subjected to approval by councils.

Generally, the extra-budgetary funds are hardly subjected to standard budget procedures, their use being accompanied by numerous rampant violations of the accounting legislation[52]. Both, the Ministry of Finance, as well as the Auditing Chamber (Curtea de Conturi) refuse to accept monitoring of the collected public funds, or the supervision of the extrabudgetary funds as matter of their own responsibility, saying that where it comes that public or private donations are collected, then the resources are not any more of state jurisdiction. 'Voluntary' contributions become thus like the most wanted and aspired resource by various state agencies. This kind of funds can in fact supplement a lot the institutional agenda of some ministries, whose civil servants or corrupt local municipal officials use them to become rich easily and safely, without running the least risk of being punished or prosecuted for the improper use of public resources, being thus sheltered by lack of adequate regulations, and arbitrariness of imposing equal conditions on accountability, good governan-

[52] The decision of the Court of Accounts on results of thematic control of correctness of creation and use of special resources and resources of extra-budgetary funds in 2001-2002, No.12 of 28.05.2002, Official Gazette of the Republic of Moldova No.149-152/32 of 18.07.2003 ascertains that "planning, accumulation and use of special and extra-budgetary resources by ministries and institutions subordinated to them, as well as and by public institutions of the ATU Gagauzia are done with multiple violations of the legislation in force".

ce and transparency for all public organizations. Civil servants are protected from mass media equally, as they do not allow it to check out the purposes for which this kind of funds have been used and collected. Irrespective of the Law on access to information, most of the ministries do not post any financial reports on the extra-budgetary or budgetary reporting on their institutional sites, and only the irregular reports of the Auditing Chamber (Curtea de Conturi) may provide to the public some sort of information about the existing discrepancies between the allocated resources and accrual used by these organizations, public reports on expenses incurred, or the procedure of spending this money subsequently, or feasibility of the objectives, for which the money is raised under the authority of some state officials. No fiscal inspection shall ever take into consideration the fact that certain economic entities have contributed or are willing to contribute to various charitable causes.

Unlike the budgets themselves, where systems of formal control exist, the money received for social projects from the business, as a rule, is not registered officially. Moreover, this money raised from the private sector is not adequately monitored, by competent authorities, in form of ex ante audits, or through public reports, presented by structures appointed to monitor this funs. Within this research we have found out that e.g. no public reports have been presented until now on the subject of use of the money raised within marathons organized the last decade by the State Company TVM1, as well as no financial controls have been carried out in cases of use of funds created for a number of projects launched under the direct control of the State Chancellery during 1998-2006[53]. Although a Council of Observers has been set up for the restoration of the monastic complex „Căpriana" (Government Decision No.69, of 27.01.2003), this has neither presented relevant data on use of funds raised, no on fulfillment of budgetary or extra-budgetary estimates.

Unofficial taxation has been often qualified as a synonym of the state "racket". At least a part of press, as well as representatives of small business have insisted upon this term[54]. The phenomenon has surfaced in the avatars of the national bureaucracy immediately after the process of privatization and transformation of property has gained capacity. We assume that big deals were accomplished in 1994 – 1998 on the mass privatization background, whereupon

[53] In November 2005 the Government dissolved the State Chancellery, substituted by the Government apparatus, subordinated to the Prime-minister, before the launching of the Central Public Reform Concept. Any attempts to request information concerning management of funds by the State Chancellery were refuted on the ground of absence of any documents.

[54] How much does the "state racket" cost us?, Ziarul de gardă, BUREAUCRATIC RACKET, October 7, 2005 - 12:47 (Centre for Monitoring and Strategic Analysis).

sharp reduction of state property structure in favor of the private sector has made bureaucracy employ new forms of generating resources, which political and administrative class cannot be deprived of, evidently.

Generally, this phenomenon stands for the kind of influence exerted by certain public authorities over the business community with the goal of forcing business to make certain payments for various purposes and to some organizations patronized by authorities. A privileged situation of the administrative apparatus in relations with the judiciary instances does not encourage refusals, because in this case loyalty to the political regime that has produced it is questioned. In these conditions, ownership rights and stability of business are seriously shaken.

Every social or ideological project, which entails actions falling under the "unofficial taxation" logic, starts with an expression of an act of will by a public authority. The prime-minister or the head of the state express, through a political will, support to a monument of vital importance to the nation, or to some actions, vitally expedient in the opinion of public authorities, and the entire society must support it, even when there is no public consensus as to such priorities, that would have been determined through a plebiscite or by other democratic means. Unilateral ascertainment of the "public utility" by the top leadership is considered a satisfactory prerequisite for launching comprehensive official campaigns of public pressure, i.e. through marathons, working meetings of ministers in the territory, with the only goal to convince people of the utter need to raise private money; telephone messages fly incessantly from district authorities towards private companies, while ad hoc visits of fiscal authorities are also orchestrated to accelerate bringing the business onto the "bosom" of the decisions expected by authorities.

Such public "fund-raising" are frequently motivated by ideological appeals to the "patriotic duty", the grandiloquence of public officials, aimed at requisitioning the money of private business, are frequently totally inconsistent with the context, in which the "social commitment of the business" would have been appropriate and natural. Public officials have usually over-exagerated on the 'public duty' to contribute to the restoration of monasteries and churches, in spite of the fact that, (1) Moldova is a laic state, (2) that no ideology can be established as state ideology of state, as the art.5(2) of the Constitution stipulates, and that (3) ownership is inalienable (art.127 of the Constitution), which specifically guarantees no interference of the state on private property rights, unless the legislation is violated. Thus, it appears that when public officials use private resources for their own 'discretionary' purposes, they infringe into the constitutional provisions, and prove to have not learned what are the tasks of

the state in a democratic environment, that is built on market-economy and rule of law principles. Most of the times this kind of contributions is made in cash, urging companies concerned to an obvious violation of the law, which the authorities purport to uphold.

The opinion of authorities questioned within this survey is that business must perform certain social duties. And that the business "has where to give from". Nevertheless, the authorities are unable to explain how so these duties coincide, as a matter of fact, with the spheres under their legal competence and why they do not allow charity to develop autonomously and with its own powers, in a framework of a more active civil society. The preconceived idea about philanthropy is that the state administration believes that it has full powers to decide on acts and destination of philanthropy. Refusal to cooperate in these conditions brings merciless repressions.

At the same time, the private sector admits that, in principle, every businessman would have certain duties and is ready to make contributions most of the times. What usually discourages the businessmen is the lack of transparency over the use and appropriation of such resources, collected as a rule in "hard cash", as well as the punitive nature and the frequency of demands made by public authorities.

The perception of the business community is that in this way administration expects companies to prove their loyalty to power by bringing their resources to the state service, that is, in fact, a quasi-expropriation, at a small scale and it is in flagrant contradiction with Article 46 of the Constitution - "Right to private property and its protection" which explicitly declares that "no one can be expropriated unless for a matter of public unity, under the law, against a fairly and previously determined compensation". What would be the compensations that business will receive for transferring substantial resources for projects identified by the Government as being of "public unity"? Who establishes "public unity" of these projects and based on what consensus has the private sector to be subject of double taxation? To what extent these forms of parallel taxation (along with the system of official taxation!) consolidate business climate stability and produce incentives for development?

In order to answer these essential questions we have decided to build up below a typology of existent social contributions. We have taken as a starting point the number of categories of objectives for which public authorities of various levels demanded (and continue to demand) direct contributions from private business, calling them "philanthropic activities", in order to understand based on concrete examples and estimations the way this phenomenon reproduces in the Republic of Moldova.

Religious projects: Support of some cult foundations (of Christian Orthodox religion), that open in the presence and with large support of administrative and political authorities of the Republic of Moldova, construction of churches and monasteries on account of budget resources, granting tax or commercial remissions to certain churches, among other things for development of businesses untaxed by the state, assignation of land and property or cult objects to some religious cults; however, such assignation does not mean restitutions applicable toall religious cults (despite the legislation which guarantee freedom of confession and equality of rights to every religious cult); use of budget funds for "bringing the fire from Jerusalem", etc. , represents an overspread practice, which generate corruption and substantial instruments for election manipulation.

Ideological projects: Allocation of public-private resources to one party projects, but presented by authorities and state owned press as of "national interest" is facilitated by the lack of necessary regulations that would impose compulsory instruments for transparent monitoring and supervision of public-private resources. Allocation of these resources is performed in non-transparent conditions and absence of any public consensus in this regard. Ideological projects cover a large range of objectives: historical-patriotic, ideological-revolutionary (monuments and busts), which become afterwards the electoral coats of arms in the subsequent campaigns of political actors;

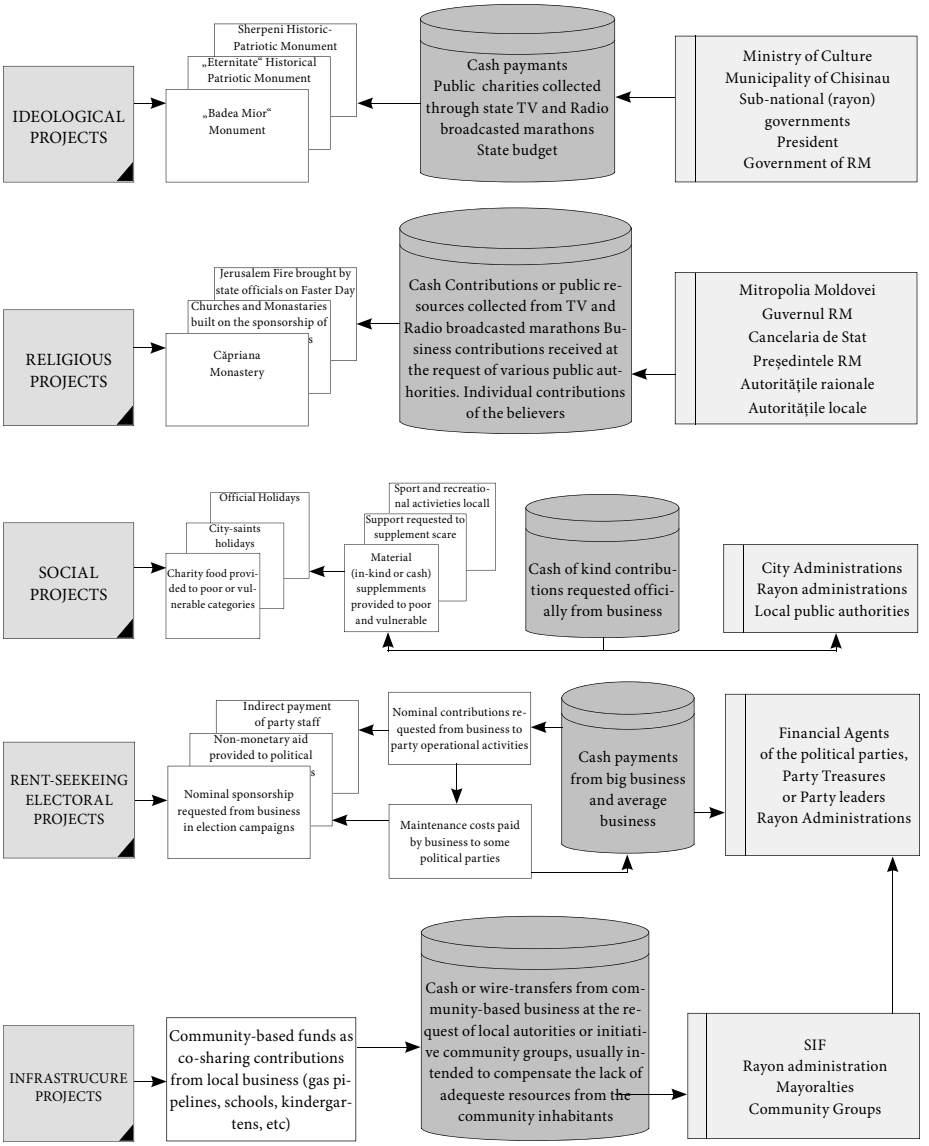
Social projects: we have included into this category payments "of unaccounted social assistance" (food products, charity meals, festive meals, but also money allocations "in cash", valuable presents) for socially vulnerable layers, veterans, elderly people, they also being recipients of important redistributive social policies. Business representatives are usually requested to pay various services offered to elderly and handicapped people, to orphanages.

"Holiday-Inn" projects: such projects are aimed at fueling various reasons for mass jubilation. These include town days, as well as professional holidays, so that the soviet tradition to celebrate labor holidays with days off flourishes and prospers in the Republic of Moldova. This kind of holidays is, as a rule, an additional pretext to demand money from private sector. This kind of projects is related to various holidays, invented by authorities for entertainment (the wine festival, the „Mărţişor", the day of the sheaf, etc.), celebrated pompously, with fireworks in the centre of the capital, and a host of lavish meals, on which public money, but also the money raised from private sector is wasted.

Infrastructural projects: these deal with construction of some social-economic, or social-cultural edifices, which play an important role in mobilization of community, and which also include important contributions from the

latter. The most comprehensive activities in this regard refer to the sphere of national and local gas pipeline networks, repairs of schools, roads, kindergartens and other edifices of social destination, as well as the MSIF projects. We shall assign to this category the public utility edifices and networks, built with the contribution of local communities (inclusively local business).

Figure No. 15 Five types of projects where business financial contribution is demanded (except official taxes)



Source: IDIS Survey, 2006

This situation makes us recapitulate the distinct elements of the unofficial taxation phenomenon.

First of all, these fees demanded by the administration from the business represent a system of unofficial rules, which on one hand fuels conversion of political power into economic power and facilitates on the other hand penetration of important financial flows of a dubious origin into the administrative system. Raising money becomes thus a distinct tradition of administrative apparatus to serve thus the political clientele (the ruling party). Social projects emerge under such conditions in the form of a usufruct, in which the political power appropriates the capacity to impose control over considerable resources of the private sector, usurping the right to spend them.

Secondly, the phenomenon of "unofficial taxation" describes an act of usurpation of private funds based on coercive decisions of some public authorities. The public authorities go beyond their competences, provided for by the law, by way of determining the destination for spending private money, managing the money that does not belong to them and which is not monitored by control authorities. The Court of Audit, the Department of Audit and Control of the Ministry of Finance, but also the CCECC have vehemently denied that they have dealt from the moment of their set up with monitoring of the money resulted from common actions of the private and public sectors, considering this as an competence not assigned to them by law.

The third element is use of the money of private sector as a replenishment of public funds. Systematic raising of important budgetary resources, outside the official system of taxation (including from citizens, as private subjects in relations with the state, by means of public fund-raising, marathons largely publicized by electronic mass-media), prove the lax nature of justice, in which law courts are regarded as a useless decoration, which does not offer reliable guarantees in stopping committed abuses. There is at present no law in the Republic of Moldova that would regulate operation of the public-private partnership, whereas the in force Law on sponsorship has aroused harsh criticism, from both beneficiaries and donors.

The fourth element is associated with lack of transparency of performed operations. There are no public reports on the manner of spending the money raised by the public, transferred from the state budget, or collected from the private sector. Moreover, ideological projects launched by authorities include most frequently a very large range of costs not introduced in the official budget (participation of the army, assignation of lands or, actually, allocation by the central government or certain illegal resources), which emphasize the abusive nature of such actions.

Finally, we ascertain that associative environment is still too weak to be able to mobilize charity on local level. Very few non-guvernmental organizations in the Republic of Moldova have ever demonstrated their ability to raise funds from the Moldovan business community, being either too weak, or too dependent of foreign financing. The business knows little about the associative sector and what these organizations deal with and as a rule prefers primitive forms of assistance (food products, postal parcels), without understanding that in this field specialization, diversification of services and advanced technologies are required too. The only systematic contributions are administrated by the authorities: district, local and central, but this system distorts charity , which is based on private voluntary manifestation and strict separation of state from charity.

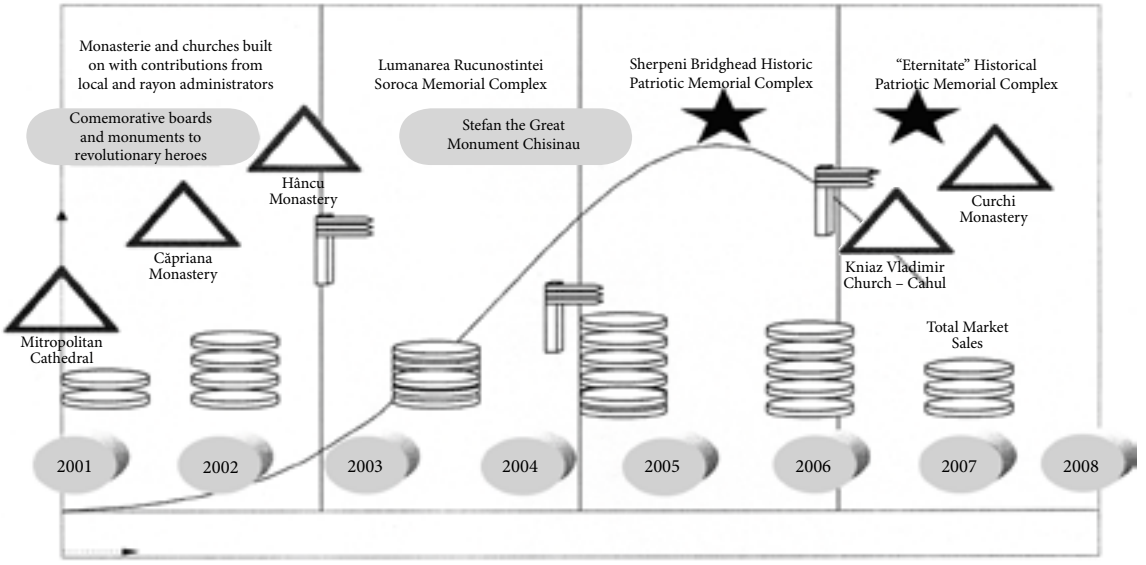
Let us further analyze the structure and the specifics of projects described by our respondents:

Ideological projects:

Ideological contributions in the Republic of Moldova mean raising public and private funds for favoring certain political actors through ideological advantages. Certain political groups build their political image, based on such events as: opening of busts, monuments, bas-reliefs, which can compensate or add semantic content to ideological cover of political programs of these groups. Most often, ideological contributions take the form of various "monumental" constructions which for authorities associate with the idea of "statehood" and "national pylon", etc. and are defined as such not by the academic or cultural community, but by the electoral agenda of political authorities.

Financing of these projects is done from mixed public-private means. Relevant authorities up to the prime-minister and the head of the state officially launch a plead in favor of an ideological project: this project is picked up and propagated in mass media by groups associated with the political power and afterwards massive raising of funds from the private sector begins; discussions with the biggest are hold and clear signals are sent to the medium-size. The mass media campaign is also publicly supported by a central authority decision to assign money from the reserve fund of the Government for this project, against the background of a missionary rhetoric of the central power (head of the state, ministers, and the prime-minister).

Figure No. 16 Projects organized in last 6 year with public-private financing



Source: IDIS, 2006

If we look closely to this chronological diagram of the projects to which the money were allotted in 2001 – 2007 we can see that, practically, each year (between 2001 and 2007) the authorities added at least one important ideological project, as a "priority national building yard". In addition, the fund-raising campaigns also benefit from important unaccounted, but specific to the old soviet system resources. Thus, servicemen of the National Army are sent to work on these building yards; taking example from ministers other state or public institutions initiate the money raising campaigns among their employees and reluctance to participate with money to these fund-raising, is usually, labeled as "lack of loyalty" to the leadership of these institutions. Vivid examples in this regard are: local authorities, Customs Service, police bodies, and other territorial services, which on a regular basis practice collective fund-raising and use of other cheap resources for the central authority purposes.

The impact lies in defalcating vital resources of the society on projects less useful for the citizens of Moldova. After the Parliament had allocated through the Fiscal Code funds in the amount of: MDL 20.0 M, MDL 3.7 M and MDL 6.5 M for the building and assembly works at Căpriana, Badea Mior and the "Şerpeni Bridgehead" accordingly, the Government of the Republic of Moldova has approved the Regulations on the application of the VAT from the services rendered under the building and assembly works at these "top-priority projects"[55].

[55] Resolution of Government of the RM, no. 181 dated February 24, 2004.

The Căpriana monastery restoration project has been developed on a religious background, with strong propaganda accents. It is worth mentioning that the monastic complex of Căpriana has appeared as a cultural priority already since the first governments of the Republic of Moldova. Here we mention the Decision of the Government the RM of September 11, 1991 (no. 506), the Resolution of the Parliament of the Republic of Moldova (no. 470-XII of January 31, 1991)[56] and the decree of the President of the Republic of Moldova (no. 135) of June 04, 1992, on the measures to accelerate restoration of the Monastery Complex of Căpriana and the establishment of a cultural-tourism infrastructure, attached to it[57].

We remind here, that as of 1991 the Government of the Republic of Moldova has exonerated the cultural-tourism production centre "Căpriana", as well as other legal entities and natural persons in the RM and from other states, from payment of income tax for the part allocated for restoration of the Monastery Complex of "Căpriana" and establishment of a cultural-tourism infrastructure, attached to it. In 2002, the Government of the Republic of Moldova became aware of the unfinished works and established the Supervisory Board for the restoration of the Monastery Complex of "Căpriana" (no. 69 dated January 27, 2003, Official Gazette of the R. Moldova no. 11-13/78 of January 31, 2003). Government officials have received instructions to manage public resources, allocated by the central Government; the State TV and Radio Company launched marathons aimed at raising public funds, to be managed by an Administrative Council, lead by the General Director of the State Chancellery, according to the Resolution of the Government, in compliance with the provisions of the legislation on purchase of goods, works and services for public needs (no. 1166-XIII dated April 30, 1997)[58].

The statutory act stipulated daily furnishing of information to the Supervisory Board about the funds raised and used in restoration works of the monastery complex, but mentions nothing about either informing the public about such expenses or the compulsory audit of the subsequent works and procedures. In that way, nobody knows after all either how much money has been allocated for the constructions at Căpriana until this moment, or the whereabouts of the supervisory board, particularly after replacement of the State Chancellery by the State Apparatus of the Government of the RM. Mo-

[56] Veştile no. 3-4-5-6/34,1991.

[57] Monitor no. 6/130-1 dated June 30, 1992.

[58] Decision of the Government of Moldova on the establishment of the Supervisory Board for the restoration of the Monastery Complex "Căpriana", no. 69 of January 27, 2003, Official Gazette of the R. Moldova no. 11-13/78 of January 31, 2003.

reover, neither the Court of Audit, nor other bodies authorized by law to audit all public funds have ever endeavored to audit these funds, raised in a public procedure, for the reason that they did not belong to the state.

There have been two main reasons of the works carried out these years on ideological ground: political-religious and military-patriotic. The first one referred to glorification of some episodes of the last war: Chişinău-Iaşi Operation, 60 years of the victory over fascism, along with re-establishment of the tradition to inaugurate monuments to V.I. Lenin, especially in localities lead by mayors, from the CPRM[59]. As a rule, this kind of ideological concerns brings handsome profits to the subsidiary companies of the state administration, because the latter almost never comply with the normal requirements for contracting public purchases, holding tenders and submitting reports on the manner of spending the raised money. Whereas few people have questioned the utility of the restoration works at the Monastery Complex of "Căpriana", the press has commented maliciously the architectural project referred to as "Badea Mior" in Soroca. Opposition to this monument has presented various arguments; basically many people opposed the project as being both costly and of unclear cultural-artistic significance.

Promoted very insistently by the writer Ion Druţă, the project has gained unexpected support from the central authorities, especially in the camp of the Moldovan statehood supporters and, accordingly, wrathful resistance among their adversaries. The authorities stuck obstinately to secure finalization of works on the Soroca hill, accelerating the works by successive visits to the "building yard" and mobilization of the business community to assume additional costs in this regard. The Government allocated to this project budgetary money from the special fund (Art. 4, par. 10 of the Law on carrying into effect Title III of the Fiscal Code, no. 1417-XIII of December 17, 1997)[60] and also resorting to private funds, some of them of a dubious nature, as our respondents say:

"I did not contribute personally to the Badea Mior monument (the candle), but there were others with bigger financial possibilities. I know some people who gave 10, 20 and even 30 thousand at once. I know a boy who threw on the "master's candle" about 30.000 dollars without any receipt..."

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[59] In 2002 we encountered with the Lipcani town hall case - the local council purchased a V.I. Lenin bust for MDL 2 M, while the annual budget of the town was not exceeding 200.000 lei. The paradox was explained by the mayor himself who informed us that he had been fulfilling the directives of the district leadership and that he had managed to attract for this action contributions from the local and outside business.

[60] Official Gazette of the Republic of Moldova, 1998, no. 40-41, art. 290.

As far as ideological projects are concerned, the central authorities have also supported the party targeted objectives with public money. According to a Resolution of the Parliament (no. 38-XV of February 14, 2003, "On the distribution of capital investments, financed out of the state budget for 2003", as amended) financial resources in the amount of MDL 200.000 have been allocated for the Şerpeni Bridgehead and in compliance with the Law on the state budget for 2006 (no. 291-XVI of November 16, 2006), as amended by the Law no. 252-XVI of July 26, 2005, financial means in the amount of MDL 7.89 M were transferred for the reconstruction of the Memorial Complex "Eternity" in the Chişinău Municipality. As complete reports on the expenses incurred for the construction of this memorial are missing, the press has communicated about expenses exceeding MDL 100 M. Unfortunately, the Ministry of Finance does not have information on the funds collected from donations and sponsorships demanded for this project.

A complete financial report on the money spent on construction works in both cases does not exist. Instead, there are plenty of suspicions about real costs of such works. Some sources mention that, although a formal bidding for the reconstruction of both the highway and the memorial was organized, the winning company (Moldconstruct-Market) was replaced with another company, registered only 2 days prior to the beginning of the reconstruction works at the memorial. It is also curious that in this case the former acting mayor, V. Ursu, has decided to allocate the public money for the construction of the memorial complex "Eternity" without having consulted the Municipal Council of Chişinău and this action has passed unobserved by the Government territorial office, extremely watchful in other situations.

It is obvious that the decision to allot MDL 100. 000 M from the Municipal budget has been influenced by the Government of the Republic of Moldova and the most affected have been exactly the capital vulnerable layers, particularly, the families of Transnistrian refugees, which still wait for putting into operation of a block of flats, promised 14 years ago. The haste in which the works at the Memorial have been carried out has had other negative effects, as well. The press has already reported about the poor quality of the works performed, as the construction company was under a pressure of the limited term of construction and demonstrative visits of officials, that has lead to a decision of municipal authorities to replace approximately 4,000 m2 of split blocks, less than in 1 month following the commissioning of works. It should be pointed out that the granite stone, used in the reconstruction of the "Eternity" Memorial, being estimated at approximately MDL 30 M, has been exonerated from the payment of import excise duties, by a resolution of the Parliament, despite

the protests of opposition. The text of the Resolution says that the organization for the protection of the Slavs in the R. Moldova "VECE" has benefited of these exemptions and imported, without having to pay taxes and customs duties, 350 tons of granite, from as far as Karelia, for the reconstruction of the Military Glory Memorial. An information has been leaked to the press that the chairman of this organization is a notorious member of the Communist Party of the RM and a member of the Parliament.

Religious projects

Charity on religious ground has become a very frequent practice in the RM, as well as in other countries, with the exception that in the RM, authorities manage to absorb the merits of philanthropy supported by business through a continuous media campaign, organized by the press controlled by the state. In the absence of an adequate legal framework of the public-private partnership, the state dictates conditions in which business contributes to reconstructions of churches, crucifixes and religious marches, in such a way that one can doubt the reality of separation of the church from the state in the RM.

Existence of a Christian-Orthodox (numerical) majority community determines the visibility of private sector efforts to contribute to construction of churches and monasteries, to other church-related works. We will not analyze here the amount of contributions, determined by individual decision in relation to religious communities, to which such individuals belong. However, we are interested in a threefold relation, where, besides the individual and the church, the role of the public authorities emerges, which as a rule has a political-administrative nature.

At official level a number of the representatives of the clergy of the Metropolitan Church of Moldova remark that absolutely all projects dealing with reconstruction of churches in the recent decade have been financed either by the state or by sponsors: monasteries Căpriana, Hîncu, Chițcani, etc. In January 2006, the Government of the RM launched a public campaign of raising donations to renovate the buildings in the Curchi monastery, belonging to the Metropolitan Church of Moldova. At the end of the year, the church sources have communicated that approximately UDS 750,000 (MDL 10 M) were raised. Immediately, the Parliament has assumed the role of the "main founder" of this monastery, and adopted a decision that offered full facilities to companies involved in reconstruction works from of this cult edifice.

In legal terms, the beneficiary of the Căpriana monastery is the Metropolitan Church of Moldova, meaning that the state finances a religious cult, which

is separated from the state, without an opportunity to control the manner of spending the allocated money, under the pretext of restoring an architectural monument. Much to our astonishment, no public authority has checked the way these resources have been managed and the legality of the undertaken transactions since 2003 till today, although the State Chancellery of the Government of the Republic of Moldova established an Administrative Board for management of reconstruction works at the Monastery Complex of Căpriana in 2002. The Court of Audit, has not performed a single investigation of the estimate of these expenditures. It is known however that these works have been assigned to some companies affiliated to the relatives of some officials of the executive power, and the resources allocated by local authorities for these constructions have been transferred illegally.

At the same time, the Ministry of Finance has reported that the financial means transferred in 2004 for the reconstruction of the Monastery Complex of Căpriana amounted to MDL 10 M, financed completely according to the Law on the state budget, no. 474 of November 27, 2003[61]. The Ministry of Finance of the Republic of Moldova argues that in addition to the budgetary funds allocated for the construction of the Căpriana monastery, an amount of MDL 39.846 M was raised in marathons launched with the support of authorities and promoted by the public audiovisual institution, in the time span January 01, 2002 – August 14, 2006.

The first form, related to favoring one religious cult through remissions is, probably, also the most controversial one in economic terms. Political authorities grant various tax remissions, by virtue of a law on the state budget, for construction, restoration and reparation of cult buildings and monasteries of cultural value, included into the Register of state-protected monuments[62]. Another form of favoritism deals with attraction of private funds to projects privileged by authorities. In this regard, a frequent form of raising money is when authorities urgently dispatch telephone messages to private entities. Traditionally, a telephone messages of authorities start with the following phrase: …"To the attention of the managers....the District Council X or Y asks your contribution to the construction of the church N in the locality Z as a response to the initiative of the president Voronin on the construction of the following churches or monasteries, or ...". The text of such a telephone messages and

[61] Answer of Ministry of Finance of the RM to the letter of the IDSI „Viitorul" (September 11, 2006, no. 07/4-01-10/126).

[62] Report of the Court of Accounts of the RM on the results of the inspection of the management and use of the public material and financial resources, performed in 1997. Resolution of the Court of Accounts no. 9 of April 3, 1998. Chişinău 1998.

the explicit reference to the first person of the state leaves no doubts as to the "seriousness" of the request, particularly in an overly politicized and hierarchic-administrative system, and those who fail to understand clearly the first message, are entered into a list of "virtual debtors". We have been told about the existence of such lists in at least 10 of the 15 visited localities. Penalties, as a rule, are warning signals from the authorities, before they tackle "seriously" the most obstinate entrepreneurs.

Remissions have been granted to the Metropolitan Church Fund, a limited liability company, which, instead of dealing with specified activities, tax remissions were granted for, has practiced intensely intermediation services to some companies in importing consumption goods, free of customs duties and taxes. The 1998 Report of the Court of Audit ascertained e. g. that during 10 months in 1996, the SATI (Moldovan) "Metropolitan Church Fund" imported goods in the amount of MDL 20.6 M (cars, home appliances, petrol, diesel fuel), whereas the total amount of tax remissions was MDL 6.6 M. The companies Fidesco, Rodaj, Acorex-Trading, Elita-5, Interforum, Texcom, Catalan, etc. appear among the privileged partners of the Metropolitan Church[63]. We pinpoint that these companies have benefited from exemptions and not the Metropolitan Fund, which should have used the accumulated money for reconstruction and development of historical and cultural monuments of the RM. It is interesting that reports of the Court of Audit state that most inspections, performed by the employees of the Department of Financial Control and Audit at the Metropolitan Fund have been conducted superficially, in an attempt to hush up the committed blatant violations[64]. What have happened with this Metropolitan Fund in course of years is beyond any imagination. Thus, on behalf of the Metropolitan Church 254 VAZ cars were introduced in 1997 without any customs duties (Rodaj Ltd. Company), thousands of tons of food products (Fidesco, main shareholder L. Zusman, as well as Acorex and other 2 favorite companies)

Finally, authorities resort to various "useful" advantages as a pretext for demanding some services of electoral nature. We remember how top level state officials crowd, as a rule, at the ladder of the aircraft, which brings the fire from Jerusalem for the Easter holidays, using private resources for pa-

[63] The Moldovan orthodox Church (The Metropolitan Church of Moldova) has enjoyed special tax exemptions, which facilitated its commercial activities in exclusive conditions. See the report of the Court of Accounts on use of the public material and financial resources in 1997-1999.

[64] Conclusion of the Court of Accounts, No.48 of 06.11.97

ying the aircraft services. In March 2003 the CPRM candidate V. Zgardan was the candidate favored by the Metropolitan Church of Moldova clerics in May 2003 elections. The respondents have given us tens of cases when various authorities (administrative and political) have obtained finances from a certain locality business community and registered them as their merits, as in case of Hancu and Nisporeni Monasteries, but also the wooden Church from Palanca, the Parents' House, Călăraşi (the money raised in Călăraşi and Ungheni districts). For construction of the new church from Hânceşti just a single business operator paid MDL 40.000 in cash as a personal contribution, through local authorities.

In general, all those who contribute with money at the demand of authorities know an informal rule: "never ask for a receipt for the money given to authorities". This rule creates a favorable climate for corruption dissemination, even if the phenomenon of "unofficial" taxation does not represent, generically, a classical corruption case. Yet, the capacity of the Church institutions (i.e. enterprises established to serve the purposes of some religious denominations) to assimilate enormous sums of money (inclusively, through investment projects of reconstruction and renovation of some churches and monasteries) represents a serious risk to its credibility, first of all, because, as a rule, clerical institutions do not present any bookkeeping and financial reports to state structures, and secondly, because they create a real "magnetic field" for various pilfer schemes through "tick" companies. In Russia e.g. in the last decade there have been numerous cases when church structures placed speculative investments on the financial market, inclusively on names of other persons[65]. It is notorious that the name of the church has been abused in Moldova by many companies that have committed serious tax evasions, and when checked out by the fiscal inspectorate or auditing chamber they have usually attempted to dilute their fiscal responsibility by having services provided to the church. Nevertheless, we point out that our survey data identify a higher level of entrepreneurs' tolerance towards church charity demands, which they are inclined to perceive as a "moral" duty , "not to be discussed", etc.

„In last 4 years we have built 2 churches in the village. The Town Hall has contributed through the local budget (15.000 and 10.000 lei) and the contributions from the business were collected by the priest. As a rule, the business contributes to the village holidays (hramul), but more with products. For the hram the director of the Community Hall got 3000 lei to invite P.Bechet to a concert and the Department for youth and sport also received contributions". (Interview #1)

[65] Interview with a church representative, Chişinău, September 10, 2006.

Yet, some of the entrepreneurs are discouraged by the fact that church and local authorities "forget", as a rule, to mention the sources of collected funds. The majority of entrepreneurs do not like these local tactics of money extortion. Even local authorities admit that many representatives of business want to personally make sure that someone waits for assistance demanded by local authority and that many of them would like this intermediate activity to be carried out by non-governmental public organizations.

„Only district authorities have sufficient instruments to make businessmen obedient and to train them like Pavlov's dogs. Obviously, no one bears any responsibility for this money! Thus a paradoxical situation appears when money flow from business and current communists become founders of churches."

It is know that for building cult edifices the state authorities have spent tens of millions of lei, in spite of the fact that church is separated from state (Art. 31 of the Constitution of the Republic of Moldova)[66]. We point out that the authorities assistance in last 15 years has been channeled exclusively to one religious denomination, thus discriminating other denominations, that has raised intense public discussions.

"Just one town council transfers in one month 37.000 lei for reparation works of the „Sf. Arhanghel Mihail" church, but sponsorships of business was about several million lei".

The situation becomes hilarious from the moment when, on one hand, district administration raises money from the private sector for building churches and, at the same time, collects money for commemoration of those who previously robed and destroyed them, erects Lenin and Marx monuments, in various district centers, which produces at least confusion in public opinion, as our information sources tell us.

„…Thus, the Chairman of the District Council and at the same time the First Secretary of the District Party Bureau demands money for churches. And before the Prefecture was demanding money for the Hancu Monastery and was conditioning various business assistance programs with their material contributions. At the Prefecture the department of desconcentrate services and the fiscal inspectorate are connected to this "tithe" scheme."

With small peculiarities relations between local/regional authorities and business are quite homogeneous. The only way of "intensive" cooperation bet-

[66] „The religious worships shall be autonomous, independent from the state and shall enjoy the latter's support, including by facilitating the religious assistance in the army, hospitals, penitentiaries, nursing homes and orphanages" (Art. 31). According to official data the Metropolitan Church of Moldova has 1193 cult edifices, and 2,500 of priests and monks.

ween business and power comprises, as a rule, building of a church, quite pompous, or of a community hall, in which important public and private resources have been injected, which would have been probably more appropriate to direct to more effective social and economic solutions. In these conditions the "social burden" becomes for small companies a condition of staying on the market and an instrument of overcoming administrative barriers. At the same time, the small business asserts that, as a rule, they maintain "philanthropy" relations only with the public authorities (district administrations and town halls) and not with NGOs that exist on local level. This seems to fit into the logic of a overcentralized system of public administration, existing in the Republic of Moldova, so as there are but scarce similarities to the liberal system of the Western charity, in which the existence of a social entrepreneurship translates charity activities into a united system of social solidarity, having nothing in common with the punitive, repressive instruments of the state administration.

Social projects

There is a special package of contributions, which we have called in this survey "social projects", such projects deal with various social needs and would have been referred to as "charity activities" after the Western pattern. Some clarifications. The notion of "philanthropy" describes "a good action undertaken for the benefit of poor people" while "charity" represents "compassionate attitude, full of generosity to somebody". There are obviously no statistics at the national level as to the scale of this practice of subsidizing projects dealing with entertainment, anniversaries, and professional days celebrated by the authorities. Nevertheless, certain estimates can be made based on the costs, mentioned by the respondents surveyed under the research. A holiday meal, with all charity presents and packages for the elderly costs, as a rule, around MDL 10,000.

The average amount of a contribution paid by a medium-size company in a district centre ranges from MDL 1,000 to 4,000. Rayon administrations keep on their 'short track' of sponsors 10 to 20% of the existing firms and companies, registered there, and alternate their contributions according to the scale, form (cash or accrual) or regularity of payments. The authorities by definition pursue selectively a list of organizations they like and ignore others, they cannot reach. "Charity" contributions managed by a public authority, in absence of an independent monitoring and evaluating system, perpetuate "perception of a relative discrimination", and the method of "filling up social gaps" (which are not covered by local or district budges) contributes to maintenance of a low quality

social assistance and protection system in the Republic of Moldova. Basically, these authorities are particularly concerned with the conventional corruption, while unofficial taxation has never been an object of their priority interest.

Public administrations treat as "philanthropy" any kind of project that needs money from private business. The most frequent occasions for "harvesting contributions" for the authorities are associated with organization of different local festivities, and since there are over 84 secular holidays per year, and approximately 120 religious holidays, the authorities have more than enough occasions to build various strategies of raising money. Depending on the size of the locality, the executive authorities usually levy stable amounts, acceptable both to the economic entities and to the authorities, small but frequent, as a rule in cash or in kind.

"School repair works – we have earmarked money in the local budget. When this money is not enough – we use the Parents' Committee and everyone contributes with as much as they can. There is a council which manages raised funds, a chairman and a secretary elected from the parents. With the raised money curtains, paint and various first need objects are bought. The lavatories have been prepared."

In schools there have also been set up various funds, which subsidize functioning of the educational system.

"In Orhei there are 65 parents' associations and 16 of them have a bank account and a stamp. Entrepreneurs would contribute with more dedication if these contributions could have been correlated with declared incomes. But in the RM "does not function the Law on philanthropy", which stipulates the % that would affect tax exemption".

Small towns also suffer from a constant deficit of resources for financing some charity expenses and in such a situation they resort to sponsorship demands. As for Local Public Administration entrepreneurs believe them too weak and poor to be able to contribute to development of their business. Often, due to "poverty reasons and being in need they resort to business services". Thus, there is more understanding regarding the demands of APL. Yet, these demands are often abusive and frequent, although none of the respondents could clarify what it means acceptable "frequency".

"We have to paint the Community Hall. The town budget does not cover such expenses. I think it is an abuse that authorities force entrepreneurs to sponsor, when they themselves should take care of such problems. This is not a voluntary, but obligatory mechanism. I believe that this is not good; there is a law on sponsorship. I believe that the business community is not sufficiently grown up to have a serious dialogue with the authorities..."

Thus, the surveyed persons from the business community naturally ask themselves:

"If by the slogan to develop culture we demand the business to paint the Community Hall, than I don't know if by "culture" we understand the same thing and if this money will help to increase the cultural level in the community. On the other hand, public authority services will for sure congratulate themselves with another accomplished activity on their credit side..."

Among the other things, a major cause of abuses in this field is related to lack of adjustment of the interoperability between business and authorities instruments. According to an unwritten rule, district authorities will more often resort to trade and service companies. Payments demanded by authorities also vary depending on the size and the profile of the business. Entrepreneurs admit that, sometimes, they are ready to pay, being sensible to the population needs, but they are irritated that these procedures are not transparent. Authorities report raising of sums amounting to MDL 70-100.000 only for festive meals (charity meals, presents) which are collected as a rule in cash, requested by official letters from authorities addressed to business entities. Yet, the sums reported by the questioned mayors and the frequency of these contributions are alarming, as they describe a really institutionalized tradition to fill up the gaps of the local budget with "begged" money.

"Everyone gets from 100 to 150 lei, but not by writing a letter, they beg orally. There are about 79 – 80 registered business operators in the village, who give sometimes 1000 lei..."

Authorities decide to raise money from the business without having necessary infrastructure to ensure transparency, efficient and responsible management of resources.

"We do not have a special fund for contributions. But we do not need one because we do not demand all the time".

Most often, however, these contributions follow neither a transparent raising system, nor a proper report system. Certain public authorities are even frightened by the idea to report about the way they spend the money donated by business, which they consider almost a natural tribute. District authorities do not even bother with this problem, because use of resources raised in various extra-budgetary funds on other than planned purposes does not bring immediate sanctions, which would isolate fraudulent behavior and would encourage professional fair-play. Accordingly, everything is based on improvisation and hope that everything would be hushed up if these cases are eventually controlled.

"We do not have a strong relationship with the business, we do not have councilors acting on their behalf and they are too small. Lately, we have obtai-

ned small amounts of money for the expenditures of the local football team: transport, balls. In school the main forum that is responsible for raising voluntary contributions from parents is the parents' council."

But even such abusive transfers of certain state responsibilities can be understood by business if there have not been other forms of imposing some extra-legal activities:

"It bothers me that often the mayoralty has to take care of things that are not in its competences. For example: Peresecina has compulsory to participate in the Wine Festival in Chişinău; on behalf of the district we have to arrange a place in the Great National Assembly square in Chişinău and to move their the cabin, even if I do not want to take care of this, I have no other choice..."

Nevertheless, the amount of payments collected by authorities depends on the size of the locality and on the concentration of business in it. Some mayors admit they are not very successful in attracting sponsorship.

"There are not too many of those we can demand the money from, because in our villages there are only very weak business operators. We have 7 business operators registered as farmers. Most often we go to the Porumbeni Institute, which helps us although it is not located on our territory. As a rule, we go to them on the 9 May – they have given us 3000 lei, for a festive meal and financial assistance to veterans and on the 1 September they have given us money to buy books for the village schools."

As there are amounts of finds planned by central state control structures, there are similar amounts envisaged in district budgets, which make district authorities force the control hand in order to fulfill the plan. As a rule, district authorities demand business participation in written form of an explanatory letter demanding various payments. Yet, as certain Government decisions "with recommendatory nature", these letters are a pretext for making business community to show respect, if there are not positive answers to these letters.

"The fact that in 2005 and I believe in 2006 too the Porumbeni Institute let us collect fruits and vegetables on their territory for the school and kindergarten can also be called direct contribution. The community budget of MDL 1,3 M and 80% of it is with special destination. I have managed to bring to the community 2 MSIF projects in 2000, they asked us to contribute in amount of 20%, out of which 30% in cash. I rallied the community with great difficulties, but at the end I succeeded..."

Under these circumstances local authorities are rather satisfied with the cooperation with business in their localities, and they have no reasons not to be. We can see that there is a vast space for corruption between business and authorities in an environment where rules and regulations are ambiguous,

with an almost non-existing public control. After all, who might refuse to allocate money for some charity meals for the elderly, or for buying presents for needy children, or for the church in the locality? Lack of transparency in management of such resources fuels unwanted suspicions, and generates corruption expectations. Not a single agency submits, following the completion of construction, a report on expenses for which the money had been demanded. Generally, this practice makes the businessmen affirm that " town halls are only interested to grab the money, they care for nothing else". Sometimes, in order to avoid making payments demanded by authorities, entrepreneurs do not even attend ceremonies to receive their "entrepreneur of the year" awards.

"... District authorities say they participate in social-economic development programs. As an argument they use organization of the "businessman of the year" awards. This means that there is a list of 60 – 80 members who pay 300 lei each and from this sum the festive meal is paid and awards are given. Thus, the district authorities only collect the benefits on this occasion, establishing very questionable criteria of business performance... The same thing is done by customs department, for their professional holiday; their leadership and accounting department force each employee to give 300 lei each for festive meals and awarding the best. Depending on the number of employees the raised sums are rather considerable and are managed non-transparently."

The preconceived attitude certain authorities have cultivated many years determines counteractions of the business community. Thus, a part of businessmen will seek to become invisible for local/district authorities and they even refuse to enroll in programs supported by authorities.

"The dynamic of participation in the "Businessman of the year" activities organized by district authorities is dropping down. Thus, if in 2004 there were 60 – 80 participants, in 2005 only 40 – 60. Their contributions in 2004 summed up to 300 – 700 lei, but in 2005 they there 700 – 100 lei."

A major direction in the use of money originating form contributions made by the business environment is associated with infrastructural projects, co-financed by foreign communities and funds. A recognized nation-wide leader among them is the MSIF, which has financed over 15 national programs of community development in recent 10 years. Although, the MSIF procedures of obtaining financing of a project are rather complicated, a whole series of town halls have already benefited from this financing, which requires a comprehensive mobilization of local communities, inclusively a financial one. There are numerous cases in which raising money from the population, as well as from local businesses, surface as a result of external agendas.

The greatest bugaboo for this kind of authorities is not public opinion or what ordinary citizens might think about the integrity of an official or an elected local/district deputy, but particularly an eventual intervention of the Court of Audits, the Revision and Inspection Department of the Ministry of Finance or the Center for Combating Organized Crime, in their spheres of competences. We ascertain here the symptoms of a political-administrative system, which operates through the institution of fear rather than through normal accountability to public interest. Under these circumstances local authorities are rather satisfied with the cooperation with the business in their localities, and they have no reasons not to be, as long as business answers "ready!" to each project launched with pomp by public authorities to the attention of people. Finally, this "model" behavior compensates budgetary deficiencies and, as a rule, helps in electoral campaigns when they are elected.

"We have a project financed by the USAID of building a drinking water supply network in the locality (265.000 lei), out of which 20.000 is budget money, 40% town hall contribution, 20% community contribution."

There are different reasons, such as: raising funds for victims of natural disasters, or for building churches, to which local authorities want by all any means to participate as "founders". There are numerous cases in which raising money from the population, as well as from local businesses, surfaces as a result of external agendas. In other words mayors, who find out that they can get some foreign money are ready to do their utmost to get the co-financing, with an idea to cover the rest of the balance through a "sentimental" local mobilization.

"We erect a monument to heroes of the WW II with budget money and some money promised by the Russian Embassy. It will cost us about 25.000 lei."

Without making it publically many local authority representatives strongly feel the illegal nature of their actions. Thus, many mayors try to appeal, only in exceptional cases, to business services. For this purpose, mayors with a greater experience use their employees for "mediation" of various transactions with certain business entities from the locality.

"As a mayor I never apeal to business, so that they do not ask in their turn various services. Smaller entities contribute in kind, not with money: fish from the lake, sausages and mackerel, candies for an approximate number of the town hall invitees..."

Geography of these projects is rather extensive and imagination of civil servants is very reach. The Law on sponsorship is presented, in this context, as the main reason of the lack of clarity of authorities mandate in relations with private sector.

"The main problem is that the in force Law on sponsorship does not function. The relationship with business should have been transparent and legal, but no one can use provisions of the Law on sponsorship, because fiscal bodies do not recognize donations done by business. For Local Public Administration is humiliating to beg for money. If donations were made legally than many businessmen would have contributed to the village problems. This makes us count more on foreign financing."

Another respondent:

"In the last 2 years, as a mayor I have brought to the village foreign contributions to projects of drinking water, sewerage and heating supply networks worth of MDL 2 M. For the relationship with business to work normally business should have the possibility to introduce contributions in official bookkeeping. As it is all around the world. If he lives in our locality, he should have the possibility to pay for what he believes useful."

Our research has identified as factors generating the phenomenon of unofficial taxation first of all the incomplete legislative framework, and secondly the autocratic style of some public authorities, in absence of an independent and equidistant justice.

Projects „holiday-inn" (official and professional holidays)

The Republic of Moldova is a state with the most numerous official holidays per year. There are 65 official holidays specified in the Official Monitor (the Registrar of the normative acts and laws adopted by the public authorities of the Republic of Moldova), half of them of a secular character. Moreover, there is also the religious calendar, which means at least 120 additional holidays, half of which compel parishioners not to work and which are usually celebrated not only through the physical presence at church liturgies, but also through various public activities (festivals of locality, saints' days, erections of crucifixes, etc). The press has been communicating over several years how district authorities are overwhelmed with a true "charitable fever" before certain official holidays, occasions on which demands of aid from business seem to be the most important item on the authorities agenda.

"For the Day of the town authorities always prepare presents and a charity meal. On 20 August each businessmen is asked to come with holiday presents. An important role is played by the town hall social assistance employee, who is in charge of telephoning business entities or drafting demand letters. It is envisaged that on 12 September there will be again meals for poor people, presents, but

also excursions for veterans. it has to be mentioned that the local majority party organization (CPRM) is the one that decides on spending this money, through the vote of the district council..."

It would be wrong to believe that only districts of the Republic of Moldova are overwhelmed with this "fever" of raising money from private sector, because our respondents have reported hundreds of cases when local authorities (town halls) of first level are actively involved in levying social payments on business. Although, there is a certain discretion in celebrating such holidays, local public authorities (of both levels) also receive strict indications to conduct some of these holidays in a compulsory manner. The district administration, along with central officials, who travel the length and breadth of the districts, seem to be more concerned with the way these official holidays are celebrated than with those for whom these "cultural" projects are organized.

"There are various official holidays celebrated in the village e.g. the teacher's day, agriculture's day, farmer's day, ameliorator's day, etc. We also celebrate, the veterans' day (May 9), the day of motherhood defenders in Transnistrian conflict (1992), the day of sports, the day of agriculturists etc. On the occasion of the 9th of May the town hall offers assistance to veterans (there are still 12-13 veterans in the village), for the last celebration we have spent about 6,000 lei from the budget, while the contribution of entrepreneurs was in kind: fish, canned food, wine. We do the same for the other holiday - of the Trasnistrian and Afghan veterans (we have about 40 veterans). As a rule, the wine factory helps more and we more rarely resort to small business. The day of the agriculturist is taken care of by leaders of associations and the mayor comes only as invitee."

Another important destination of contributions demanded from business is official holidays. On these occasions, authorities must levy extra-budgetary money because budgetary resources, as a rule, do not cover such expenditures as a result of the current fiscal centralism, which makes every single authority to define its own strategies of extorting necessary resources from local business. The so-called "professional holidays" or "days of the town", or various social occasions such as charity activities for the elderly, children, lonely, victims of disasters are amply used by local or district authorities in order to extort money illegally from the small, medium-size, or large businesses, taking full advantage of the opportunity that no court of law in the RM would ever award the case to an economic entity versus a public authority"[67].

[67] In general, the only cases lost by the Government versus citizens for breach of rights have been those referred to the ECHR (European Court of Human Rights) in Strassbourg.

"Police demands for the day of police. Firemen and teachers, they are people too. The fiscal inspector want to be respected.... and if one does not pay, fines are imposed on him..."

The sums demanded as a one time contribution ranges from MDL 1,000 to MDL 5,000. Contributions are typically demanded either in writing, through letters signed by the chairman of the district or verbally, over the telephone, or in a working meeting with the " district activists". Officials make demands on the part of their towns, before festivals and days of the town, claiming that they do not have funds for such holidays, which, however, they may not avoid organizing. Others even state specifically the required amounts and give the banking account, using the district social or financial departments to this end. The contributions requested by public authorities vary in accordance with the size of the business, but also on its 'density of links/contacts' with administration, notwithstanding on the number of law violations, confirmed by tax inspectorate from their own field-controls. Needless to say how important is to know confidential information about business contracts, results of the tax inspections, etc before having the official requested drafted and sent to the potential contributors. The district authority X has reported the following situation, which may be also typical to other districts in the RM.

"There is a number of professional holidays: the teacher's day, the doctor's day, the village day (14 October). But, we have our own peculiarities. In our village the round dance is organized by young men who have come back from the army and they personally contribute, each with 500 lei and in such a way we have enough for a village holiday. Business operators are too small and have been affected by heavy rains and hails, so that I am even ashamed to address to them... "

In rare cases, demanded amounts and official accounts are specified. Most commonly only the reason for donating the money is specified. Financial resources are collected for: charity meals, presents for various social or professional categories, monuments projected by authorities, etc. As a rule, this money reaches the authorities in the most primitive manner possible i.e. in cash, in an envelope, through an intermediary or directly, a situation which exposes both parties to certain conscious, but inevitable risks. Very few of those contacted by authorities are able to refuse, because the realized risks are much greater than the money to be allocated. Entrepreneurs claim that if they fail to pay the money demanded by authorities, then inspection bodies will not sign authorizations required for operation of the business, or will be discriminated against other business people through other more effective means.

"...There are outrageous cases when rayon administration conditions business access to various economic benefits (the agricultural fund) by loyalty and

individual contributions to the district. Thus, diesel fuel allocated to farmers is distributed only to selected persons, those who do not dare to think not to pay. There are numerous cases of political influence. Thus, the district replenishes budgets of some public institutions once their managers enroll 'voluntarily' into the CPRM membership, and this is usually seen as a demonstration of power to the rest of the public managers..."

Those who usually pay in the district X are companies involved in trade, services and medium-size companies (with a turnover of several tens of millions). The amount of a contribution ranges from MDL 1,000 to MDL 2,000, depending on the nature of the demand. Thus, for charity meals organized for the elderly, the district X raises around MDL 10,000 (for a single event), but such charity meals are held at least 10 times per year (May 1, the town festival, May 9, the day of the elderly, August 27). Should letters of officials be not convincing enough, and should demanded money not arrive in time, authorities resort without any shame to tougher actions such as "informing" fiscal authorities about eventual illegalities, associated with companies or persons not enthusiastic enough in charity terms. Those who have been visited for 3 or 4 times over a week either by the fiscal inspectorate, by the economic police, by ordinary police, or by the sanitary epidemiological inspection (around 15 authorities with inspection competences at local level!) do not dare to run the risk of other conflicts with public authorities. On the other hand, those who prove to be generous can benefit of a favorable attitude, as compared to other economic entities. Most frequently, these can be "rescued" out of various unpleasant situations, caused by their quasi or totally illegal activities.

The mechanism of extorting money is also influenced by the attitude of the central government to the business community in the district or the town at issue. One can get sometimes a feeling that although hundreds of laws have been changed, the transition from counties to districts, from communes to villages, from municipalities to towns, etc. has been carried out, the practice of coercive fundraising for organization of official holidays has endured through the years and is actively upheld by all, with no exception, public authorities in the Republic of Moldova. Contributions from the businesses, calculated for the town Z, vary depending on the scale of the business: MDL 3,000 – MDL 5,000 are usually levied on small companies, medium-size companies pay MDL 5,000 – MDL 8,000, and large-scale businesses – from MDL 10,000 to MDL 15,000. Local and district authorities in the town Z have in their sight approximately 115 economic entities, and administer them this "remarkable" treatment.

Another form of extorting money from business is receiving visits of official delegations. These should be provided with meals and treated according to their social "rank". The mission to provide supplies for the menu of central government or foreign delegations is delegated to local business, as the biggest part of state enterprises has been privatized long ago and property in district authorities management does not generate incomes. As a rule, this mission is placed on the shoulders of wine, canned food, sugar or juice production factories, which despite their precarious situation have no choice but to "subscribe" to the authorities visit program. In close to the limit situation, enterprises efforts are supported by local commercial entities, which even if they are not at all eager to participate in foreign delegations "treat" have to give in. Obviously, authorities assume all merits of these treats, which arouses a natural disapproval reaction of the business community.

"...A part of the society works, supports the elderly, employees, pays all taxes and another part likes to get easy money, to pay nothing and to become millionaires in 2-3 years."

Yet, as a rule, local authorities bet persistently on administrative resources in their relation with business, while, on the other hand, the provisions of the Law on local public finances stipulate that resources of special funds should be integrally transferred on a special account of the local authorities at the Treasury are seldom complied with. In the district X we have been told that approximately MDL 70,000 – 80,000 were collected over half a year for organization of professional holidays. Thus, representatives of the private sector have to pass a "generosity" test and depending on the open-handedness of their gesture to be treated either as people "loyal" to district authorities or as "dangerous offenders", who do not fulfill their "patriotic duty" when demanded.

"...the same thing is done by the town hall. Everything can be conditioned with the amount of contributions: participation in auctions, concession of land plots, do you know how auctions are organized on the local level? The frequency of demands: at least once in 3 moths, maybe more often, depending on holidays: 8 March, 23 February, 1 June, 22 June, 24 August, 27 August, the frontier guard's day, official parades etc. Meals for veterans usually require more than planned in the budget. A one time payment is between MDL 5000 and 12.000..."

Thus, governmental agents, political agents of the top-rank state officials, usually take care of large-scale businesses and foreign investors, whereas small and medium-size businesses are, as a rule, tackled by local (1st level) and district (2nd level) authorities. Local authorities claim they encounter difficulties in re-allocation of money placed on the Treasury account and for that rea-

son they prefer to direct the money raised at local level in cash, directly to the payment source. We shall not dwell upon this situation, because we are more interested to understand what authorities mean by "voluntary donations" or "sponsorship", which, apropos, the legislation does not stipulate, as well as other legal notions they operate with.

G. Rent-seeking projects

Raising unofficial money and administration dependence of the political element represent major constrains on the way of crystallization of a legal, pluralist and democratic state in the Republic of Moldova. Current difficulties in the relationship of the business with the state are, in fact, effects and products of an ambivalent legal framework. Rent-seeking projects refer, in fact, to the way in which business resources are used by politicians and administration in a total non-transparency of consequences for the society. We shall analyze in this context the behavior of public administration, as public service and of politicians, as an under-layer of the political system, as the unofficial taxation system beneficiaries.

It is true that the state officials salaries in the Republic of Moldova are too small for them to be totally dedicated to public service. The Government Strategy of central administration reform points out to a lack of motivation in filling in of some positions in public structures, proving that in 2004 only 16% (275) of over 1722 employees of about 58 central public authority structures passed through a public recruitment procedure and only 20,1% of civil servants passed the procedure of attestation, or participated in various forms of professional training in last 4 years. The evaluation mentions important deficiencies of employment, promotion and meritorious support mechanisms in the public service.

This situation is mainly explained by the state officials mentality and their vulnerability to various temptations. Obviously, one of those refers to the probability that certain groups can promote their interests through special "gifts" and "care" offered to public authorities. In this context, we will not refer to conventional forms of direct corruption, for information on which statistics and surveys of the Transparency International (www.transparency.md) can be consulted, but to transfer of "rentier" contributions e.g. procurement of cars, installation of furniture, equipment with sophisticated appliances with private business money for specific persons and institutions.

Among the top related cases of "rent-seeking payments" of this kind were: the fashionable refurbishing of the apartment of the former chairwomen of

the Parliament, E. Ostapciuc (in 2001)[68], but also similar works carried out by the "Creator" company in the office of General Prosecutor of the Republic of Moldova in 2003. Investigations initiated by press[69] have dug up extraordinary costs of hundreds of thousands of lei for furnishing of similar offices for other state officials, especially of persons related to control and legislative structures, systematic payments of business operators (Chişinău Central Market) for functioning of the General Prosecutor's Office canteen, or the parking arranged with the money of another business operator - „Inconex-com".

This vicious practice of encouraging business to contribute to various whims of district bureaucracy was rather frequent during the counties times (1999-2002) and even increased after 2003, when for camouflaging costs of returning to districts, district officials got clear cut instructions to "share" expenditure estimates for rearrangement of former district edifices with local business entities. In such conditions some businessmen need only a pretext to transfer various valuables to authorities and those, in their turn can find optimal possibilities to accept them. The pretexts are offered also by intensive correspondence of some authorities with private business, as a form of demanding some money which local/district budgets lack. Repeated requests are done through letters with the heading of the district chairman, but often business representative are invited for "prophylactic" private discussions to district departments (finance, agriculture, culture, education).

The Y district council e.g. after a car accident committed by the district chairman himself asked entrepreneurs to raise money for repairing of the damaged car (Skoda Octavia Lux); the secretary drew up a list with businessmen' names who were forced to help; preparatory meetings were help so that those would better understand their mission and thus in one week the local business paid 11.000 Euro for a general repairing of the car. Collected contributions were between 500 and 6.000 lei each person, with a promise - "I will help you". In Y locality, this kind of contributions, but not only, is paid, as a rule, in cash, via secretaries sitting in the office anterooms.

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[68] In 2001/2002, Moldova –Gaz Company had financed almost exclusively all the necessary works for the apartment owned by E.Ostapciuc. To be stated here that the company is owned by Gazprom shareholder, and this could be seen as a benefit which infringes upon the statute of top-ranked official of the Moldovan Parliament. No investigation of the case was allowed or initiated, despite media reports.

[69] Center of jurnalist investigations, http://mdn.md/ru/subterranian.php?rubr=1821. «As one of the department director of the General Prosecutor's Office recognized in his office from the state are only the telephone and the safe, while everything else he had to buy on his own money».

"In our locality this tradition has been called "money on the chairman's chest", because it has become a burden no one can escape....If someone does not contribute, the district administration immediately sends fiscal inspectors, and those who oppose are blacklisted..."

After administrations, politicians are the most tempted to strike "separate deals" with private business. Contributions demanded from business community to political aims accelerate suddenly prior to elections, suggesting that authorities gather money from the business for their political campaigns as well. The Electoral Code, which lays down the basic rules of organizing the electoral process, stipulates in Art. 38 terms and procedure of financial support for electoral campaigns[70], requires of all electoral candidates to submit detailed financial reports on their incomes and expenses to electoral authorities, once in 2 weeks, throughout the election period (Art. 38). However, the powers of the Central Election Committee are confined at checking only the resources managed in the "electoral fund" of candidates, while the current (financial) standing of political parties is almost never subjected to control, not to mention resources used by independent candidates in their campaigns.

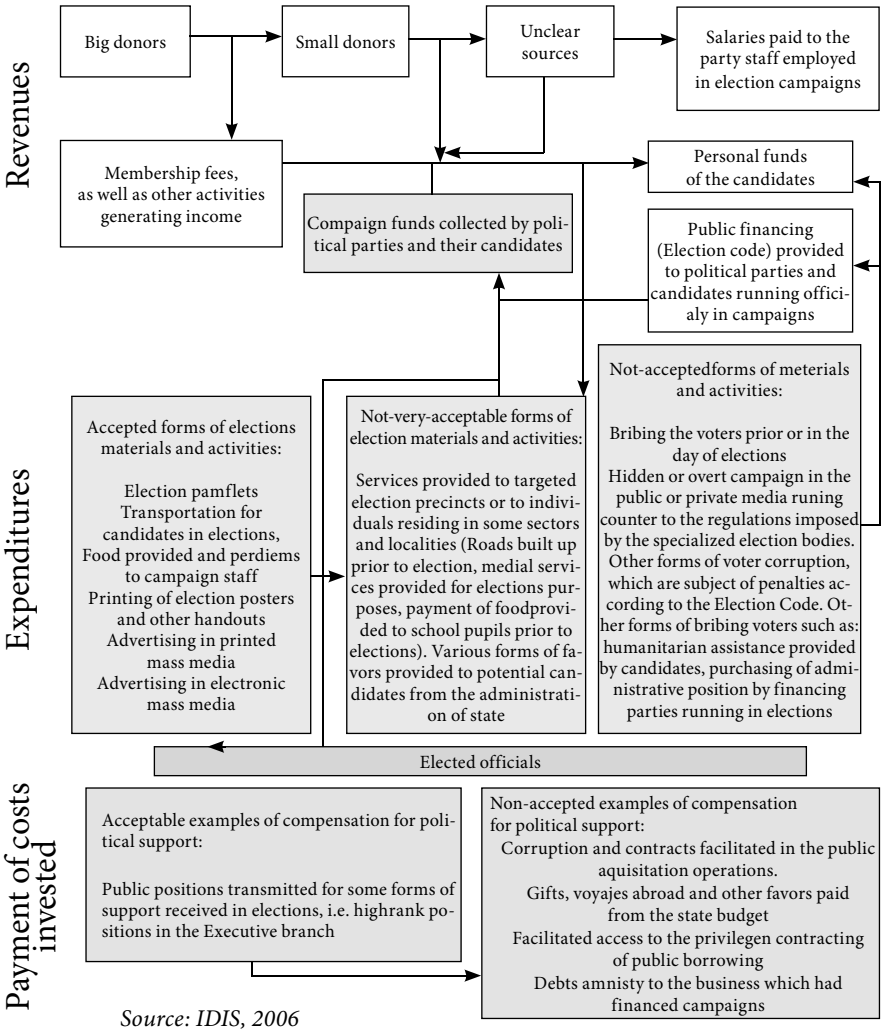
Elections are an essential reason for economic pressure groups to search for the "ideal" candidate in their opinion, through whom they shall endeavor to serve their own economic, or business interests. Lack of transparency during electoral campaigns and pointlessness of the venture to make political campaigns based solely on money raised through membership fees render political parties extremely vulnerable to the administrative power of the state, but also to business circles, with resources, as a rule, oriented to the ruling party, which can transfer them, on a reciprocity basis, various benefits they aspire to. Moreover, it is known, that many political parties even do not resort to the money allotted for electoral campaign by the state, while other parties use these resources as much as possible and even overpass their limits. Thus, political parties are easily penetrated by money flows of uncertain origins, so that frequently these resources, useful during electoral campaigns, become a dead weight after them.

Unfortunately, the legislation in this field, particularly the Law on parties, other social and political organizations (no. 718-XII, of September 17, 1991) does not stipulate clearly the mechanisms of supervision over circulation of money within a political party. The Law provides that the sources of parties and other social-political organizations monetary funds are accumulated from: "entrance and membership fees, activity of mass media, selling of social-political literature

[70] Electoral Code, Chapter IV, Art. 38, Material provision of elections.

and other propaganda and campaign materials, of articles with party symbolism, from holding of festivals, exhibitions, lectures and voluntary donations and payments of natural and juridical persons, with the exceptions provided in article 12-1 (foreign financing, financing by state, anonymous persons and unregistered associations), as well as other revenues not prohibited by the state".

Figure No. 17 Scheme of electoral money turnover in the RM



Source: IDIS, 2006

It is enough to mention that the draft law on financing of political parties has not been yet adopted by the legislative, arousing numerous critics from political actors and civil society. In this situation, political parties become hostages of non-transparent contributions, as long as the money received as

membership fees is an insignificant part of costs required for carrying out an active party agenda. Thus, donations to parties become a future pressure factor of these groups once their candidate takes up his office. On the other hand, the money raising stage is the most important one before engaging in any political competition. Involvement of some business circles in political groups programs takes place in opaque conditions, being believed that this situation is acceptable to both parties and business circles.

Talking about the typology of parties sponsorships, we mention the following:

1. Direct sponsorship of party leaders;
2. Indirect sponsorship, through allocation of resources to some party activists;
3. "Cumulative" sponsorship (payment of campaign costs: electoral advertising, use of vehicles, radio equipment, printing of electoral posters etc. without transferring the money on the recipient party account;
4. Use of certain public funds for offering clear cut advantages to some authorities candidates (Project "Model Areas" in Chişinău, with apportion of money from the Government reserve fund in 2005, use of public TV and Radio channels in benefit of authorities candidates etc.)

Thus, major expenditures of some political groups are paid as a rule in cash money or through some phantom firms, which disappear as soon as their mission is accomplished. It is known that municipal and state administration are also sometimes involved in money raising for electoral campaigns. This kind of pressure reflects the interdiction imposed by the governing party to donate funds to opposition parties. The power manifests an aggressive reticence to any ideas, which the business might manifest for the support of any competitive political group, this extends implicitly over the associative environment, human rights protection organizations, etc. On local level, money is also spent on the eve of electoral campaigns, either in form of humanitarian meals and presents, or in form of building edifices, roads through which some of the candidates can have a "strong hand" comparing to other candidates.

Emergence of some autonomous funds, having clear and transparent purposes, can be interpreted by the power as a power-provoking activity. The most popular techniques in this regard consist in "convincing frame-ups" and making "offers" which candidates approached by parties can not turn down. This technique is usually practiced against a background of an increased influence over the judiciary system. A very efficient technique seems to be systematic harassment of business through restrictive decisions or toughening penalties for minor offences, which can lead to bankruptcy or to a straight way to lose the business.

The OECD/ Stability Pact Business Compact Report (2003) notes that, "the control exerted over the business in the RM has transformed itself into an instrument of repression, which affects adversely operation of private entrepreneurship"[71]. Under such conditions, the private sector is forced to seek its own ways of access for "taming the shrew" public authorities and frequently this is the only reason why such actions are accepted by business and encouraged by authorities. The problem of sponsorship legality in the RM should also be touched upon. Thus, for fiscal structures it makes no difference at all where some business entities have sponsored certain activities or not, because taxes are immutable, in other words, sponsorship is regarded so only the money have been requested and were operated at the request of the state bodies.

There were many cases where some of the entrepreneurs have been warned not to spare money on social NGOs, because rayon authorities had certain plans to fulfill on sponsorship. Like many other authorities, rayon administrations use to foresee that a part of the expenditures will be covered from sponsorships, and their budgetary estimates have increased annually by more than 5 times since 2000. Moreover, fiscal bodes presume that business entities are viable and full of money if they can also afford paying sponsorships. For this reason, business complains not so much about high taxes as especially about the instability of the system, complexity of accounting procedures, which are an obstacle in developing businesses. We have mentioned previously that all collected contributions are part of a punitive hierarchic system. This system makes business know the authority it has to pay fees, according to its size, specific and location.

2.4. On the ill-perceived partnership or what is hiding behind "forced" charity?

The unofficial taxation phenomenon, or in other words, the activities which describe the "coercion of entrepreneurs to give their money at the request of public authorities on various purposes defined so by authorities", should be considered with a great zone of caution. This caution is necessary in the context of efforts devoted to acceleration of the general regulatory framework for business, as well as of the overall strategy of curbing corruption and promoting good standards of governance. Partnership between state and society is the most important element of the political reform. But, this partnership shall emerge from a strict separation of the state from the private sector, civil service from business, and decentralization of the local governments from the state administration. The reform logic should ensure viability of authorities and bu-

[71] Moldova: Enterprise Policy Performance Assessment – OECD 2003: Insights from SME Owners, Managers and representative bodies, p. 26.

siness autonomy, on all levels, increase of administration efficiency, decrease of bribes and corruptive deductions from businesses, including "unofficial taxation", guarantees a favorable business climate. Among the most obvious lacks of this system are: lack of transparency and public control over used funds, increase ideological component of its objectives, use of punitive resources for annulment of refuses, prevalence of informal rules over legal framework.

It is obvious that business can use its contributions to "buy" public authorities loyalty, thus paying various indirect loyalty taxes. The press has informed e.g. about the extravagant gesture of the Lukoil company, which has been referred as a 'donor' of about USD 1 M for the reconstruction of the "Eternity" Memorial in the capital of Moldova. It is also true that officials are "eager" to manage money flows, because in conditions of a total non-transparency of extra-budgetary funds, public authority holders can easily assimilate certain resources for their personal needs. Politicians, before or after electoral campaigns, can attract substantial resources in the name of some ideological objectives and projects, rather controversial or even absurd, by the way. On their turn, public authorities control these transactions and manage negotiations, in which they have an excessive discretion to transform various non-economic forms in "rents' paid to the state.

This type of non-economic costs keeps the entrepreneurial sector underdeveloped comparing to other economic sectors able to invest in development. If we listen to businessmen there is a feeling that they are ready to assume certain costs in this regard. However, these charity actions are most often practices which do not fall into the pattern of normal philanthropy experiences, known at the international and regional level, even in a number of neighboring countries. Contributions raised by authorities in the RM lack what, as a rule, legitimates the institutionalized charity system in modern world: transparency and credibility.

In order to generate growth business has to use capital resources in a productful way. When capital is used for various non-economic transactions that negatively affects entrepreneurial growth and the market in general. Thus, abusive practices distort growth stimulation elements through abrogation of competition and generation of a large number of perverse effects. The fact that as a result of these "social contributions" there are benefits that reach various socially vulnerable layers seems to be most likely a side effect of the "unofficial taxation" system, because this system does not have as an aim charity in its western understanding, but dependency from the system.

What functions in other countries as a decentralized system, where private sector can autonomously decide when, what and how it to contribute e.g. through charity actions for objectives it values, in the Republic of Moldova se-

ems more like an almost unrealistic concept. Frankly speaking, the public-private partnership is an extremely vast and useful reference framework of cooperation between authorities and society and it would be truly important to learn more from international experience in this filed. In the Republic of Moldova there is not a single statutory act that would regulate this "public-private" partnership framework and "cooperation with business" is understood in a totally grotesque way, meaning in real terms the unlimited right of administrative (or political) power to "shake out benefits" from successful business.

In general, recent developments in the Republic of Moldova economy have had a negative influence over entrepreneurs. They believe that things develop badly, because import prevails over export "which means that economy is not working". As previously, laws instability and their repeated change negatively influence the businesses. The only positive example, to which all of those surveyed make reference to is the guillotine law and the strategy of SMEs support, but certain policies require new expenditures from the business. Among them not the last one is SMEs high expenditures for electricity. The only increase, as compared to other years, is registered in constructions. Business associations are not valued because they are passive and "active only when pressed by fiscal structures or police". The respondents argue that these associations were active in 95-98, but many of them have disappeared in 2000-2003 and nowadays they "can help with nothing". The state restricts use of patents, which is explicable, but entrepreneurs allege that "under the pretext of regulating the patents, the state will severely restrict the business activities in Moldova".

Although, there is a rather developed legal framework, justice is not sufficiently vigorous for guaranteeing an effective protection against abuses perceived by the business community. Entrepreneurs are skeptical when talking about the possibility of not paying contributions. Today they do not see a possibility to defend from abusive demands, which make them break the law. They say:

"Of course those who ask for the money do not lay down conditions, but they keep you waiting one, two months and delay the process of obtaining a space for renting or of authorizations, so that at the end one is constrained to do something in the direction showed by authorities". In order to obtain an authorization one should pay the legal tax: I want to open a store, I have to pay 3200 lei, afterwards they have to give me the authorization, and only after that I can open the store, but who knows will I work or not, but I have to pay.

They agree that laws are badly known, but in the RM in general

"there is stability only for the protected business". Conditions for business operation are not equal. At the city markets sellers have patents, but operate without any bills, that helps hiding profits. For example, in agriculture, private ini-

tiative is more of a burden. Thus, there is a tradition to not pay salaries officially. The support to those who start a business is more nominal than of practical nature. At the national level associations are not necessary. Prices gallop and acquisition costs do not cover even 60%. Number of persons who take part in discussion about the regulatory framework is very low. The state does not offer any consultancy to business, with the exception of the state inspectorate which may be consulted irregularly. Entrepreneurs say they have to develop other profitable fields, because in agriculture the suffer losses. There is a district fund of assistance, worth of MDL 150.000, but this funds are enough only for various premium pays, or awarding prize winning places, but not for the assistance itself. "Fiscal exemption was granted in 2005 only to one person, who has 16 competitors".

State taxation policy: the respondents believe that changes in legislation are frequent. It is necessary that at the first control the inspector only warns about the irregularities and not destroys the business. Entrepreneurs say that the tax supervision should be implemented as a service to business, and not as a penalty instrument. Generally, the taxes are quite high, and this is why the capital turnover is very slow. Entrepreneurs have proposed a number of modifications to the taxation system e.g. 10% social fund, so that entrepreneurs disclose the entire salary, because 26% is too much. Consultation with the state is unsatisfactory. The existent taxes are not at all favorable for business and almost never are consulted with the business community. The respondents argue that public authorities should not involve in charity activities, but special funds should exist for building churches, managed by churches and the associative sector. Business would contribute even more with money to charity actions, but in a legal and transparent manner.

The guillotine law: Respondents know about some of this law effects, because "the law of 6 August 2005 reduced 99 legislative acts and set up a register of normative acts for the business". The criminal record is for free now, comparing to previous 180 lei, say the respondents. Yet, business appreciates application of laws as unsatisfactory and the first wave of "guillotine" as being more "declarative" because, as they say, it dealt only with laws that severely contradicted each other, but the framework of functioning of business in the RM has not been streamlined and simplified. However, it is true that the number of controls have decreased comparing to previous years, but numerous cases of police, sanitary inspectorate and fire brigades involvement have been maintained. Reasons of these controls are inconclusive. Unfortunately, the "guillotine" law has not changed essentially the role and the statute of central ministries in relations with private business. Their internal regulations negatively affect management of private business. This omission makes "the relation with the state to continue to be rat-

her unforeseeable" say representatives of the business community. At the same time the taxations system continues to be "rather complicated" and "forms and reports change very often, so that for a SME one accountant is not sufficient".

Exaggerated controls: In only one year a business entity was visited by representatives of the CCECC 16 times and 32 times by representatives of the fiscal inspectorate. Entrepreneurs claim that in 2006 the number of controls reduced, but not also in retail trade, where the number of these controls increased. There is a feeling that fiscal structures and police "do not have a task to observe customers' protection, but their own profits", which depend on the number of imposed fines. The respondents claim that fiscal structures have fine plans. The same system works in the road police, the Fiscal Inspectorate and the Sanitary-Epidemiological Inspectorate. Fines are bigger than in previous years and inspectors take advantage of that.

Social contributions: These contributions have become a rule and not an exception in functioning of the business. The more visible and official is a business, the more insistent and bigger are various demands of authorities. Officials demand these contributions even during verification controls, so that businessmen have no choice, but to pay under the threat of penalties. Contributions are requested for charity food, for elderly shelter, but also for the reconstruction of stadium, for roads and social fees, for schools and kindergartens, waiting for repairs, etc. Most of the times this kind of contributions is made in cash, urging companies concerned to an obvious violation of the law, which the authorities purport to uphold.

Imposed fines: Sometimes entrepreneurs are forced to transfer on certain accounts USD 3000 and if they do not are threatened with police and other services controls. In the opinion of entrepreneurs, there are too many leverages of influence for them to ignore these reiterated warnings. Penalties imposed by inspections, payment of some state duties in addition to official taxes may differ in the instance, but – as entrepreneurs argue – courts do not help in the least and do nothing but worsen the fate of those who dare to rise in opposition to abuses committed by state inspectors. Among businessmen there are many suspicions that justice is not free and independent and decisions are imposed by authorities.

Relationship with local authorities: As for the LPA, entrepreneurs believe them too weak and poor to be able to contribute to development of their business. Often, due to "poverty reasons and being in need they resort to business services". Thus, there is more understanding regarding the demands of the APL. Yet, these demands are often abusive and frequent, although none of the respondents could clarify what it means acceptable "frequency". Sometimes, in order to avoid making payments demanded by authorities, entrepreneurs

do not even attend the ceremonies to receive their "entrepreneur of the year" awards. As there are amounts of fines planned by central state control structures, there are the similar amounts envisaged in district budgets, which make district authorities to force the control hand in order to fulfill the plan.

Unofficial payments: Generically, all surveyed respondents confirmed systematic payment of public authorities' demands. Nobody knows exactly how much money is raised by their contributions and they are annoyed by the lack of transparency of authorities that collect them. There are no statistics or financial reports, which would show proportions of accumulated funds, their destination, or the effects gained by these contributions. The entrepreneurs claim this way corruption is encouraged, institutionalized through abuses of official duties by those who demand the money. Especially, district authorities are most often mentioned as contributions "permanent demanders". District councils are those which decide what money to be paid. After the LPA has demanded and received the money from the business they mention nothing about businessmen and charity meals are like offered by them for free. In Ungheni a decision has been taken to give compensations provided by the law only to those who contribute with money at the district leadership demand.

Charity actions: Payments demanded by authorities vary according to the size of the business. Entrepreneurs admit that sometimes they are ready to pay being sensitive to population needs, but are irritated by the lack of transparency. They ask themselves: "Why when contributions are made figures of contributions are not published in a transparent manner?". In Orhei there are 65 parents' associations and 16 of them have a bank account and a stamp. Entrepreneurs would contribute with more dedication if these contributions could have been correlated with declared incomes. But in the Republic of Moldova "the Law on philanthropy is not properly implemented", in particular, in those provisions, which stipulates the tax exemption cases. Neither of fiscal control bodies would accept business entities to contribute to charity actions form taxes to be paid to the state. For this reason contributions demanded by authorities are as a rule paid in cash money. Officials forward their demands on the part of their towns, before festivals and days of the town, claiming that they do not have the funds for such holidays, which, however, they may not avoid organizing. Others even state specifically the required amounts and indicate the banking account, using district social or financial departments to this end. Nobody refuses, because the perceived risks are much higher than the allotted money. Entrepreneurs claim that if you do not pay the control structures would not sign your authorization.

SMEs problem: Small business is the favorite ground for extortion of unofficial taxes by local and district authorities. Thus, IDSI research confirms that

"SMEs pay little but very often". Sums demanded as one time contribution vary in between MDL 1000 – 5000, exceptions are only those SMEs that do not function, because all others are connected to authorities by numerous visible and invisible links. Not a single agency submits, following the completion of construction, a report on covering the expenses for which the money had been demanded. Generally, this practice makes the businessmen affirm that "town halls are only interested to grab the money, they care for nothing else"[72]. At the same time, small business asserts that, as a rule, they maintain relations only with public authorities and not with NGOs. Very few NGOs in the Republic of Moldova have ever addressed to small business for various contributions, because their goals are less known. Small business knows little about NGOs and what these organizations deal with. Things the small business knows about contributions are related to authorities: district, local and central. They are asked, most often, to pay for various services rendered to elderly and handicapped people, orphanages.

Chapter II conclusions:

1. The majority of holidays in the Republic of Moldova are a reason for raising unofficial taxes from the business community.
2. There is a total lack of transparency in raising and managing public and private money by various administrative authorities, on the background of a lack of a satisfactory framework of public money monitoring.
3. Manipulation with control functions for exercising pressure on the business is a rule.
4. In cases of money demands from business risks of ignoring them are higher than benefits.
5. A part of the business that is in kin relationship with authority representatives are exempted from payment of certain taxes, which they compensate afterwards as contributions passed from hand to hand.
6. These unofficial contributions represent an important component of the system that exists in the Republic of Moldova of extorting money from business through repressions and control.
7. Resource to justice is undermined by a negative perception of independence of justice; for this reason these systematical problems are not brought in front of courts of justice.
8. Authorities are the main demander of unofficial contributions and not society or NGOs.

[72] Personalized interview with representatives of the small business, Orhei, July 2006

III SPONSORSHIP AS AN ADDITIONAL SOURCE OF REVENUE FOR PUBLIC INSTITUTIONS

3.1. Looking for alternative financial sources

In the Republic of Moldova sponsorship is regarded as an additional source of earnings and not as a mechanism for cooperation between business and governance. Under the conditions of a chronic insufficiency of budgetary financial resources, public institutions have to make considerable efforts to supplement their budgets with alternative financial resources. In addition to budget revenues, public authorities dispose of property revenues, earnings from delivering services and sponsorship. However, the property revenues and earnings from services are, as a rule, more strictly monitored on the one hand; on the other hand, they are limited in size.

Furthermore, the opportunity for public authorities to deliver paid services has been cut down essentially following implementation of the "guillotine" law. For that reason sponsorship becomes an increasingly attractive additional financial source for public authorities. It has already become a tradition that most legislative drafts and regulations of operation of public institutions contain the term "sponsorships and various donations" in the revenues chapter. Sounds funny, but even the Information and Security Service in financing its activities place a special emphasize on sponsorship[73]. It is left to our imagination to understand what kind of common projects can have business and the ISS, as well as their way of cooperation. The ISS example shows best of all that public authorities by sponsorship in fact understand revenues to the institution budget.

As any other source of revenue, sponsorship is part of one institution budget and at drafting the next year budget, along with planning of other revenues, revenues from sponsorship are also envisaged[74]. As any other source of legal revenues, degree of execution of the budget for this chapter should also be reported.

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[73] See Resolutions of the Government 962 dated August 21, 2006, Resolution on the special means of the Service of Information and Security //Official Gazette 138-141/1043, September 01, 2006.

[74] See Court of Accounts, Decision on report on legality and efficiency of use of financial means for management of the Ministry of Culture and some subordinated institutions, activities in the cultural field and management of cultural heritage in 2004 # 27 of 26.05.2006.

Tabel No. 5 Budgeted CULTURAL ACTIVITIES 2004 (MDL M)

Institution	Approved		Fulfilled			Total expenditures		% of covering the expenditures	
	From the budget	Own revenues, sponsorships, special means	Total	Budgetary allocations	Own revenues, sponsorships, special means	Total planned	Total executed	From the budget	Own revenues
1. Theatres, circus and concert organizations	18816,3	28018,9	46835,2	18786,3	30889,1	49675,4	50879,4	36,9	60,7
Inclusively: theatres	11086,0	16805,2	27891,2	11056,0	17517,5	28573,5	32980,5	33,5	53,1
Philharmonic Society	2519,3	1309,3	3828,6	2519,3	1214,0	3733,3	3396,2	74,2	35,7
ensembles and musical bands	5211,0	9904,4	15115,4	5211,0	12157,6	17368,6	14502,7	35,9	83,8
2. Administrative structures (central apparatus of the ministry)	1413,7	112,0	1525,7	1411,5	148,9	1560,4	1414,9	99,7	10,5
3. Other cultural and artistic activities	1464,3	1495,2	2959,5	1464,3	1103,0	2567,3	2556,2	57,2	43,1
4. Libraries	4896,4	4896,4	971,6	4788,1	971,6	5759,7	4760,7	100,5	20,4
5. Museums and exhibitions	7035	1807,1	8842,1	6471,3	1807,1	8278,4	6435,3	100,5	28,1
6. Library science Council	37,0	-	37,0	24,9	-	24,9	25,1	99,2	-
7. State Agency for Protection of Morals	120,4	-	120,4	120,2	-	120,2	120,7	99,6	-
8. Periodic press and publishing houses	700	-	700	700	-	700	700	100	-
9. National Book Chamber	677,5	-	677,5	657,6	-	657,6	640,1	102,7	-
10. Creative unions	720,0	-	720,0	642,1	-	642,1	642,1	100	-
11. Cinematography	950	4800,0	5750	950,0	4812,1	5762,1	6566,5	14,5	73,3
12. Capital investments	662,8	-	662,8	662,8	-	662,8	662,8	100	-
Total:	**37493,5**	**33862,1**	**74698,3**	**36679,1**	**39731,8**	**76410,9**	**126283,2**	**29,5**	**31,5**

Source: Court of Audit, Decision on report on legality and efficiency of use of financial means for management of the Ministry of Culture and some subordinated institutions, activities in the cultural field and management of cultural heritage in 2004 # 27 of 26.05.2006.

Although the practice of attracting financial resources in the form of sponsorship, donation, and grants has been successfully applied in public institutions for several years, there is not a mechanism of their strict evidence so far. In one of its reports, the Court of Audit warns that "the Government so far has not developed an adequate mechanism for using efficiently grants and donations given to the Republic of Moldova, for the remuneration of employees and delivery of services on the account of such donations, as well as for their taxation"[75]. It is worth mentioning that this observation has been made as a result of another

[75] Court of Audit, Resolution no. 67 dated July 12, 2005 on the Report of the Court of Accounts on the management and use of public financial resources in 2004 //Official Gazette 129-131/44, September 30, 2005.

notification by the Court of Audit, in which attention was drawn to the existence of transgressions in the use of the money coming from sponsorship.

The budgetary money is in the centre of attention of the Court of Audit, whereas the occasional surfacing of the money derived from sponsorship in the Court reports is due to thoroughness of the auditors. As a matter of fact, there is neither a legal mechanism that would describe formation and use of financial means originating from sponsorship nor accountability procedures. As a result, every public institution follows its fancy in using the money generated from sponsorship and some reports sporadically surface, which have never been validated by the Court of Audit. Those who have provided resources are completely ignored and lack of transparency of the way this money circulates within the administration generates direct corruption effects.

3.2. Transformation of donations and sponsorship into taxes

Public private partnership is obviously a modern mechanism to solve problems encountered by society. Such a partnership can be achieved through uniting efforts of the state and economic entities in spheres of increased interest to both parties. Therefore, in order to achieve a partnership it is necessary to: 1) for public authorities to have a deep insight into the community needs and a readiness to assign financial resources in this regard, 2) economic entities should in their turn also have an agenda with social priorities that they would be ready to finance. Should these agendas coincide, interference between business and administration occurs and as a result the partnership emerges. What actually happens in our case is quite opposite.

Public authorities create their certain agenda of priorities and action plans that they are unable to pursue with budgetary resources. Share of the shadow economy is very large in Moldova, due to imperfection of the economic system and to weakness of the public authorities; consequently the state levies only a part of the taxes that should be collected. Accordingly, there is an enormous mismatch between elementary needs and budget opportunities. Therefore, a compensation mechanism has to appear by all means. Such a mechanism has been successfully invented and is called an additional revenue source for covering the needs of public institutions or, in other words, "donations and sponsorships".

Actually, donations and sponsorship are a mechanism to replenish budget in another way than lawful taxation. Under the current system of official tax collection, any donations and sponsorship bear the characteristics of unofficial taxation. As any other mean of taxation in the Republic of Moldova,

it has some fundamental characteristics: (1) is imposed on business entities and population by public institutions; (2) is "compulsory"; (3) there are repression mechanisms for those who do not pay. It is easy to see that partnership relations between business entities and public authorities perfectly fit the aforementioned characteristics. As a matter of fact, we observe a replacement of notions, when an unofficial form of taxation is mistakenly referred to as "partnership". Spheres, for which contributions are demanded from economic entities, as well as demanded amount, depend directly of the administrative level that manages the project at issue. The volume of these contributions is analyzed in chapter 3.5.

It is worth mentioning, that the idea of "social commitment of companies" gained popularity by the mid 1950s in the USA, as an answer to structural change of American economy, but also as a result of the end of recession. In order to improve the tarnished public image of businessmen, many of them became aware of the importance of companies involvement in community life. Thus, businessmen in the USA, in addition to taxes, were increasingly paying attention to various needs encountered by communities, where they were practicing their economic activities.

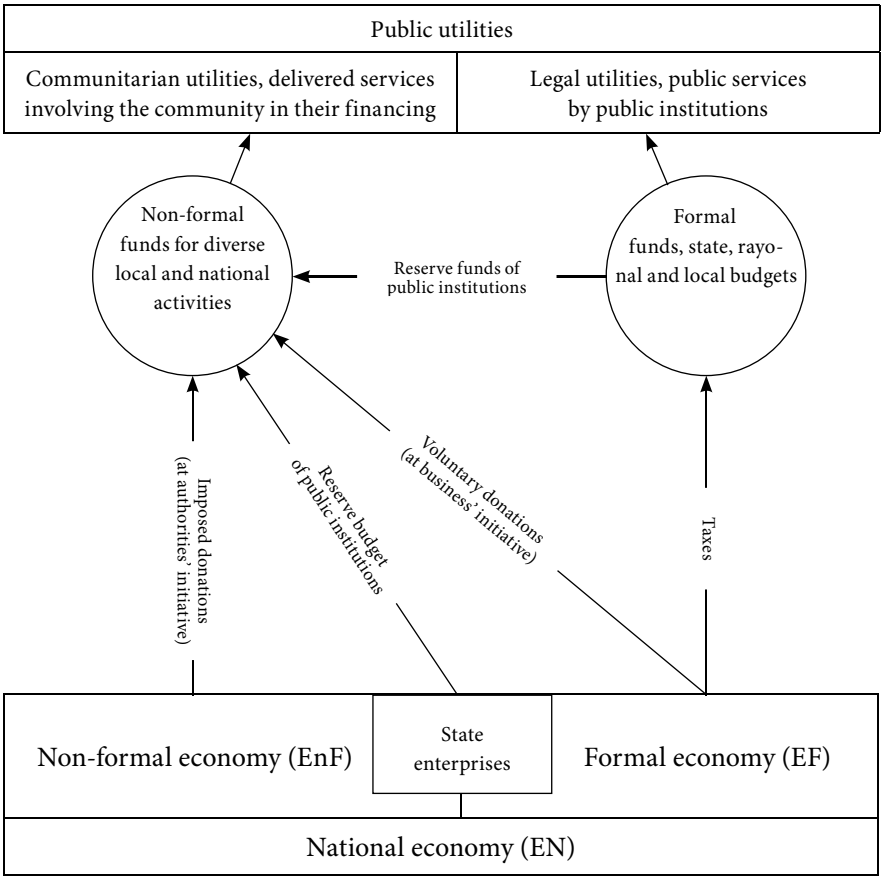
Direct involvement of business in community life has had a positive impact both on the community and on the proper operation of business. Today, there are numerous theoretical studies and scientific researches, which explain in details importance and advantages a company can gain if it itself develops its own social responsibility. yet, it has to be mentioned, that successful stories from developed countries are a result of a long and not always nice history of "wild capitalism" development.

It is obvious that social responsibility could not appear overnight. Many businessmen are skeptical to the idea to "contribute socially", besides legal taxes provided by the legislation, because they say: "business serves its motherland by the vary facts of its existence and payment of taxes[76]." On the other hand, many of them are far from seeing the benefits their business can enjoy from active involvement in rendering important services for development of a local community, or for distinct social layers. Under these conditions, lack of "conscious assumption of social responsibilities" is more a rule than an exception for the business community in the Republic of Moldova. Yet, a phenomenon of "jumping over phases" occurs, in the sense that certain public and state authorities consider themselves justified to force business community to participate through sponsorships in certain processes, but insist in establishing by themsel-

[76] Personalized interview, September 11, 2006, Chişinău

ves their own hierarchy of objectives, for using the money collected from private business. In these circumstances, we cannot talk about charity phenomenon, because sponsorship becomes an instrument of political intervention in society and not a voluntary sphere, where initiatives appear on the background of good intentions and socially assumed responsibility. As official taxation, the unofficial one implies a "public interest". However, in case of unofficial taxation it is very difficult to identify who, how and when establishes fields to be financed.

Figure No. 18 Formal and informal flows of finances collected by public authorities outside of the official taxation



There are two types of financial flows in a society: the formal one – i.e. those that from formal economy are forwarded, by means of public budgets, for delivery of various utilities, provided for by law; and the informal flows collected from business community for various common interest utilities. Exactly central and local public authorities are those which issue political statements

regarding cultural, social, or economic objectives, for which someone has to pay and once the money are received there is no form of supervising or monitoring the money by the private sector, because an appropriate infrastructure does not exist.

Budgets of public institutions are supplied exclusively out of the formal economy, which, according to the estimations of experts, accounts for 40 to 60% of the entire national economy. The small share of formal economy limits considerably ability of public institutions to deliver services to society. Under such conditions, as we have mentioned above, public authorities of different levels endeavor to find additional financing sources for various projects. Concurrently, the problem of collecting at least a part of "taxes" from the informal (unofficial or shadow) economy is also being solved. A clear distinction between donations in other countries and what is referred to as donation in the Republic of Moldova is in the fact that donations in our terms are actually unofficial taxation of informal economy. "Clean" donations can originate exclusively from formal economy. Relations of public institutions with representatives of formal economy are more formalized than those with representatives of unofficial economy. As a matter of fact, uncertain status of representatives of unofficial economy in terms of lawfulness of their activities renders them very vulnerable to public servants.

Formation and use of formal financial resources are strictly determined by the law, whereas procedure of formation and particularly use of unofficial resources is at the official's discretion. There is not a single legal mechanism that would describe ways to identify priorities and directions of financing activities with public money originating from unofficial funds. The unofficial funds (UF) are made up of:

$$FnF = 0,02\sum_{1}^{n} Bip_n + \max\left(0,1\sum_{1}^{m} Pnet_m\right) + \triangle\sum_{1}^{k} + CA_k + \varphi\sum_{1}^{1} VA_t$$

where $0,02\sum_{1}^{n} Bip_n$ stands for 2% of the budgets of public institutions, which in compliance with the law may be accumulated in a Reserve Fund of the institution at issue. The Reserve Fund is a simple procedure to withdraw financial sources from the controllable circuit, in order to be used by civil servants with a greater degree of freedom. According to our estimates, these amounts can vary from MDL 50 M to MDL 100 M per year. It is necessary to mention that the practice when a public institution makes transfers of financial resources out of the Reserve Fund, including in form of donations, is very wide-spread. The Reserve Fund is also widely used for implementing various national or local initiatives, whereas the manner of expenditures does not fall under incidence of control over use of public money any more.

$\left(0,1\sum_{1}^{m}\text{Pnet}_{m}\right)$ represents voluntary contributions, made by business on its own initiative for various social projects. In compliance with the legislation, donations, however, not exceeding 10% of the net profit of the enterprise, are exonerated from income taxes. Nevertheless, there are plenty of legal instruments to channel donations in compliance with legislation, although this practice is very poorly developed in Moldova. This happens because the majority of initiatives of public authorities are launched without observing legal provisions and, accordingly, funds accumulated by them do not fall under the incidence of the law at issue. It is necessary for every initiative to exist a legislative enactment that would legalize it, as well as an account, to which transfers could be made. On the other hand, most businessmen hide their incomes and do not need such tax remissions.

For these reasons the largest source of earnings in unofficial funds is the so-called unofficial taxation of business $\Delta\sum_{1}^{k}\text{CA}_{k}$, where CA represents concealed capital. If we were to assume that business hides 40% of its incomes, then we may say that they evade taxes in an amount of approximately 7 billion lei. It is evident that in order to protect themselves from the state inspection institutions, they are forced to give a part of their "savings" in the form of bribes. The status of such businessmen is so vulnerable that any public official can easily demand "sponsorship" for any kind of events. Whereas the businessman perceives this tax as a specific form of graft.

A special manner of accumulating financial resources in unofficial funds is the money originating from state enterprises $\varphi\sum_{1}^{1}\text{VA}_{t}$. Civil servants regard state enterprises as an alternative source of financing. Numerous reports of the Court of Accounts emphasize that donations originating from state enterprises do not come from their net profits, but from turnover. And in defiance of any legislation, these donations are registered under expenditures. The amount levied can vary from an enterprise to another and does not depend on the enterprise profitability, but exclusively on the turnover of the enterprise at issue. Thus, we are not surprised that state enterprises in a process of forced bankruptcy find it useful to participate with significant sums in various philanthropy actions, initiated by authorities, despite common sense that would suggest them to preserve the enterprise assets, or to find feasible solutions for overcoming the crisis.

The total amount of free money circulating annually through various unofficial funds, established and managed in an arbitrary manner, reaches MDL 500 M. An analysis of the public institutions proves that not all of them have direct access to business community. This circumstance hampers attracting resources from the private sector, but a solution has been

found even in this situation. Thus, there is a vicious practice when a public institution makes a donation to another public institution. Thus, the state enterprise "Registru" has performed successively numerous sponsorship activities, amounting to over MDL 3 M, including over MDL 1.7 M to the State Chancellery and MDL 547000 to the Medical Sanitary Department of the Ministry of Interior[77]. In this way institutions that may not address directly to the business in order to obtain certain financial sources, manage to solve the problem by turning to state enterprises or other public institutions, "closer to the business".

The Governmental Reserve Fund serves usually as a pretext to use public resources without public approval. Both the Government and the local public authorities can have reserve funds, which are used in compliance with provisions of special laws[78]. This money is either transferred by a public institution to another public institution, in the form of a donation, or is reassigned for certain purposes; however, it use is not reflected correctly in accounting reports most of the times. Thus, the Ministry of Culture and Tourism has received MDL 1,457.6 thousand out of the Reserve Fund of the Government only in 2005, for different beneficiaries subordinated to the Ministry. By January 01, 2006, only 4 of 7 beneficiaries have presented some reports on the use of MDL 302 thousand, while there is not a single document as to the use of the remaining MDL 1,154 thousand[79].

Requesting money out of the Reserve Fund is practically considered an additional source of earnings for different public institutions, whereas reasons for demands are often considered a mere formality. Thus, the administration of the Basarabeasca district has requested MDL 500.000 from the Reserve Fund of the Government for performing repair and reconstruction works of a recreation camp in the village of Başcalia. At the moment of transfer of such public money,

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[77] Court of Audit Resolution no. 74 of November 18, 2004, on the results of inspection of economic and financial activity of the Department of Information Technologies and of some subordinated structures in 2003 // Official Gazette 1-4/1, January 07, 2005.

[78] The government establishes and manages the Reserve Fund in compliance with the provisions of the Law about the Regulations on the use of the means of the government reserve fund (no. 1228-XIII of June 27, 1997), while the local public authorities – in compliance with Art. 18 of the Law on local public finances (no. 397-XV of October 16, 2003).

[79] Resolution of the Court of Audit, no. 28 dated May 26, 2006, on the report about the correctness of use of the public financial means by the Ministry of Culture and Tourism during 2005 // Official Gazette 131-133/33, August 18, 2006.

the recreation camp did not even actually exist[80]. Another source of financing for public institutions not "close to business" is state enterprises or public institutions that deliver services. Among them are the State Enterprise "Registru", the "Moldsilva" Agency, etc. In 2004-2005 the "Moldsilva" Agency registered losses amounting to MDL 9.3 M and, accordingly, MDL 10.1 M. This has not prevented enterprises subordinated to it from making various donations[81]. Furthermore, in defiance of all legal provisions, these donations have not originated from incomes of the enterprise, but were registered as operating expenses.

3.3. Management of unofficial taxes

Accounting budget revenues and expenditures is carried through the Treasury, while the appropriateness of use of public money is checked by the Court of Audit. As far as unofficial taxes are concerned, a well established system does not exist yet. However, the Ministry of Finance, just as other public institutions, considers donations and sponsorship a specific form of budget revenues and treat them as such. In its instructions the Ministry of Finance requires for all the money from donations and sponsorship to pass through the Treasury accounts and to be accounted for just like budget money.[82] This provision has been established in 2006 for two reasons: 1) there is no system of control over the use of money originating from donations; 2) there are numerous cases in which money are collected against any written evidence or decisions that would legalize the use of these payments, and oversee their final spending; which creates thus a great grey zone of administrative 'discretion' and abuses.

The philosophy of public institutions regarding money raised from donations is that, on one hand, it is a supplementary source, and on other hand this money are "earned" by them. In other words this money is considered to be resources "gained" by this institution and as a result can be used as they think appropriate. In a situation where there is not a mechanism of reporting to donors and a control from the society the Ministry of Finance and the Court

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80 Resolution of the Court of Audit, no. 76 dated October 04, 2005, on the results of inspection of the development and performance of the budget of the Basarabeasca district for 2004 //Official Gazette 5-8/1, January 13, 2006.

81 Resolution of the Court of Audit, no. 20 dated May 12, 2006, on the report about the economic and financial activity and efficiency of management of the forestry in 2004 and in the first six months of 2005 //Official Gazette 146-149/45, September 15, 2006.

82 Ministry of Finance no. 07/1-3-06/16 dated April 11, 2006, the Procedure of collection and records of receipts of the national public budget by the State Treasury of the Ministry of Finance in 2006, as of April 21, of the current year //Official Gazette 59-62/222, April 14, 2006.

of Audit through introducing various controls and regulations try, somehow to drag out the money raised through donations from the shadow. Despite existence of a Government decision stipulating the manner of confirmation of donations[83] and of an order of the Ministry of Finance on management of special means, to which the donations are also attributed[84], public institutions prefer to raise money in cash, without any kind of accounting. For instance, the Theoretic Lyceum "Mihai Eminescu" in Bălți has gathered MDL 116.8 thousand as donations, without keeping any kind of legal evidence.[85] This practice is wide-spread in all schools of the republic. The common reason for this behavior derives partly from the circumstance that labor remuneration made up approximately 55-60% of the total of expenses for education in 2001, whereas at present these expenses have reached 80-85% and in some cases even exceeded 90%.

Actually, this testifies the fact that the state in the Republic of Moldova has limited its expenses only to what deals with labor remuneration, leaving maintenance of schools to parents. Parents are those who bear the costs of current repairs of schools. They also actively participate, jointly with economic entities, in capital repairs[86]. Money is also raised for addition to wages of teachers. The under-financing of education by the state has not so far provoked a crisis in the system because the system has been supported by various unofficial payments. Any event at local level is organized with involvement of economic entities as sponsors. While at the level of town halls contributions of economic entities equal at least 50% of a project costs and may even reach 100%, then contributions of economic entities at the level of districts seldom exceeds 50%[87]. This is due to the fact that district authorities have fewer contacts with economic entities.

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[83] "On the procedure of endorsement of donations for philanthropic purposes and of sponsorship", approved by Resolution of the Government, no. 489 dated May 04, 1998.

[84] On the management of the special funds of public institutions, financed out of the budget", approved by the Order of the Ministry of Finance, no. 94 dated December 31, 2004.

[85] Resolution of the Court of Audit, no. 45 dated June 15, 2006, on the report about the appropriateness of establishment and use of the budget of the municipality of Bălți in 2005 // Official Gazette 146-149/46, September 15, 2006.

[86] Capital repairs at schools are performed on the account of the Social Investment Fund. In order for a collectivity to benefit from these funds, it has to make its own contribution of 15%. For the repairs of a school the amount makes up approximately MDL 100-200.000. This amount, as a rule, is allocated by the town-hall, the parents and economic entities of the locality, in equal shares.

[87] Resolution of the Court of Audit, no. 49 dated June 16, 2005, on the results of inspection of the development and performance of budget of the Rezina district for 2004 // Official Gazette 123-125/39, September 16, 2005.

As a matter of fact, distribution of economic entities by administrative levels is as follows: representatives of small business – at the town hall level, large national or foreign enterprises – at the national level, while the typology of enterprises at the level of districts is very hard to identify. As a rule large enterprises, which operate in a community, are closely related to the community at issue and have no connection to district authorities. There are very few enterprises at district scale. As a rule, district authorities raise money from state enterprises, public institutions in the district and from consumer cooperatives[88]. As well as in the case of town halls and central public authorities, districts manage to levy the money only from those, against whom they have leverages of influence.

Since public officers regard money originating from sponsorship as the money "gained" by their institution, they spend such money arbitrarily, without keeping strict evidence. For instance, the Department of Statistics and Sociology has collected over MDL 600.00 in form of sponsorship; however, in the report it has indicated only the money spent, for which they had bills, i.e. the amount of only MDL 337.500[89]. The rest of the money has been used without any kind of accounting or evidence.

3.4. Control over management of unofficial taxes

Ambiguity and misunderstanding of the donation phenomenon provokes shortages in the system operation. Donations and sponsorship are in essence public money and evidently ought to be subjected to public control. However, public control in our country is understood as control of the Court of Accounts, which is not quite correct. Donations may be considered public money, but not state money. The competence of the state inspection authorities in the financial sphere can be extended over all financial resources, provided that the raising thereof is imposed by the law. Donations however are a voluntary manifestation of the citizens to allot for certain objectives a sum of money. Accordingly, the system of control over financial flows originating from donations ought to be different from the one of budgetary financial flows.

Nevertheless, in absence of a control mechanism of financial flows from donations by the society, public authorities, represented by the Ministry of Fi-

[88] From the interview made at the Strășeni District Council. Only the council employees and the teachers in the district have participated in the recent initiatives of the district council.

[89] Resolution of the Court of Audit, no. 29 dated May 23, 2005, on the results of inspection of the efficiency of use of the means for the maintenance of the Department of Statistics and Sociology in 2004 and the appropriateness of incurring expenses when conducting the population census // Official Gazette 110-112/24, August 19, 2005.

nance and the Court of Audit, have endeavored to substitute it with institutional inspections. Starting with 2005, the state budget comprises a separate heading for extra-budgetary sources and special means of public institutions, originating inclusively from donations. The Court of Audit in its activities, when it elucidates cases of raising certain donation funds, analyzes correctness of use of this money, form the perspective of principles applied to budgetary sources. However, nobody has attempted to analyze specifically how sources originating from donations are collected and managed.

Furthermore, according to information of the Centre for Combating Economic Crimes and Corruption, they know numerous cases when public authorities raise money from the citizens and a part of such amounts is used contrary to destination; however, it is impossible to institute legal proceedings as the aggrieved person is missing[90]. Both business entities and natural persons make donations, but are not interested in this money destination. It is indispensable to create a legal system of circulation of financial flows originating from donations, which would exclude cases of use of public money contrary to destination. That requires clear procedures for launching the fund-raising process. Any amount of money may be raised by a certain institution, provided that there is a legal act, which shall stipulate: who raises the money, to what purpose, who and how shall decide on it use, where shall the saved money go, etc. In the absence of a legal act, any fundraising must be regarded as corruption. At this stage, the first element of control emerges, which shall be performed by authorized state bodies, namely: whether the fundraising by the institution at issue is undertaken lawfully or not.

It is necessary to create an authorization system to determine, in whose name an institution raises financial funds and for what specific purpose. Most donations are collected by institutions and by public officials without any legal document that would authorize such a fundraising. That would not mean a permission of the legal framework to collect donations, but that any fundraising initiative needs to be stipulated in a document, approved by a relevant authority. Such authority can be: a local council, a local initiative group, a national council, etc. The procedure of approval of a social initiative as well as of who is authorized to take the initiative ought to be regulated by the law. Existence of a legal mandate and of clear provisions as to the objectives and the manner of using the money would allow both the state inspection authorities and the donors to verify appropriateness of ex-

[90] The first public presentation of the results of the Survey on "unofficial taxation" to the inspectors at the Centre of Combating Economic Crimes and Corruption, January 2007

penses incurred to the provisions declared when launching the fundraising procedures. It is necessary that a clear legal framework should be available at all stages of development of any social initiative that presupposes raising funds from the population and economic entities that would differentiate the legitimacy of actions of civil servants from arbitrariness and abuse of public authority.

3.5. Volume of unofficial contributions

The only source of information on the business entities donations volume is the State Fiscal Inspectorate, which on an annual basis collects form business entities requests of exemptions on paying income taxes for sums allotted as donations. In 2005 these requests summed up to MDL 180 M, but less than a half was considered by the Fiscal Inspectorate as eligible. In interviews carried out by us the main part of businessmen have asserted that: (1) they make donations in cash, without receiving any document that would confirm the donation; (2) if they make a donation by transfer they do not address to the Fiscal Inspectorate to claim exemptions at payment of taxes; (3) even if they do address to the Fiscal Inspectorate it is very difficult to obtain certain reduction of the income tax, a fact confirmed by the Fiscal Inspectorate. The sum that is considered to be eligible does not surpass 50% of that requested by business entities.

Here, it has to be mentioned that the legislation in this field is quite favorable for business entities and nonetheless they are not able to legitimate their donations. It is obvious that their great majority do not even try to obtain any facilities from the state and regard all donations made as an additional form of taxation. At estimation of real volume of donations made by business we have performed necessary calculations on two positions: micro, that means aggregation of primary data collected from various sources; and macro through an analysis of calculation global parameters. At aggregation of all types of financing the resulted sum is over MDL 230 M per year (see table # 2). It is obvious that this sum in reality is much bigger, but the sum we operate with can be documented.

Tabel No. 6. Projects financed entirely with support of Business entities[91], Lei

	Minimal contribution	Maximal contribution	Total
TOTAL			**228.839.503**
LOCAL INFRASTRUCTURE			
Community Halls (1)	67.738	144.446	725.718
Repairs of roads (1)	23.810	141.102	3.342.789
Capital repairs of schools and kindergartens (1)	30.545	188.671	8.407.813
Construction of gas pipelines (1) + (2)	19.443	212.298	80.315.457
Water supply and sewerage systems (1)	49.649	141.911	1.347.726
ORGANIZARTION OF FESTIVALS			
Locality festival	10.000	50.000	18.000.000
Official day of disable persons and people with locomotion disabilities	2.000	5.000	500.000
Blind people day	1.000	3.000	200.000
National and local festivals	50.000	200.000	1.000.000
SUPPORT OF INITIATIVES			
Nutrition of pupils in schools (3)	10.000	100.000	50.000.000
Repairs of monuments (4)			40.000.000
Renovation of churches and monasteries (5)	5.000	20.000	25.000.000

[91] Sources and notes: (1) Report of the Social Investments Fund of Moldova for 2005. According to the SIFM principles 5% of the total amount of the project should be a local contribution. It is created from the local budget, contributions of population and business entities. (2) Law on state budget for 2006. Contribution of business entities is comparable to contribution from the state budget according to analyzes performed in various localities. In 2005 for construction of gas pipe lines a record sum of money was allotted MDL 243 M, but for 2006 the sum will be much smaller, nonetheless not less than MDL 70-100 M in our opinion (3) Interview with the director of Medical Association of Moldova and 3 meetings with representatives of Parents and Businessmen' Associations who support nutrition of pupils in schools. According to the law LPA has to ensure nutrition of pupils un to the 4th grade (about 150.000 children), but this task is performed only with parents and businessmen's assistance, because LPA does not have necessary resources (4) Information from the press. only for repairs of the Glory complex over MDL 100 M have been spent, of which business contribution MDL 30 M. According to the presidential press service a single businessmen contributed with UDS 1 M (MDL 13 M). Moreover at the suggestion of the president a football stadium has been built, which for respective business entity is a pure philanthropy. (5) Information from the press. Only for Capriana Monastery MDL 38 M were collected. Now is under way the process of raising money for the Curch Monastery. We pointed only to mega-projects with direct involvement of central public authorities, but there are smaller projects with involvement of local authorities.

In order to improve the estimations we have decided to go from the opposite direction, on the basis of studies in different countries, comparable with the Republic of Moldova, we have tried to evaluate the sum of business donations correlated to the Gross Domestic Product. For that, first of all the sphere of cooperation between business and public authorities has been established. Cooperation takes place in two dimensions: philanthropy, donations, sponsorships and private public partnership. In developed countries this sphere of cooperation is up to 10% of GDP; in countries similar to the Republic of Moldova, in development level and relations between business and public authorities this indicator is between 0,5% and 1% of the GDP[92]. Business contribution varies depending on country traditions in cooperation filed between 40% and 80%.

According to this model in Moldova business together with authorities develop common projects worth MDL 450 M (1% of 2007 GDP), where business contributes with over MDL 300 M (over 2/3 of the total volume). We can say that unofficial payments performed by the business in the Republic of Moldova overpass MDL 300 M per year, from which only MDL 180 M are reported to the Fiscal Inspectorate to be subtracted at calculation of income tax. Thus, some 50% of donations are done without being legally registered, a fact confirmed also by our respondents. This confirms once again accuracy of our estimate of MDL 300 M per year.

Chapter III conclusions:

1. In absence of a business social initiative the state has launched this process of public private "partnership" and based on its coercive possibilities has transformed voluntary donations in a new tax, collected form the businesses.
2. Resources originating from donations are regarded by public authorities as an additional source of income to their budgets and are treated as such. In other words, business entities are constrained to participate in a systematic manner in authorities money raising campaigns, avoiding in this way numerous negative effects which otherwise they would feel on their "own skin" in case when the refusal to pay is treated by authorities as an "insubordination gesture". Analysis of the framework of functioning of this system of relations demonstrates that,

92 (1) Global Civil Society: Dimensions of the Nonprofit Sector, Baltimore USA 1999, (2) Public-Private Partnerships in New EU Member Countries of Central and Eastern Europe: An Economic Analysis with Case Studies from the Highway Sector, EIB Papers, Vol. 10, No. 2 (2005)

in this situation, exist all repression elements specific to an administrative command economy. Thus, donations have been successfully transformed in additional taxes/duties.

3. Public institutions regard donations as a "personal" source, which is used without observance of any legal provisions. The greatest majority of raised sums is not subject to any monitoring or reporting procedure, which arouses suspicions and creates situations when certain officials manage to "privatize" a part of collected resources.
4. Lack of a legal system of donations flows control conditioned appearance of a control system specific to budgetary financial resources, which do not allows an efficient control of donations.
5. It is necessary that from launching of a social initiative with involvement of society till the final stage there is a legal framework, which would clearly specify what actions of actors involved in the process can be considered legal and which cannot be.

IV. ANALYSIS OF REGULATORY FRAMEWORK

First conclusion:

TO RESPECT THE PRINCIPLE OF AUTONOMY OF BUSINESS FROM STATE ADMINISTRATION

The main conclusion of the research is that the principle of business autonomy is violated by the administrative and political power in the Republic of Moldova, which contributes to existence of a "captured state" syndrome, accompanied by phenomena such as: monopolization of business, corruption, unofficial taxation, and coercion to additional payments for various "whims" of the state bureaucracy. This situation generates risks that affect the state financial viability, inclusively exercising of some public functions, but also risks of managing private business.

Identified problem: Lack of adequate formulations of certain social partnership missions between the state and the business slows down the process of elaboration of some efficient models of cooperation between public authorities and business community, both on horizontal and vertical levels.

Recommendations: Elaboration of efficient and transparent instruments of some social mechanisms of dialogue between power and business with participation of civil society in order to formulate a spectrum of public policies, of some practices and programs oriented to increase these programs competitiveness, financing of state investments, inclusively in infrastructure projects based on integrated partnerships and establishment of international standards of social corporative business responsibility (fulfillment of paragraphs 25-28 of the Memorandum of the Republic of Moldova with the IMF on economic and financial policies for 2007).

Synchronization of the process of political and economical decentralization, promotion of a deregulation and anti-bureaucratization policy, maximum reduction of the functions devolved on the state government authorities in business regulation issues. The sphere of the anti-bureaucratic legislation needs to be extended over all public authorities, i.e. fiscal, customs and public order services.

Advancement of the 2nd stage of regulatory reform in the Republic of Moldova (reduction of fiscal and regulatory burden) and synchronization of this stage with administrative and financial decentralization. Development of the business community by way of increasing the role of autonomous agencies for the regulation of sectors of national economy, e.g. through the Competition Protection Agency, etc. Establishment and operation of inspection authorities

must occur exclusively in the context of regulatory policies and only after their functions have been clearly stipulated;

Continuation of the process of reform in the public service by way of building-up a procedural framework of selection, professional training of various categories of politically neutral and adequately remunerated civil servants.

Optimization of social taxes in order of passing from the taxation system to a system of ensurance of social stimulation of social payments for creation of new jobs and increase of the official fund of payment of work remunerations for enterprises

Second conclusion:

ENSURING INDEPENDENT JUSTICE FOR DEVELOPMENT OF A FREE MARKET

Recourse to justice ought to replace intervention of state authorities to the greatest possible degree. The state authorities may not be absolved from any violations of legislation, controversies between the state and the business must be referred to a court of law, for a hearing on equal positions. International experience shows that there where an unsatisfactory relation between market and state is registered public control over business environment is especially important.

Problem: Specific gaps or lack of some efficient mechanisms of guaranteeing application of norms and rules of conducting business in the country, as well as the obligations that it assumes, make more difficult fulfillment of contracts by companies and subsequently slow down attraction of direct foreign investments for development of businesses, having a negative impact on investment attractiveness of the country.

Recommendations: Fulfillment of judiciary reform in the Republic of Moldova, optimization of state and private regulation mechanism, regulation of observance of laws, norms of contractual law and rules of corporative conduct, taking into account that improvement of laws observance represents, as a rule, a result of initiatives coming from people.

Third conclusion:

OVERWHELMING MAJORITY OF SERVICES DELIVERED BY PUBLIC SERVICE MUST BE DEVOLVED ON PRIVATE SECTOR, EXCEPTING ACTIVITIES WHERE MARKET MECHANISMS ARE IMPOSSIBLE

Problem: Maintenance of an excessively high role of the state in economy, inadequate in size and functions.

Recommendations: Necessity to establish a framework for regulation of the public – private relations and of the public – private partnership, which would include: delimitation of spheres of competences and duties that appear as a consequence of cooperation between authorities and business, restriction of cases of forced imposition of a behavior incompliant with the legislation.

Public initiatives must not originate from the power only; legitimization of the "public interest" has to occur only through public initiatives of the civil society and through participation of the citizens. Any initiative of authorities should be subjected to validation through public hearings, instruments of public control of civil society over public authorities should be consolidated and decision-makers should be made sentient of the undertaken actions.

There is a total lack of transparency in collection and management of public and private money by various administrative authorities, in absence of a satisfactory framework for monitoring public money. Some representatives of public authorities, frequently high-ranking, have been and still are regarded as the main exactors of unofficial contributions. When authorities initiate public and private fundraisings, this decision ought to be completed by legal monitoring procedures (steering committees), management (trustees) and assessment (auditing commissions). Public institutions regard donations as their "own" source and use it without observing any legal provisions. Most amounts collected are not subjected to any accountability whatsoever.

The forth conclusion:

ENCOURAGEMENT OF CIVIL INVOLVEMENT IN SUPERVISION OF PERFORMANCE OF SOCIAL DUTIES BY BUSINESS AND RENUNCIATION OF SUPERVISION OF CHARITY BY AUTHORITIES

Problem: Mutual mistrust between business, state and society, as a result of a narrow horizon of business and policies planning.

Recommendations: Implementation of international reporting standards, linked to social responsibility policies, understood in accordance with the EU Green Paper, as a Conception where companies integrate, on a voluntary basis,

social and ecological standards of conducting business operations, according to the standards and norms, established by the EU practices and regulations.

Elimination of practices of "imposition of charity" on business by state authorities, public authorities, so that the latter do not participate in charity activities, which represent a responsibility of the associative sector and of the business environment, the duty of the state being to create conditions and to stimulate private initiative.

Manipulation of control function in order to exert pressure over business has become a common rule. Building up instruments to prevent corruption, elimination of asocial phenomena and creation of a modern framework of communication between business and public authorities. Capacity building of the institutions of a rule of law and of a free expression of opinion, which would favor a free discussion of the real problems of the population, as well as stimulate free initiative and social commitment of business.

Regulation of the public – private partnership, as a relation different from the object of law on philanthropy and sponsorship. Officially instituted holidays may not serve as a pretext for forced imposition on business to bear costs for these holidays.

State administration ought to give up the practice of instituting professional holidays, leaving this role to professional associations. Most official holidays in the RM serve as a reason for collecting unofficial taxes from business.

Firth conclusion:

PRINCIPLES OF EMPLOYMENT OF PUBLIC OFFICERS: TRANSPARENCY, MERITOCRACY, ELIMINATION OF CONFLICTS OF INTERESTS OR SUSPICIONS OF INCOMPATIBILITIES (ELIMINATION OF EMPLOYMENT OF RELATIVES OR AFFILIATED PERSONS, SUCH AS GODPARENTS, GODCHILDREN AT THE SAME INSTITUTION)

Problem: Attraction of competent and meritorious staff to public service.

Recommendations: Recruitment and career promotion on competitive basis. Delimitation of political and administrative functions. Elaboration of public officials ethic code.

Donations and gifts shall be accepted only following approval by the council: any donations (in money or in kind), assignments of charged gifts can be accepted by local public authorities only following approval of the local council or, as the case may be, of the district council, with the vote of 2/3 of the number of its members.

Regular inventory of extra-budgetary funds: all extra-budgetary funds, operated by public organizations, should be subject to annual inventory, by means of external and internal audit. A mayor or, accordingly, a chairman of rayon council shall submit annually to local and county councils a report on management of such funds, and on the manner of use of accumulated resources, compliant to destination.

Verification of lawfulness of contracted works: any construction and repair works of public interest, financed out of the budgets of communities, towns or rayons, shall be performed only based on technical and economic documentation, endorsed or approved, as the case may be, by local or district councils, and only based on a public tender, under the terms and conditions provided by the law.

Public interests may not serve a private interest: No official or political group may appeal to services of private business or society in pursuit of promotion of their own image.

Decisional transparency: Public authorities should inform the public about drafts of statutory acts and to subject them to public debates, enabling universal access to administrative decision-making and to the minutes of public meetings. Any legislation draft ought to be brought to public knowledge in compliance with the established work procedures, allowing subjecting it to analysis, endorsement and adoption, containing a statement of the reasons, or approval reports, the place and the procedure how all people concerned can forward their recommendatory proposals, suggestions, and opinions as to the draft statutory act. Omission of any procedural stage ought to render the adopted act unlawful. Public authorities must envisage meetings in which the public can ask questions and clarify various aspects of decisions, under conditions of a free access to information of public interest.

E-governance: Concurrently with the traditional procedure of informing the public, public authorities ought to furnish information and deliver public services through electronic means. Introducing of such e-governance is aimed at reducing the public expenditure, combating red tape and corruption at the level of public institutions, raising the degree of transparency of use of public funds, improving access to information and public services in compliance with the legislation on personal data protection and free access to public interest information. Building up of administrative capacities of public institutions must ensure performance of their institutional role and tasks to furnish information and deliver public services in a transparent manner, as well as redefine the relation between the citizens and the local public authorities or,

accordingly, between the business community and the local public authorities, so as to facilitate the access to public services and information by means of information technologies. Electronic procedures should be established for access to information and delivery of public services, general rules to ensure transparency of information and of public services, as an integrant part of public administration reform, by electronic means.

Obligations and duties of public officers: the public officers ought to be prohibited to demand or to accept gifts or other benefits, either directly or indirectly, for themselves or for other people, as consideration for their public office. At the moment of appointment to a public office, as well as after the expiration of the term in office, the civil servants ought to submit a declaration of property, as provided by the law, to the direct superiors din the authority at issue or to the public institution, such declaration of property should be upgraded annually. The public officers must adhere strictly the legal regime of the conflict of interests and incompatibilities, established in compliance with the law.

Sixth conclusion:

ENSURING TRANSPARENCY IN MANAGEMENT
OF POLITICAL PARTIES
RECOMMENDATIONS:

Relation between political parties and business ought to be transparent and open. An increase in transparency of funds for financing electoral campaigns, administrative resources and political parties is necessary, as well as toughening sanctions for political involvement of public officers.

Financing of political parties and political actions is incompatible with the logics of legislation on the public – private partnership. Camouflaging financing of political actions under the name of public – private partnership ought to be penalized by the legislation on political parties and by the Electoral Code.

Financing of political parties ought to ensure existence of political pluralism and free competition of ideas. Establishment of an institutional and legislative framework for operation of interest groups at the legislative level, elimination of penetration of business into the power as well as of actions that facilitate "capture" of business by certain groups of officials.

Compulsory submission of regular reports on activities performed by political parties, under conditions of internal structures aimed at safeguarding unrestricted access of citizens and authorities to such data.

Seventh conclusion:

ACTUAL SEPARATION OF THE CHURCH FROM THE STATE
RECOMMENDATIONS:

Legislation on cults ought to safeguard existence of equal, equitable and transparent terms between the state and the church (confessions). Elimination of abusive use of public resources as well as of the church resources by power for electoral purposes.

Adoption of a modern and adequate system of relations between public administration and cults/confessions/churches existing in the RM, by means of ecumenical and justice instruments.

Protection of the property right of the churches/confessions in the RM and ensuring an efficient and actual separation of the church from the state.

Compelling all confessions and churches, registered in compliance with the legislation currently in force, to publish regularly their financial reports and financing sources, for the purpose of building up transparency and ethical standards, promoted in relations with parishioners groups.

Instead of an epilogue

The goal of this survey has been to describe and analyze how and to what extent principles of good governance, separation of powers and independence of justice are affected by the ongoing disregard of the problem of unofficial taxation.

We believe that exposure of the phenomenon contributes to identifying adequate solutions, increasing thus efficient use of public money and distinct separation between the power and the money; it shall stimulate economic growth, contribute to modernization of the state, increase competitiveness of economic entities, and consolidate private initiative in its ensemble.

This survey does not claim to give exhaustive answers or miraculous solutions, since proportion and complexity of the phenomenon analyzed within the survey require considerable efforts of the entire society. The pre-requisite, we have started from in this survey, is that the phenomenon of unofficial taxation has created immense risks and endangers for a proper operation of a viable economy and of the rule of law. If the measures proposed herein shall be implemented in the RM, we estimate that the following results can be accomplished:

* Reduction in the expenditures of the administrative budget by approximately 30% throughout 2007-2008 and income growth by approximately 30-35%, taking into consideration the requirements of the payment and management of the national debt. Reduction in the share of the state sector in assets and GDP production from the current 45-

50% to just 20%, inclusively based on the reduction in the number of budget institutions and their transformation into private legal entities or non-commercial organizations.

* Stimulation of private initiative and growth of the fiscal basis so that the amount of pensions and wages in the real and budgetary sectors of the national economy covers integrally expenses of households for living and public services; reduction of the income-determined social polarization (reduction of the quintile rate from 18 to 8-10).
* Reduction of corruption by approximately 40-50%, by means of deregulatory policies and limitation of functions performed today by the state bureaucracy, consolidation of democratic/public overseeing functions by the civil society organizations over the activities of the administrative and political power, making public service aware of the results of its decisions.
* Contribution to formation of a potential for sustainable growth in economy by at least 9-10%, starting with 2007-2008, based on a transition from the current consumption pattern to the investment pattern of growth, by way of attracting foreign investments, building up trust in the policy promoted by the RM, animating financial markets.
* Continuation of the process of reform in public service by way of building-up the procedural framework of selection, professional training of various categories of politically neutral and adequately remunerated public officers.
* Advancement of the 2nd stage of regulatory reform in the RM (reduction of fiscal and regulatory burden) and synchronization of this stage with administrative and financial decentralization. Development of the business community by way of increasing the role of autonomous agencies for regulation of sectors of national economy, e.g. through the Competition Protection Agency, etc. Establishment and operation of inspection authorities must occur exclusively in the context of regulatory policies and only after their functions have been clearly stipulated;
* Continuation of the process of political and economical decentralization, promotion of a deregulation and anti-bureaucratization policy, maximum reduction of functions devolved on the state government authorities in business regulation issues. Sphere of the anti-bureaucratic legislation needs to be extended over all public authorities, i.e. fiscal, customs and public order services.

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Annex 1. Official holidays in Moldova

Dates	Holidays	Normative acts
January 1	New Year	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
January 7-8	Jesus Christ Birth (Christmas)	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
January 15	Birth Day of the Romanian Poet Mihai Eminescu	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
January 29	Prosecution Worker Day	Decretele Preşedintelui 11a 26.01.96 privind instituirea Zilei lucrătorului procuraturii //Monitorul Oficial 8-9/97, 08.02.1996
March 1	Mărțișorul – Spring Day	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
Mach 1	Baywatch Day	Hotărârile Guvernului 210/21.02.2002 cu privire la instituirea sărbătorii profesionale „Ziua Salvatorului" //Monitorul Oficial 29-31/282, 28.02.2002
March 8	International Women Day	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
April (first Saturday)	National Green Day ‚One tree for Safe Life'	Decretele Preşedintelui 27/13.02.95 despre instituirea Zilei Naţionale de Înverzire a Plaiului „Un arbore pentru dăinuirea noastră" //Monitorul Oficial 13/137, 02.03.1995
April (first Sunday)	Geologue's Day	Hotărârile Guvernului 487/24.05.2000 cu privire la declararea sărbătorii profesionale „Ziua Geologului" //Monitorul Oficial 63-64/569, 01.06.2000
April (4th Sunday)	Households and Communal Services Employee's Day	Hotărârile Guvernului 139/01.03.95 privind instituirea Zilei lucrătorului din gospodăria de locuinţe şi deservire comunală //Monitorul Oficial 15-16/111, 17.03.1995
First and Second Easter Day, according to the religious Calendar	Christian Orhtodox Easter	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990

Monday, one week after Easter	Thanksgiving Orthodox Christian Easter	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
May 1	International Labor Day	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
May 9	Victory over Fascism Day	Hotărârile Parlamentului 71/12.04.2001 cu privire la comemorarea Victoriei asupra fascismului //Monitorul Oficial 47-48/226, 26.04.2001
May 9	Victory Day and Independence Heroes Day	Decretele Preşedintelui 636/26.04.2002 privind sărbătorirea Zilei Victoriei şi a Comemorării Eroilor Căzuţi pentru Independenţa Patriei //Monitorul Oficial 59-61/450, 02.05.2002
May 17	Telecommunications Employee's Day	Hotărârile Guvernului 387/09.06.95 cu privire la declaraţia unor zile drept sărbători profesionale //Monitorul Oficial 41-42/313, 28.07.1995
May (3rd Saturday)	Sport's Day	Hotărârile Guvernului 243/03.05.96 cu privire la instituirea sărbătorii „Ziua sportivului" //Monitorul Oficial 29-30/207, 16.05.1996
May (3rd Sunday)	Cultural Worker's Day	Hotărârile Guvernului 1675/24.12.2002 despre instituirea sărbătorii profesionale „Ziua lucrătorilor din domeniul culturii" //Monitorul Oficial 185-189/1830, 31.12.2002
May (last Sunday)	Science's Day	Hotărârile Guvernului 511/23.04.2002 cu privire la instituirea sărbătorii profesionale a lucrătorilor din domeniul cercetare-dezvoltare „Ziua Ştiinţei" //Monitorul Oficial 59-61/601, 02.05.2002
June 1	Child's Protection Day	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
June 4	Banker Employee's Day	Decretele Preşedintelui 166/01.06.95 privind instituirea Zilei lucrătorului bancar //Monitorul Oficial 34/377, 22.06.1995
June (1st Sunday)	Water Supplyer's Day	Hotărârile Guvernului 213/09.04.96 cu privire la instituirea sărbătorii profesionale „Ziua amelioratorului" //Monitorul Oficial 35-37/261, 11.06.1996
June 10	Border Guard's Day	Decretele Preşedintelui 162/27.05.95 privind instituirea Zilei grănicerului //Monitorul Oficial 33/364, 15.06.1995

June (3rd Sunday)	Medical Worker's DAy	Hotărârile Guvernului 307/17.05.94 cu privire la declararea unor zile drept sărbători profesionale //Monitor 5/174, 30.05.1994
June 22	Commemorating Fascism Victim's Day	Decretele Preşedintelui 728/18.06.2002 privind Ziua comemorării victimelor fascismului //Monitorul Oficial 79-81/658, 20.06.2002
June 23	Sovereignty's Day	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
June (last Saturday)	Inventor's Day	Decretele Preşedintelui 193/19.06.95 privind instituirea Zilei inventatorului şi raționalizatorului //Monitorul Oficial 35/418, 29.06.1995
June (last Saturday)	Graduate's Day	Hotărârile Guvernului 684/21.06.2004 cu privire la stabilirea Zilei absolventului //Monitorul Oficial 100-103/831, 25.06.2004
July 2	Stefan the Great's Day	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
July 6	Stalinism Victim's Day	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
July (2nd Sunday)	Fisher's Day	Hotărârile Guvernului 204/05.04.96 cu privire la instituirea sărbătorii profesionale „Ziua pescarului" //Monitorul Oficial 35-37/258, 11.06.1996
July (3rd Sunday)	Trader's Day	Hotărârile Guvernului 386/09.06.95 cu privire la declararea Zilei lucrătorilor din comerț //Monitorul Oficial 41-42/312, 28.07.1995
July (last Sunday)	Geodesist's Day	Hotărârile Guvernului 210/08.04.96 cu privire la declararea sărbătorii profesionale – Ziua geodezului //Monitorul Oficial 35-37/260, 11.06.1996
July 29	Constitution's Day	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
August (first Sunday)	Railway Worker's Day	Hotărârile Guvernului 894/07.08.2006 Hotărâre cu privire la instituirea sărbătorii profesionale "Ziua feroviarului" //Monitorul Oficial 131-133/972, 18.08.2006
August (2nd Sunday)	Day of the construction workers	Hotărârile Guvernului 307/17.05.94 cu privire la declararea unor zile drept sărbători profesionale //Monitor 5/174, 30.05.1994

August 15	Accountant's Day	Decretele Preşedintelui 216/12.07.95 privind instituirea Zilei financiarului //Monitorul Oficial 41-42/476, 28.07.1995
August (3rd Sunday)	Miner's Day	Hotărârile Guvernului 132/16.02.2001 cu privire la instituirea sărbătorii profesionale „Ziua minerului" //Monitorul Oficial 19-20/171, 22.02.2001
August 27	Independence Day	Hotărârile Parlamentului 695/27.08.91 privind declararea zilei de 27 august sărbătoare națională a Republicii Moldova //Monitor 6.2, 1991
August 31	National language Day	Hotărârile Parlamentului 147/23.06.90 cu privire la declararea sărbătorii naționale „Limba noastră" //Veştile 6-7/185, 30.07.1990
September 3	Army's Day	Hotărârile Parlamentului 1549/13.07.93 privind declararea sărbătorii profesionale – Ziua Armatei
September 4	Custom Officer's Day	Decretele Preşedintelui 262/15.08.95 privind instituirea Zilei lucrătorului serviciului vamal //Monitorul Oficial 48-49/576, 31.08.1995
September (1st Sunday)	Gas System Worker's Day	Hotărârile Guvernului 812/28.08.97 privind instituirea Zilei lucrătorului din sistemul gaze //Monitorul Oficial 66/686, 09.10.1997
September 19	Civilian Aviation Employee's Day	Hotărârile Guvernului 656/02.09.94 cu privire la declararea Zilei lucrătorului aviației civile //Monitorul Oficial 5/49, 22.09.1994
September (3rd Saturday)	Forester's Day	Hotărârile Guvernului 405/19.06.95 cu privire la instituirea sărbătorii profesionale „Ziua lucrătorului din silvicultură" //Monitorul Oficial 45-46/331, 17.08.1995
September (3rd Sunday)	Social Protection Employee's Day	Hotărârile Guvernului 867/20.08.2001 cu privire la instituirea sărbătorii profesionale „Ziua lucrătorului din sfera protecției sociale a populației" //Monitorul Oficial 104-105/914, 24.08.2001
September 27	World Tourism's Day	Decretele Preşedintelui 1153/14.09.99 privind Ziua Mondială a Turismului //Monitorul Oficial 103-105/505, 23.09.1999
September last Sunday)	Economist's Day	Hotărârile Guvernului 1281/30.09.2002 privind instituirea sărbătorii profesionale „Ziua economistului" //Monitorul Oficial 137-138/1416, 10.10.2002
October 1	International Elder's Day	Hotărârile Guvernului 616/18.09.92 privind consemnarea Zilei internaționale a oamenilor în vârstă

October (first Monday)	Arhitect's Day	Hotărârile Guvernului 631/04.07.2000 cu privire la instituirea sărbătorii profesionale „Ziua Arhitectului" //Monitorul Oficial 78-80/710, 08.07.2000
October (first Saturday)	Ingineer's Day	Hotărârile Guvernului 1262/18.12.2000 cu privire la instituirea sărbătorii „Ziua inginerului" //Monitorul Oficial 157-159/1367, 21.12.2000
October 5	Librarian's Day	Decretele Preşedintelui 1774/21.11.2000 privind instituirea sărbătorii profesionale – Ziua Bibliotecarului //Monitorul Oficial 149-151/1125, 30.11.2000
October 5	Public Education Employee's Day	Hotărârile Guvernului 1042/03.10.2001 cu privire la proclamarea Zilei profesionale a lucrătorilor din învăţământ //Monitorul Oficial 121-123/1091, 05.10.2001
October 9	Post Office Worker's Day	Hotărârile Guvernului 387/09.06.95 cu privire la declaraţia unor zile drept sărbători profesionale //Monitorul Oficial 41-42/313, 28.07.1995
October (2nd Sunday)	National Winery's Day	Hotărârile Parlamentului 433/26.12.90 cu privire la zilele de sărbătoare şi la zilele de odihnă în R.S.S. Moldova //Monitor 5.2, 1990
October 15	World Rural's Day	Hotărârile Guvernului 1426/20.12.2001 privind Ziua mondială a femeilor din mediul rural //Monitorul Oficial 158-160/1475, 27.12.2001
October 19	Lawyer's Day	Decretele Preşedintelui 1692/11.10.2000 privind instituirea sărbătorii profesionale - Ziua Juristului //Monitorul Oficial 130-132/939, 19.10.2000
October (last Sunday)	Driver's and Road-Builder's Day	Hotărârile Guvernului 1112/07.11.2000 cu privire la instituirea «Zilei automobilistului şi drumarului» //Monitorul Oficial 144-145/1223, 16.11.2000
November (2nd Sunday)	National Youth's Day	Hotărârile Guvernului 552/07.10.96 cu privire la instituirea sărbătorii «Ziua Naţională a Tineretului»
November (3rd Sunday)	Industry Worker Day	Hotărârile Guvernului 796/18.06.2002 cu privire la instituirea sărbătorii profesionale «Ziua lucrătorului din industrie» //Monitorul Oficial 91-94/896, 27.06.2002
November (4th Sunday)	Agriculture and Food-Processing Employee's Day	Hotărârile Parlamentului 298/25.11.94 cu privire la stabilirea sărbătorii anuale - Ziua lucrătorului din agricultură şi industria prelucrătoare //Monitorul Oficial 17/183, 08.12.1994

December 3	International People with Disabilities Day	Hotărârile Guvernului 782/01.12.92 cu privire la Ziua internațională a invalizilor //Monitor 12/387, 1992
December 18	Police Day	Hotărârile Parlamentului 1213/01.12.92 cu privire la declararea sărbătorii profesionale Ziua poliției //Monitor 12/383, 30.12.1992
December (3rd Saturday)	Prison's Worker's Day	Hotărârile Guvernului 1093/31.10.2000 cu privire la instituirea sărbătorii profesionale «Ziua colaboratorului sistemului penitenciar» //Monitorul Oficial 141-143/1202, 09.11.2000
December 22	Energetician's Day	Hotărârile Guvernului 908/16.12.94 privind instituirea sărbătorii «Ziua energeticianului» //Monitorul Oficial 2/7, 12.01.1995
December 27	Actor's Day	Hotărârile Guvernului 949/27.12.94 cu privire la declararea Zilei Actorului //Monitorul Oficial 3-4/24, 14.01.1995

Annex No.2 - **Doing business index**

Country	Place in 2006	Place in 2005
Belarus	129	124
Ukraine	128	132
Moldova	103	88
Russia	96	97
China	93	108
Poland	75	74
Kazakhstan	63	82
Slovakia	36	34
Georgia	37	112
Estonia	17	17
Lithuania	16	15
Singapore	1	2

Annex No.3 - **Governance -I**

Country	Rating "Voice and accountability" (0-100) %	Political stability (0-100) %	Effectiveness of the government %
Belarus	5.3	44.8	10.5
Estonia	84.1	67.5	82.8
Kazakhstan	15.0	46.7	29.2
Latvia	72.9	74.1	73.2
Lithuania	73.4	76.9	76.1
Moldova	32.4	27.8	27.8
N. Zealand	96.6	91.5	95.2
Poland	83.6	54.2	71.3
Russia	25.6	18.9	38.8
Ukraine	40.1	32.1	40.2
Georgia	39	24	38
F. USSR	20.7	25.6	25.7

Annex No.4 - **Governance-II**

Country	Quality of government regulation	Rule of law	Control over corruption
Belarus	6.4	15.0	19.2
Estonia	91.1	75.4	79.8
Kazakhstan	35.1	26.6	18.2
Latvia	78.7	61.4	66.0
Lithuania	83.2	63.8	64.0
Moldova	38.1	35.3	27.1
N. Zealand	97.0	97.1	98.5
Poland	72.3	59.9	61.1
Russia	43.6	21.7	28.1
Ukraine	47.0	34.8	34.5
Georgia	31	24	38
F. USSR	28.1	22.0	21.4

Annex No.5 - **Global competitiveness index (GCI)**

Country	Place in 2006	GCI 2006	Place in 2005
Switzerland	1	5.81	4
Finland	2	5.76	2
Sweden	3	5.74	7
Estonia	25	5.12	26
Latvia	36	4.57	39
Lithuania	40	4.53	34
Poland	48	4.3	43
Kazakhstan	56	4.19	51
Russia	62	4.08	53
Bulgaria	72	3.96	61
Ukraine	78	3.89	68
Moldova	86	3.71	89
Belarus	87	3,69	88

Annex No.6 - **MORE EXPORT & TECHNOLOGIES**

Country	Export per capita $ 2005	Export of hi-tech goods, % of manufactured exports 2004
Belarus	1599	3
Georgia	217	38
Germany	11838	17
Kazakhstan	1857	2
Latvia	2561	5
Lithuania	3938	5
Moldova	273	4
Poland	2341	3
Russia	1715	9
Sweden	14436	17
Ukraine	729	5
China	584	30
USA	3055	32

Annex No.7 - **WEALTH RATING: FINDING RIGHT COMPARISONS**

Country	Gross National Income, bln. 2005	GNI, per capita USD	GNI per capita ppp USD
Belarus	27	2760	7890
Georgia	6	1350	3270
Lithuania	24.1	7050	14220
Moldova	3.2	880	2150
Kazakhstan	44.4	2930	7730
Poland	271.4	7110	13490
Russia	639.1	4460	10640
Ukraine	71.4	1520	6720
China	2264	1740	6600
Sweden	370.5	41060	31420
Germany	2852	34580	29210
USA	12970	43740	41950

Annex No.8 - **Tax system**

Place	Country	Number of payments	Time (hours)	Tax burden, % of gross income
175	Belarus	125	1,188	186.1
174	Russia	98	2,185	60.3
168	China	44	872	77.1
119	Moldova	44	250	48.8
114	Ukraine	30	344	48.9
71	Poland	43	175	38.4
66	Kazakhstan	34	156	45.0
52	Latvia	8	320	42.6
40	Lithuania	13	162	48.4
29	Estonia	11	104	50.2
8	Slovakia	16	30	28.8

Annex No.9 - **Hospitality to capital index**

Place	Country	Index 2006
1	Denmark	91,8
2	Finland	90,6
8	Estonia	89,1
9	Ireland	88,7
22	Latvia	80,9
29	Lithuania	77,4
35	Poland	72,9
74	Moldova	53,1
98	Kazakhstan	43,9
102	China	41,2
103	Russia	40,9
107	Ukraine	40,0
131	Belarus	24,3
132	Zimbabwe	22,2
135	Haiti	15,2