

INVESTMENTS AND ENTREPRENEURIAL FACTOR IN PROVIDING SUSTAINABLE JOBS

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The topic of creating decent jobs in the Republic of Moldova is one of the most actual issues that touch both the society as well as the authorities of the country. The main goal of this scientific paper is to analyse how investments in the economy impacted the creation of welfare and decent jobs for the population of the Republic Moldova and what are the main factors that are able to generate this outcome. The main results of the research consist in the argumentation that creation of decent and sustainable jobs can happen not just relaying on attracting FDI, but mainly on the consolidation of the local entrepreneurial factor and enhancement of SMEs. Investment in local SMEs by information, expertise, financial support, the right legal frame and development of human capital is a key element in developing the entrepreneurial factor that brings sustainable jobs. The methodology of research includes a classical approach and empirical research, such as methods of comparative, historical-analytical, systemic analysis and quantitative and qualitative analysis.

Key words: local investments, FDI, entrepreneurial factor, decent jobs, export, economy, SMEs, human capital.

Tematica creării locurilor de muncă decente în Republica Moldova este una dintre cele mai actuale provocări, adresate atât societății, cât și autorităților țării. Scopul principal al acestui articol științific este de a analiza modul în care investițiile în economie au determinat crearea bunăstării și a locurilor de muncă decente și durabile pentru populația Republicii Moldova și care sunt factorii ce pot genera aceste urmări. Principalele rezultate ale cercetării constau în argumentarea următorului fapt: crearea locurilor de muncă decente și durabile poate avea loc nu doar prin atragerea ISD, dar, în mare parte, prin consolidarea factorului antreprenorial local și prin consolidarea IMM-urilor. Investițiile în IMM-uri prin informare, expertiză, suport financiar, cadrul legal favorabil și dezvoltarea capitalului uman joacă un rol cheie în dezvoltarea factorului antreprenorial, care, la rândul său, generează locuri de muncă durabile. Metodologia cercetării include abordarea clasică și cercetarea empirică. Astfel, menționăm: metoda analizei comparative, istorico-analitică, sistematică, dar și analiza cantitativă și calitativă.

Cuvinte-cheie: investiții locale, ISD, factor antreprenorial, locuri de muncă decente, export, economie, IMM, capital uman.

Тема о создании хорошо оплачиваемых рабочих мест в Республике Молдова является одной из самых актуальных, она касается как общества, так и руководства страны. Главной целью этой научной статьи является анализ того, как инвестиции в экономику вызывают создание благополучия и хорошо оплачиваемых, устойчивых рабочих мест для населения Республики Молдова, и каковы факторы, приводящие к таким результатам. Главный результат этого исследования состоит в аргументации того, что создание хорошо оплачиваемых и устойчивых рабочих мест возможно не только через прямые зарубежные инвестиции, но в значительной степени благодаря консолидации местного предпринимательского фактора и развития малых и средних предприятий (МСП). Инвестиции в МСП через информирование, экспертизу, финансовую поддержку, благоприятное законодательство и развитие человеческого капитала играют ключевую роль в развитии предпринимательского фактора, который, в свою очередь, генерирует устойчивые рабочие места. Методология исследования включает классический и эмпирический подходы, каковыми являются методы сравнительного анализа, историко-аналитический, системный методы, а также количественный и качественный анализ.

Ключевые слова: местные инвестиции, ПИИ, предпринимательский фактор, достойная занятость, экспорт, экономика, малые и средние предприятия, человеческий капитал.

JEL Classification: O11; F43; G15; G19.

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Introduction. In the last 3 decades, the Republic of Moldova passed through more economic stages of development that expressed more or less success on the population's welfare and level of life. The reforms implemented in the '90 linked with the economic liberalization and public goods privatization had little effect on creating decent jobs and eradication of poverty. This process laid more to the allotment of the oligarchs and officials at different levels. Our government was concentrated mostly on macroeconomic reforms, but insufficient in enhancing the micro level and its synergy with the macro- or world economy.

At the beginning of 2000 the Moldovan leadership started a new process of economic reforms that was concentrated again on macroeconomic reforms aimed to be more on the side of big companies and political interests of the ruling parties. The aim of these institutional actions was to promote Foreign Direct Investments (FDI) and exports in order to enlarge the market and to generate added value. Although the statistics shows us that there were registered little progress of economy and foreign trade with goods proved a negative trade balance since the Republic of Moldova got its independence.

A new tendency of the Moldovan economy is the association and integration in EU as a big economic attractor of the Eastern Europe countries. The integration in EU as a strategic economic objective of the Republic of Moldova is free access to the Western European market and access of EU structural funds and private FDI. The final outcome of the process ought to be the creation of decent jobs, the reduction of human trafficking and the improvement of living standards.

In our approach, the transition of Moldova's economy has more stages, expressing more steps in attracting FDI in order to create jobs, added value and increase the export of goods in the foreign market. These steps are linked more with the economic liberalization and public property privatization, elaboration of strategies on investment attraction and export promotion, and EU association (2010 – present) [1].

In comparison with the neighboring countries, the FDI on capita in the Republic of Moldova is lower, and we still aren't economically attractive for international companies due to political reasons and justice issues.

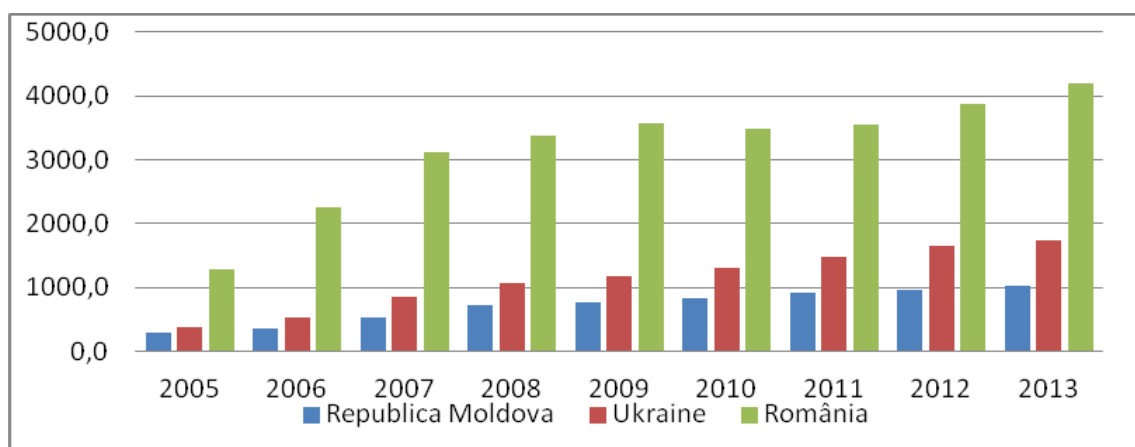


Fig. 1. Inward foreign investments stocks per capita, 2005-2013

Source: Created by author based on UNCTAD Reports [online].

Although we can observe a slight increase in the FDI since 2005 due to the economic reforms and approval of the *National Strategy on the Investments Attraction and Promotion of Exports for 2006-2015*, the competitiveness of our companies and economy is still an issue because the exports proved a lower performance during the same period of the time. The balance of the trade is still negative and only the exports of services proved a positive trade balance between 2011-2013. This shows us that FDI most of the time will have a limited contribution to the added value in economy and in the increase of exports of goods by Moldovan companies able to create sustainable and decent jobs, able to bring enough currency in the country and consolidate the national financial system (See Figure 2). Most multinational companies that have invested in our country are mostly interested in outsourcing and use of the cheap labor force, even though in the beginning, they create a lot of new jobs or bring new technologies, but as soon as the conditions are no longer favorable, they live in the country and withdraw the investments. Also, it has been already registered more cases in the Republic of Moldova when big foreign companies manipulated our government in order to get more tax redemption as well as more preferences, otherwise they will close the companies and withdraw the investments, that can create more social problems for the country rather than solving them.

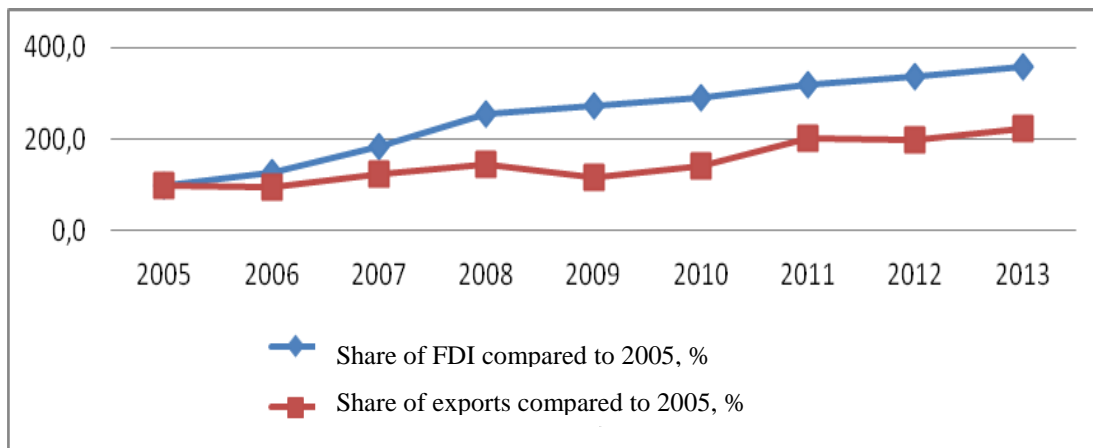


Fig. 2. Share of investments stocks and volume of exports compared to 2005, %

Source: Created by author based on NBM Reports [online].

Also, foreign companies are not paying the taxes for income in the county of its economic activity because this is repatriated in the country of its origin, taxes that could contribute to solving social issues in the Republic of Moldova. In addition, a big part of FDI is coming from countries with a high tax preference and offshore financial center such as Holland, Cyprus, Switzerland, or countries with investment companies which are often involved in money laundering such as Russia.

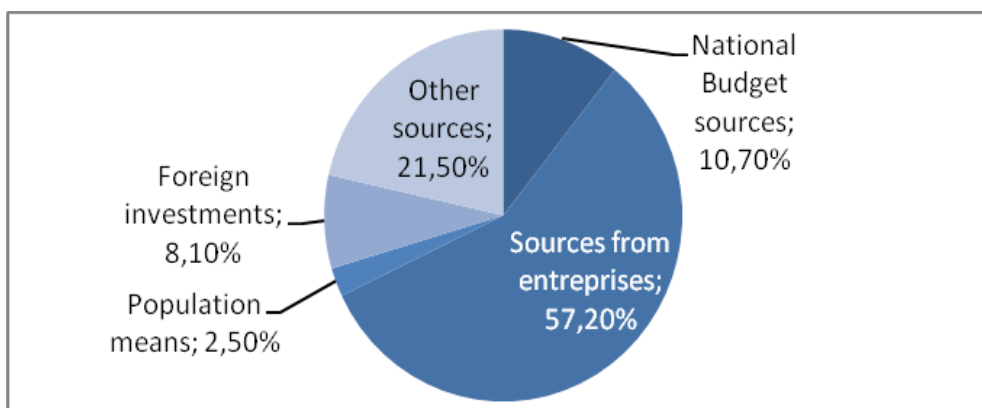


Fig. 3. Structure of investments in fixed assets on financing sources in the Republic of Moldova, 2012

Source: Created by author based on NBM Reports [online].

Taking into consideration the facts mentioned above, we consider that FDI are not key players in creating sustainable and decent jobs, or in stopping mass migration of Moldovan population to richer countries. The statistics are showing that since its independence, the biggest part of investments in the country’s economy were the local ones. In 2012, from the total investments, 57.2% comes from local enterprises and, by including the population investments of 2.5%, the majority of the investment done in our economy belongs to the local private sector. This structure and trend is not characteristic only for the Republic of Moldova which is a poor country, but also for more developed countries from the region such Romania, which GDP per capita is 4 time bigger than the one from the Republic of Moldova (See Figure 4). The main factor that drove the development of big national economies consisted not of FDI in the first place but due to the development of the entrepreneurial factor.

The production factor that leads to the creation of added value in an economy is land, labor force, capital and entrepreneurial skills of the population. For the new independent state of the Republic of Moldova at the beginning of ‘90 remained with land, cheap labor force and a vast fixed capital that deteriorated in the next few years of its independence.

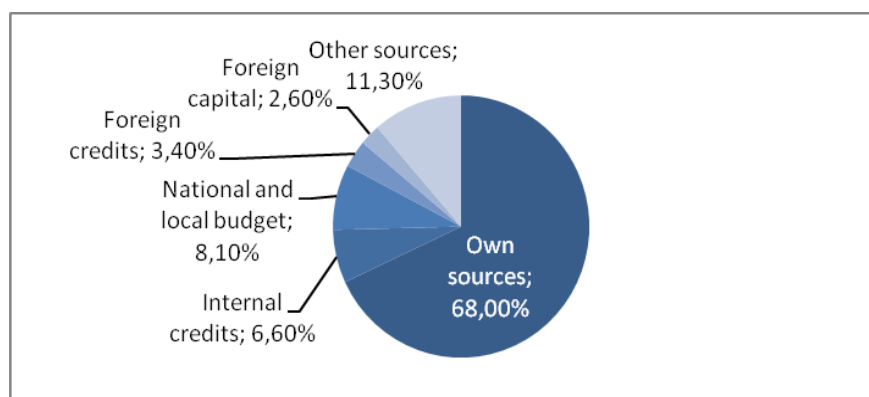


Fig. 4. Structure of investments in fixed assets on financing sources in Romania, 2012

Source: Created by author based on the Reports of National Institute of Statistics of Romania [online].

The missing factor that our population has lacked was the entrepreneurial one, annihilated in the time of the Soviet Union domination over this region when any social or economic initiative and activity was illegal. The main reforms that our former new democratic government should have implemented were to finish the privatization process in maximum 3 years since 1991 and to stimulate the development of the Small and Medium Sized Enterprises (SMEs) in the '90 that represents the real stimulator of entrepreneurship in a country. Unfortunately, our government started to promote SMEs much later through stimulation programs and state agencies such as ODIMM (Organization of the Development of SMEs Sector), founded in 2007.

Our country has a big potential in developing the entrepreneurial skills and, with little investment in this factor in the last decades, we still have a positive ROA in some units of the system. Overall, the Moldovan economic output is positive, especially if we consider its ROA for 2010 and 2011 which was 8.2% (See Table 1), comparing it to Romania that proved the same indicators¹ for the first decade on the century. The threat is that in the last few years its overall profitability significantly decreased to just 2% being a threat to more economic indicators as well as social.

Table 1

Return on Assets (ROA) for 2009-2013 (%)

	ROA (%)				
	2009	2010	2011	2012	2013
Total, of which:	2.5	8.2	8.2	2.5	2.1
Agriculture, hunting and forestry	-2.8	12.9	12.8	0.9	3.9
Fishery	-2.8	-98.8	-2.0	-4.8	-3.5
Mining industry	0.2	0.6	0.7	0.1	0.5
Manufacturing	0.0	7.0	7.6	2.1	2.6
Energy sector	-6.6	1.4	2.1	0.3	-5.1
Construction	5.0	11.1	8.7	2.4	3.1
Trade	6.4	16.0	14.0	4.5	4.6
Hotels and restaurants	-1.4	10	3.2	-4.2	-1.6
Transportation and communication	11.5	9.9	10.5	5.9	5.5
Financial activities	1.9	3.4	6.7	5.5	8.7
Real estate transactions, rentals and services delivered to enterprises	1.3	7.6	7.7	2.6	-1.3
Education and training	10.8	11.1	7.1	1.9	0.7
Health and social assistance	9.6	3.5	0.2	-1.6	-1.1
Other services	-1.7	-1.1	-1.2	-5.9	-3.9

Source: NBS Reports (2009-2013).

¹ Rolul companiilor nefinanciare din România în asigurarea și menținerea stabilității financiare. Banca Națională a României. <http://bnro.ro/SearchResult.aspx> (quoted 05.06.2015)

In developed countries from Europe the majority SMEs represents 98-99% and this sector holds and creates the biggest number of jobs. In Switzerland, the share of employees in SMEs is around 70% from the total. In the Republic of Moldova, the total number of SMEs was of 50.9 thousand in 2013 [3]; its share from the total was 97%, being lower than in development countries from Europe (See Figure 5). Although the majority part of employees is working in SMEs, there is a tendency of decreasing from 59 to 56% in favor of big companies which puts our economy in a risky situation when big companies will use the cheap labor force of our population and national income will not significantly increase.

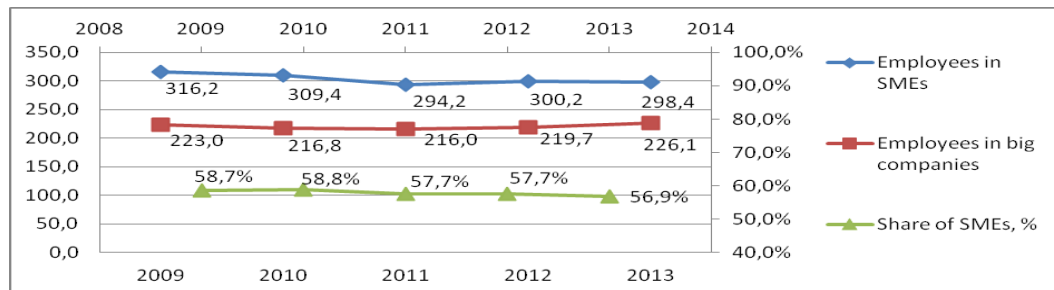


Fig. 5. Evolution of employees on the type of enterprises 2009-2013

Source: Created by author based on NBS Reports [online].

With this analysis of facts, we can recommend to the NGOs and political authorities to invest in the local business initiative that can contribute to the national income. We need entrepreneurs with good ideas, financial management skills, business planning skills, business people which are able to feel the market, more supply chains, and last but not least, to invest in human capital that brings the most added value in companies and in the economy.

The economic situation and the assurance of jobs in the Republic of Moldova depends mostly not on FDI or international grants, but on the entrepreneurial abilities of the population and local investments in fixed assets as well as in human capital. In a developed state, the majority of jobs are provided by the SME sector that largely corresponds with family business which is a generator of business innovations. That is why, this factor must be stimulated as a first priority through training, the right legal frame, financial support and expertise both from the state and civil society. In the Republic of Moldova there are profitable economic units (See Table 1) and in an aggregate view we have a positive ROA that means we have a big human potential and entrepreneurial factor.

Conclusion. As a conclusion there is a direct link between the entrepreneurial factor and the problem of decent jobs that most of the times cause premises for human trafficking from the Republic of Moldova to the consuming countries. This link is reflected in the level of national income and the population occupation that is much lower in comparison with the European countries.

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