

**MODERN TRENDS AND STRATEGIC GUIDELINES FOR THE
DEVELOPMENT OF DOMESTIC TRADE**

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Abstract

After becoming one of the most significant parts of modern economy as well as a main element of market economy, trade is strategically important for the sustainable development of the society. In terms of modern economy trade is also imperative for a balanced and sustainable development of any economic system.

Changes occurring in this branch over the past two decades contributed to trade liberalization, trade entrepreneurship development, activity extension, and certain deficiencies have emerged at the same time: normative, legislative, organizational, managerial, consumer protection, etc.

The aim of this paper is to highlight domestic trade issues in the Republic of Moldova and to propose solutions for their recovery.

This paper analyses the current situation regarding domestic trade and its positioning within the socioeconomic system, as well as the challenges encountered. Based on this analysis, strategic objectives for the development of domestic trade have been pointed out. The study was performed employing a large array of research tools.

The research results obtained have provided support for the development of Domestic Trade Development Strategy for 2014-2020 period, under implementation.

Keywords: domestic trade, strategic development, efficiency, modernization of trade activity.

JEL classification: E01, F14, O24

1. Introduction

Trade has become one of the most complex and dynamic areas of the modern economy, claiming strategic importance for the sustainable development of society. As a branch of economy, trade takes part in gross domestic product formation, at the same time when interfacing with consumers this sector exerts a substantial influence on the quality of life.

This places trade into the coordinates of the need for continuous modernization on all dimensions: improvement of legal and normative framework, development of strategies and trade policies, efficientization of trade activity, optimization of trade management, trade infrastructure

development, and implementation of international best practices in the management and organisation of domestic trade system.

Over the past two decades Moldovan trade is undergoing a continuous transformation and reorganization, adapting itself to economic and social realities as well as to the competitive environment, all having a different impact on the organization, management and efficiency of trade activity. Various activities carried out in this respect, including the increase of traders' number as well as the expansion of their commercial infrastructure, contributed only partly to the improvement of the situation and to the increase of commercial activity quality. Therewith, differences remain visible in relation to the requirements of modern trade and their impact is felt mainly in rural areas.

The challenges of competitive environment, the uneven development of trade, as well as the need to adjust to economic realities, to current commercial trends and technologies applied in international trade, and increased consumer market globalization require a new vision of trade activity and enforce the need for commercial policies re-thinking, management and trading system structure re-designing, its modernization in terms of field performance. This paper attempts to address the demands generated by these objectives.

2. Domestic trade within the socioeconomic system of the country

Trade has strategic importance for a balanced and sustainable development of economic and social systems within the economy of any country. Due to its complexity and role played in the formation of macroeconomic indicators, in the distribution of goods and services, as well as in meeting consumption needs, trade represents one of the most important parts of modern economy.

The importance of trade for the socioeconomic system of the country is determined mainly by its contribution to the formation of Gross Domestic Product (GDP). Participation of trade to GDP formation is characterized by an annual slow, but relatively stable, growth pattern during recent years (Table 1), from 11.5% in 2006 to 14.0% in 2012, positioning itself among branches with major contributions to Gross Value Added (GVA). During 2006-2012 trade GVA increased about 2.4 times registering 12 250 million lei in 2012. In 2012 the share of retail and wholesale trade in GVA was 16.7%, in 2006 - 13.8%. During the reference period (2006-2012) product net taxes registered substantial growth – about 2 times, their share in GDP increasing from 16.6% in 2006 to 19.2% in 2012.

Table 1: Trade contribution to GDP

million lei

Indicators	2006	2007	2008	2009	2010	2011	2012	2012/ 2006,%
Gross Domestic Product (GDP), of which:	44754	53430	62922	60430	71885	82349	87847	196.2
Gross Value Added (GVA), including:	37339	44413	51774	50809	59921	68390	73319	196.36
retail and wholesale trade	5145	6714	8149	7954	9213	11119	12250	238.0
Product net taxes	7415	9017	11148	9621	11965	13959	14528	195.9
share of retail and wholesale trade:								
- in GDP formation, %	11.5	12.6	13.0	13.2	12.8	13.5	14.0	
- in GVA formation, %	13.8	15.1	15.7	15.4	15.4	16.3	16.7	
Share of product net taxes in GDP, %	16.6	16.9	17.7	15.9	16.6	17.0	19.2	

Source: [14, p. 266, 279-280].

Note that in the analysed period the contribution of trade to GDP registered a higher growth rate (2.4 times) compared to other branches of the national economy, which are considered pillars of the economic system of the country (by 47.6% in agriculture, by 87.0% in industry). Within the GDP structure (2012) trade (Figure 1) is on the first place (14.0%), followed by processing industry (11.4%), agriculture, hunting and forestry (10.9%), transport and communications (10.8%).

Recognition of economic and social role of trade in population welfare insurance aims and requires a complex approach in terms of final household consumption. In this respect the analysis of GDP growth in relation to final consumption is of interest, as it reflects the complicity degree of domestic production factors (of the sector) in satisfying consumption needs as well as internal resources efficiency of the main economic branches (agriculture, industry, services). In the reference period (2006-2012) a difference between these two indicators can be noticed, with a relevant consumer spending growth trend (Figure 1). Thus, in 2006 the total final consumption was 50 972 million lei, exceeding GDP by about 13.9%, and in 2012 it increased up to 102 954 million lei, registering approximately 17.2% growth to GDP. Such a situation imposes the requirement to cover domestic consumption needs from imports, with the trend of continuous dependence on the imported goods and services.

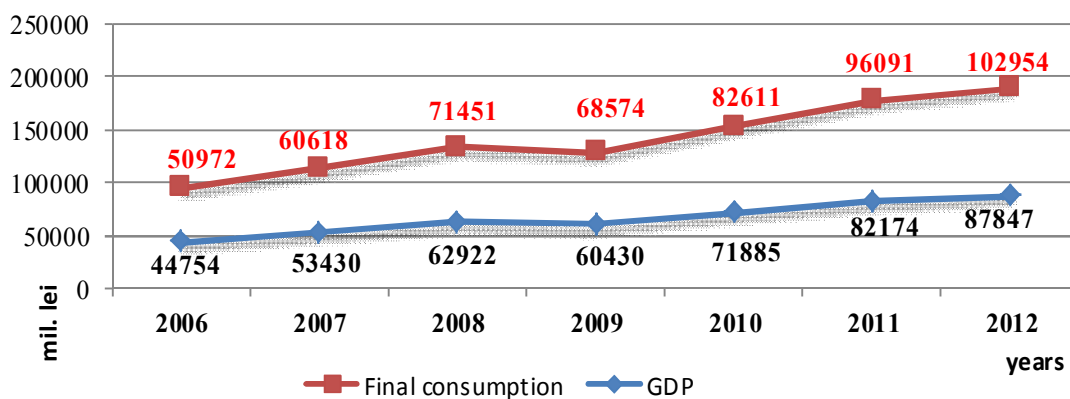


Figure 1: GDP and final consumption evolution in 2006-2012

Source: [14, p. 266, 469].

The evolution of investments in wholesale and retail trade is a significant criterion that reflects the level of attractiveness of the commercial sector and the sustainability of its development (particularly infrastructure development, implementation of modern technologies, improvement of commercial services quality, insurance of economic growth etc.).

Fixed capital investments in wholesale and retail trade increased from 1 231.6 million lei in 2006 to 2 047.9 million lei in 2012, or by 66.3%. The analysis of fixed capital investments by activity type highlights the attractiveness of trade for entrepreneurs in the country and abroad. The share of fixed capital investments in trade increases, with some fluctuations, from 11.2% in 2006 to 12.3% in 2012 (registering the highest value of 14.9% in 2008).

Trade stands on the fourth place in terms of fixed capital investments, the first place being occupied by the transport and communications sector (21.2%) of total investments, followed by

the sector of real estate deals, renting and business services rendered to enterprises (15.8%) according to year 2012 (Table 2).

Trade positioning in the social and economic system of the country is characterized in a relevant manner by the development and share of companies operating in the area of trade.

Table 2: The structure of fixed capital investments by economic activity types

%

Indicators	2006	2007	2008	2009	2010	2011	2012
Total fixed capital investments	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>including:</i>							
real estate deals, renting and business services	20.9	22.5	21.5	21.6	21.0	16.4	15.8
transport and communications	26.3	20.6	18.7	20.2	25.1	22.0	21.2
wholesale and retail trade *	11.2	14.0	14.9	11.0	11.0	12.2	12.3
electricity and heat, gas and water	8.4	7.6	6.5	10.8	9.1	8.4	8.4
processing industry	15.3	15.6	14.5	8.6	10.3	12.9	13.5

* Including repair of car vehicles, motorcycles, household and personal goods

Source: [14, p. 373].

In 2012, 20 494 companies registered within wholesale and retail trade sector, this number increasing by 5 639 companies compared to year 2006. Of all enterprises operating in the national economy, trade has the largest share - 40.4% (2012), and this trend has been maintained for the last few years (Table 3).

Table 3: Evolution of enterprises within wholesale and retail trade

Indicators	2006	2007	2008	2009	2010	2011	2012	2012/ 2006, %
Number of companies, all activities	36158	39987	42121	44633	46704	48541	50681	140.2
Number of companies within wholesale and retail trade *	14855	16309	17247	18330	19095	19837	20494	138.0
Share, % from total	41.1	40.8	40.9	41.1	40.9	40.9	40.4	

* Including repair of car vehicles, motorcycles, household and personal goods

Source: [14, p. 488].

The large number of companies in the trade sector can be explained, on the one hand, by field peculiarity - delivery of goods to final consumers that implies the existence of trade units close to the consumers scattered in the territory, on the other hand, by the attractiveness of the sector for entrepreneurs due to a smaller volume of capital required for carrying out trade compared to other sectors of the economy.

Trade development and strengthening of its position in the domestic market facilitated the growth of the number of people employed in this area.

In the period from 2006 to 2012 the average number of employees in the trade sector has been growing, increasing by 13 000 people (6.6%), while the total number of employees in the national economy declined by 110 200 people (8.8%). In 2012 the number of employees within wholesale and retail trade, hotels and restaurants services accounted for 209 000 people. It is important to note that the number of employees in trade and their share in the total number of employees in the economy is steadily growing (2006 - 15.6%, 2012 - 18.2%). It must be noticed that the contribution of the trade sector to employment is higher than its contribution to GDP formation, thus reflecting a relatively high share of human labour within the organic structure of sector-

specific production factors. Increasing number of employees in trade is explained by an increased number of companies and by labour force migration from other sectors (agriculture, industry, etc.). Based on the above it can be concluded that national economy transits from a predominantly agrarian-industrial economy to a service-based economy. An important role in this regard belongs to the “quality” of human resources operating in the commercial area as well as the development of their professional skills.

Evolution of the market mechanisms as well as the development of small and medium business sector, privatization of commercial units and support of entrepreneurship within all spheres of economic activity have created conditions in the Republic of Moldova that favoured the development of small business in the area of trade at a more advanced rate than in other sectors of the national economy and have stimulated the creation of small and medium enterprises (SMEs) [9].

In early 2012 the number of SMEs in the area of trade was 20 thousand (2006 - 14.7 thousand), accounting for 98.0% of all wholesale and retail trade profile companies operating on the domestic market. Within the structure of economic activities these amount 40.5% (Table 4), while other important spheres of economic activity present a smaller share (agriculture - 5.1%, manufacturing (processing) industry - 9.9%).

This situation can be explained by the fact that commercial business is easier to organize and requires little initial capital. A quick return on investment is possible due to a higher turnover speed of funds. Profit can be obtained in a relatively small time period; therefore trade is more profitable, respectively more attractive in comparison with other types of business activities.

Table 4: Dynamics of small and medium enterprises (SMEs)
per activity types in the Republic of Moldova

Activity types	2006				2012				SMEs 2012/ 2006, %
	No. of companies (thousand)	No. of SMEs (thous and)	SMEs share		No. of companies (thousand)	No. of SMEs (thous and)	SMEs share		
			Total compa nies %	By activity type %			Total compa nies %	By activity type %	
Total	36.2	35.5	98.1	100	50.0	49.4	98.8	100	139.1
of which: agriculture, hunting and forestry	2.1	2.0	95.2	5.6	2.5	2.5	100	5.1	125.0
processing industry	4.7	4.5	95.7	12.7	5.0	4.9	98.0	9.9	108.9
constructions	2.1	2.1	100.0	5.9	2.7	2.7	100	5.5	128.6
wholesale and retail trade	14.9	14.7	98.7	41.4	20.4	20.0	98.0	40.5	135.1
transport and communications	2.6	2.5	96.2	7.0	3.3	3.3	100	6.6	132.0
other activities	9.8	9.7	99.0	27.4	16.1	7.5	99.3	32.3	77.3

Source: [14, p.488, 494].

However, in the Republic of Moldova the under-developed agriculture and processing industry cannot ensure a balanced economic and social development. And trading activity in such conditions focuses on the import of goods with all resulting consequences.

Based on the above one may conclude that trade has placed itself within the socioeconomic system of the country as an important area due to its contribution to the formation of main macroeconomic

indicators as well as due to its impact on the quality of life, reflecting the degree of efficiency with regard to the use of economic resources.

3. Analysis of domestic trade current situation and sector development trends

Since the 90's, trade has undergone major changes imposed by the establishment of the market economy. Along the way many transformations occurred in this area and multiple reforms were undertaken, with different impacts in certain periods (Figure 2).

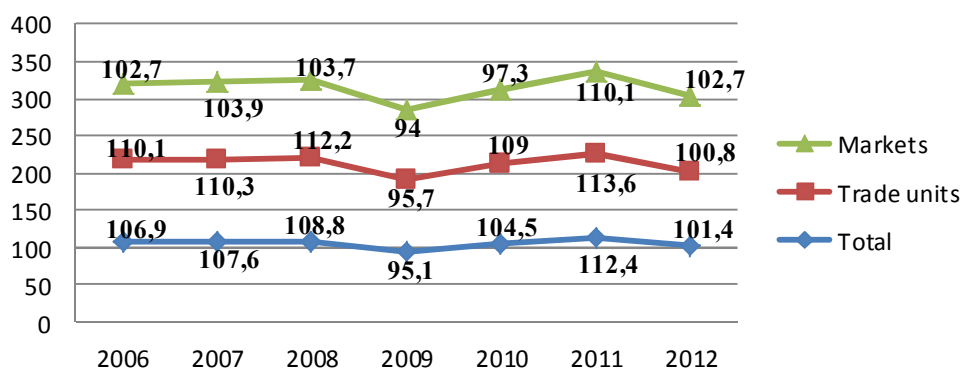


Figure 2: Growth rates of retail trade sales in 2006-2012

Source: [14, p.468].

In the period 2006-2012 the volume of retail sales by all trading means (by trade units and markets) increased 2.2 times in current prices, representing 518 738.8 thousand lei in 2012 (23356.6 million lei in 2006), due to the growth of population income and increasing purchasing power of goods. In 2011 the decrease in retail sales was generated by the economic crisis and by the drought of that year, which diminished domestic supply of products in the agri-food sector.

Entrepreneurship development in trade, expansion of small and medium enterprises, and substantial increase of companies engaged in trade generated a diversification of trade organization forms. At the first stage the implementation of market relations resulted in the emergence and development of unorganized trade, carried outside the stores, with a dominant share of “street trade”. Later, it has been gradually transferred to commercial markets. Thus, if in 2001-2003 the trade units (organized sector) made 46-50% of retail sales in the country; in 2006 this indicator reached 58.3%, in 2010 - 64.7% and in 2012 - 65.0% (Table 5). However, a considerable part of sales (35%) remains to be carried out through commercial markets, which do not offer modern marketing technologies and, correspondingly, a high level of trade services and consumers’ protection.

Table 5: Evolution of retail sales in the Republic of Moldova in 2006-2012

Indicators	2006	2007	2008	2009	2010	2011	2012	2012/ 2006,%
Volume of retail sales – total (mil. lei), through:	23356.6	28220.1	34684.4	32143.0	38765.8	51568.9	51873.8	222.1
a. trade units (organized sector)	13620.7	16866.6	21387.2	19960.6	25096.5	32132.7	33707.1	247.5
b. markets (unorganized sector)	9735.9	11353.5	13297.2	12182.4	13669.3	19436.2	18166.7	186.6
Share of trade units’ sales (organized sector), %	58.3	59.8	61.7	62.1	64.7	62.3	65.0	x

Source: [14, pp. 468-469].

Thus, one can conclude that when trade passes from an unorganized format into an organized one, the quality of commercial benefits grows. In the future this trend will increase as a result of entrepreneurial patent reform, aimed to facilitate step-by-step transition of patent holders to other organizational and legal forms.

Trade entrepreneurship development generated changes in the structure of sales per ownership types. The dominant share belongs to retail sales in the private sector - 68.3%, followed by joint ventures and foreign companies - 28.5% in 2010 (for the further period the statistical information is missing) [1]. In recent years, the trend is characterized by the transfer of mixed ownership companies, without foreign participation, to the private sector (the share of sales via such companies in 2010 was 1.5% compared to 4.2% in 2006).

During the last years non-food goods prevail in the sales structure per groups of goods, registering in 2006-2012 an uneven growth trend, from 68.5% in 2006 to 71.1% in 2011 and 67.5% in 2012. Although the share of non-food products prevails in the organized trade sector thus favouring the life quality improvement trends, in the consumption structure the expenses for food and beverages (alcoholic and non-alcoholic) are 44.3% (42.0% in urban and 47.9% in rural areas).

Trade infrastructure is of particular importance for the development of retail trade [13]. The evolution of this indicator registered a non-uniform trend (oscillations) in the analysed period (Table 6). Thus, in 2012 the national trade network comprised 9 594 trade units, of which 7 012 stores (compared to 9 014 trade units with 7 159 stores in 2006). It's worthy to mention that while the number of stores decreased by 2.1% during the reference period, the number of trade booths and kiosks increased significantly - by 39.2%, that is 2 582 units in 2012. Such a trend highlights the inefficient character of the domestic trade organisation, because trade carried out through booths and kiosks offers very limited possibility for implementing advanced trading technologies, a broad and thorough assortment of goods, as well as adequate price policy.

The analysis of presented information shows a non-uniform distribution of retail trade network. The majority of trade units are located in Chisinau (50.4%) and in the northern region (19.6%), and only 8.6% of all trade units are located in the southern region. Therefore, Chisinau is the most attractive location for the placement of trade units, while other regions, especially rural ones, indicate a rather slow development, thus registering an unbalanced situation regarding the trade network between the cities and remaining areas.

Table 6: Evolution of retail trade network in 2006-2012

	2006	2007	2008	2009	2010	2011*	2012*	2012/2006,%
Trade units – total	9014	9980	11066	11082	12215	7385	9594	106.4
<i>of which:</i>								
stores	7159	7833	8527	8889	9556	5340	7012	97.9
booths, kiosks	1855	2147	2539	2193	2659	2045	2582	139.2
<i>from total:</i>								
Chisinau	2597	2788	3266	2874	3800	3704	4840	186.4
NORTH region, <i>of which:</i>	2648	2998	3215	3460	3553	1476	1878	70.9
Balti	576	681	715	733	777	405	491	85.2
CENTRAL region	2136	2419	2696	2735	2865	1433	1733	81.1
SOUTH region	1073	1166	1256	1337	1342	532	827	77.1
ATU of Gagauzia	560	609	633	676	655	240	316	56.4

* Between 2011- 2012 a new method for calculating the number of trade units according to company registration place was used (data were presented for companies with 10 and more employees)

Source: [14, p. 469].

Along with retail trade the **wholesale trade** plays a very important role in the distribution of goods and services. In 2006-2012 period the volume of wholesale sales increased 1.4 times in the Republic of Moldova and registered 33 254.5 million lei in 2012. The dominant share within sales structure, in terms of territorial distribution, is registered in Chisinau - 79.6%, in Balti - 4.8% and in other regions - 15.6% (Table 7); the structure maintaining a steady trend during the whole reference period.

Table 7: Wholesale sales in the Republic of Moldova in 2006-2012

million lei

	2006	2007	2008	2009	2010	2011	2012	2012/ 2006,%
Wholesale sales – total	23236.2	28624.8	32314.1	28209.2	34723.7	31271.2	33254.5	143.1
of which:								
Chisinau	19205.4	22709.0	25605.9	22155.0	27738.7	24598.3	26489.1	137.9
Balti	808.6	1412.2	1569.8	1468.9	1802.4	1676.7	1597.9	197.6
districts	3222.2	4503.6	5138.4	4585.3	5182.6	6996.2	5167.7	160.4

Source: [12, 14].

The analysis of wholesale goods sales per ownership type of wholesale traders (Table 8) reveals that 64.2% of sales were done by private companies in 2012, followed by joint ventures (with foreign capital participation) and foreign companies - 35.3%. It should be noted that the latter, along with the private companies, recorded a considerable growth rate of sales (135.9% and 165.0% in 2006-2012 respectively).

Table 8: Wholesale sales structure per company ownership type

million lei

	2006	2007	2008	2009	2010	2011	2012	2012/ 2006,%
Wholesale sales - total	23236.2	28624.8	32314.1	28209.2	34723.7	31271.2	33254.5	143.1
including								
public	290.8	292.6	236.0	22.3	40.7	27.1	18.8	6.46
private	15712.0	19531.0	22692.8	20890.6	24729.7	20157.7	21361.6	135.9
joint ventures (public and private)	107.8	85.4	81.3	94.1	99.3	111.8	114.8	106.4
joint ventures (with foreign capital) and foreign	7125.6	8715.8	9303.9	7202.2	9854.0	10974.5	11759.2	165.0

Source: [12, 14].

In 2012, there were 7 615 wholesale companies operating on the domestic market, of which 6 057 specializing in non-food products sale (Table 9). It should be mentioned that in the reviewed period (2007-2012) the number of companies, specializing in wholesale trade with non-food product, significantly increased (by 2 106 units) compared to the increase in the number of companies (by 546 units) specializing in food products sale. The dominant share goes to non-food profile companies. A more detailed analysis of the development of this sector is difficult due to extremely limited statistics for this sector.

Table 9: Evolution of wholesale companies in the Republic of Moldova

Indicators	2007	2008	2009	2010	2011	2012	2012/2007, %
Wholesale trade companies - total	4963	5016	4814	4779	4764	7615	151.4
specializing in:							
- food products sales	1012	1024	994	1000	985	1558	154.0
- non-food products sales	3951	3992	3820	3779	3779	6057	153.3

Source: [10].

Although in recent years some actions of improving the situation in the wholesale trade were undertaken with the purpose to identify real sales figures (excluding tax evasion) and to exclude shadow activities in this sector, these actions have had an episodic character only. Other effective mechanisms are also required here to ensure wholesale companies transparency. The provisions of Law on domestic trade, no. 231 of 23.09.2010 [5], regarding the obligation of traders carrying wholesale trade to pay purchased goods via transfer only, will help to transform wholesale trade into a controlled and transparent business.

Market economy mechanisms, as well as globalization, increase the role of wholesale trade not only locally, but also in the international trading of goods. In such conditions wholesalers should adopt new visions and strategies to withstand the competitive pressure.

4. Challenges and constraints faced by domestic trade

Trade liberalization during the establishment of market relations, in addition to beneficial trends registered in the development of domestic trade in the last two decades (increasing contribution to GDP, growth of sales volume, infrastructure expansion and modernization, economic change, diversification of trade organizing forms, emergence and development of e-commerce [6] and franchise agreements-based trade, emergence of supermarket chains, development of associative-type and integrated trade, etc.), has also generated certain imbalances in the operation of the trading system and, as consequence, lack of enforcement mechanisms for the exclusion of tax evasion, for consumers' protection, for trade services quality, etc.

Among the main constraints and barriers to the development and legalization of domestic trade, the following are highlighted:

- imperfection of normative and legal as well as institutional regulatory framework for trade, and deficiencies in the application of these regulations;
- differences in current approaches to EU countries' trade and practices, regarding institutional, legal and organizational framework;
- lack of an efficient management system for trade activity and its continuing monitoring, duplication of some trade related functions, in particular control functions exerted by various central public authorities;
- existence of unfair competition on the market, boosting unorganized trade;
- low level of competitiveness of products sold on the domestic consumption market;
- presence of illicit trade;
- deficiencies in terms of security consumption and consumers' protection assurance;
- non-balanced placement of the commercial infrastructure;
- low level of economic efficiency of trade activity;
- continuation of trade activity with manufactured goods (which should be sold within an organized trade network) based on entrepreneurial patent;
- increased penetration of foreign products on the domestic market, thus contributing to the substitution of domestic products with imported products;
- insufficient human resources with high professional performance and non-compliance with the requirements for professional qualification of employees in the trade area, etc.

With regard to the imperfection of normative and legal as well as institutional regulatory framework one can note:

- certain legislative discrepancies and double interpretations regarding products and services marketing (e.g. commercialisation of alcoholic beverages and tobacco items),
- overlapping of procedures for obtaining permits (authorizations/licenses/trade units operation certificates),
- lack of regulations for certain products marketing (furniture, construction materials, toys, perfumes, second-hand goods),
- lack of technical regulations for certain products, as well as of measures for the protection of the domestic market from low quality and counterfeit products,
- fragmentary character of the legal framework with regard to products conformity assessment,
- deficiencies regarding the regulation of customs and tax policies, that create barriers to the development of trade business environment,
- gaps in adjusting national legislation to EU regulations (in particular regarding distance sales).

Another group of challenges envisages the maintenance of illegal trade. According to estimates, about 2/3 of the existing volume of goods, on the domestic consumption market, come from imports. Studies demonstrate that a significant part of products is delivered to the domestic market and sold illegally (the main sources are: smuggling-type evasion from customs control, fraudulent use of product-supporting documents, not declaring/inauthentic declaration of cargo in customs documents, counterfeiting) without paying proper taxes and duties, jeopardizing the state budget in such a way, and restricting the ensurance of fair conditions for business development, consumers' protection and quality of products. It's worth mentioning in this respect that at present there are no normative acts/methodologies that would allow an accurate assessment of the degree of smuggling. However, according to some estimates regarding oil smuggling in the Republic of Moldova it was found that the share of oil products introduced into the country via smuggling ranges between 30-50% of all sales on the domestic consumption market, from the total oil products volume. According to Sugar Producers Union estimates, in 2012 sugar smuggling damaged the state budget by 200 million lei. At the beginning of 2013 nearly half of the sugar entering the domestic market has been smuggled from Ukraine. The smuggling blacklist also includes such products as computers, shoes and clothing of various international brands, meat and meat products, fish, cigarettes, etc. [2, p.12]. Liability for criminal offenses and administrative infringements of this kind is rather soft and does not stimulate legal trade activity and preventing breaches of legislation.

Abundance of counterfeit goods is another issue that generates tax evasion and danger for consumers' health protection, which requires urgent solution. A European Commission report on customs interventions places the Republic of Moldova on the fourth place among the countries supplying counterfeit goods to Europe, accounting for about 2% of the total volume of goods seized at the border. Some counterfeit products include also domestic products. According to a study of the Consumer Protection Agency on the quality of dairy products, 4 out of 10 local producers traded composition-distorted and standards non-complying foods by using raw materials prohibited by law [4].

Unfortunately, national authorities do not have the necessary means to perform efficient and consistent market supervision. The situation is becoming worse further because the country lacks a

mechanism for the destruction of counterfeit products and for efficient accountability concerning non-compliance with legislation.

The low level of product competitiveness on the domestic consumer market and the existence of unfair trade practices identify another challenge for domestic trade. Many products placed on the market are not safe and violate the rules established by existing technical regulations; their quality and real value often do not comply with the requested price. Presence of multiple intermediaries within the supply chain inevitably leads to higher prices of certain products; at the same time, illegal penetration of products on the domestic market facilitates setting up lower prices for products compared to similar products supplied by domestic producers, thus discouraging the development of a competitive business environment. In this context, it is important to establish efficient monitoring mechanisms for imported commercial transactions and product distribution value chain.

The existence of unfair trade practices contributes to unjustified increase of the marketing price on certain products. For the purpose of their omission it becomes urgent to assess the supply chain, including the added value produced by each segment of the chain, in order to identify possible deficiencies and risks arising from unfair commercial practices, to ensure the effective application of rules envisaged by the national legal framework aiming at fighting with these practices and developing modern products distribution channels.

Existing imbalances in the location and development of commercial infrastructure affects the efficient functioning of the internal trade sector. The trend, regarding the concentration of trade activity mainly in urban centres and district centres, affects provision with goods of the rural population, generates migration of demand towards these centres and influences negatively the quality of commercial services and living standards of consumers in rural areas.

Rural population is forced to buy products mainly from markets episodically organized by individual traders in the settlements (these traders supply highly insecure products - often without documents confirming the origins and quality of products).

Special consideration requires the typology and specialization of retail trade units in terms of adjustment to European practices and of developing recommendations for trade units' placement.

Despite the fact that wholesale trade plays an important role in the distribution and management of this activity, together with the transition to a market economy, this area passed through a period of economic, managerial and organizational decline, being frequently ignored not only by operators on products and services market, but also by the authorities. Therefore, one can find that currently in the country there is no wholesalers typology, no evidence of their storage and logistics infrastructure, no other indicators etc.

Keeping the trade activity in the sphere of entrepreneurial patent-based manufactured products (which should be sold through an organized trade network) directly influences the competitiveness on the domestic market. Originally, the entrepreneurial patent system [8] was created as an exception to the traditional legal taxation and business framework, giving socially vulnerable groups the possibility to support themselves by practicing entrepreneurship. However, in the process of implementation, this system has become a tax evasive scheme and a shadow business activity that affects consumers' rights and safety; also proving to be an unfair practice compared to the economic entities doing business under traditional legal organizational forms.

According to the Main State Tax Inspectorate, 16 140 holders of patent authorisation have operated in 2012, of which 59% in commerce, selling various products, including manufactured ones and food products as well (which require special storage and selling conditions), mainly from booths, counters, stalls and vehicles staying in markets (in 2010 around 30 197 patent holders operated covering 48 types of activity, of which 60.0% were practicing trade). Practicing patent-based trade is a profitable activity for patent holders but not for the state budget. Budget revenues remain insignificant due to the lack of patent holders' tax records.

In 2006 in order to avoid the acknowledged deficiencies, the reform of national trading patent-based system was initiated (by Law no. 208-XVI of July 7, 2006, aiming amendments and additions to Law no. 93-XIV of July 15, 1998, regarding the entrepreneurial patent) [3] with the purpose to limit product categories subject to entrepreneurial patent-based retail trade and to facilitate patent holders transition to a different legal organizing form. This reform was not completed, the deadline being delayed until January 1, 2017.

In our opinion, patent-based activity must be authorized for small producers, especially those involved in crafts activities, not practicing series production and for service providers in areas where there are no specialized economic operators. Namely, these products and services may be the subject of trade activity of patent holders. The current situation, under which patent holders sell manufactured products, including food products in conditions not complying with consumers' protection requirements, is in the detriment of consumers, while the existing trade network can provide enough space for quality performance of trade and technological processes. Therefore, we support the efforts of moving manufactured products trade into an organized framework.

Insufficient human resources with high professional performance and non-compliance with professional qualification requirements of employees in the trade area increase the gaps within the organization of trade activity and the quality of commercial services, thus becoming a significant barrier to the development of the domestic trade. Despite the fact that it is an attractive sector employing a considerable number of active population, trade is experiencing a deficit of skilled and well-trained professionals, especially those having vocational- technical education. The attractiveness of trade has contributed to the migration of the labour force to trade, from other areas not even close to the sphere of goods circulation, which have developed some practical skills over time (gained from the working experience), but not having any initial training in this area. As a result, the quality of trade services and the consumers' protection fail to comply with modern trade requirements.

Given the above and due to the fact that the quality of human resources employed in trade activities directly affects the security of product consumption as well as the quality of trade services, the Law on domestic trade (no. 231 of 09.23.1010 [5], Article 13(2)) states that "commerce activity, except for small traders, shall be performed by physical persons (individual entrepreneurs) who have been trained within legally authorized commercial (economic) education institutions, or by persons who have certified their skills, competences acquired as result of working experience at the same institutions". However, this provision is not respected.

The economic efficiency of trade activity is the performance indicator that characterizes the quality of trade services and the efficient use of resources in this area. Wholesale and retail trade companies provide 46.6% of total revenues from sales, but in the small and medium business they have registered 49.7% in 2012 [14, p. 489, 494].

Although during recent years a progress in the development of trade activity in terms of quantity can be noticed, in terms of quality and economic efficiency this sector displays major deficiencies. During the last several years the share of trade companies operating with losses is maintained around 50%. In 2012, only 8 087 out of 20 494 wholesale and retail trade companies registered profits (39.5%) (including those performing repair of motor vehicles, motorcycles, personal and household goods); at the end of financial year, 11 329 companies registered losses (55.3%) and 1078 companies did not operate (5.2%). In 2006 these indicators in weighted values have displayed 41%, 51% and 8%, respectively [14, p.488].

The above trends contradict the continuous growth of legal entities in the trade area. Thus, the number of companies submitting financial reports increased by 5 639 units or by 38.0% in 2006-2012 [14, p. 488]. The characterized situation justifies the existence of problems and imbalances within the trade sector, at the same time, identifying the need and opportunity for proper mechanisms to improve the situation.

5. Strategic priorities and actions for the development of domestic trade

Taking into account the importance of trade for economic development and life quality improvement, and aiming at solving the existing deficiencies in trade activities, facilitating the domestic trade development and legalizing process, and ensuring an adequate level of domestic consumers' protection *The Domestic Trade Development Strategy of the Republic of Moldova for 2014-2020 period* (hereinafter the Strategy) and *2014-2016 Action Plan* for its implementation [2] have been developed, with the contribution of the authors of this paper. The Strategy was designed as a medium-term basic regulatory framework to ensure sustainable development and to establish guidelines for the development of domestic trade sector in the Republic of Moldova.

The Strategy sets the following priority objectives for domestic trade development:

- ✓ increasing regulations efficiency regarding domestic trade;
- ✓ enhancing competitiveness of marketed products/services;
- ✓ improving trade infrastructure in the districts, especially in rural areas;
- ✓ modernizing distribution and marketing activities for products/services;
- ✓ providing trade with qualified and permanently trained labour force.

For the achievement of these objectives the following is envisaged.

In order to improve the normative and institutional framework regulating trade activities and to adjust it to the European practices, the following is necessary: a review of legal and normative framework for the marketing of products/services; elimination of gaps and double interpretations in the legislation; updating the existing regulations; development of new regulations for domestic trade.

The following is proposed for the next period (2014):

- setting the rules regulating reduced price sales (liquidation and sell-off, promotional and outlet sales),
- amendment of the Law on domestic trade (no. 231 of 23.09.2010) [5] in order to simplify the start of trading business and to obtain the required permits,
- development of legislative framework regarding distance and off-premises contracts,

- completion of the Contravention Code with administrative sanctions for the violation of products/services marketing rules,
- elaboration of regulations for trade activity in public areas, including markets, and for agricultural products trade; for the marketing of certain products (cosmetics, construction materials, toys, second-hand goods, etc.), for commercial services, including catering; authorization of trade activities by establishing the single-window system; training of employees for the trade area, etc.,
- improvement/elaboration of methodologies in the area of pricing/tariffs as well as the creation of an organization responsible for regulated prices/tariffs policy development.

In order to perform the supervision of domestic consumption market, it is necessary to strengthen institutionally the Competition Council, the National Food Safety Agency, the Consumer Protection Agency and the State Supervision Service for Public Health.

The objective of enhancing the resources of quality products with affordable prices focuses on the production of competitive goods in line with the market demand and on the stimulation of domestic goods supply. In this respect, the following aspects are urgent:

- development of national food security policy at national and regional levels, strengthening, in this context, institutional capacities of the product councils;
- supporting consumer cooperatives activity (especially the production and purchase of agricultural products);
- promotion of local products through various activities;
- stimulation of non-agricultural activities in rural areas;
- diversification of cooperative forms, development of associative structures;
- improvement of domestic products quality accompanied by production costs reduction in order to raise the competitiveness of manufactured products;
- enhancing extensive implementation in production of the Food Safety and Quality Management Systems;
- establishment of a single information system for placing products on the market and for their supervision, connecting to this system the institutions with supervision and control powers (Customs Service, National Food Safety Agency, Consumer Protection Agency, Public Health Service, product conformity assessment institutions, etc.).

Supporting independent economic activity plays an important role in strengthening products/services resources. In this context, it is necessary to improve the tax policy by introducing a single tax on the annual estimated income obtained from the activity of family companies and/or physical persons.

The development of trade infrastructure as well as optimization of its location has to play an important role in the ensurance of quality and trade activities efficiency. The current situation, with the uneven placement of trade network and 36.8% of the total number of trade units representing kiosks and booths, scattered throughout public places and violating most elementary architecture and, frequently, sanitation rules, does not meet modern trade requirements as well as security requirements for products consumption marketed in such a manner. Based on the above it is necessary to develop certain criteria and rules for the placement of trade units that will consider trade space norms for the population, and the existing practices are to be connected to urban

development plans in order to provide a harmonious combination of large commercial areas (located in specially designated areas) with the small shops (located mainly in residential areas).

In recent years a relevant issue is the decrease of trade units in the rural areas, one of the main reasons being high placement taxes for these units set by local authorities. In such circumstances trade entrepreneurs operating in these areas and supplying mostly first-necessity products to the population (which do not generate high income) are forced to stop their activity or to seek illegal ways of conducting their business. Therefore, the support of trade activity from central and local public administrations in rural areas, especially in remote ones or areas with a small number of inhabitants (offering tax incentives, granting subsidies for covering expenses related to delivery of the first-necessity products, exemption from placement fee payment or its reduction, preferential loans for businesses investing in the development of trade infrastructure in rural areas, supporting public-private partnership, granting facilities for purchase of land for the construction of trade buildings and for trade unit tax payment, granting tax exemptions to those who contribute to job places creation by expanding the trade infrastructure, etc.) would facilitate the development of commerce and supply of the rural population with consumption goods, in particular with first-necessity products.

In order to eliminate constraints regarding starting of trade activities, the Strategy stipulates the establishment of single-window booth to issue authorizations for the operation of traders, which will serve as a platform for the creation of trade information system. Such an information system will allow monitoring of the trade infrastructure development both at national and territorial levels (in the districts of the country).

Of particular importance is the bringing of all commercial operators (large businesses, SMEs, individual enterprises, patent holders etc.) into a fair economic activity framework, which will ensure activity transparency, exclusion of tax evasion and boosting competitiveness on the domestic market.

An important part of domestic trade modernization and efficiency aims the optimization and diversification of goods distribution and marketing system. The main focus in this regard requires the elimination of multiple intermediaries which do not add value to products or quality of trade services, but only contribute to price increase and slow down products circulation.

Due to the agricultural profile of the country, actions are needed to improve food products distribution channels. In this context, the Strategy focuses on direct delivery of products on the market by farmers. It is also appropriate to establish small farmers associations in order to sell products jointly and to create regional logistics and wholesale distribution centres for these products (regional wholesale markets), as well as to open centres for collecting surplus agricultural products from population through the renovation of co-operative businesses.

Next to the actions mentioned above it is necessary to assess the supply chain (number of operators in the chain, costs incurred, revenue obtained, including profit on each segment of the food chain) in order to detect unfair trade practices and to counteract them.

The Strategy also provides other actions for the efficient distribution and marketing of products, including:

- expansion of integrated distribution systems (for wholesale and retail trade);

- development of trade through retail centres of enterprises (supermarkets of domestic and foreign producers) that will help increase the safety of goods purchased by consumers, narrowing of product distribution value chain and, therefore, optimization of products' purchase prices;
- employment of modern forms of sales (catalogue-based sales, e-mail sales, TV sales, Internet sales, etc.) and improvement of trade technologies;
- growth of the number of large commercial units with high capacity of covering extensive areas of commercial attraction. These units, due to their nature, will move away the trade network from the consumer, but given the sale methods they can employ (selling at home, by order, TV sales, sales through electronic stores, etc.) these units will compensate the lack of small stores close to consumers, supplying products to consumption places;
- expansion of franchise-based sales;
- development of pure and joint e-commerce;
- creation of national and regional logistic centres for food products with the related infrastructure (warehouses, refrigeration chambers, transportation means) together with the creation of an adequate management, marketing, finance and information system, etc.

Wholesale trade plays an important role in the optimization and streamlining of the distribution process. This sector requires switching from a traditional wholesale trade format to a modern one, reflecting the diversity of wholesale distribution forms and co-operation with manufacturers and retailers, the choice of appropriate target-markets, the placement, and products range and price strategies, the extension of services offered to partners and customers. However, the transition is slowed due to the lack of appropriate legal regulations. In such a context we consider extremely necessary to develop the national normative base that would regulate principles, requirements, wholesale branch operational scope, and wholesale subjects and structures typology.

Implementation of these actions will contribute to the strengthening of domestic consumer market and to its integration into the European common market.

Speaking about human resources development and strengthening of human potential employed in trade activities, provision with qualified personnel of trade companies has become a serious problem. In particular, its absence can be felt in rural areas.

It is also necessary to implement legal provisions [5, Article 13] on mandatory initial training and certification of professional skills for employees from the trade sector, especially for those coming into contact with consumers and which are responsible for the safety of products marketed to the population. In this regard the following high-priority actions are required:

- elaboration of methodology regarding professional competences assessment and certification of the staff employed in trade, without special training (confirmed by education documents), and carrying out certification;
- creation of a sectorial committee for professional training of the employees working in the trade sector;
- development and validation of occupational standards for employees working in the trade sector;
- development of university-business environment partnerships regarding specialists training;
- establishment of trade employers association.

Human resources are the key factor for the efficient use of all trade resources and for business success. In this context the development of professional competences must become a continuing process, being stimulated by the employers.

6. Conclusions

Development of market mechanisms, liberalization of trade and promotion of reforms in domestic trade and in its associated areas have contributed to significant changes in the organization and deployment of trade activity in the country. In addition to benefits, those above also generate certain deficiencies and imbalances in the operation of domestic trade. Identification of problems faced by this sector of the national economy together with the corresponding solutions can ensure sustainable development of the domestic trade in the future.

Priorities, objectives and strategic actions set for the development of domestic trade, presented in this paper, inspire confidence that this area will experience considerable quantitative and qualitative changes in the following years and will contribute to country's integration into the European common market and into the international economic circuit, turning from a reactive to a proactive sector of the national economy.

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WITH REGARD TO MOLDOVA'S INTEGRATION OPTIONS: QUO VADIS AGRI-FOOD TRADE?

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Abstract

During the period 2010-2013 the Republic of Moldova launched a number of initiatives for the development of its trade policy in order to ensure a more facilitating legal framework for the implementation of economic and trade relations with key external partners. An agreement on the creation of a free trade area in the CIS was signed in this period. Similarly, the Republic of Moldova started negotiating the Association Agreement with the European Union, which was initialed in November last year and is part of the Deep and Comprehensive Free Trade Agreement (DCFTA). This article aims to assess the main effects of signing the Association Agreement for Moldovan agricultural sector while examining its reaction if Moldova would choose integration into Russian Federation, Belarus and Kazakhstan Customs Union.

Keywords: free trade agreement, export, import, agri-food trade, customs union.

JEL classification: F13, F15, Q17

1. Introduction

In the recent years the agricultural sector of the Republic of Moldova has become a real concern for public authorities responsible for policy development and sector monitoring as well as for entrepreneurs and population engaged in this sector. The negotiation, initialing and preparation for signing the Association Agreement have increased the concerns for this sector, particularly for the way in which it will meet the challenges of symmetric liberalization of foreign trade with European Union countries and Turkey. The significance of these measures is more important than trade relations facilitation because it aims at speeding up structural reforms and overcoming the transition stage of the national economy. At the same time, the Association Agreement is also important for the national economy as much responsibility is required on behalf of national authorities and the entire civil society for its proper implementation. Along with the intensification of the liberalization process many sectors of the economy will face a number of challenges to increase competitiveness and ensure resistance to foreign competition. One of the most threatened sectors, considered of special importance in the negotiations is agriculture, which continues to play an important role in the national economy.

2. Problem awareness stage

Given the subject of analysis of this study, it is important to understand the distinction between the Free Trade Agreement (FTA) and the Customs Union (CU).

The Free Trade Agreement is a preferential trade agreement representing one of the early forms of economic integration. It may involve two or more partners who are committed to eliminate tariff and mostly, non-tariff barriers in mutual trade whilst retaining its autonomy in the development of customs tariffs in the relations with third countries/non-members (WTO Glossary), as well as promoting other trade policy issues including participation in other forms of integration [3].

The Customs Union implies a higher level of integration compared to FTA. Besides the maximal elimination of tariff and non-tariff barriers to trade, participants to the agreement that usually are geographically adjacent countries shall adopt a common customs tariff reaching a consensus on the degree of protection of all sectors. Therefore, the negotiation and implementation of a CU involves increased efforts in terms of time, financial resources and political concessions. By adhering to CU, a state loses a large part of its autonomy to develop its trade policy [2].

3. Material and method

The objective of this study is to assess the main effects of signing the Association Agreement on the Moldovan agricultural sector while examining its reaction if the Republic of Moldova would have opted for integration into the Russian Federation, Belarus and Kazakhstan Customs Union. During the investigations the following study methods were used: a) statistical method, involving researching a larger number of observations and analysis of economic indicators growth rate; b) theoretical synthesis, formulation of judgments. The information was gathered from the following sources: World Bank, World Trade Organization UNCTAD, WITS and the National Bureau of Statistics of the Republic of Moldova.

4. Results and discussions

Compared to other countries in the region, the contribution of agricultural sector to GDP growth is significant. According to the National Bureau of Statistics, in 2011 the share of agricultural sector (added value) in GDP exceeded the level of 12%, foods and beverages industry constituted about 4.5 % of GDP and more than a quarter of the added value created by the industry. The value added in industry was lower than in the agricultural sector, about 11.4% of GDP.

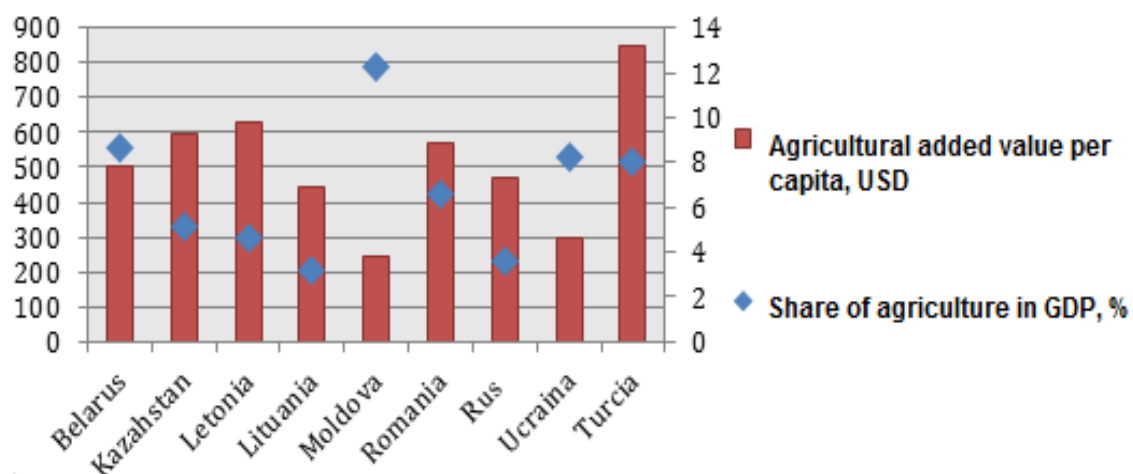


Figure 1: Share of agriculture in GDP and added value created in the sector per capita, 2011
Source: UNCTAD data.

The contribution of agriculture to GDP growth in the Republic of Moldova is significant, although it has been decreasing in recent years. Similarly, as also indicated by data in Figure 1, despite the high share in GDP compared to Central and Eastern European countries, the added value created in the sector reported per capita in the Republic of Moldova is much lower.

Given the still high share of agriculture in GDP, in the Republic of Moldova a moderate but positive correlation between the growth of added value in agriculture and GDP growth can be observed (Figure 2). In 2007-2012, the correlation coefficient between these two variables was 0.57.

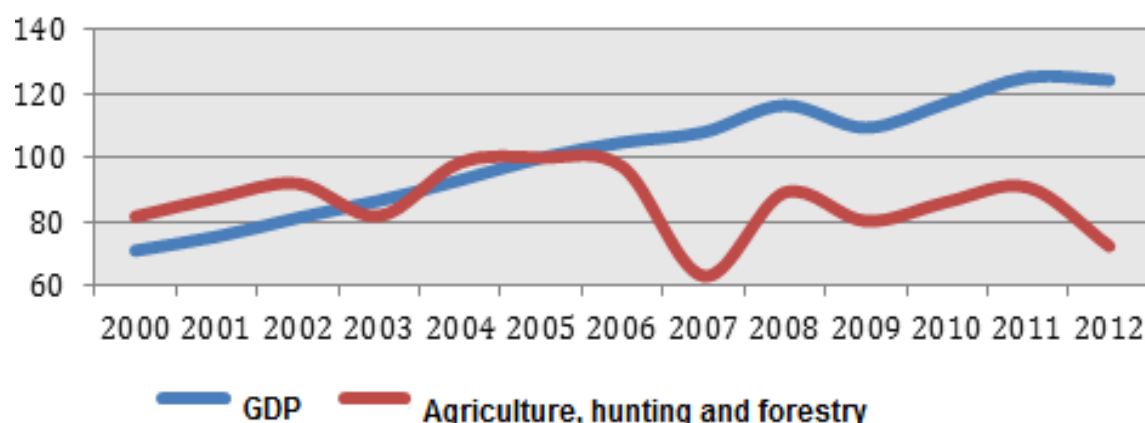


Figure 2: Evolution of added value in agriculture sector, 2005=100%

Source: According to the National Bureau of Statistics of the Republic of Moldova.

In order to assess the competitiveness of agri-food exports to Western market and Customs Union trading partners in the Eastern area, the index on concentration and diversity of products exported from the point of view of the number of product categories exported in a disaggregated way at the level of 4 digits according to the Harmonized System Classifier (HS) on both markets, including Turkey (Table 1), was calculated.

In 2012, 78.4% of total exports of agri-food products, corresponding to 688.9 million USD were exported to the Customs Union, European Union and Turkey. Separately, 37.9% of exports of this product category were delivered to the Customs Union market, 38.6% to the EU and 1.8% to Turkey.

Table 1: Number of products exported according to HS disaggregated at 4 digit level (2012)

	Customs Union	Belarus	Kazakhstan	Russia	Turkey	EU 27	Worldwide
Total number of products exported	121	121	121	121	121	121	121
Number of positions to the respective destination	71	37	36	62	15	76	121

Source: Author's calculations according to WITS data.

First of all, it should be mentioned that the value of exports is distributed more or less equally between East and West. At the same time, in the Customs Union consisting of three member countries approximately 71% of the agri-food products are going to the Russian Federation, and with regard to European Union, in 2012, half of the exports were delivered to three main markets - Romania, Italy and Poland.

Table 2 shows the results of calculating trade specialization index performed based on HS classifier disaggregated at 4 digit level using Bella Balassa's formula. The index is calculated by dividing a country's sectors share to total trade, on the one hand, and the share of world exports in the corresponding sectors in the worldwide total exports, on the other hand (International Trade Center).

According to RCA index, the number of tariff headings for which the country has a revealed comparative advantage in worldwide trade is very limited - 17 out of 121 categories exported by the Republic of Moldova and 196 by the countries worldwide in 2012. At the same time, these are products for which Moldovan exporters have a comparative advantage over all analyzed partners.

Table 2: Products in the trade of which the Republic of Moldova has a revealed positive comparative advantage worldwide and in relation to the partners from the Customs Union, European Union and Turkey (2012)

	Worldwide	Customs Union	Belarus	Kazakhstan	Russian Federation	EU 27	Turkey
1206	13.0	165.8	1747.0	212.9	148.2	82.7	50.7
2307	5.6	+	+	+	+	45.3	201.1
0802	5.2	1180.4	2197.6	1130.3	1142.9	129.0	5.7
1512	4.6	14.5	385.7	85.8	11.8	68.9	13.6
0809	3.6	2094.6	147.7	39983.2	215273.2	28.9	8.4
2204	2.7	10101.5	1826.8	145838.1	13185.6	15.8	1081.6
0808	2.7	291.2	20.8	23170.4	9602.9	24.8	60.0
0205	1.7	766.9	+	+	606.9	14.1	+
2001	1.7	78.2	7.2	1817.6	253.4	16.6	1.6
2208	1.4	75.7	37.5	1834.5	70.2	8.4	161.5
2009	1.4	210.5	222.1	1219.1	183.0	12.6	11.3
2206	1.3	435.2	55.2	+	762.1	9.4	814.1
2306	1.3	7.5	22.7	11.7	6.6	16.1	214.3
1703	1.1	7.7	10.6	18.9	6.8	20.0	2818.2
0806	1.1	1020.5	135.5	496.6	4232.9	16.6	1.5
2105	1.0	30.1	9.9	582.9	30.5	5.4	9.4
2005	1.0	71.2	30.4	1074.9	68.1	7.4	5.5

Source: Author's calculations according to WITS data.

Note: Those positions for which the comparative advantage of the Republic of Moldova compared to partners referred items mainly from the lack of exports of these countries as per respective tariff headings were marked with “+”.

Summarizing the main performance of agri-food products exports to these three destinations several general trends can be outlined.

The Customs Union is the traditional market available for the sale of more than a third of Moldovan exports of agri-food products and reduced imports from this destination allows to maintain a positive trade balance which value exceeded 200 million USD in 2010-2012. However, bilateral trade with these countries experienced a noticeable slowdown in recent years; the average annual growth in 2006-2012 placing it well below the overall average. Similarly, high geographic concentration determines a high volatility of exports to the Customs Union.

Currently, foreign trade between the Republic of Moldova and the European Union takes place within an asymmetric preferential trade regime, meaning “0” tariff for agri-food products exported to these destinations, with some exceptions:

- Products of animal origins, cereals, white sugar and grape wine are allowed to be exported within the established tariff quotas;
- Fruits and vegetables exempted of VAT payment at import. At the same time, many of these products are subject to a minimal price of entry at import [4].

Several previous studies indicate that even in these conditions local exporters cannot fully benefit from the existing preferential regime. The biggest constraint in this regard is their low capacity to adjust to European quality standards. Although there are many years since the Republic of Moldova started upgrading its quality infrastructure this process is still costly and time consuming.

Including the above reason, the agri-food industry has been given a special role in negotiating the agreement, regarding import both in the Republic of Moldova and in the EU.

Although competitive pressure is expected to bring benefits to local consumers, this might also influence their income levels given a high level of population employment in agriculture. Removal of any protection tools for this sector without increasing its immunity could cause higher unemployment and relatively low qualifications as well as reduced training of workers could create problems in their re-orientation toward other sectors.

As an alternative to creating a DCFTA with the European Union we considered appropriate the assessment of the effects that could be generated by the accession of the Republic of Moldova to Russia, Kazakhstan and Belarus Customs Union. Even now this issue is one that causes many discussions.

Unlike commercial relations with Western partners, the preferential trade regime with the member countries of the Customs Union is symmetrical, implying free access to mutual markets. In this context, according to the existing empirical evidence it is unlikely that the adherence of the Republic of Moldova to this structure could create new trade flows in the mutual trade - a term defined in the literature as trade creation effect.

About 38% of agri-food products, traded outside the Republic of Moldova, are exported to the Customs Union market [6]. This is an exclusive market for the sale of several plant and meat products. And joining the Customs Union involving immediate abolition of controls at the internal borders could contribute to the facilitation of trade for these product categories. Similarly, elimination of export duties of the member countries for various fuels, especially for the Russian natural gas, could reduce costs for farmers.

However, if the Republic of Moldova accedes to the Customs Union certain costs resulting from this process should be taken into account.

1. First of all, considering that joining the Customs Union would mean a common customs tariff and trade regime, CU membership is incompatible with DCFTA, which the Republic of Moldova intends to sign with the European Union. Similarly, it could most likely have the effect of non-renewal of autonomous trade preferences granted by CU markets, which would significantly affect exports of agricultural products on the Western market. In this way, if currently, with certain exceptions, within the autonomous trade preferences the exports of agri-food products enjoy free access to the EU market then the cancelation of trade preferences would mean imposing on Moldovan products entering the EU market an average tariff of about 13.2 %.

2. Exports of agri-food products to CU reflect a high degree of geographical concentration, thus increasing the volatility of exports and sector activity to various external shocks. And as shown by

2006 experience, such shocks can sometimes have fatal consequences on some sub-sectors of agriculture and food industry.

3. Reduction of productivity in the sector, as a result of increased customs tariffs for industrial products, including capital imported from third countries so necessary for the technical endowment of the sector.

5. Conclusions

The dilemma between East and West for the Republic of Moldova is a topic that has seen many debates in recent years. Currently, the Republic of Moldova is on the eve of signing a Deep and Comprehensive Free Trade Agreement with the European Union that will put on an equal footing two important economic partners, being able to exploit the opportunities offered by the preferential trade arrangements and close cooperation with both.

At the same time, we have addressed this issue in the context of agri-food sector development prospects, considering it as still an important one, or neglecting it could have adverse effects on the sector if potential risks are not acknowledged.

Agriculture is one of the sectors that still provide a major contribution to the growth of the national economy. At the same time, in recent years, its evolution indicates a relatively high volatility, which also caused large oscillations in economic growth rates.

For this reason, but also due to the importance of this sector to ensure development of rural areas and country's food security, agricultural development must have a special place in the economic policy of the state.

Regeneration of the sector and increase of its competitiveness abroad requires some radical measures that would produce changes in its structure. Signing the Association Agreement with the EU could serve as an instrument to stimulate this process, but the DCFTA establishment will present some challenges for the sector, which should be properly addressed, for not turning them into risks.

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PROSPECTS FOR DEVELOPMENT OF DOMESTIC TRADE IN UKRAINE

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Abstract

It's necessary to mention that several factors have played an important role in the past 30 years in the expansion of internal and world trade, including emerging trade and development opportunities and challenges for all countries, in particular, developing countries, in the context of the growing integration of economies, national markets, rapid globalization, liberalization of tariffs, and other barriers to trade, foreign direct investment, increasing contribution of trade to development.

The given study is disclosing the theoretical and methodological aspects of the impact of globalization processes on the nature of the development and dynamics of domestic trade. The relevance of this problem is determined by the lack of fundamental research in this area. It is determining scientifically the directions and trends of the globalization impact on the system of internal trade.

Keywords: economic globalization, domestic trade, import, investment, trading capital.

JEL classification: F02, F18

1. Introduction

Globalization is a multifaceted and scale phenomenon, the essence of which is that as a result of a wide exchange of goods, services, financial resources, technology and information world becomes more interconnected.

Despite of the scale, high dynamics of the globalization processes and the noble goals of their impact on the socio-economic development of many countries, it is impossible to assess it ambiguously and positively. The famous American explorer of corporate globalization David K. Korten sees injustice of the phenomenon purpose "...in excessive concentration of foreign resources' control and growing materialization of human relations" [3, p.2].

Nobel laureate Joseph Stiglitz directly warns that if globalization will continue in the same spirit, it "will not only contribute to the development, but will continue to create poverty and instability" [4 p.18].

Ukrainian researchers of globalization also argue that globalization "...has not been able to prove in practice one of its main advantages - the alignment of economic growth and income of countries" [2, p.123].

The modern world has become even more skewed. Asymmetry and the gap in the rate of development of countries with different levels of the economy have actualized the issue of future models of globalization. Nowadays we can say clearly that globalization processes are aimed at mainstream regionalization. In different regions of the world there are economic, financial, customs associations and unions, free trade zone. In fact new regional integration associations are

being established around such centers as the U.S.A, EU, Russia and Japan. At the same time Ukraine is in the center of gravity of two centers - the EU and the Russian Federation. The largest integrator is definitely considered the EU, which unites 28 countries, and also agreements on free trade zones have been concluded with 30 countries from different continents. Negotiations are being carried out with other 18 countries, including the U.S.A, Japan and Canada. Ukraine, as we know, is continuing the negotiations with EU on the creation of a free trade zone (FTZ) within the Treaty of the EU Association.

The Russian Federation also generates FTZ and, moreover, “the customs union” with such members as Belarus, Armenia, Kazakhstan and Russia.

Both the Western and Eastern vectors aim at political and economic integration with a focus on the expansion of trade and economic relations. As it can be seen, trade and international exchange constitute the main integration platform at the early stages. Therefore it is very important to analyze the development of domestic trade in the context of globalization and to simulate the effects of its integration.

2. The impact of globalization processes on domestic trade development

Note that the trade sector in Ukraine occupies a special place in the national economy. It provides commodity-money exchange in the form of sale for an amount that exceeds 1.8 trillion of UAH per year, 75-80% of the material meets the needs of the population, involving huge turnover of commodity resources. Trade generates 14-15 % of GDP, providing employment not less than 25% of the country's labor force.

Therefore commerce refers to the vital areas of the national economy (Figure 1).

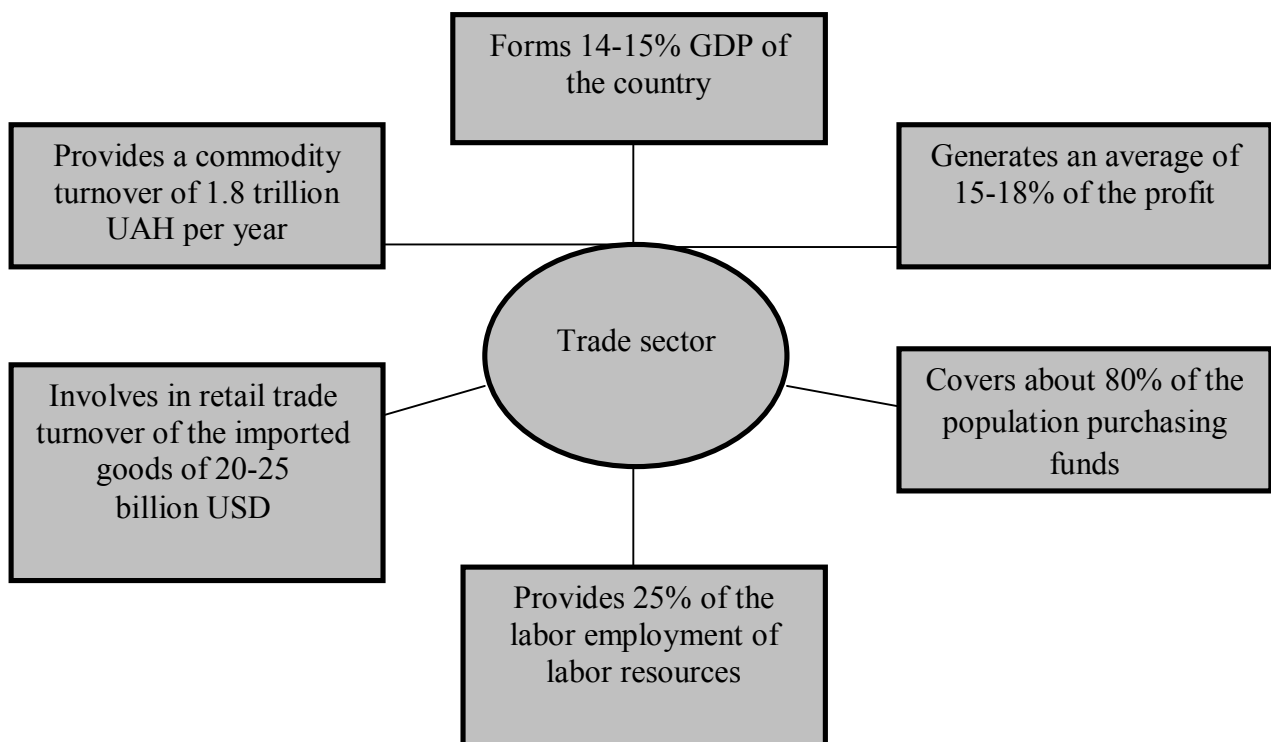


Figure 1: Trading venue in the socio-economic development of country

The venue of trade in the national economy, its resource potential and impact on socio- economic development of the country impose the need for a deep understanding of the processes of globalization and their consequences for the sphere of commodity circulation.

Theoretical analysis and the experience of many countries show that economic globalization is characterized by the free movement of goods, services and cultural values, technologies across administrative boundaries and active influence on some sectors and trading systems (Figure 2).

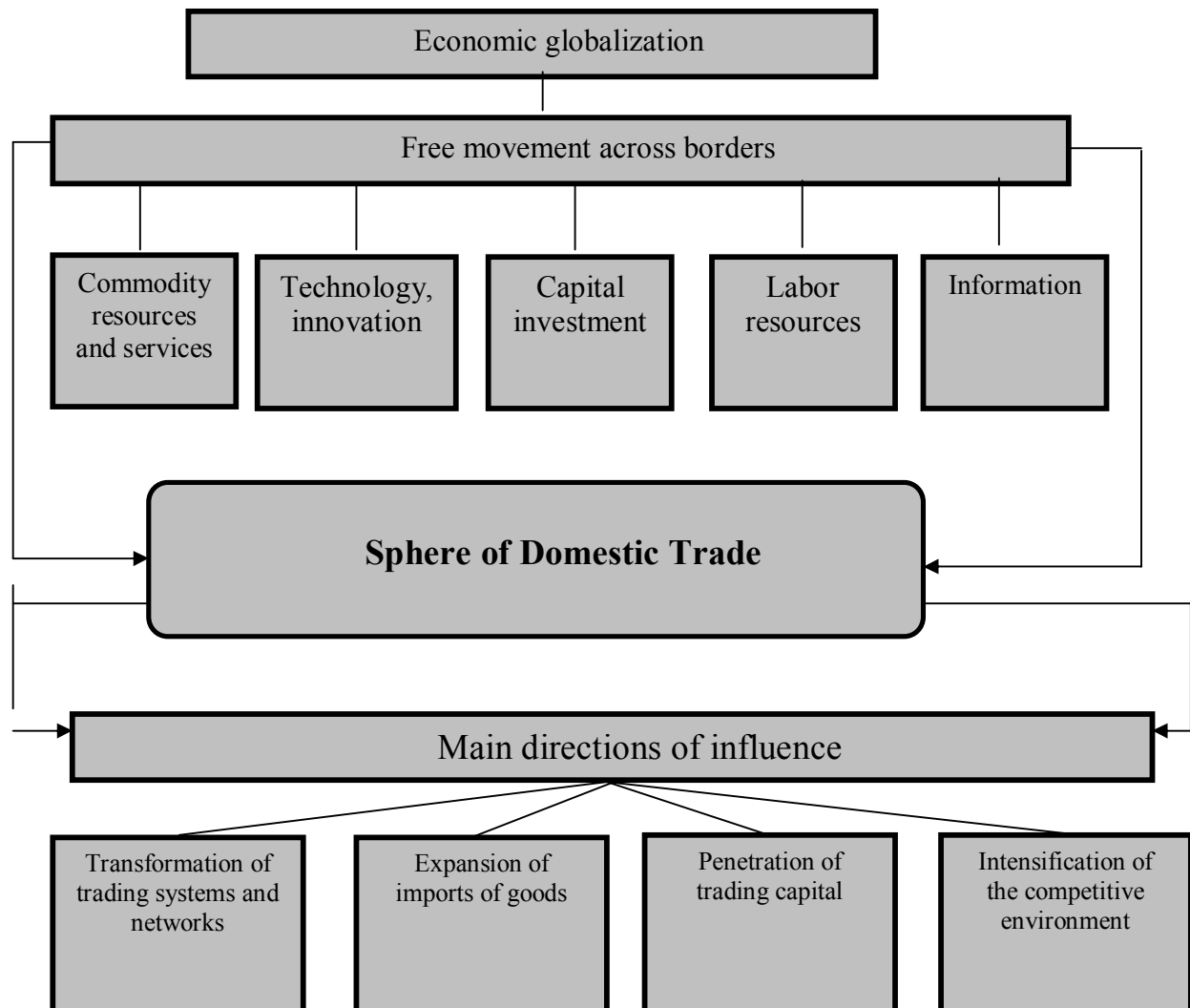


Figure 2: Main directions of the impact of economic globalization on domestic trade

As Figure 2 shows, processes of globalization get into the sphere of commodity circulation, mainly on four areas: organizational forms, goods' import, investment, competition. Let consider in detail the indicated directions.

Organizational direction is characterized by the creation of new types and formats of stores, which appear due to the concentration of trade - large-trading enterprises - department stores, malls, supermarkets, hypermarkets, superstores. In recent years, such formats began to replace medium and small shops and now occupy a significant share in the turnover (Table 1).

As it is shown by data of Table 1 quantitatively the large-scale enterprises account for only 4.2% of retail trade units. At the same time they are quite powerful for retail space - about half the total area of retail and 45% of turnover. A deeper analysis shows that at least 60% of retail trade foodstuffs' turnover is concentrated in large enterprises.

Table 1: Development of large-format stores in the retail trade of Ukraine (2012)

	Number of units		Trade area		Turnover	
	units	%	thousand m ²	%	million UAH	%
Total stores	47234	100	9294	100	392555	100
Supermarkets	1565	3.3	1475	15.8	81258	20.7
Hypermarkets	261	0.5	1438	15.4	56135	14.3
Department Stores	65	0.1	103	1.1	3140	0.8
Shopping centers	126	0.3	1577	16.9	35448	8.8
Total large-format stores	2017	4.2	4543	49.2	175981	44.6

It should be emphasized that the large trading units have several advantages in economic, technological and organizational nature, which explains their rapid development. They acquire the organizational form of networks of large-format retailing enterprises.

Network of such enterprises are corporate in nature and belong to large commercial and industrial groups, companies such as: “Cocktail”, “Selpo” (Fozzi Group), “Maxi”, “Tiki-market”, “Sper”, “Billa”, “Metro Cash & Carry”, “Arsen” (“Intermarket”), “Eldorado”, “Foxtrot”, “Epicenter” and others.

Currently there are two main groups of retailers, the first group - the ones that get into Ukraine through partners (franchiser), the second group - those who have their own parent company (which practically are companies from Russia – “Sportmaster”, O'stin, Incity, Gloria Jeans, Centro; from Poland - company LPP, Italy Collezione and Turkey - LC Waikiki). At the same time it should be noted that the Ukrainian market is 90% franchised.

It is also continuing the competitive struggle among the companies on the market of household goods and appliances. So, in 2012 the company “Technopolis” swallowed network of home appliances and electronics “Eldorado” while increasing the number of stores to 165 units (the second place on the market). Network of mobile phones sale “Hello” also bought its rival – “Mobilochka”, which increased the number of companies selling this type of product to 900 units (compared with Ringoo, which has just 312 booths).

The main directions of expansion of Western retailers are those segments where there are no large operators who would occupy a large market share: it is retail trade of food, household goods, and clothing. There were attempts to enter the consumer electronics market, which is divided between the four major domestic networks, as well as in pharmaceutical business, where the large Ukrainian network is booming, but it failed.

Another important direction of advance of economic globalization in the field of domestic trade is the uncontrolled growth of goods' import. In recent years, the dynamics of imports significantly accelerated. If in 2005 the volume of imports of goods accounted for 36 billion dollars, in 2012 has already reached 85 billion. According to our estimates consumer goods constitute at least 40% of this volume. Accordingly, every year for domestically produced goods there is decrease in the turnover, and for some types of goods - to a critical level (Table 2).

The data of Table 2 confirm decreasing of the share of domestically produced goods. Especially alarming is the situation in the field of trade with nonfood products, where import reached 60% and continues to grow. A similar situation is observed in the wholesale trade. Essentially uncritical import replaced entire group of products.

Table 2: The share of domestically produced goods in the retail trade turnover of Ukraine (%)

	Years				
	2000	2005	2010	2011	2012
All Products	75.3	70.5	64.3	61.9	58.9
<i>Food:</i>	93.2	40.9	88.2	87.2	86.3
- fish and fish products	77.3	80.6	70.4	68.8	66.0
- pasta	96.1	88.8	79.8	79.3	75.5
- vegetables	97.1	40.5	90.6	86.6	77.7
- fruits, berries, grapes	85.8	80.8	81.4	80.6	77.0
- canned fruit	88.4	82.9	64.7	61.1	56.3
<i>Nonfood products:</i>	58.7	57.6	50.1	47.2	41.9
- shoes	40.9	9.3	4.2	3.6	2.8
- clothing	45.2	26.4	13.7	12.7	10.9
- watch	11.8	6.2	3.6	3.8	2.9
- computer equipment	9.5	22.5	6.1	3.0	1.2
- electrical household appliances	20.9	8.1	11.4	11.0	10.7
- household goods	64.0	61.2	29.0	28.0	29.2
- vehicles	22.6	20.2	17.4	13.1	11.8

These data show a significant decline in production of domestic goods. As a result, the share of domestic goods on the domestic market declined significantly and reached a critical level in accordance with the standards of national economic security. Thus, according to our calculations taking into consideration non-organized (informal) market, the share of domestic food products decreased to 70%, while the share of domestic nonfood products constitutes only 30 - 35%.

Thus, in terms of commodity-resource supply dependence on imports, the national consumer goods market is in a critical area of security.

It is important to note that the import aspect of the internationalization of trade has a positive aspect, which consists in the supply of consumer goods, the expansion and updating of assortment, accessibility to consumer goods.

Along with the expansion of imports another trend of globalization is observed - a large-scale penetration of foreign commercial capital in the sphere of commodity circulation, primarily for investment purposes.

Investment attractiveness of the domestic consumer market of Ukraine is stimulated by the following factors:

- high capacity of the consumer market and its stable growth and development in the last decade;
- short payback period of investments in the trade;
- inaccessibility of trading business for long-term bank loans in Ukraine and excessively high rates for the loan;
- high asset turnover in trade;
- increasing dependence of trade from loan capital.

Direct foreign investment in domestic trade is characterized by stable positive dynamics (Figure 3).

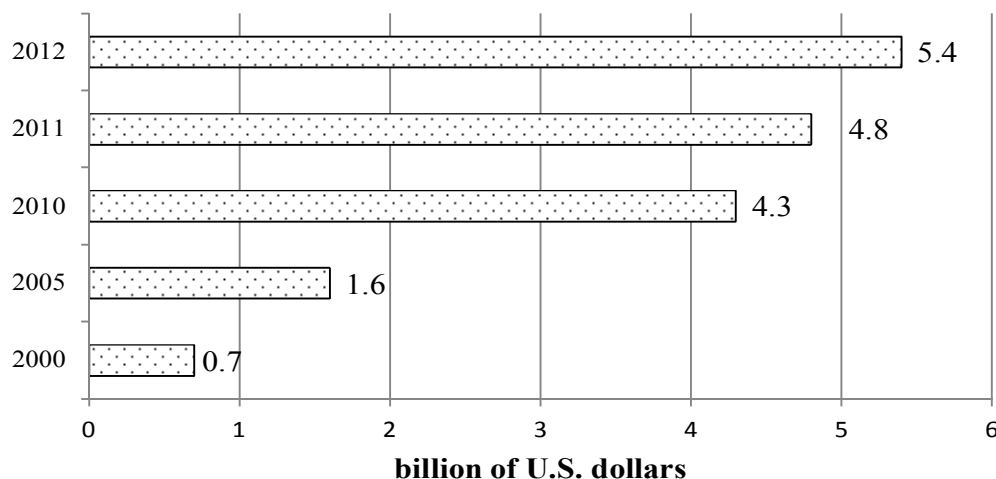


Figure 3: Foreign direct investment in trade

As you can see in Figure 3, the volume of foreign investment increased by 7.5 times in 2000-2012 and reached more than \$ 5.4 billion in 2012. The scale of foreign investment trade is second among all types of economic activity, while conceding only processing industry.

Note that the rate of investment in trade is very high. Thus, in 2000 - 2012 investment in fixed assets increased from 30 billion USD to 260 billion USD (8.7 times) and in the field of trade - from 1.3 billion USD to 17 billion USD, by 13 times.

Such investment activity leads to accelerated development of all sectors of domestic trade. It should be noted that domestic and foreign investments have a different orientation.

Domestic investment funds are directed mainly to the development of motor vehicles, other vehicles, as well as in retail trade (52.7%). Structure of foreign investment is diametrically opposed. Their investment in retail trade does not exceed 9.5%, which indicates the growing interest of foreign investors at present time and the most important sector in perspective - wholesale.

In general, the accelerated increase of investment in fixed assets in the domestic trade of Ukraine has a number of positive effects:

- qualitatively updated fixed assets in all sectors of commerce;
- technological advances and a deep modernization of the branch;
- increasing of the competitiveness of trade units;
- instituting modern system of trading service based on high quality, culture and effectiveness.

However, there is fundamentally new phenomenon in the national economy - foreign direct investment creates favorable conditions for intensive development of foreign actors in the commodity markets of Ukraine. And this process will become widespread.

An accelerated pace increases the number of new foreign trade entities that displace domestic commercial business from the domestic consumer market. Only for 2005-2012 the number of units

in the organized retail sector in Ukraine has decreased by nearly 20%, which means that at least 10 thousand of stores ceased their activities.

Thus, globalization is a process not only poorly studied theoretically and tangled in practical terms. It cannot be taken as a purely adaptive process.

3. Conclusions

Economic globalization affects domestic trade in the following main areas: organizational restructuring, the expansion of goods' import, the penetration of commercial capital and the intensification of competition. Socio-economic consequences of globalization cannot be assessed ambiguously. They have both positive and negative aspects, while in the strategic plan the last prevails.

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THE ROLE OF BRANDING IN THE SUSTAINABLE DEVELOPMENT OF TOURIST DESTINATION

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Abstract

The given paper is dedicated to the determination of the theoretical aspects of the destination branding as a driving force behind the development of tourism industry at a particular destination. The notion of the term “tourist destination” is considered by authors. It is proved that the implementation of tourist facilities traditionally result in an increasing interest of a tourist destination. Considerable attention is given to the analysis of the role of branding in the development of any geographical location. It is suggested by authors that nowadays many tourists traditionally choose a particular destination according to the total amount of the existing attractions it has to offer. By the way, it is defined that a strong, unique image is the essence of destination positioning for its ability to distinguish a particular tourist destination from competitors to get into the consumers’ minds, which simplify information continuously. The results confirm that branding allows destinations to show the main strengths, as well as to send clear messages to the potential consumers and to attract the investors in the tourism industry. Finally, it is noted that branding plays an important role in the development of tourist destinations, because the power of it is in making people aware of the particular destination and then linking desirable associations.

Keywords: brand, destination branding, destination choice, nation brand hexagon, tourism destination.

JEL classification: M20, L83

1. Introduction

In the light of recent global developments tourism has become one of the largest and fastest-growing industries all over the world, having an outstanding place in most of national economies. According to the recent annual report, prepared by the World Travel and Tourism Council [15, p. 3], in 2014 tourism’s total contribution to the world economy rose to 9.5 % of global Gross Domestic Product (US \$7 trillion), growing faster than financial, real estate and business services, transport and other significant economic sectors.

It is not surprising that in today’s rapidly changing business environment tourism destinations from all over the world compete with each other for the attention, respect and trust of the visitors, potential investors and residents. In this case a positive brand provides a sustainable competitive advantage of the destination in the international area.

Consequently, it is more important than ever for tourist destinations to stand out and appear unique, to provide the necessary travel and accommodation information to tourists and to promote the developed brand image worldwide.

Over the past few decades destination branding is an important topic that has gained substantial attention among government officials, researchers, academicians and practitioners all over the world. We identified that destination branding is often considered by researchers in the context of its comparison with so-called “corporate branding”, an effective tool for companies to strengthen their market positions and identify opportunities for growth, as well as to gain or maintain the competitive advantages. Practically, most companies and destinations are similar and learn from each other to create brands looking for sustainable development and prosperity.

Based on research findings, it should be mentioned that contemporary literature gives more and more examples of how such a process should be constructed, but there’s still no clear concept. That is why the given study will take a fresh look at the determination of the role of branding in the sustainable development of tourist destination.

2. The notion of the term “tourist destination”

Nowadays most tourism activities take place at a specific destination, which is quite logical, because destinations are places that attract visitors for a temporary stay, and range from continents to countries, to states and provinces, to cities, to villages, to specifically built resort areas [11, p. 11].

Destination can be considered as a set of all products, services and experiences that are all branded together under the name of a particular destination [5, p. 1]. The key elements of any tourist destination are as follows [5, p. 2]:

- attractions (natural, man-made, artificial, purpose built, heritage, special events);
- accessibility (entire transportation system comprising of routes, terminals and vehicles);
- amenities (accommodation and catering facilities, retailing and other tourist services);
- activities (all activities available to the tourists and residents at the destination);
- ancillary services (banks, telecommunications, post and other services, used by tourists).

The term “tourist destination” is used by the United Nation World Tourism Organization (UNWTO) to signify “a local tourism destination is a physical space in which a visitor spends at least one overnight. It includes tourism products such as support services and attractions, and tourist resources within one day’s return travel time. It has physical and administrative boundaries defining its management, and images and perceptions defining its market competitiveness” [6].

Obviously, the above considerations can be summarized into the following certain criteria, which would have to be met in order for a tourist destination, to be eligible for sustainable development. We can safely assume that the first one is a certain geographical place with the physical boundaries where people live in an organized fashion for a long period of time and which demonstrates clear signs of social formation in the form of houses where people live and spend their free time. The second one is an administrative unit, which has not only clearly defined boundaries, but a properly constituted community authority, as well as the own budget and the power to make important decisions regarding the management of this destination.

In general, almost each country claims a unique culture, amazing landscape and heritage, each place describes itself as having the friendliest people and high standard of customer services and facilities are now expected. As a result, the need for destination to create a unique identity for differentiating from competitors has become very important.

3. The importance of branding in the development of a tourism destination

“Almost every place on the Earth gets the image it deserves”, once said Simon Anholt [2, p. 35], recognized as one of the world’s authority on the branding of countries, regions and cities. This philosophy can be considered within a global environment, which is linked economically and geographically through accessible communication technologies. It goes without saying that every inhabited place on our planet has a certain reputation, just as products or companies have their own brand images. Actually, the brand images of products and companies may be carefully created through various advertising and marketing tools, while the reputation of tourist destinations tends to come about in a more unpredictable way.

At the same time a destination brand appeals to the main characteristics of a place that is attractive to visit by tourists. It is important to keep in mind that a destination brand needs to communicate its “sense of place” and create a strong emotional connection with its audience. Furthermore, it is similar as telling a story that provides an insight into the destination, its history, people and the way it views the world and how it relates to its environment. It is really about branding the place to life and making it relevant to people today.

Considering this fact, in 1996 Simon Anholt coined the expression “nation branding”, which is a concept involving a combination of the promotion of tourism, investment, and trade, plus public and cultural diplomacy. Countries that want to succeed in this era of globalization must have coordinated brand strategies in the following areas of national competence (Figure 1).

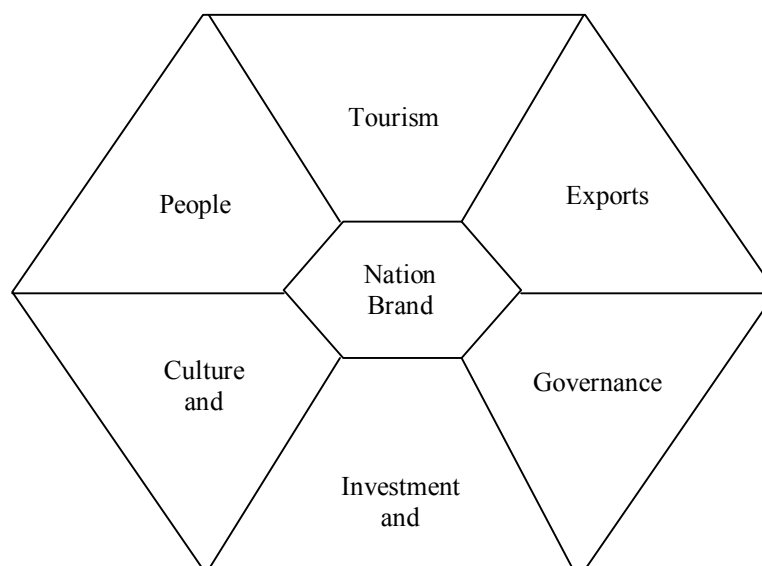


Figure 1: Anholt’s Nation brand hexagon

Source: [3].

On the basis of the given model it should be mentioned that every country has its own brand strengths and weaknesses, so there is a different “winner” for each point of the given hexagon. The overall “Top nation brand” is the one with the highest marks across all the important dimensions of the hexagon:

- exports typically refer to the country-of-origin effect, which determines the public image of products and services of a country, and whether consumers are actively looking for or avoiding products from a certain country;
- governance refers to the measurement of public opinion on the degree of national

government competency and fairness, as well as the perception of its commitment with the wide range of global issues (peace, democracy, justice, poverty and environment and so on);

- culture and heritage encompass the perception of each nation's cultural and historical heritage as well as the appreciation for its contemporary culture, including art, cinema, music, literature and sports;
- people – the dimension, which is assessing the population of a country's reputation in terms of competence, education, openness, friendliness, among other qualities, but also its potential hospitality and tolerance;
- tourism reveals the appeal of a country as a tourist destination and its wealth in natural resources and tourist attractions;
- investment and immigration is a statement of a country's economic and social situation and is measured by the ability of a given country to attract residents, workers, students and potential investors [12, p. 2; 9, p. 3; 4, p. 231].

In addition, it is the most cited model of how a nation image is created, because it is essential for each country to understand how it is seen by people all over the world, how its main achievements and failures, assets and liabilities, residents and products are reflected in the complex brand image. Practically, the concept of nation branding, proposed by Simon Anholt, gave birth to an important field of destination branding research, which will be discussed further.

The term “destination branding” is recognized as the most commonly used in the contemporary tourism literature to describe the method of creating a unique identity for a particular destination that enables potential visitors to differentiate one destination from another [8, p. 29]. It is self-evident that branding allows destinations to show the main strengths, to send clear message to the target consumers and to attract the potential investors in the tourism industry.

We identified that destination branding is the set of marketing activities that are able to:

- support the creation of a name, symbol or logo, necessary for the identification of a tourist destination;
- convey the expectation of a memorable travel experience that is uniquely associated with the destination;
- consolidate and reinforce the emotional connection between the visitor and the tourist destination;
- and, finally, reduce consumer search costs and perceived risk [10, p. 4].

It could be argued that a combination of the above-mentioned activities allows everyone, interested in pursuing the research, to create a positive destination image, which can greatly influence the consumers' destination choice. Consequently, destination branding influences not only the selection process but also future tourist behaviors such as the intention to revisit the destination and to spread positive word of mouth.

The existing relationships between decision-making processes, perceptions, tourist destination identity and the creation and maintenance of brands are shown in Figure 2.

According to the given model, tourist branding is not conceived as the way to manage a particular geographical location; rather, it is seen as an effective tool for the building of a stable and positive image [7], intended to improve the perceptions held by numerous social groups. It should be understood that branding cannot change a city or a country, but it can help to increase its competitiveness.

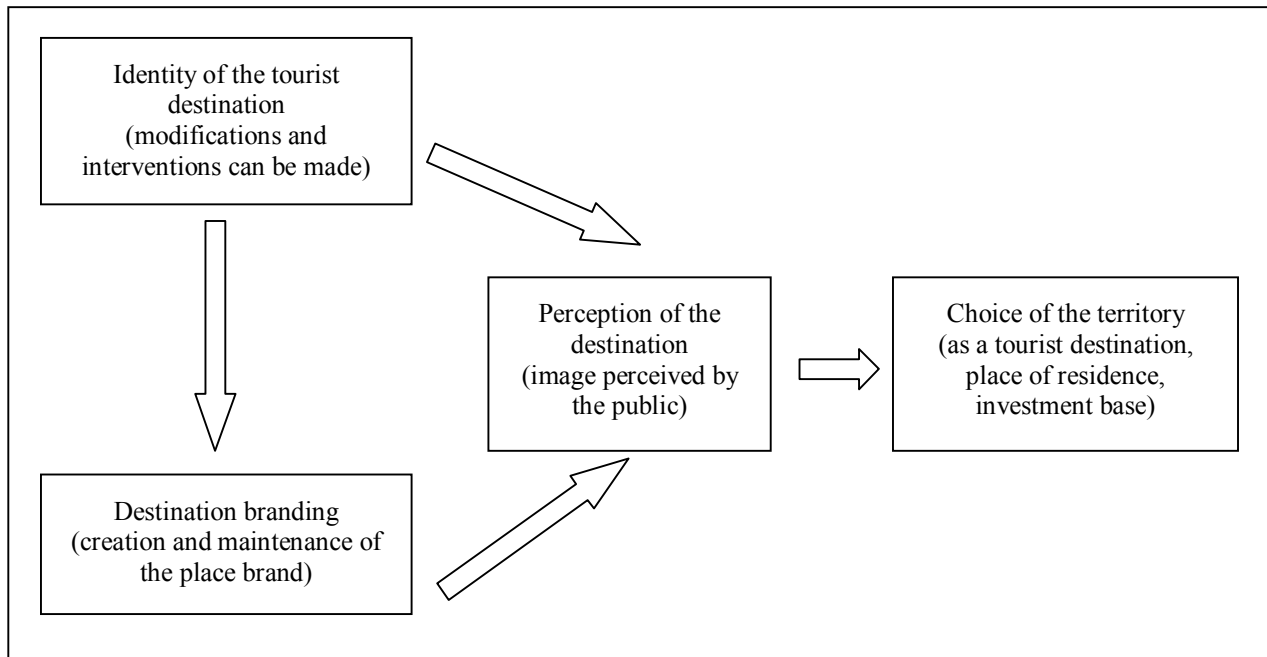


Figure 2: The branding process of a tourist destination

Source: [7].

Moreover, the purpose of tourist branding is not to transform territories, but to convey them in the most efficient manner in order to increase their appeal investment attractiveness; to improve their competitive position on the global tourism market.

Nowadays, destination branding has become one of the most exciting and entertaining aspects of the modern tourism industry. The destination brand must therefore work to unite and inspire the people. That is why governments of the developed and the developing countries all over the world are investing billions of national revenues each year into establishing destination brand appeal.

With the global tourism industry becoming more and more competitive, crowded and creative, destination brands often act as the “VOICE” of the nation:

“V” (Vision) – a powerful destination brand reflects the spirit of the residents of a particular tourist destination. It expresses the energy and bright personality of the destination, forming its natural, cultural and economic destiny. Tourist destinations with a rich history, centuries-old culture and traditions can showcase and celebrate these features as pillars of the brand’s positioning and personality which inspire the future of the destination.

“O” (Originality) – the brand must display a unique, authentic, compelling story about its destination. The creative expression of the brand acts as a mirror of the creative spirit of the tourist destination itself.

“I” (Icons) – almost every tourist destination has its own highly memorable and inspiring symbols, which reflect the energy, possibility and pride of the nation.

“C” (Competitiveness) – a destination brand must be able to grab and hold the attention and interest of travelers very quickly.

“E” (Experiential) – a destination brand should contribute the emotional connection with each traveler [14].

It is worthwhile to mention that destination brands communicating with a clear “voice” open themselves up to a world of possibility in growth, development and appreciation.

Actually, the idea of transforming a tourist destination into an identified brand increases fast in recent years due to the following reasons.

First of all, destination branding will be able to help tourist destinations to form a long term developing structure based on the destination's characteristics, and how they can reach their aims.

Secondly, destination branding encourages places to think beyond their current situation and brings future opportunities to the geographical locations. It is an integral part of a sustainable and continuous process of wealth-creation of the particular destination. Tourism branding usually brings opportunities for developing countries with an effective brand image, inward investments etc.

Finally, tourism branding means to encourage destinations to create a dynamic environment which will attract not only new visitors, but domestic and overseas investors. Through communication, a tourist destination can create a distinctive image and value to attract potential customers.

According to the last research of the essence of the nation brands, published by Simon Anholt, most people and corporations don't have enough time to learn much about other destinations in the global world. We usually navigate through the complexity of the modern world armed with a few simple clichés, and they form the background of our opinions, even if we aren't fully aware of this and don't always admit it to ourselves [1, p. 6]. For example, Paris is about style; Switzerland is about watches of a high quality, Japan is about technology; Brazil is about football and a bright carnival; most African nations are, unfortunately, about poverty and disease. When you haven't got time to read a book, you judge it by its cover. Like these readers, most of people all over the world are too busy worrying about themselves and their own countries to spend too long trying to form complete, balanced, and informed views about six billion other people and another two hundred countries.

As a matter of fact, all responsible governments, on behalf of their people, their institutions, and their corporations, need to measure and monitor the world's perception of their nation and to develop a strategy for managing it successfully [1, p. 6]. It is an integral part of their job to try to earn an impeccable reputation; true; powerful; attractive and useful to their economic, political, and social goals; and honestly reflective of the spirit, the beliefs and the will of the people.

4. Conclusions

Through this research we have come to certain conclusions.

While most people all over the world think of tourism as simply a leisure activity, the tourism industry in the modern world is actually an important business sector of the global economy. Considering the increasing competition in the tourism industry, the governments realize that destination branding has become an effective tool to differentiate their countries and gain competitive advantages by improving their image as a developed tourism destination.

In the context of the current global economic environment, tourism destinations are in a permanent territorial competition. Since many destinations offer the similar product (geographical location, infrastructure and education system), they must identify and promote their competitive (and/or unique) advantages that they held, in order to compete successfully for the necessary amount of investments, tourism, political power and so on.

A tourist destination with a positive brand emphasizes the following elements: unique nature, scenic landscapes, favorable weather, relaxing ambiance, accessibility, infrastructure (all these elements form "the artistic image"), and also historical traces, art monuments, regional culture (customs and traditions, specific events), tourism reception facilities (hotels, motels, restaurants, bars and similar infrastructure), regional gastronomy (the elements, which form "the psychological

image”). By the way, an effective brand stimulates the regional economy (through own products and services that are offered and consumed) and may contribute to the sustainable development of the whole region [13, p. 142].

Nowadays, destination branding has a significant importance, because there is a need for a particular destination (a region, country, city, etc.) to be positioned in consumers’ and stakeholders’ awareness. In this case, the power of branding is in making people aware of the particular destination and then linking desirable associations. Increasing mobility of both people and businesses and growth in the tourism industry has contributed to the rise of place marketing.

Tourist destination marketing can be a powerful strategy, complementing the efforts of the authorities to promote the natural attractions of a region. Ideally, destination brand marketing closes the gap between what an area really is (“destination’s identity”), what people think about it (“destination’s image”) and how the location wants to be known in the global world (“destination’s brand” or desired reputation). To achieve this, it is necessary to communicate and promote the tourist destination’s particular attraction and competitive advantages.

Coming to the conclusion, it should be mentioned that each destination must find a balance between its own identity, image and the desired reputation, as well as its existing brand. If these above-mentioned items are found, the brand of a specific tourist destination may be the common denominator between the wide range of the key elements (economy, infrastructure, education and culture) and participants (residents, entrepreneurs, governments etc.) that sum up the destination.

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PROMOTION OF CORPORATE SOCIAL RESPONSIBILITY OF FOOD MANUFACTURERS IN THE EMERGING NATIONAL AGRICULTURAL MARKET

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Abstract

Are you a business owner or a senior manager? Is your business directed toward a healthy and long-term development? Are you worried about company's reputation? Are you oriented towards the increase of investment attractiveness? Are you interested in a mutually beneficial partnership with government and society? If so, then Social Responsibility should be a binding attribute of your Business.

This paper will describe the most important components, dimensions, aspects, elements gathering Corporate Social Responsibility (CSR) definitions. At the same time it's very important to generalize experience and practices of enterprises, firms, companies which carry out many activities in terms of social responsibility in different fields of the economy from industrial developed countries of European Union. Such European experience accumulated in the sphere of business approach to Corporate Social Responsibility is very useful for the economy of Republic of Moldova, being in transnational period and moving towards a Free Market economy. We aim to determine how to promote Corporate Social Responsibility among food manufactures within the emerging National Agricultural market, taking into consideration factors which allow the formation of social responsibility on owners, stakeholders groups, and employees.

Keywords: *Corporate Social Responsibility, environmental management, voluntarily contribution, sustainable economic development, improvement of the quality of life.*

JEL classification: A13, M14

1. Preface

Brief overview of the essence of CSR and its role in the economic and social development in industrialized countries, some considerations regarding the current development of CSR in the Republic of Moldova, and analysis of how food manufactures try to implement CSR within the emerging national agricultural markets has become the subject of this paper. Analysis shows an inappropriate level of CSR in Moldova, when social and environmental involvement is not a matter of course as part of a State Corporate culture. Until now we have not adopted a social responsibility program at National level. There are a lot of barriers to the economic relations, namely fiscal, credit, financial policies, normative regulations, level of inflation, limited solvent demand, limited national market, low level of foreign investments, incipient competition etc.

2. How is CSR embedded in the business process?

In 21st century the world economy is facing a significant phenomenon: the Corporate Social Responsibility. Right from the start we should mention that today's business approach to Corporate Social Responsibility is more and more integrated to social and environmental concerns facing the world.

Despite numerous definitions of CSR in the academic literature, economic analysis, reviews, different communications, reports, resolutions stated by the European Commission, the European Parliament, the World Business Council for Sustainable Development and the European Foundation for the Improvement of Living and Working Conditions etc., CSR remains an unsettled category. "The definitions show that CSR is nothing new at a conceptual level; Business has always had social, environmental and economic impacts, has been concerned with stakeholders, the government, customers or owners, and dealt with regulations. It has been managed through established patterns developed over many years; however, at an operational level the story is different. The context in which Business operates is changing at an increasingly rapid pace due to globalization. New stakeholders and different national legislations are putting new expectations on Business and altering how the social, environmental and economic impacts should be optimally balanced in decision making. In such a context CSR management tools are needed in addition to the previously established patterns, to develop and implement a successful Business strategy" [7].

Our target is not to present an exhaustive definition of CSR- we want to demonstrate more relevant characteristics and dimensions of this phenomenon. Currently, firms, companies, cooperatives financial institutions, banks, insurance companies understand and deeply define social responsibility like a Business. Social Responsibility is considered as a founding principle in the daily activity of the companies focused on investing more in the sustainable development, human capital (through better training, improvement of working and health conditions), in supporting cleaner environment on a voluntary basis.

In other words, CSR is a conception whereby firms and companies on a voluntary basis integrate environmental and social concerns in their Business and in their relations with the relevant internal and external partners.

Growing attention of companies toward investing more in the social issues and environment has a direct positive impact on their business activities by increasing all economic indicators including opportunities to expand in the markets, to pay more attention to consumers and investors. It means that economic and financial benefits generated by business activity are not an end result, but a tool to contribute to a better society, to maintain a cleaner environment, and to provide solutions for improvement of working and health conditions.

It's necessary to emphasize that the ultimate goal of a Business is equally divided in two parts: a) to obtain a maximal profit for the shareholders; b) to meet present economic, social and cultural needs of the people and their future aspirations. Business activity is equally centered on economic performance and increasing investments in order to provide solutions in terms of social and environment activity [3].

CSR is an action based on the principle of sustainable development which includes environmental, economic and social well-being for present and future times. What is sustainable development? Its definitions were gathered through an extensive review of journal articles and web pages. The most

frequently used definition is more significant than a definition rarely used. The most frequently quoted definition is from Our Common Future, also known as the Brundtland Report, states: “Sustainable development is development that meets the needs of the present without compromising the ability of the future generations to meet their needs. It contains within it two concepts: the concept of needs, in particular the essential needs of the world’s poor, to which overriding priority should be given and the idea of limitations imposed by the state of technology and social organization on the environment’s ability to meet present and future needs”.

Academic content of the CSR was defined in depth by Elkington (1999). His concept of the Triple Bottom Line means that the companies are considered to be acting in a socially responsible manner if social and environmental concerns are integrated into their business and if their activities are fulfilled beyond the legal obligations; their actions are not prescribed by law, and are based on ethical values.

The substance of CSR may be analyzed through internal and external dimensions. The ***internal dimension of CSR or corporate citizenship*** goes beyond legal obligations by providing a set of management practices to ensure facilitation of employment, investing more into human capital for empowerment of employees, to improve health conditions and ameliorate safety at work, long-life learning and responsible recruitment practices, primarily for ethnic minorities and for women, to ensure better transition from school to work, to obtain quality of work, and the quality of the workforce and their families. Responsible Business minimizes the negative impacts of its operation on society and preserves natural environment by investing in order to improve the quality of life of people and to obtain better communities where the Business operates.

External dimension: - a) means that CSR is involved in overall relationship of the enterprise with all its stakeholders: owners, investors, suppliers, business partners, employees, competitors, local community and government institutions; - b) provides more investments in the community affairs, employee relations, mainly in the interaction with local labor in order to create new working places, to develop employment, to implement codes for the determination of working conditions, human rights, environmental management at local and regional levels. In other words, Business operates in a manner that meets the needs of employees, others stakeholders, communities and considers natural environment issues, which will contribute to the sustainable success of the Business. In such a way internal and external dimensions of CSR are interconnected.

Specialized literature distinguishes three main models of CSR – American, European and Japanese. They share a common characteristic: business aims are infeasible and inseparable from the societies and environments within which they operate.

An investigation realized by the University of Miami (USA) called “A Guide to Corporate Social Responsibility” indicates that there are two types of arguments offered in favor of CSR: moral and economic. All companies in the society should try to add to economic profits other values which will provide solutions for a better life; interdependence between company and infrastructure offered by the society it is necessary for the common profit for both entities. Additionally to this idea, Charles Handy emphasized that profit is not the only target of a company in his work “What’s a Business for?” [Harvard Business Review, Harvard Business School Publishing Corporation, USA]. A Company achieving economic and commercial success, preserving the profitability should be able to do something more for society, only in such a way the company practically proves its existence and morality.

Many definitions of CSR are consistently and predominantly referring to five dimensions, namely: economic, social, environmental, voluntariness and stakeholder. Since CSR should be responsible for the company's effects on the environment and impact on social welfare, as well as on public good will on voluntariness bases, it must be defined through the above mentioned five dimensions.

- ***economic dimension*** – includes all elements of business operations, economic and financial activities, Companies' profitability and efficiency of the. As accentuated before the companies have the natural role and obligation to produce goods and services, and by selling them, to obtain a profit in favor of owners, shareholders and simultaneously to invest more in social, environmental and communities affairs in order to improve the working environment, the quality of life of employees and their families, social welfare and to maintain natural environment for future generations beyond legal obligations of the companies. All these targets are included in the companies' business plans and corporate management strategies.

- ***social dimension*** – the summarized relationship between economic activities of the business and the society, integration of social concerns in business operation, contributions of the business to a better society and social welfare.

The experience of many companies in different countries may reveal three possible directions in the treating and applying the social dimension:

- ⇒ Companies pay taxes in the total volume (agreed and in the white); the possibility of developing social programs is formed if taxes are paid partially;
- ⇒ Socially responsible business pays economically motivated and reasonable salaries. The adequate salary allows the staff to recover health, to receive education and to access cultural programs. In other words, the salary allows preparing staff families for the future. In such a way the salary is considered as investment in human capital;
- ⇒ Socially responsible business participates in charity programs. These programs support its reputation and show that the company is open for cooperation with the society.

- ***environmental dimension*** – means corporate environmental responsibility of business and is characterized by environmental management, economic operations interconnected with natural environment and social infrastructure, sustainable economic development achieved by balancing between the needs of the present and future generations, and between the need to make a profit and the needs of stakeholders, environmentally sustainable development correlated with public good will, well-being of employees and their families, local community and society on the whole;

- ***stakeholder dimension*** – means how business interacts with employees, stakeholder groups, competitors, investors, owners, suppliers, customers, government institutions and departments. The Company achieves economic and financial success in ways that comply with ethical values, by treating the stakeholders both within and outside the company in a social and responsible manner, acceptable in civilized societies. The company's policies consists in the integration of business operations with the interests of stakeholders including investors, managers, employees, customers, based on a wider scope to obtain profit, to preserve profitability and to improve the quality of life of the work force and their families, to increase the human development of stakeholders and their standards of living;

- ***voluntariness dimension*** – refers to CSR activities concerning business operations performed by the companies on a voluntary basis. Such actions are not prescribed by law. Self-contribution of the companies to the development of local communities and society, as a whole, is based on ethical values, beyond legal obligations.

The widest interpretation of social responsibility includes:

- corporate ethics
- corporate-social policy with regard to society
- environment protection policy
- principles and approaches regarding corporate management
- respect of human rights in relation to suppliers, consumers, and personnel
- personnel policy.

Every year European and American companies spend billions of dollars for Corporate Social Responsibility and especially a social activity responsible for accounting and logistics. The Corporate Social Responsibility success has become a deciding factor for company's capitalization.

Currently there are determined managerial issues, standards and social reporting forms for all companies and firms in the U.S. and in the industrialized European countries.

3. Integration of CSR in business activities of food manufacturers

The current socio-economic situation in the Republic of Moldova requires continuous reforms of legal and economic environments, if the strategic objective seeks to create a functional, efficient and socially oriented business model. Its opportunity is supported by the following facts:

- The need to adapt the national business to developing long-term objectives based on ethical - social norms. This means connecting the qualitative parameters of the national economy to the standards and regulations of international economic environment's operation.
- The activity of local business, especially of the agricultural-food sector, is influenced by the external environmental factors within a low-protected domestic market. Internally on the market, more powerful influences and geo-political changes can be noticed, e.g. globalization processes, changes in the ownership structure, emphasizing the need to ensure compliance of the private sector economic potential with social reality of the environment and with society as a whole.
- The current phase of reforming the economy and developing the national business, particularly of the food sector, requires identification of macro and microeconomic solutions in order to minimize the consequences of socio-political crisis.
- The distribution network and existing commercial logistics show interest in promoting the production and distribution of foreign goods as well as supporting the relevant price policy to the detriment of local production. This situation creates disadvantages for both, local producers and socially vulnerable categories of population.

Present findings show that in terms of food market formation and of its current development stage domestic manufacturers of agricultural and food sectors gave up their positions within domestic market and need government protection. The share of local food domestic production tends to decrease. In a changing environment, the producing companies and organizations must provide financial and economic stability regarding development and to perform social functions. With modest market positions they are active in the performance of social activities. Most of them are involved in occasional and partial activities.

In our opinion, social activities of local business sectors, including the food sector, will be active and effective after changing the priorities and objectives by restructuring business based on socially oriented ethical principles.

Multiple researches, carried out in several countries, show that there is direct correlation between the quality policy of social responsibility and economic and financial results of companies. The leaders in the field of business ethics [“Business Ethics Best Citizen companies”] that have demonstrated economic indicators [increased sales, income, net profit, cost of shares, etc.] higher than by 10% in comparison to the rest of 500 index Standard & Poor’s eloquently illustrate the concept of promoting social responsibility [research conducted in the DePaul University, USA].

Examples of foreign firms and joint ventures, and some domestic companies operating on the internal market demonstrate the same correlation.

Obviously, competitive fight is given for consumers' limited solvent demand, particularly on the domestic market of the Republic of Moldova.

The problem of competitive strategy selection can be resolved by adapting the strategy to support decisions regarding internal social interests of the company, consumers and the society, but the issue of restructuring the business in terms of social orientation is linked to a number of gaps inside business. These are demonstrated in the market subjects section (Table 1).

Thus, Corporate Social Responsibility becomes the responsibility of organizations and individuals in the organization of business and society.

Table 1: Social problems in the business environment

№	Subjects of the market	Social problems	Origin
1	Manufacturing companies and enterprises	1.1. Workforce migration outside the country 1.2. Commercial espionage 1.3. Migration of staff toward competitive firms 1.4. Level of compliance to social security 1.5. Staff requalification 1.6. High level of trauma and professional diseases 1.7. Non-observance of working discipline	1.1. Search of favorable working conditions 1.2. Lack of qualified staff 1.3. Lack of social infrastructure 1.4. Structural changes in the promotion sector 1.5. Low level of compensation 1.6. Low cultural level regarding production process 1.7. Low level of corporative culture
2	Distribution network	2.1. Retail prices growth 2.2. Inflation process 2.3. Increase of transportation costs 2.4. Injuries 2.5. Staff migration	2.1. Chaotic increase of intermediary networks 2.2. Energy resources price increase 2.3. Corruption 2.4. Lack of control when observing working security in intermediary structures 2.5. Attempt to find more favorable working conditions
3	Suppliers	3.1. Non-transparent logistic networks 3.2. Non-transparent supply chain, causing sharp price variations and negative consequences 3.3. Inadequate administration of procurement process and supply.	3.1. High mobility (activeness) regarding the exchange of business relations’ owners and fulfillment of contractual obligations 3.2. Long domination of distribution channels

Source: Adopted to [4, p.20].

Companies that proceed according to this view have different opportunities, namely:

- improvement of financial indicators
- decrease of operational costs
- improvement of the image and reputation
- increase in sales and consumers' loyalty
- reduction of staff fluctuation, increase the personnel's loyalty, increase the staff's motivation
- decreased pressure from the inspection bodies
- access to capital.

Restructuring of the Business based on ethical marketing principles reflects the links between macroeconomic and operational processes (at the level of the market's subject). Social problems and the causes listed in Table 1 are typical for several markets in South-Eastern European region; these only differ in their degree of complexity, manifestation and influence. In the case of food sector producers the problem is amplified by the necessity of awareness of forming the public opinion in terms of social orientation as a strategic business objective.

Business restructuring concerning the social orientation of the whole process should be seen as a strategic stage (review process) and operational status (active process, tactical). This approach is based on the differentiation of marketing as strategic and operational and positioning against competitors [1, p.132].

Strategic status reflects macroeconomic issues and includes the following steps:

1. Developing principles and requirements concerning the organization of socially oriented market environment or the formation of market infrastructure;
2. Ensuring the chain of intermediaries according to the above principles;
3. Developing a socially oriented system of producers in agriculture and processing industry;
4. Developing standards and determining the size of social support based on the requirements of the population;
5. Social positioning of the company.

Next step is solving operational objectives, such as:

- identification of social environment and development of diagnostic criteria for the most appropriate type of organizational structure;
- development of restructuring programs for commercial intermediaries in the concept of social marketing;
- designing complex system (social, organizational and marketing) of producers' social orientation in the context of "4 P's" (promotion, price, produce, placement);
- evaluation and classification of social needs, determining budgets and social efficiency;
- development of plans, organization of control, positioning of products (services), activities, elaboration of social report.

Social positioning of the business shall be interpreted as creating a company's and business's image in accordance with ethical and social requirements submitted by the company. The social environment of business is influenced by several factors grouped into three categories [3]:

- a) external social macro-environment factors - social factors of the global market, state social policy, social technologies, mentality, culture, business traditions;
- b) external social micro-environment factors - relationships between competitors, suppliers, trading intermediaries, consumers;

c) micro-structural internal factors - organizational structure, personnel policy, social aspects of management, business ethics, traditions and corporate culture.

Mutual action of external environmental factors and objectives of restructuring the producers' business (strategic and operational objectives) based on the concept of social responsibility are shown in Figure 1.

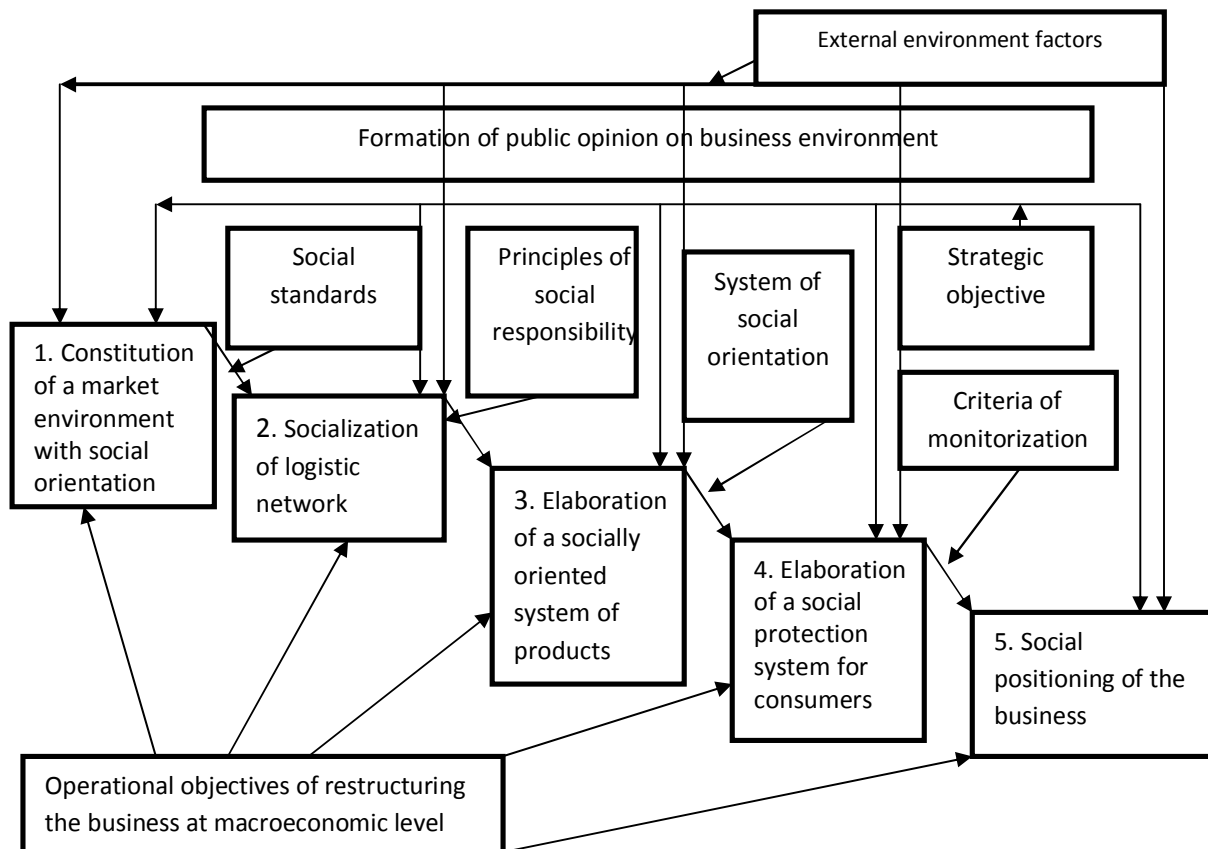


Figure 1: Possible stages of restructuring business at macroeconomic level

Source: [5, p.11].

The process of restructuring the food industry business will be initiated to identify the socio-economic problems, formulate the operational objectives and look for managerial decisions on their solving.

Agriculture as a specialized human activity includes not only the production but also the distribution of goods and services. The wide spread in the territory due to the spread of food supply and demand determines the degree of use. Ensuring the food security and protection of natural resources involves established population in all rural areas and certain effective mechanisms to regulate the relationship between supply and demand of agricultural products.

Currently, the agricultural sector of the Republic of Moldova is characterized by the following situations:

- 1) Agricultural production increased by 3.4 billion lei in 2012 compared to 2008.
- 2) Main producers of agricultural products are household farms which are attributed 50.8% of the total production. Collective farms represent 16.6% of total agricultural enterprises, assuming 32.2% of the total production.
- 3) Main indicators of agricultural enterprises activity in 2008-2012 are estimated as follows:

- The number of farms has decreased from 1573 in 2008 to 1489 in 2012;
- The fixed funds of agricultural production have increased by 631 million lei;
- The number of unprofitable farms has increased from 552 up to 794 during 2008-2012;
- Labor compensation fund has decreased by 10 million lei;
- Monthly average compensation accounted for 1034 lei in 2008, and has grown to 1652 lei in 2012.

Table 2: Indicators regarding the number of enterprises and the average annual number of employees involved in the food production industry of the Republic of Moldova

№		Total number of enterprises and production units					Annual average number of employees involved in industrial activities (thousand persons)			
		2008	2009	2010	2011	2012	2008	2009	2010	2011
1.	Industry - Total	46177	4922	5277	4895	4994	115.1	105.4	106.5	89.8
2.	Processing industry	3999	4354	4630	4506	4509	96.0	86.5	87.3	71.2
3.	Food and drink industry	1427	1478	1457	1342	1308	35.0	31.7	32.5	26.7
4.	Production, processing and conservation of meat and meat products	182	189	195	182	175	3.0	3.0	3,3	2.8
5.	Processing and conservation of fruits and vegetables	94	105	106	79	86	4.3	3.1	3.2	2.6
6.	Production of dairy products	47	51	46	35	37	2.7	2.4	2.6	2.9
7.	Production of bread and pastry products	295	301	293	264	249	7.1	6.9	7.0	5.4
8.	Sugar production	6	6	7	5	5	1.2	0.8	1.0	1.0
9.	Production of alcoholic drinks	19	19	19	19	17	2.1	2.0	2.0	1.5
10.	Wine production	136	132	130	99	99	7.4	6.2	6.1	5.4
11.	Production of mineral water and soft drinks	38	48	46	42	40	0.7	0.8	0.8	0.7

Source: [8, pp.287-288].

The world market plays a major influence on the development and enhancement of social responsibility. Global market's trends, conditions, limitations, changes in the social environment will determine the directions and dynamics of changes, competitive nature, motivations of consumers' behavior and the possibilities of home market's subjects. Consumers' preferences and demands are changing, features related to security, environment, external appearance and other social parameters have become more evident and should be connected to the local producers' offer.

In addition to that, producers should be able to increase supply according to the continuous growth in consumption, including the developing countries.

From the social point of view the producers are called to change the guidelines focused on purely economic interests to those focused on social and economic interests.

A major problem is the issue of socializing the commercial supply chain. The key issue in this regard is lack of transparency. In conditions of domestic market, the existence of a current system of statistical and book-keeping evidence meets difficulties in finding clear distribution channels, especially for imported products. This situation creates premises for "the black import" (penetration of counterfeit products of inadequate quality).

For these reasons, business restructuring in the concept of social responsibility requires the development of organizing principles, monitoring and controlling of the entire process of distribution channels and members of the distribution channels.

Another important objective of increasing social responsibility is the development of social orientation of producers. In this context the decisive factor is played by the state, which regulates in a certain way all aspects of Business functioning, it is its priority in the socialization of production relations. But there are also a set of limitations of economic, administrative, organizational, information nature, etc. as shown in Table 3.

Table 3: Barriers to socializing business

№	Category of barriers	Characteristic of barriers	Influence of barriers
1.	Economic	Fiscal, credit, investment policy.	Level of inflation, reduction of demand.
2.	Administrative	Normatives, rules.	Limitations and barriers at registration, customs formalities.
3.	Organizational	Market infrastructure, assurance with production factors.	Low level of reporting investments and technologies.
4.	Informational	Unfair competition.	Monopolization of market (business), social conflicts.

The consequences of these barriers are reflected in non-payable costs, high level of inflation, low demand.

When speaking about social programs, the most popular programs for companies are:

1. Staff development

Social programs are aiming at the promotion of staff (education, use of motivational schemes when paying the staff, provision of social packages, creation of conditions for rest and recreation, support of internal communications systems).

2. Occupational safety and health of employees

These programs include: working safety factors, medical service at production enterprises, establishment of sanitary-hygienic conditions within production enterprises, support to the maternity institute, prophylactic diseases.

3. Business restructuring in the context of responsibility

These programs are carried out in manufacturing companies primarily in the interests of staff, providing information clarifying the restructuring processes as well as providing continuous improvement.

4. Environmental protection

These programs are done in order to minimize the impact on the surrounding mechanism.

Diagnosis and behavior factors that influence the image and manufacturing companies' behavior: production in the internal and external environment, business decisions related to the socialization of their activities. Change in all areas of activity would contribute to dissemination and implementation of the concept of social responsibility, social positioning of the companies will contribute to the enhancement of this phenomenon in the domestic market.

4. Conclusions

Taking into account the above mentioned definitions, models, dimensions, characteristics of CSR in both, the corporate and the academic environments, it is considered that CSR has transformed in a major movement, beginning to dominate the business environment. The term “Corporate Social Responsibility” became popular in the 1960s, and has remained far more used indiscriminately by many to make legal and moral responsibility more narrowly constructed [3]. Small and large companies, enterprises, firms, corporations, organizations are devoting real time, money and management support toward corporate social responsibility. In the Republic of Moldova a few years ago the academic community began to discuss CSR phenomenon and its importance for National economy. Today, for some industries of Moldovan economy CSR is only at its beginning phase. Despite of CSR significance until now there is no national strategy for the development of social responsibility among firms, corporations, companies. As it was mentioned above, Moldovan business environment and CSR in national agriculture and food production encounter many obstacles and problems, such as migration of labor force outside the country, low level of remuneration and corporative culture, inflation process, increased prices on energy sources and transportation costs, absence of transparency in management. Currently all these factors are making the process of CSR implementation difficult on the National level.

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DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISE SECTOR IN THE REPUBLIC OF MOLDOVA

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Abstract

This research focuses on the topic of evolutionary development of small and medium-sized enterprises (SME_s) sector in the Republic of Moldova. The current study is based on official data offered by the National Bureau of Statistics (NBS), the Organization for Small and Medium-Sized Enterprises Sector Development (ODIMM), the Ministry of Economy and own reflections of the authors.

To achieve the goal of this research we started with an analysis of the current situation of SME_s from the Republic of Moldova in order to identify the most acute problems of this sector and suggest solutions and recommendations that would help overcome the highlighted problems.

Keywords: *small and medium-sized enterprises, sector analysis, finance, educational support, problems and recommendations.*

JEL classification: O12, O50

1. Introduction

Small and medium enterprise (SME_s) sector in the Republic of Moldova developed qualitatively and quantitatively during the last 22 years of independence. In 2012 SME_s:

- constituted about 98% of the total number of enterprises;
- employed about 59% of all employees;
- provided 39% of total sales;
- assured 61% of total profit per economy.

Since 2006, based on the European Commission recommendations and on the existing Moldovan legislation, criteria used in the classification of SME_s (Table 1) were adjusted.

Table 1: Criteria used in the Republic of Moldova to define SME_s sector

Firm size	Headcount (persons)	Turnover and balance sheet, total (million lei)
Micro	1-9	≤ 3
Small	10-49	≤ 25
Medium-sized	50 - 249	≤ 50

Source: [4, Article 605(1)]

We should mention that an enterprise must meet all these three criteria at the same time in order to be considered SME.

2. Legislative framework

During the last years the Republic of Moldova has made considerable efforts to renew the legislative framework for the activity of SMEs.

Among the most important legislative framework supporting the activity of SMEs we can mention the following:

- Small and Medium Enterprise Sector Development Strategy for 2012-2020 no. 685 of 13.09.2012;
- Law on supporting SMEs sector no. 206-XVI of 07.07.2006;
- Law on microfinance organizations no. 280-XV of 22.06.2004;
- Government Resolution on the establishment of the Organization for Small and Medium-size Enterprises Development no.538 of 17.05.2007.

Among other legislative framework documents supporting the activity of SMEs, we can mention the following:

- National Development Strategy of the Republic of Moldova for 2012-2020;
- Government activity program: „European Integration, Liberty, Democracy, Welfare” 2011-2014;
- Law on industrial parks no. 182 of 15.07.2010;
- Law on Credit History Bureau no. 122-XVI of 29.05.2008;
- Law on Savings and Loans Associations no. 139 of 21.06.2007;
- Law on leasing no. 59-XVI of 28.04.2005;
- Law on investment within entrepreneurial activity no. 81-XV of 18.03.2004;
- Law on patent holders’ no. 93-XVI of 15.07.1998.

In conclusion, we can mention that the legislative framework necessary for the development of small and medium enterprises sector has been created in the Republic of Moldova, which, however, does not solve totally all difficulties of its activity.

3. Evolution of small and medium enterprise sector

Data offered by the National Bureau of Statistics (NBS) of the Republic of Moldova for 2008-2012 reflect a considerable growth in the dynamics of SMEs number (Figure 1).

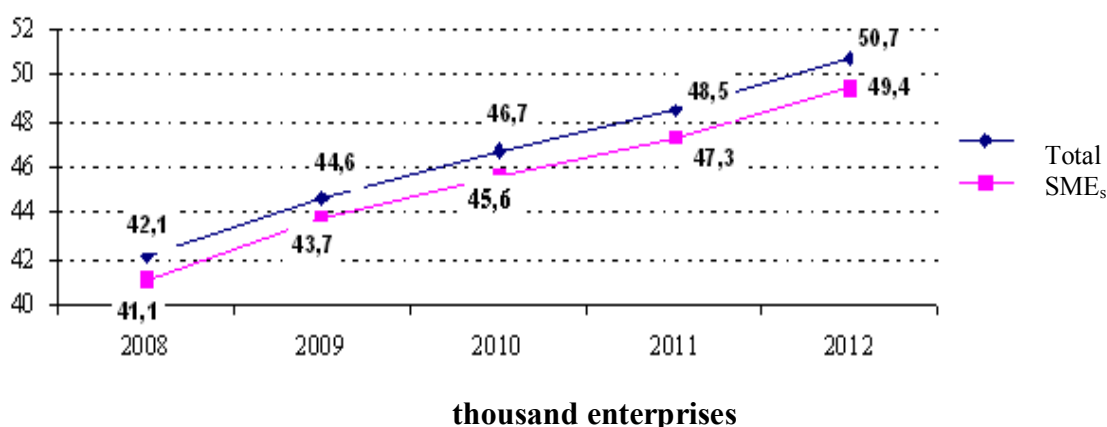


Figure 1: Evolution of the SMEs number over the 2008-2012 period

Source: [5]

*Note**: - These data do not consider enterprises from the left bank of Nistru River and Bender city.

- NBS determines the number of SMEs only according to data from financial reports submitted annually by economic agents (individual enterprises and patent holders are not obligated to present their Financial Reports to NBS).

The positive evolution of national SMEs in the analyzed period is related to the growth of support programs and consistently updated legislative framework.

At present, the principal programs for financial support of the SMEs include:

- *National Program for Economic Empowerment of Youth (PNAET)*, offering a credit of 300 000 lei for a five-year period, with a 40% portion of grant;
- *Pilot-Project for Attracting Remittances into the Economy (PARE 1+1)*, based on the principle „each MDL from remittances invested in Moldovan economy will be supplemented by another MDL in the form of grant offered by this Program”;
- *Guarantee Fund for Loans Managed by the Organization for Small and Medium-Sized Enterprises*, a totally new product on the financial market of the Republic of Moldova, expected by SMEs and banking sector.

The SMEs in the Republic of Moldova are also supported by the international partners: USAID, GTZ, TACIS, World Bank, BERD, Government of Japan and the Netherlands. In 2012, SMEs indicated:

- Micro enterprises have the largest share of companies in the SMEs sector – 77.53%
- Small enterprises – 19.43%
- Medium enterprises – 3.04 %

Data presented in Table 2 illustrate that this sector is dominated by private property companies.

Table 2: Number of small and medium enterprises by type of property in 2012

Type of property	Thousand enterprises	%	Including:		
			Micro enterpr.	Small enterpr.	Medium enterpr.
Total:	49.4	100.0	38.3	9.6	1.5
Public property	0.7	1.4	0.2	0.3	0.2
Private property	44.6	90.3	35.3	8.2	1.1
Mixed property (public and private) without participation of foreign capital	0.2	0.4	0.1	0.1	0.0
Foreign property	2.0	4.0	1.4	0.5	0.1
Mixed property with participation of foreign capital	1.9	3.9	1.3	0.5	0.1

Source: Developed by authors based on [5].

Distribution of Moldovan SMEs by regions in 2012:

- Chisinau Municipality– 32.7 thousand enterprises or 66.2%,
- North – 5.8 thousand enterprises or 11.7%,
- Center – 7.0 thousand enterprises or 14.2%,
- South – 2.5 thousand enterprises or 5.1%,
- ATU Gagauzia – 1.4 thousand enterprises or 2.8%.

Based on regional distribution of Moldovan SMEs we can mention obvious differences between the capital city and the rest of the country. The most attractive areas in the activity of SMEs are wholesale and retail trade, real estate business and processing industry (Table 3).

These activities produced the largest part of revenues from sales for the national SMEs during 2008-2012. In 2012, SMEs revenues from sales were 73 057.0 million lei, or 34.5% per economy (Table 4).

Table 3: Share of SME_s by major types of activity in 2008-2012

%

Types of activity	2008	2009	2010	2011	2012
Total	100.00	100.00	100.00	100.00	100.00
agriculture, hunting and forestry	5.11	5.26	5.04	5.07	5.06
processing industry	12.17	11.67	10.97	10.15	9.92
electric energy, gas and water	0.24	0.46	0.44	0.42	0.40
constructions	6.08	5.72	5.48	5.50	5.47
wholesale and retail trade	41.12	41.19	41.01	41.01	40.49
transport and communications	7.05	6.87	6.80	6.77	6.68
real estate business	14.60	15.10	16.01	16.70	17.21
other types of activity	13.63	13.73	14.25	19.59	14.77

Source: Developed by authors based on [5].

Table 4: Evolution of SME_s revenues from sales dynamics per sector over the years 2008-2012

million lei

Types of activity	2008	2009	2010	2011	2012
Total	64 984.1	57 480.1	65 263.2	71 887.6	73057.0
agriculture, hunting and forestry	3 680.2	3 161.6	4 588.9	5 613.5	4 930.3
processing industry	9 377.4	8 098.7	8 975.4	9 316.4	9 522.8
electric energy, gas and water	243.5	199.8	246.5	258.7	261.8
constructions	5 655.8	3 992.4	5 038.3	5 555.2	5 349.9
wholesale and retail trade	33 400.0	30 109.0	32 723.7	35 319.2	36 299.0
transport and communications	5 578.5	4 915.2	5 946.5	6 464.9	6 885.1
real estate business	3 948.5	3 866.2	4 197.4	5 100.7	5 177.2
other types of activity	3 100.2	3 137.2	3 546.5	4 259.0	4 630.9

Source: Developed by authors based on [5].

Taking into consideration the social function of SME_s expressed through creating places of work we can mention that the number of persons engaged in small and medium enterprises was 300.2 thousand persons in 2012, or 57.7% from the total number of employees (Table 5).

Table 5: Share of the number of employees occupied in SME_s over the years 2008-2012

%

Company size	2008	2009	2010	2011	2012
Total	328.1	316.2	309.4	294.2	300.2
Medium-sized	125.5	115.1	108.8	91.1	90.4
Small	120.2	117.1	121.0	116.2	122.2
Micro	82.4	84.0	79.6	86.9	87.6

Source: Developed by authors based on references [5].

As a result, based on the carried out analyses we state that SME_s sector as a social economic phenomenon has not become yet a key link in the development of national economy. This conclusion is based on the following:

- modest contribution of the SME_s sector in GDP – about 30%;
- micro enterprises represent the largest share of companies in the SMEs sector (77.53%), however, their contribution to both employment and turnover is quite modest;
- most of SME_s are concentrated in the urban zone;
- the largest share of SME_s sector is in the wholesale and retail trade;
- data related to SME_s sector are not complete due to the fact that individual enterprises and patent holders do not submit their financial reports to NBS.

4. The role of educational system in supporting SMEs

Development of human capital through promotion of competences and entrepreneurial culture is realized through the following programs:

1. Initial professional education (coordinated at national level by the Ministry of Education, Table 6);
2. Continuing professional education (coordinated at national level by the Ministry of Education and the Ministry of Labor, Family and Social Protection).

Table 6: Initial professional education is realized through programs and courses offered by educational institutions

Level of Study	Programs/Courses	Status
<i>Secondary School</i>	Subject „Economics”	Optional
<i>Vocational education:</i>		
▪ secondary professional education (vocational school)	Subject „Fundamentals of business” (120 hours, of which 90 classroom hours)	Compulsory (from 2013)
▪ intermediate vocational education (college)	Subject “Fundamentals of business” (90 hours)	Compulsory (in eight agricultural colleges of the Republic of Moldova)
<i>Higher education:</i>		
<i>First cycle - License</i>		
▪ Economic profile	<ul style="list-style-type: none"> ▪ Specialty – Business and Administration ▪ Course: „Fundamentals of business” ▪ Specialized courses for developing and promoting entrepreneurial culture and competences 	<ul style="list-style-type: none"> ▪ Program of studies ▪ Compulsory ▪ By educational institution decision
▪ Non-economic profile	Course „Fundamentals of business”	Optional
<i>Second Cycle - Master degree</i>	Programs based on the development and promotion of entrepreneurial culture and competences Specialization in the professional and research field	Approved by educational institutions
<i>Third Cycle - Doctorate</i>	Research in the field of SMEs sector support and development.	Approved by educational institutions

Source: Developed by authors.

National educational system includes 1 612 educational institutions of which:

- vocational institutions - 68 (19.6 thousand students);
- colleges – 47 (30.7 thousand students);
- universities – 34 (102.5 thousand students).

In order to develop practical abilities of students and pupils some institutions offer additional programs and courses mentioned above and also give the possibility to attend educational economic programs and entrepreneurial courses „learning by doing” as well as exercise certain activities based on virtual enterprises. In this context the following are implemented:

- *Business incubators* – opened in higher educational institutions,
- Subject „*Firm in action*” – within secondary and vocation schools. At present, this program is taught in 40 colleges and 5 vocation schools,
- Program „*Young enterprise*” – within high schools. The program includes theoretical modules during which pupils learn to start and develop a business.

Continuing professional education is carried out by: higher educational institutions, commercial societies, governmental and non-governmental organizations, Chamber of Commerce and Industry, professional associations as well as through partnership programs including those financed from abroad.

Despite of all the positive moments described above it is necessary to mention the following:

- According to BERD and World Bank reports about 15% from the total number of enterprises indicated lack of qualified workers as one of most important drawbacks, 36% of the employees are 25-35 years old and do not have professional education.
- Only 33% of companies offer official training to their workers.
- The Labor Code of the Republic of Moldova stipulates the allocation of at least 2% from the salary fund for professional education, but very few enterprises use these sources for this purpose.

5. Problems of the SME_s sector

Among the problems of the SME_s sector in the Republic of Moldova, we can mention the following:

Low efficiency of legislative framework implementation:

- numerous administrative-bureaucratic barriers;
- frequent inspections and controls of business sector and high level of taxes;
- lack of a consolidated register that would make possible the analysis of SME_s activity as well as of patent holders working in the country;
- lack of tax facilities exclusively for SME_s;
- limited financial access;
- only 31% of all credits offered by the bank sector belong to SMEs sector;
- about 85% of the total number of financial applications rejected by the bank due to lack of guarantees;
- lack of innovative instruments of finance, such as: venture capital or business angels.

Low-developed competitiveness of SME_s:

- low level of SME_s adaption to European standards of quality;
- low level of elaboration and absorption of innovation;
- under-developed infrastructure for supporting business.

Lack of informative-consulting assistance and development of the potential activity of entrepreneurs:

- insufficient qualification of personnel, low level of skills and SME_s entrepreneurial culture;
- lack of a well-defined national concept in the area of formation and development of entrepreneurial competitiveness;
- lack of an informational system on continuing education programs;
- lack of an efficient consulting system in the area of education and business development within SME_s sector;
- lack of a program regarding competitive evaluation in the area of entrepreneurial activity.

Need to develop business partnership

- The development of business partnership is at a starting stage and is focused on „public-private” partnership and „business to business” partnership.

6. Recommendations

In order to create a favorable business environment we recommend:

- adjustment of normative and regulatory frameworks to meet SMEs needs;
- reduction of the number of mandatory documents for starting and closing business;
- setup tax-control complexity and tax facilities in legislative framework;
- reduction of informational barriers and regulation costs for SMEs;
- development of on-line services.

In order to improve SMEs access to finance we recommend:

- support of national network of guaranteed funds for SMEs;
- financing start-up in priority sectors;
- development of innovative financial schemes for SMEs;
- extension and support of Loan Bureaus activity.

In order to develop competitiveness of SMEs we recommend:

- innovation support and improvement of SMEs access to new technologies;
- support to the introduction of quality standards and quality management systems;
- increased access to service support and information;
- extension and development of business incubators and industrial parks.

For SMEs development in regions we suggest:

- reduction of regional differences through assistance offered to SMEs;
- development of regional business partnerships;
- support for SMEs participation in international events and market.

In order to promote entrepreneurial culture and consolidate managerial performance:

- elaboration of a national strategy/plan in the area of economic education;
- formation and development of infrastructure for educational support;
- harmonization of educational programs in the area of entrepreneurship at different levels of education (high schools, vocation schools, colleges, universities);
- revision of the national curriculum for secondary schools and of programs for professional education in order to improve and develop entrepreneurial competitiveness;
- extension of economical educational programs „learning by doing” in educational institutions;
- development and consolidation of partnership between educational institutions and business sector;
- implementation of modern methods of education, especially of e-learning in order to promote additional education in this domain.

Development of partnership in business can be achieved through:

- creation and regulation of business associations activity;
- informing the government about the most important problems and needs of the SMEs sector (organizing round tables, seminars, workshops, conferences);
- creation of a Consulting Bureau for the SMEs sector;
- creation and development of clusters as basis for entrepreneurial partnership.

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STUDY ON MOLDOVAN BANKS' SECURITIES PORTOFOLIO

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Abstract

Investment in securities, along with bank loans, represents a significant source of bank earnings and generally performs two key functions: it serves as a source of bank [liquidity](#), i.e. funding resources to meet loan demand or customers' needs for cash, and as an additional source of earnings from capital gains obtained when portfolio securities are sold. This paper presents an interesting and actual topic because in national specialized literature there are few researches on Moldovan banks' securities investments.

Keywords: Republic of Moldova, bank, securities portfolio, yield of securities portfolio.

JEL classification: G21, G28

1. Introduction

Investment in securities, along with bank loans, represents a significant source of bank earnings and generally performs two key functions: it serves as a source of bank [liquidity](#), i.e. funding resources to meet loan demand or customers' needs for cash, and as an additional source of earnings from capital gains obtained when securities from portfolio are sold. This paper presents an interesting and actual topic because in national specialized literature researches on Moldovan banks investments in securities are few. The paper is structured as follows: the first section presents the researchers in the field of securities investments of banks. In the second section we have conducted a study case on banks securities portfolios. In the third section there are presented conclusions on the study carried out in the second section.

One must note that the analysis was performed for 2009-2012 because about ½ half of the banks have not yet published their 2013 financial statements and balance sheets.

2. Literature overview on bank investments in securities

In specialized literature there are few researches on securities investments of banks. In 1970, Melnik suggested that at any point in time the quantity of a given asset held by bank is a function of the total amount of assets available, relative yields and liquidity considerations. In the banking industry assets and liabilities are managed to overcome volatilities or uncertainties arising from business activities [3, p. 158].

Modern banks are very vulnerable to higher levels of volatilities in the market and need to manage

their portfolios efficiently. In this regard, in almost all countries, banks use treasury bills as part of their dynamic portfolio management strategy. In other words, banks need to manage their cash flows, cost of funds and return on investments while maintaining liquidity all the time.

Recently, Lin [2, p.97] published a research and concluded that diversification activity in the banking industry has become an important trend. At the same time, the existing literature on the determinants of bank interest margins does not address the effect of such diversification. In 2009, Maudos & Solís [1, p.1922] have found in their studies that diversification of banking activities bears a high risk, and thus, charge higher margins to improve their performance. In the opposite way, in 2008, Hawtrey and Liang have found that the size of bank transactions is inversely related to bank's margin.

In the national specialized banking literature there is an insignificant number of researches on banks' securities investments.

3. Study case on securities portfolio held by banks from the Republic of Moldova

In the Republic of Moldova banks invest in securities in order to achieve the following objectives:

- a) To increase the portfolio value by raising the market price of securities;
- b) To create reserves of liquidity. By placing financial means in liquid securities banks can always solve liquidity problem, quickly and efficiently operating these instruments on the market;
- c) To use securities as guarantee for obtaining credits on the inter-banking market and from the National Bank;
- d) To attract new clients from participating in traders' capital;
- e) To ensure participation in the management of companies which the bank is interested in.

The number of financial instruments that can be included in the bank's securities portfolio is large and continues to rise. More than that, every financial instrument holds characteristics

toward risk, sensitivity towards inflation as well as toward changes of state politics and of economic conjuncture.

In terms of evaluation, corporate securities are the most complicated financial instruments. Or, the last is obligatory according to the goal. The main goal, when the portfolio of securities is constituted, is the maximization of incomes and minimization of risks. Both the management of securities portfolio and variation of its structure in order to maximize the incomes are based on the analysis and forecast of yields' trend from the financial market. Thereby, the expected income from such assets as different kind of securities should not be lower than the interest rates on deposits.

In the Republic of Moldova the balance sheet of licensed banks includes the following division of securities portfolios:

- securities for selling (securities for trading and marketing);
- Investment securities (or securities held until maturity).

It is worth mentioning that some banks additionally divide both selling securities and investment securities in equity instruments and bonds as well.

Detailed analysis of bank reports showed that some banks have included state securities in the category of investment ones and equity securities in the stock, while other banks included in the investment category equity securities as well as the state ones.

Particularly, we drew attention to this fact because some banks included equity securities, namely those held in such companies as joint stock companies, in selling securities, while other banks have reported the shares of the same companies as investment securities. Therefore we analyzed only selling securities and investment securities portfolios.

In Moldova, banks that hold most of their securities for sale are "Victoriabank", "Moldova-Agroindbank" and "Eximbank-Gruppo Veneto Banca" (see Table 1).

Table 1: Value of securities for selling portfolio held by licensed banks in the Republic of Moldova during 2009-2012

		<i>thousand lei</i>			
Bank	Year	2009	2010	2011	2012
CB „Comerțbank” JSC		0	0	100	100
CB “Banca Socială” JSC		0	0	7018	12763
CB “Victoriabank” JSC		5063	2291	34614	61419
CB “Moldova – Agroindbank” JSC		158419	132950	216227	140949
CB “Moldindconbank” JSC		0	0	1600	26485
“Banca de Economii” JSC		4117	461	8990	9342
CB “EuroCreditBank” JSC		0	0	1316	1271
CB “Unibank” JSC		0	0	0	320
“Banca de Finanțe și Comerț” JSC		0	0	6928	7149
CB “Energbank” JSC		0	0	1075	1139
CB “ProCreditBank” JSC		0	0	12000	1200
“Banca Comercială Română Chișinău” JSC		0	0	112480	65710

CB “Eximbank-Gruppo Veneto Banca” JSC	384	392	447890	427752
CB “Mobiasbancă -Groupe Societe Generale” JSC	0	0	1483	1479

Source: Developed by authors based on [4-30].

From Table 1 it can be observed that the value of securities portfolio held for sale increased by 2012 compared to 2009, as well as the number of banks that hold these types of securities (in 2009 only 5 banks were holding securities for sale, while in 2012 all 14 licensed banks in Moldova had these).

Regarding investment securities portfolios it can be noticed that practically all banks hold investment securities, except for BC “Eximbank-Gruppo Veneto Banca” which in 2012 registered “0” value for this position.

Table 2 shows an increase in the investment portfolio during 2009-2012, except for CB “Moldova-Agroindbank”, which, after transition to reporting under IFRS rules (International Financial Reporting Standards) and re-evaluation of investment securities, recorded in 2011 and 2012 a negative value of investment securities portfolio.

It is worth mentioning that most of the banks have also included government securities and National Bank Certificates (NBC) in investment securities portfolios, thus completing a significant part of these portfolios.

One of the reasons to use state securities and NBC in bank portfolios is that these securities are almost similar to holding cash while receiving a reasonable return. The level of treasury bills held by any bank will depend on the level of business activity as well as on the level of other portfolios, e.g. loan portfolio of a particular bank.

Table 2: Value of investment securities portfolio of licensed banks in the Republic of Moldova during 2009-2012

		<i>thousand lei</i>			
Bank	Year	2009	2010	2011	2012
CB „Comerțbank” JSC		55214	110268	108754	1080292
CB “Banca Socială” JSC		308290	389856	173866	255733
CB “Victoriabank” JSC		801717	1340394	1384712	1324494
CB “Moldova – Agroindbank” JSC		1213773	1335494	-695854	-1101377
CB “Moldindconbank” JSC		824275	771424	653980	700557
“Banca de Economii” JSC		1058463	507482	1232986	1845399
CB “EuroCreditBank” JSC		59535	24874	27659	6641
CB “Unibank” JSC		39827	112812	32844	33558
“Banca de Finanțe și Comerț” JSC		205312	302188	249036	262039
CB “Energbank” JSC		187125	350913	139015	274650
CB “ProCreditBank” JSC		17930.47	112882	95357	237359
“Banca Comercială Română Chișinău” JSC		276250	190550	177689	135256
CB “Eximbank-Gruppo Veneto Banca” JSC		344537	481264	448554	0
CB “Mobiasbancă -Groupe Societe Generale” JSC		490967	467583	521861	557900

Source: Developed by authors based on [4-30].

Another element which deserves attention is that in the Republic of Moldova licensed banks maintain investment portfolios of state securities to ensure the liquidity of their assets, the latter having a “0” value of risk (they are considered risk-free assets).

However, the share of securities for sale in the total amount of assets in Moldovan banks is insignificant (about 1-2%), except for CB “Eximbank-Gruppo Veneto Banca” and “Banca Comercială Română Chișinău” during 2011-2012 (see Table 3)

Table 3: Weight of trading securities portfolio in the total assets of licensed banks in the Republic of Moldova in 2009-2012

		%			
Bank	Year	2009	2010	2011	2012
CB „Comerțbank” JSC		0	0	0.016	0.012
CB “Banca Socială” JSC		0	0	0.214	0.396
CB “Victoriabank” JSC		13.19	0.03	0.414	0.606
CB “Moldova – Agroindbank” JSC		2.026	1.58	2.248	1.204
CB “Moldindconbank” JSC		0	0	0.023	0.308
“Banca de Economii” JSC		0.08	0.009	0.145	0.142
CB “EuroCreditBank” JSC		0	0	0.287	0.344
CB “Unibank” JSC		0	0	0	0.016
“Banca de Finanțe și Comerț” JSC		0	0	0.409	0.42
CB “Energbank” JSC		0	0	0.065	0.061
CB “ProCreditBank” JSC		0	0	0.674	0.045
“Banca Comercială Română Chișinău” JSC		0	0	8.67	5.89
CB “Eximbank-Gruppo Veneto Banca” JSC		0.1	0.011	11.63	10.4
CB “Mobiasbancă -Groupe Societe Generale” JSC		0	0	0.049	0.04

Source: Developed by authors based on [4-30].

Table 3 shows that during 2009-2012 the weight of securities portfolios held for trading has grown by 2012. Apparently, Table 1 and 3 show not only the increase of portfolios value but their share as well.

Table 4 shows that during 2009-2012 the weight of investment securities portfolio in the total assets of banks has increased as a whole.

However, the weight of investment securities as a percentage of total banks assets varied from one bank to another in the period 2009-2012. Thus, it can be mentioned that CB “Unibank” and “EuroCreditBank” held the most insignificant percentage of securities from total assets, although by 2011 and 2012 “Banca de Economii” has increased the share of its investment securities in total assets.

Table 4: Weight of investment securities portfolio in the total assets of licensed banks in the Republic of Moldova in 2009-2012

%

Bank	Year	2009	2010	2011	2012
CB „Comerțbank” JSC		12.81	21.68	18.44	21.69
CB “Banca Socială” JSC		12.44	13.78	5.29	7.944
CB “Victoriabank” JSC		13.11	18.2	16.57	13.08
CB “Moldova – Agroindbank” JSC		15.52	15.92	7.23	9.41
CB “Moldindconbank” JSC		18.09	15.09	9.64	8.16
“Banca de Economii” JSC		20.66	9.58	19.98	28.02
CB “EuroCreditBank” JSC		21.24	8.07	6.04	1.79
CB “Unibank” JSC		9.98	26.78	5.34	1.67
“Banca de Finanțe și Comerț” JSC		11.005	18.49	14.71	15.43
CB “Energbank” JSC		14.43	23.79	8.39	14.83
CB “ProCreditBank” JSC		3.01	8.5	5.36	9.06
“Banca Comercială Română Chișinău” JSC		13.77	15.5	13.7	12.1
CB “Eximbank-Gruppo Veneto Banca” JSC		9.45	14.05	11.65	0.08
CB “Mobiasbancă -Groupe Societe Generale” JSC		15.34	16.27	17.92	15.62

Source: Developed by authors based on [4-30].

Table 4 also shows that CB “Comerțbank”, “Victoriabank”, “Banca de Finanțe și Comerț”, “Energbank”, “Banca Comercială Română Chișinău”, “Mobiasbancă -Groupe Societe Generale” and “Banca de Economii” were holding the largest share of investment securities in the total assets during the analyzed period, especially in 2012.

Such developments are determined by the fact that banks, in order to undertake risky lending activities and to meet liquidity state requirements, will purchase securities that are included in investment securities portfolios. Otherwise, for all investments in stocks, the state limits the influence of bank capital on economic agents in order to prevent conflicts of interest and to limit competition. Thus, in accordance with the Regulation on banks holding shares in the capital of other entities, no bank, alone or in accordance with one or more persons acting together, without the written permission of the National Bank, directly or indirectly can hold shares in the capital of a legal entity (except holding shares in the capital of other banks in the Republic of Moldova): a) share that is substantial compared to the capital of the economic entity; b) share which, according to its current value, exceeds 15 percent of total regulatory capital of the bank.

Similarly, the bank cannot hold shares with the total current value exceeding 50 percent of total regulatory capital of the bank.

The banks are also investing in securities in order to achieve direct or indirect incomes. *Direct incomes* from investment in securities can be obtained as dividends, interest rates or by selling these securities at a higher price. *Indirect incomes* are formed based on the increasing in services market of activities related to securities transactions.

Based on the research topic direct revenues were analyzed as the yield of securities portfolio obtained from investing in securities both for sale as well as those held to maturity.

Table 5 shows that the interest rate on securities purchased for sale was about 22 to 28% for CB “Victoriabank” and “Moldindconbank” in 2012. The CB “Moldova-Agroindbank”, “Eximbank-Gruppo Veneto Banca” and “EuroCreditBank” has recorded a low efficiency from holding securities for trading (about 0.3 to 7.08% during 2011-2012). The remaining banks don’t reported income from securities for trading.

Table 5: Average interest rate of portfolios securities held for trading by licensed banks in the Republic of Moldova in 2009-2012

		%			
Bank	Year	2009	2010	2011	2012
CB „Comerțbank” JSC		0	0	0	0
CB “Banca Socială” JSC		0	0	0	0
CB “Victoriabank” JSC		0	0	0	22.59
CB “Moldova – Agroindbank” JSC		0	1.93	4.05	7.08
CB “Moldindconbank” JSC		0	0	0	26.81
“Banca de Economii” JSC		0	0	0	0
CB “EuroCreditBank” JSC		0	0	0.075	0.3147
CB “Unibank” JSC		0	0	0	0
“Banca de Finanțe și Comerț” JSC		0	0	0	0
CB “Energbank” JSC		0	0	0	0
CB “ProCreditBank” JSC		0	0	0	0
“Banca Comercială Română Chișinău” JSC		0	0	0	0
CB “Eximbank-Gruppo Veneto Banca” JSC		0	0	0	5.14
CB “Mobiasbancă -Groupe Societe Generale” JSC		0	0	0	0

Source: Developed by authors based on [4-30].

To determine and analyze the interest rate of securities purchased for sale the following was calculated: the interest income on securities purchased for sale/total value of securities purchased for sale.

Table 6 shows that the interest rate from investment securities is lower comparative to trading securities, but the banks hold more this types of securities in their portfolio (Table 4). One reason for these variations is that, beside the related interest rates on holding state securities (SS), banks hold corporate securities that also bring dividends, finally.

Table 6: Average interest rate of investment securities portfolio of licensed banks in the Republic of Moldova in 2009-2012

		%			
Bank	Year	2009	2010	2011	2012
CB „Comerțbank” JSC		4.87	5.78	8.67	5.69
CB “Banca Socială” JSC		5.87	7.705	0.006	0.004
CB “Victoriabank” JSC		5.37	4.77	9.76	7.747
CB “Moldova – Agroindbank” JSC		2.23	5.66	-3.66	9.24

CB "Moldindconbank" JSC	3.707	7.57	0	0
"Banca de Economii" JSC	5.71	9.7	4.81	0
CB "EuroCreditBank" JSC	9.95	13.14	12.63	0
CB "Unibank" JSC	7.68	6.44	27.42	3.03
"Banca de Finanțe și Comerț" JSC	7.49	5.38	0	0
CB "Energbank" JSC	4.94	5.32	0	0
CB "ProCreditBank" JSC	2.45	1.327	5.0	0
"Banca Comercială Română Chișinău" JSC	3.88	11.1	0.01	9.48
CB "Eximbank-Gruppo Veneto Banca" JSC	4.809	6.39	6.99	0
CB "Mobiasbancă -Groupe Societe Generale" JSC	8.58	8.22	10.08	8.9

Source: Developed by authors based on [4-30].

Another reason results from researches of Yitbarek Takele [3, p.1859], who found in 2009 that when the market is highly competitive banks cannot charge different rates on assets and pay for liabilities; they rather are constrained to take the given rates of the market. In that case all banks in a particular market should have similar profitability or rate of return on their assets. But in reality we observe a wide variation in the return among banks. An explanation of this disparity could be that different types of assets and liabilities have different rates of return and costs, so banks can change their profitability by simply changing the composition of the portfolio of assets and liabilities.

Most Moldovan banks hold corporate securities portfolios of joint stock companies like "Moldova Stock Exchange" and "Depozitarul Național de Valori Mobiliare (National Securities Depository)". Owning shares in these companies is determined by the fact that banks that want to operate on the capital market as a professional participant should hold a certain share in the respective companies' capital.

4. Conclusions

The majority of banks in the Republic of Moldova hold investment securities portfolio. In most cases, banks include in trading securities portfolio shares of insolvable debtors because their property is transferred to the balance sheets of banks.

The comparative analysis of investment portfolio for trading securities versus investment securities portfolio demonstrated that securities portfolio mostly consist of state securities. We noted that state securities have a higher share in securities portfolio because state securities are risk-free assets and contribute to maintaining the liquidity of banks.

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ANALYSIS OF LEGISLATIVE FRAMEWORK OF THE CONSUMER CO-OPERATIVES' ACTIVITY AND VISIONS OF ITS IMPROVING

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Abstract

Consumer co-operatives in Moldova have become one of the most important sectors of the national economy in the Republic of Moldova, with a history of about 145 years. Having a deep social and democratic character and being concerned of meeting the needs of its members and the population in general, co-operatives have resisted challenges over time, and have developed, maintaining their autonomy.

Socio-economic transformations in the country after the Declaration of independence have placed the sector in a process of continuous change to meet the challenges of the respective periods. Maintenance and development of consumer co-operatives, as well as keeping its heritage integrity required the development of appropriate legislative framework in the field.

Adoption of the Law of Consumer Co-operatives and later of the Civil Code of the Republic of Moldova have determined the legal basis for the organization and functioning of consumer co-operatives. The analysis of legal framework reveals the existence of certain deficiencies, legal contradictions and gaps which represent a barrier to the development of consumer co-operatives.

The paper offers a well-reasoned exposition of some recommendations on improving the legislative framework for consumer co-operatives, implementation of which will enhance the internal and external investments, will motivate the members and employees to develop co-operatives and work efficiently.

Keywords: consumer co-operatives, legal framework, improving of co-operative legislation, changes in ferenda law.

JEL classification: K29

1. Introduction

Implementation of market economy mechanisms during the last two decades in the Republic of Moldova favoured the development of entrepreneurship and the diversity of organizational and legal forms of economic activity.

The co-operative sector is one of the most important parts of the socio-economic system in the country. In the course of time, it assumed different organizational forms and developed with various intensity, adapting to different social systems.

This sector is represented by different types of cooperatives, the most spread ones being producers' co-operatives, consumer co-operatives and entrepreneurship co-operatives, which operate in the domestic market, trying to cope with the challenges of the competitive environment.

According to The State Chamber of Registration of the Republic of Moldova [12] on January 1, 2014 there were 3.985 co-operatives (producers' co-operatives, consumer co-operatives and

entrepreneurship co-operatives) in the total number of 164.566 registered legal entities and sole proprietorships, or 2.4% of all registered businesses, as presented in Figure 1.

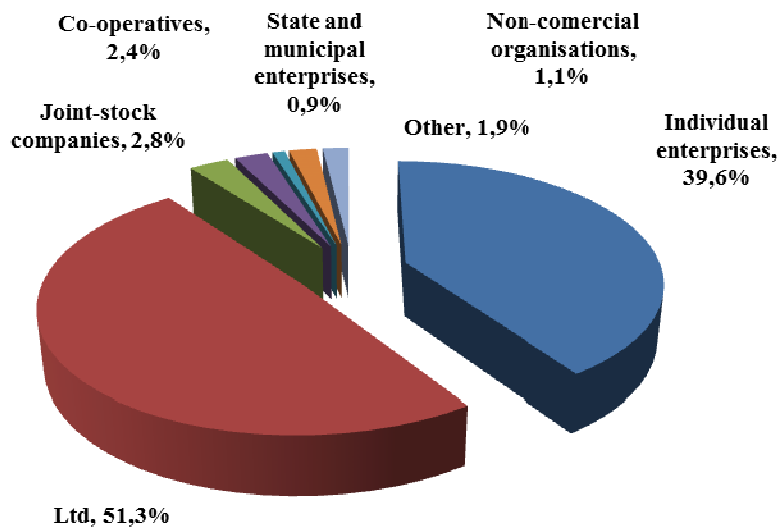


Figure 1: The economic structure of the Republic of Moldova according to the organizational and legal form of businesses

Source: [12].

But during the last years it has been stated that there is a decrease in the number of co-operatives whilst the number of registered enterprises is increasing. So, on October 1, 2012 there were 4.014 registered co-operatives from the total number of 162.908 economic entities (2.5%). The tendency confirms the existence of certain barriers in the de co-operatives' development in the country.

A significant role within the co-operative structure is attributed to the consumer co-operatives which is an important sector of the economy with a clear defined mission. Due to the profound social and democratic character and having the mission of satisfying the consuming and social needs of the population, consumer co-operatives have developed and resisted over the time, maintaining its autonomy regardless of time and governing of the country, knowing periods of ascension but also of decline.

Traditionally the consumer co-operatives in Moldova operate in rural areas. Until the early 90's, the consumer co-operatives had a strong position in the domestic market and were the only one retailer and services provider in the rural area with a market share of between 36% and 40% of the total retail turnover in the country, running their own network of shops, amounting to between 60% and 65% of all shops in Moldova. They had one million members or 23% of the country's population and secured jobs for almost 70 thousand people.

The transition to market economy and the evolvement of the market forces since the early 90's intensified dramatically the competition. At the very beginning of this process the consumer co-operatives were not prepared to face this challenge and had to downsize their activities. The period until 2002 was characterized by a further decline in the economic activities, weakening its market position and loss of market shares, inefficient utilization of its own infrastructure. In 2002 the decline stopped, a phase of stabilization and growth began. In the next period there was initiated the important process of reopening and modernization of co-operatives infrastructure in the retail and wholesale trade, public catering and production, particularly bread baking, of the

diversification and extending of co-operatives activity. All these contributed to the improvement of the financial-economic situation of consumer co-operatives and its transition from an inefficient to a profitable system.

At present there are 104 co-operative societies with about 200 thousand members. Together with another 67 companies, owned by the co-operatives, they employed about 6000 people. Consumer co-operatives run operating units in 1107 villages or 66 % in the country. They served 1.8 million people or 53 % of the country's population. Consumer co-operatives operate in the following business areas: retail and wholesale trade, public catering, procurement of agricultural products and products of other nature from the population, food production, service sector (transportation, education, etc.). The main important sector of the co-operatives' activity is the trade, having a dominant share of around 80 % in the turnover of consumer co-operatives in the country. At the same time, the share of co-operatives sales in the rural trade's turnover constituted in the last years only 10-15%.

The analysis of co-operatives' activity confirms that the consumer co-operation hasn't become a stable, durable system yet and it is easily influenced by external and internal factors, it hasn't succeeded to generate a sustainable growth despite the existing growth potential. This is also being confirmed by the following information: the share of retail sales in the consumer co-operation in the rural trade's turnover is diminishing; the infrastructure is being used only partially (in retail trade is used only 75% from the available infrastructure), in other domains (industry, procurement) the utility of infrastructure is lower; the institutional capacities for investments in the development of the co-operative infrastructure are limited compared to the needs; the number of co-operative members is decreasing, very few new members are being registered etc. Challenges and problems faced by consumer co-operatives in the country, as well as development trends of the sector are comprehensively analyzed in previous publications [11, pp.1368-1373].

The above mentioned demonstrates the existence of deficiencies in consumer co-operatives' activity; there is increased demand for consumer co-operatives' social responsibility as well as the necessity of efficient mechanisms for redressing the situation in order to advance in economic and social development of the co-operative system. Among the main factors of constraints there can be mentioned the legal, economic and financial, organizational and managerial, patrimonial and motivational factors. Nevertheless, the priority is attributed to improving the legislative framework because this assures the necessary premises for an efficient functioning of the co-operative system.

2. The analysis of the legal framework of the co-operatives' activity

Among the first legislative acts which constituted the foundation for legal regulation of co-operatives in the country was the Law on Co-operatives [2]. The regulations of this law led to the establishment of legal basis of co-operative system's activity during the transition period, the current legal framework being a coherent continuation of them.

Based on the analysis of legislation in force of the Republic of Moldova, co-operatives are classified into several categories, namely: entrepreneur co-operatives, production co-operatives, consumer co-operatives, credit co-operatives (called in the legislation „savings and loan associations of citizens”). It needs to be mentioned that consumer co-operatives have a dominating position in the co-operative sector of the country.

These types of co-operatives are regulated, except the provisions of the Civil Code (Article 171-178) [1] by: the Law of Consumer Co-operatives [3], the Law on Entrepreneurship Co-operatives [4], the Law on Production Co-operatives [5] and other normative acts on certain types of co-operatives that have some specifics compared to the types listed above. The Civil Code contains special provisions concerning co-operatives (regarding the general rules on legal entity), but they are applied when special laws don't regulate differently. The purpose of all normative acts is to ensure the necessary regulations for setting up and for carrying out activity of some various forms of co-operatives.

In fact, most regulations in the field of co-operatives take into account the legislative trends of European countries such as: setting a minimum number of persons entitled to create a co-operative, the extension of activities and collaboration with members, allowing the third parties to participate in the capital's formation („financiers members”) etc. allowing the transformation of the consumer co-operatives in a commercial society.

We would like to mention in this context that, in terms of the legislation which regulates the co-operatives, European states may be divided into three categories: states where a general co-operative law exists (Belgium, Finland), states where the co-operative law is divided according to the social and sectorial aims of the co-operative (France, Italy, Portugal, Spain, Sweden), among which the Republic of Moldova is, and states where co-operative legislation doesn't exist and where the co-operative nature of the company derives from associating acts (United Kingdom, Netherlands, Denmark, Luxembourg).

The national legal framework regarding consumer co-operatives, especially the Law on Consumer Co-operatives fulfils the traditional norms. The consumer co-operatives are created by associating individuals [3, Article 1] with non-commercial aim for satisfying member's interests [3, Article 4]. The minimal number of members is 7 persons [3, Article 20]; the members participate at the foundation of the co-operatives by submitted social quota. Consumer co-operatives are democratic organizations controlled by its members. The decisions are taken based on the principle „one member – one vote” [3, Article 8]. According to the mentioned law the patrimony of the consumer cooperatives comprises divisible and indivisible parts (which cannot be owned by members). Distribution of profit is done according to the decision of co-operative authorities proportionally to the submitted social share.

The deep analysis of the existed socio-economic model of the consumer co-operatives' system in comparison to the challenges of modern economy shows some contradictions in this field and deficiencies of legal regulations, which appear like barriers in the development of the consumer co-operatives.

Co-operatives are, like commercial societies, legal persons of private law under this category, but they occupy a special role. Thus, although they look alike in many aspects with commercial societies, co-operatives are not identical with them neither regarding general or special regulations referring to the two categories of legal persons. In comparison with commercial societies, which main aim is to obtain profit, co-operatives are rather to serve the needs of its members who own and control them. Generally, co-operatives are therefore legal entities with or without economic character, with their own specific profit.

The Civil Code defines a co-operative as „a voluntary association of individuals and legal entities organized on corporate principles in order to favour and guarantee, through joint action of its members, the economic interests and other legal interests” [1, Article 171 paragraph (1)].

In this context, the Law on Consumer Co-operatives (Article 1) states that „consumer co-operative is an autonomous and independent association of natural persons set up on the principle of free consent, by co-operating social parts of their members, who unfold economic activities to satisfy their interests and their need for consumption”. According to Article 4 of the same Law, „consumer co-operative is a non-governmental and non-commercial organization, which unfolds economic activity in order to satisfy the needs and interests of its members according to this law and their own statute; the main aims of the consumer co-operatives’ organization are:

- satisfying the interests and needs of co-operative members,
- creation and development of infrastructure, extending the consumer co-operatives,
- consumers’ protection,
- influencing upon the consuming policies,
- other objectives according to its legislation and statute.

It should be noted that phrase „consumer co-operative organization” includes the meaning of juridical-organizational forms of consumer co-operative, their territorial units and Central Union of Consumer Co-operatives” [3, Article 1, 82]. The consumer cooperative organizations may establish co-operative enterprises - private legal persons with commercial character established to fulfil their aims and objectives, which unfold activities according to the legislation and their statute.

From the above-mentioned definitions, but also from observations made with regard to legal regulations in the domain, the following juridical characters of the consumer co-operatives can be highlighted:

- ✓ *possibility to associate freely and voluntarily and to withdraw unconditionally* [3, Article 6, 9]. Consumer co-operatives are constituted based on free consent and are open to all persons who agree to assume responsibilities of co-operative members without any discrimination upon nationality, origin, political membership, social origin or sex. Based on the same principle, the consumer co-operative organizations may be associated in territorial unions or/and in Central Union and may withdraw their membership based on the decision of the supreme governing authority;
- ✓ *the democratic structure of functioning and collegiality* [3, Article 7, 8]. Consumer Co-operatives function democratically and are controlled by co-operative members who participate at the defining policies and adopting decisions in a collegial way according to the principle “one member-one vote”, but the elected authorities are responsible to their members;
- ✓ *an equitable economic (social capital) participation of the members* [3, Article 12]. In such a way, every member of consumer co-operatives (co-operative organizations) contributes equally to the constitution of the social capital, actively participates at its activity and finally benefits of economic results and their fair distribution;
- ✓ *different social capital*, which is susceptible by growing through gradual payments made by associate members (co-operative organizations) and by diminishing in the case of taking back, totally or partially, the paid participation fee [3, Article 89, 90].
- ✓ *consumer co-operatives’ autonomy and independence* [3, Article 15] regarding their relations to other legal entities and physical persons, including the public authorities. Interference of public authorities in the economic, financial and other activities of consumer co-operatives organizations is forbidden.

Non-commercial character of the consumer co-operatives, imposed by law, corresponds to co-operative principles, but in actual conditions it represents an impediment to boosting the social-economic development of consumer co-operatives and needs to be removed. It should be mentioned that co-operative organizations from many European states found their own solutions using innovative forms of co-operative organizations by constituting branches partially or exclusively based on capital, by creating common funds of investments.

Another aspect is the procedures for setting up consumer co-operatives. They can be constituted on the territorial area of one or many locations. The Civil Code foresees the minimum number of members for establishing the co-operative - 5 persons (Article 171, paragraph (1); the special norm of the Law on Consumer Co-operatives [3] included in Article 20, paragraph (1) foresees the minimum number of 7 natural persons for constituting the consumer co-operative. The Law does not foresee the maximum number of members, but it regulates a certain number of members for certain activities (for example, the possibility of participating at general meetings of consumer co-operatives with more than 300 members or of consumer co-operatives which unfold activity in the area of more locations of chosen representatives from co-operative sectors, based on norms of representation established by the Administrative Council).

An issue of real interest linked to the establishment of consumer co-operatives is the one linked to the obligation to unfold constitutive meetings foreseen by Article 20 of the Law on Consumer Co-operatives [3]. Given that the Civil Code does not contain any provision in this aspect, the wording of Article 172 paragraph (4) may infer that such a meeting is not necessary; it results that „the silence” of the Code cannot be interpreted otherwise than as the validation solution offered by the special provisions of the Act.

Taking into account the needs linked to the co-operatives’ development in a modern society, the European co-operative practice demonstrates the need to modify the legal provisions in order to reduce the minimum number of persons in force to create a co-operative. In such a way it is necessary to exclude the special regulations (Article 20, paragraph (1) of the Law on Consumer Co-operatives [3] and to apply general provisions of the Civil Code for consumer co-operatives.

The state registration of the co-operatives as a final stage of the process of their setting presents an interest, as well. So, the status of legal entity is obtained by the co-operative in the result of its state registration, according to Article 53 of the Civil Code [1] and Article 84, paragraph (5) of the Law on Consumer Co-operatives [3]. According to Article 173 of the Civil Code [1], the state registration of co-operatives is done in the same way as established for commercial societies. Concretely, the registration of co-operatives is done by territorial authorities of the Chamber for State registration according to the provisions of the Law on State Registration of Legal Entities and Individual Entrepreneurs [6]. The provisions of this law are completed with the provisions of Article 84 of the Law on Consumer Co-operatives [3] which foresees that state registration of consumer co-operatives organization is done by the Ministry of Justice. After registration, the consumer co-operative is also registered in the Registry of Non-commercial Organizations.

This legal contradiction may be removed by changing the non-commercial character of consumer co-operatives. The opportunity of changing is conditioned by the necessity of consumer co-operatives’ functioning and its progress in the future.

The imminence of change of consumer co-operatives juridical statute is dictated by the objectives of its activity, too. Regarding to the provisions of Article 31 of the Law on Consumer Co-

operatives [3], in order to reach their aims, the consumer co-operatives may have as an objective and domain of activity: retail trade and wholesale trade; public catering; procuring of agricultural products, of raw materials and products of other nature; activity of investment; establishing educational institutions of consumer co-operatives, their development and maintaining. By these provisions the law reiterates the traditional domains of economic activity of consumer co-operatives, being necessary to re-evaluate all these taking into account the competitive advantages and the efficiency of their functioning.

Social-economic objectives and perspectives of developing the consumer co-operative system may be reached only by efficiently using the infrastructure. Legal regulations concerning the patrimony and juridical regime of consumer co-operatives' properties are essential for the development of co-operative system. In such a way the co-operative, as any other legal entity, has its own patrimony, which existence being a condition of *sine qua non* of its existence. This patrimony leads to achieving the established socio-economic objectives as stipulated in its constitutive act. One of the most important components of co-operative patrimony is the social capital, i.e. the sum of all participation rates of co-operative members according to its statute [1, Article 174]. We would mention that the law does not require a minimum limit of social capital, but neither a maximum one. The value of the social capital will be determined by the Consumer Co-operatives' members, who are free to decide this as well as the contribution of each person.

The Law of Consumer Co-operatives does not foresee explicitly regulations on the patrimony of Consumer Co-operatives. In such a way, according to Article 89 of the Law of Consumer Co-operatives [1], the property of the consumer co-operatives is private and is composed of a divisible part (49%) and indivisible part (51%). The divisible part of the consumer co-operatives' property organization covers social parts submitted by co-operative members or by associated co-operative organizations. The indivisible part of the consumer co-operatives' property is registered after co-operative organizations and covers all patrimony accumulated during their activities without the divisible part. The indivisible part of the property cannot be acquired by co-operative members or associated co-operative organizations. The alienation of the goods of indivisible property registered after the consumer co-operatives and their territorial units may take place only with the consent of the hierarchical superior co-operative organizations. Contracts of consumer co-operatives' property alienation concluded without observing these provisions are automatically void.

The patrimony, left after liquidation of the co-operative, will be distributed among members according to their status [1, Article 174 paragraph (1)]. Within the consumer co-operatives, the assets which remained after the enforcement of debts and after paying back the social shares to members are transmitted as follows:

- a) in the case of the consumer co-operative - to the territorial unit of which it is a part;
- b) in case of the territorial union - to the central union of which it is a part,
- c) in case of the central union - to consumer co-operatives' organizations [3, Article 104 paragraph (8)].

The legal regime of consumer co-operatives property was regulated so as to ensure its integrity, while the development of co-operative system determines the dynamic nature of its assets. We believe that efficient economic activity and stability of consumer co-operatives in terms of property relations regulations can be achieved by amendment to *ferend law* regarding exclusion of provisions on the division of consumer cooperative heritage, or at least, amending the legal

provisions leading to the increase of the divisible part and to the decrease of the indivisible part; creating attractive legal conditions for foreign and internal investments (from cooperative members, employees); removing limits with regard to exercising the right of the co-operatives to dispose of the goods from indivisible part; personification of indivisible property and setting dividends and other payments (including rent, lease, leasing and disposal of property); comprehensive evaluation of consumer cooperatives infrastructure and determination of the necessary infrastructure for continuous operation of the branch.

Another important aspect relates to members' participation in the formation of patrimony and their patrimony liability. Compared to other types of co-operatives where co-operative members can make contributions both in money (cash) and in goods, consumer co-operatives accept only cash contributions [3, Article 90 paragraph (1)]. The amount of shares is set at the constituent assembly and may be modified by the governing bodies of the co-operative organization according to the statute. Co-operative members and associated co-operative organizations can subscribe one or more social parts. The social shares cannot be: assigned, alienated, established by negotiable securities or interest bearing neither, used to pay personal debts of the co-operative members and co-operatives' debts related to consumer co-operatives' organization or to the third parties. Increase in social shares may be ordered only for new cooperative members and for those who subscribe new shares after their increase. Co-operative members may compensate the social shares up to the new quantum.

In case of withdrawal from the Consumer Co-operative, the co-operative members shall be reimbursed shares of which the share of the loss incurred by the consumer co-operative is retained, according to the last balance sheet approved by the supreme governing body thereof [3, Article 28 paragraph (4)]. In case of exclusion from the consumer co-operative, the co-operative members will be returned, upon request, the social shares of which the share of the loss incurred by the cooperative is retained, according to the last balance sheet approved by the supreme governing body [3, Article 29 paragraph (4)]. The co-operative member or associated co-operative organization may withdraw, upon request, one or more shares, remaining with the same statute as long as it holds a social share, at least.

According to the general principle, legalized in the Civil Code (Article 68 paragraph (1)), legal person is liable for its obligations with all assets which belong to him. Thus, according to the Law on Consumer Co-operatives (Article 94), consumer co-operative organization is liable for its obligations with all its assets. Article 171 paragraph (1) of the Civil Code establishes the principle of limited liability of co-operative members in the value of shareholdings brought to the organisation, namely the share value to which the co-operative member was obliged to according to the statute. Co-operative members are not liable for the obligations of consumer co-operative otherwise than the social shares deposited. It is important to note, however, that these provisions are contrary to those of article 174 paragraph (3) of the Civil Code which basically establish indirect subsidiary liability for the debts of its co-operative members, by the envisaged obligation in their task of covering co-operative personal losses through additional contributions. According to the same law, co-operative members are liable for the obligations of its subsidiary solidarity within the undelivered portion of the additional contribution of each member. Moreover, the legislator provides the possibility of insertion in the Co-operative Statute of some causes which regulates the personal responsibility of co-operative's members (1, Article 172 paragraph (2) b)). Law on Consumer Cooperatives does not stipulate anything about it. In these circumstances, given

that social contributions form the divisible part of consumer co-operative patrimony by which it takes responsibility for its obligations and based on the interpretations of texts, co-operatives' members are tempted to give priority to the provisions of Article 171 paragraph (3) of the Civil Code, which limits the liability of a co-operative member to the value of shareholdings kept in the co-operative patrimony.

We believe that legal rules on liability of co-operative members to be filled, for the purposes of establishing their unlimited solidarity liability subsidiary, are similar to collective responsibility [1, Article 128]. But operation of these changes may condition, on the one hand, the possibility of loss of associate members, and on the other hand, the reluctance of co-operative members employed in the system. Despite this danger, the establishment of solidarity unlimited liability of co-operative members would contribute to the increase of the members' responsibility, their effective participation in the decision making process and control.

In order to promote the quality status image of associated members of consumer co-operatives and to motivate their participation in the economic activity, we consider appropriate to envisage rules regarding: the application of the bonuses system, pay of additional dividends, offer facilities for employment, rendering various services, etc.

Possibility of setting up co-operative enterprises is another area of activity of co-operative organizations. In accordance with Article 93 of Law on Consumer Co-operatives [3], the consumer co-operative, by exercising the right to set up co-operative enterprises, transmit them the property required for their work, in possession and use. Income of co-operative enterprises is focused on meeting the statutory goals of the co-operative organization.

These legal provisions are in direct contradiction with the principles of law applicable to the subject of law having legal personality. Moreover, legislation in force explicitly regulates the organizational-legal forms of the subjects which can perform entrepreneurial economic activities.

It can be concluded that it is necessary to improve the legal framework in order to give co-operative organizations the right to participate as founders in the establishment of other private law entities with the commercial purpose in the juridical-organizational form allowed by law. A solution would be the diversification of forms of organizing the consumer co-operatives, undertaking models of co-operative business.

Consumer co-operative is an autonomous association which brings together people on voluntary basis and aim at satisfying the social, economic and cultural needs of its members and has a democratic management and control [3, Article 33 paragraph (1)]. To implement the principle of democracy co-operative members participate freely in the election of the management and control body of consumer co-operative organizations, holding the right of one vote at general meetings, regardless of the number of social shares subscribed for the adoption of general assembly resolutions, requiring at least two thirds of the co-operative members or their representatives present at the meeting [3, Article 35 paragraph (3)].

The Administrative Council of the consumer co-operative manages the activity in the period between general meetings and shall meet whenever necessary but at least every 3 months [3, Article 38 paragraph (3)]. The mechanism established by law for the management of consumer co-operatives and their territorial unions is quite complicated and does not meet the actual needs. It is necessary to change the legal framework with the purpose of:

- establishing a simple majority of the co-operative members at the general meetings for decision making;
- excluding the Administrative Council of consumer co-operatives with less than 300 members;
- extending the calling period of the Administrative Council from four times per year to two times (in case of territorial co-operative unions).

Structural organization of co-operative system in the Republic of Moldova represents interest from the point of view of consolidation and development of consumer co-operatives. According to provisions of Article 32, Law of Consumer Co-operatives [3], the consumer co-operatives may be associated in local and central territorial unions. Nowadays, consumer co-operatives' management system is structured in three levels: cooperatives - territorial units – central union, but in the conditions of Gagauz Yeri Territorial Autonomy – four levels, which is too excessive, taking into account the dimensions of our country, and implies non-justified administrative expenses. Law on Consumer Co-operatives [3] regulates very carefully the establishment and functioning of unions. Efficient and dynamic activity of consumer cooperatives dictates (imposes) the need for the optimization of its management system structure.

3. Conclusions

Based on the analysis of the national legal framework in the field, the development of consumer cooperatives in Moldova in the last two decades, the issues and challenges encountered by this sector of socio-economic importance for our national economy [11; 10, p.121], of the current internal needs of the cooperative system, the following issues can be highlighted:

- national legislation on consumer co-operatives is rather restrictive and does not provide flexibility;
- the Law on Consumer Co-operatives [3] includes excessive detailed regulations, is more like a statute than an organic law governing a distinguished sector of the national economy;
- the legislation provides multilevel hierarchy in the organization of co-operative's management system;
- existing of difficulties in regulating the consumer co-operative's ownership;
- lack of efficient mechanisms for members' motivation regarding the increase of cooperatives' patrimony and raising the efficiency of the co-operative organization activity;
- limitation of co-operative members' categories (physical and legal persons) only to members who benefit from co-operative services;
- the traditional way of organizing the co-operatives doesn't stimulate the implementation of some innovative forms and attraction of investments;
- very high level of representation to call the leading authorities of co-operatives which, in many cases, leads to "lacking behind" with the decision making process and other.

Given the above, as well as future prospects and development of the cooperative system established by the Development Programme of Consumer Co-operatives in the Republic of Moldova for 2012-2015 (approved at the XVth Congress of Consumer Co-operatives, January 27, 2012) [8], the importance of ensuring sustainable development and progress of consumer cooperatives, we consider necessary to modify the existent legislative framework, especially the Law on Consumer Co-operatives concerning:

- adjustment to civil law, review of the opportunity of a special law on consumer cooperatives;
- creating legal, favourable conditions for attracting external investments and internal ones (from co-operative members, staff);
- diversification of members' categories of co-operative organizations: member-users and non-member-users (mainly the ones who want to invest in the co-operatives' development) and elaboration of an efficient system of recompensing the investments;
- reconsidering ownership relations within consumer co-operation (which began in 1990's and hasn't finished) taking into account actual conditions and international experience. In such a way it needs to be mentioned that not any law could restrict the constitutional right of possession, usage and alienation of the property;
- optimization of co-operative's management system (reduction of organizational hierarchy and passing to the two-levels structure);
- excluding from the actual legislation the norms which foresee non-commercial character of consumer co-operative organizations, as in actual conditions it limits the economic possibilities of consumer co-operatives' enterprises and access to facilities offered to small and medium enterprises and placing them in unequal conditions with this category of competitors;
- re-evaluation and a more flexible application of principles for setting up co-operatives and diversification of their types.

In order to enhance the interest and responsibility of the members and employees of co-operative organizations to develop consumer cooperatives, improve the efficiency of this system, attract domestic and foreign investment, two – levels co-operatives (applying some elements from international practices) could be established: first level co-operatives, constituted according to classic principles by physical persons, and second level co-operatives, created by legal persons (first level co-operatives but also other interested enterprises) and physical persons (including co-operative members, staff, consumers, foreign investors, etc.). The last can participate with their contribution to the formation of social capital of the co-operative, stimulating in such a way investments in the co-operative sector. Visions on the principles of setting up these types of cooperatives are presented in previous research and publications [9, p. 205].

In this sense amendments and completions to the Law on Consumer Co-operatives are appropriate [3]:

- ✓ completing Article 20 with the following provisions: consumer cooperatives can be of two types: consumer cooperative of I degree and consumer cooperatives of II degree. Consumer cooperative of I degree is a legal entity set up by physical persons. Consumer cooperative of II degree is a legal entity established by consumer cooperatives of I degree and other physical persons and / or legal entities;
- ✓ completing Article 20 with an additional paragraph: a cooperative member may hold shares in the limit and under the statute, but may not exceed 20% of the share capital. Cumulative participation of consumer cooperatives of I degree in setting the social capital of cooperatives of II degree will be not less than 50%;
- ✓ completing Article 35 with a new paragraph: in consumer cooperatives of I degree each cooperative member is entitled to one vote irrespective of the number of shares he owns. In consumer cooperatives of II degree each cooperative member is entitled to one vote

regardless of the number of shares he owns if the constitutive act does not provide that each cooperative member to have multiple voting rights limited in proportion to its participation in the social capital of the cooperative;

- ✓ completing Article 90 with the following provisions: in consumer cooperatives of II degree shares may be submitted in the form of other goods in the civil circuit and suitable condition for use. The use of these shares is determined by the Statute.

The implementation of these actions will contribute to the development and efficient functioning of consumer co-operative system of the Republic of Moldova, its adjusting to European practices.

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COMPETITION ON THE WEB STUDY THROUGH THE PRISM OF ECONOMICS OF NETWORK. CASE OF WEB COMPANIES FROM DIFFERENT GEOGRAPHIC AREAS

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Abstract

This paper aims to develop a model that could help determine the rank of influence of a certain e-commerce company from a country against its competitors from other countries. In turn this gives us the possibility to understand better the area of competitive collusion between two e-commerce companies from different countries.

One of the main competition models on the economics of networks topics, is Corominas-Bosch model. However the model is based on suppliers and customers which has a moderated utility in the field of web based business, due to the difficulty in determining the quantity of suppliers that a client is exposed to because of the awareness levels for a certain web business.

Keywords: *economics of networks, network model, web market, web based business.*

JEL classification: A1, B5, D4

1. Introduction

In this paper we are going to study, with the help of a model, the area of competitive collusion, between two e-commerce companies that operate in different geographic areas [4].

In order to accustom the uninitiated reader with the concepts necessary for understanding the model itself we will have to present some of the basics for the economics of networks as well as theoretic models related to competition and how it is treated by economics of networks theory.

As an introduction to the economics of networks, which are necessary in order to better understand the web market as a whole. A network describes the relations between nodes, which could be countries, web pages etc., and the connections between these nodes, which could represent a connection between two or more pages, companies as well as access to a certain market.

The set of nodes in a network can be described as $N = \{1, 2, 3, \dots, n\}$ where n is a finite number. This network is denoted by $g_{ij} \in \{1, 0\}$, where g_{ij} is 1 if there is a link between nodes i and j , otherwise g_{ij} takes the value of 0 [3].

These links represent the connections that arise between nodes, which we have defined as being companies or web pages or markets. They are very important in terms that if we have no link whatsoever between two nodes then there is no economic connectivity between those.

Now we are going to try to cover distance in network relations. We can mention distance between two distinct nodes, let them be i and j only if there is an existent link between the two. Therefore we have two possible cases when we can mention distance in a network. First case is when we have $g_{ij}=1$. While the second case is when we have a set of distinct intermediate nodes such as $j_1; j_2; \dots j_n$, such that we get a relation $g_{ij1}=g_{ij2}=\dots=g_{ijn}$.

A geodesic distance in a network is the shortest possible distance between two distinct nodes and can be denoted by $d(i, j; g)$. If there is no path between two nodes in a network g then the distance $d(i, j; g) = \infty$.

2. Competition in the economics of networks

One of the most interesting models in the field of economics of networks in terms of competition material is the model by Corominas-Bosch [2]. She separates the nodes into two groups – buyers and sellers, presuming that each seller has a single good to sell, which is valued at price of 1. A price p between a pair of sellers means that the buyer would have to pay a price $1-p$ while the seller will get a price p .

The network's role in this model however is to determine which buyer can sell to what seller. Round one of the bargaining takes place in which the sellers declare a price for their goods, and buyers can either accept the offer or reject all offers. The sellers and buyers that participated in a transaction leave the market. Then the second bargaining round begins, this round takes place as any other even numbered bargaining round, in this round the buyers offer a price for the goods and the sellers either accept them or reject all prices. Suppose all traders discount the future at rate $\partial \in \{0,1\}$. Thus the discounted payoffs if a buyer trades at time t are $\partial^t(1 - p)$ [2].

Therefore we are going to have three possible outcomes, one is favorable for the buyer when price (p is close to 0), the other one is favorable for the seller and therefore price is close to 1, and the last situation when the bargaining is bilaterally beneficial therefore the price will be close to $\frac{1}{2}$.

In a more general network however where there is a multitude of sellers and buyers that are all interconnected, the price will be determined by the supply and demand curve. Let's say we have n sellers and m buyers, then if on the market $n > m$ then the price will tend to be 0. While if we have $n < m$ then the price will tend to 1, and in the case of $n = m$ the price is unpredictable and will be somewhere between 1 and 0.

If the graphs let's say G are complex then we can decompose them and get three possible types of sub graphs. The first type of resulted sub graph is $G_1^S, G_2^S, G_3^S, \dots, G_{n_s}^S$ for the seller surplus type, the second type is $G_1^B, G_2^B, G_3^B, \dots, G_{n_b}^B$ for the buyer surplus sub graph and the third type is $G_1^E, G_2^E, G_3^E, \dots, G_{n_e}^E$ for the equilibrium type.

The payoffs in these types of sub graphs can be described using the supply and demand curve. Therefore sellers in sub graphs G^S get 0 and buyers get 1, while Sellers in sub graphs G^B get 1 and buyers get 0 and sellers in G^E type sub graphs get $z = \frac{1}{1+\partial}$ and buyers get $1 - z$.

3. Market Model

The theoretical model which is about to be presented if it were to be classified by the previous criteria, presented by Giaglis and Peteli [4], it would most likely, at this stage of the research, fall under the category of "Understanding" business models.

In order to define the web market and its margins we have to keep in mind that a web business operates globally, therefore it has no boundaries and can be accessed from any country or region. Thus one of the ideas to define the web market geographic area of influence is to view it as a network, in which web companies are viewed as hubs. The other network nodes with which those hubs are linked could represent countries. As a result we would get something like the graph in the Figure 1 [1].

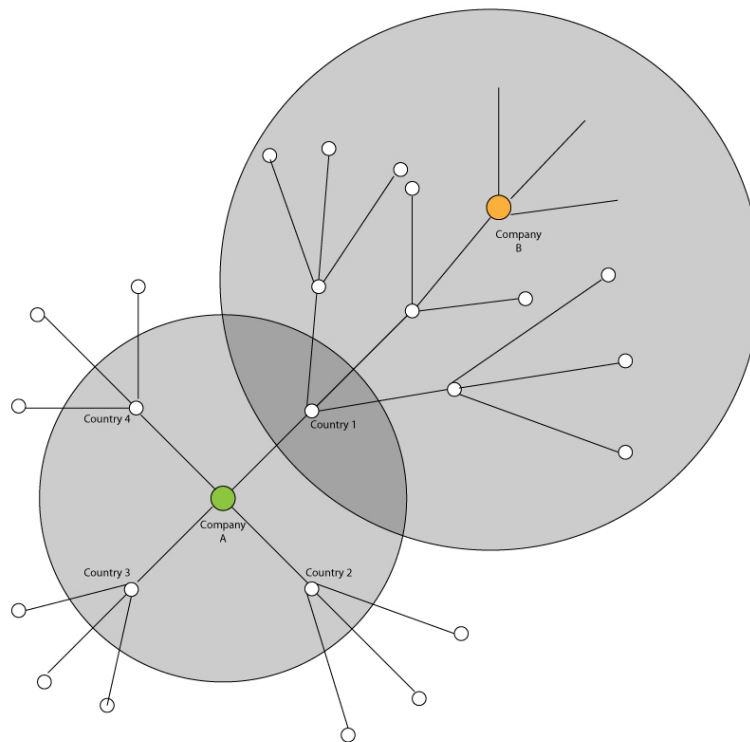


Figure 1: Competition on the web Market

Source: Developed by the author.

In the graph presented in Figure 1 we denote n as the number of countries and n_A as the number of countries on the company A's market and n_B on the company B's market accordingly. To define the size of the market A we could use the following method *Price for a good in a country* $\geq p_a + a \times c_d$, where a represents the number of connections between a hub and a country (distance), c_d cost of delivery to that country (in order for this to make sense we are to assume that all of the delivery costs for a link's length is the same value) and p_a represents price of a good in country a .

The size of the markets can be calculated as a sum of the countries' markets that are incorporated in this. But since the web market is a global market then we are going to have a primary sales market (which is located in a single country, in our case the Hub country itself), which generates let assume over a half of the company's revenue and secondary markets that compose the rest. Then the decrease in the demand curve would influence the price setting by company A only if the demand curve fluctuation would be in the primary market and not the secondary one, as the majority of the company's revenue comes from the primary market.

While to treat competitive collusion, between companies A and B, assuming that these companies are from completely different regions, we would have to look for the darker grey area in Figure 1, which basically represents the area where the company A sells its goods as well as company B.

However in order for this model to function define the collusion market properly we need to introduce the term of e-commerce rank of influence. This rank of influence is what we further are going to call the distance at which the price set by the e-commerce company can sell their goods and still be under the real market price of that market. Therefore the e-commerce rank for this model will be predefined for simplicity sake.

The distance between two e-commerce markets will be defined by the nodes which are between them, the nodes themselves will represent rank of countries. Rank of countries however will be determined by their proximity to the source country of the e-commerce, ascending. The effect of price discrimination, while present on the real market, will not be taken into account in this model. This is due to the fact that while being present on the web market it is unclear of why it is happening precisely. The causes could be multiple, one of which could be the fact, that companies include the transport cost for their goods already in the final price on the local market. I.E. amazon has more e-commerce website addresses, these vary by the country you are in. Some examples of such would be amazon.co.uk, amazon.de and at last but not least amazon.com. While the prices differ on amazon.co.uk from amazon.com this could be due to the fact that amazon.co.uk already incorporates the transport cost of the goods to the UK, therefore forcing the company to practice a higher price level which would be the composite of the main price and the aforementioned cost of transfer.

This being said, we cannot be sure whether the price differs in order to either undercut by a small margin the prices of other e-commerce websites of that region or to include delivery cost into the final price. The taxes and duties could also play a vital role in setting the price at a higher level for a certain country. This uncertainty determines us in our web market model to assume that the difference in price is due to the delivery costs alone and therefore be ignored, since we already incorporated delivery costs in calculating the e-commerce rank.

We are going to see multiple scenarios of e-commerce collusion and the way it could be illustrate by networks. The first case which we are to present is the case of a two company e-commerce competition collusion.

4. Two Company Market collusion

For this case we are to assume two e-commerce companies, let denote one of them A and the other B. We are to assume that on this web market there is no price discrimination, therefore the price of the company A is given only by its prices plus the delivery cost, the same method will be applied to company B.

Let the distance between these companies be n nodes, each node representing a country. And the delivery costs be denoted as $C = c_1, c_2, c_3 \dots c_n$, the prices of companies on markets denoted by nodes will be $P = p_1, p_2, p_3 \dots p_n$. The prices practiced by the companies themselves will be denoted by P_A and P_B respectively. K_{ij} will denote whether the company would still be profitable on that market or not and will take the form of:

$$K_{ij}^A = \begin{cases} 1, & \text{when } P_A + C \leq P \\ 0, & \text{when } P_A + C > P \end{cases}$$

For company B the company influence rank would be:

$$K_{ij}^B = \begin{cases} 1, & \text{when } P_B + C \leq P \\ 0, & \text{when } P_B + C > P \end{cases}.$$

Further we are going to check whether K_{ij}^A is met and for the number of C that cannot fulfill the profitability we will call it a rank of influence for company A. The same rules will be applied to company B.

We have to note that if the cost C is to be 1 for each node than we can just multiply it by the number of nodes to see the distance of e-commerce influence and this distance will depend solely on the prices P and the price set by the e-commerce itself.

For this we will have the following expression:

$$K_{ij}^A = \begin{cases} 1, & \text{when } P_A + n \leq P \\ 0, & \text{when } P_A + n > P \end{cases}.$$

And for the company B it will look the following

$$K_{ij}^B = \begin{cases} 1, & \text{when } P_B + n \leq P \\ 0, & \text{when } P_B + n > P \end{cases}.$$

In order to get to a more concrete case we are going to assume the influence of company A as being $\frac{n}{2} + 1$ and for the company B the same. Then we will have 2 ranks of countries (nodes) that will have competitive collusion between the two e-commerce companies.

The graph for this collusion can be seen in the following figure:

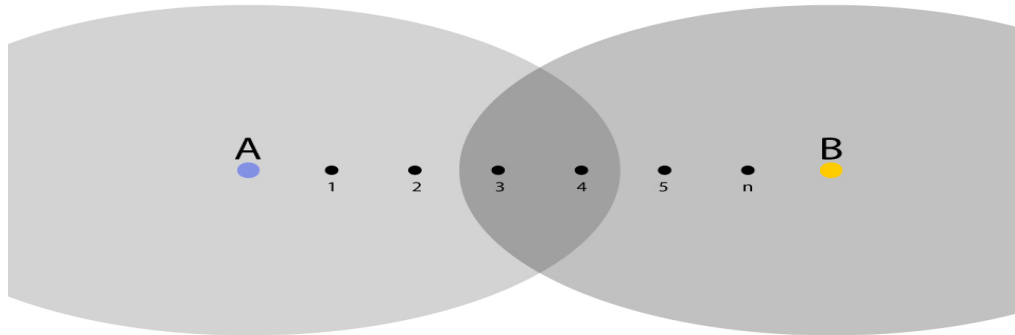


Figure 2: Competitive collusion for Companies A and B in case of $\frac{n}{2} + 1$ rank for each of the companies (Company A perspective)

Source: Developed by the author.

From this figure we can see that the competitive collusion will take place in rank 3 and 4 countries from A's perspective. However if the requirement K_{ij}^A equals zero from the beginning then we are talking about a small e-commerce that cannot be profitable outside of its country of origin and competitive collusion will take place only in case that their country will be in the influence of another e-commerce.

Presuming that each rank of countries has its own local e-commerce that has an influence rank of 1 and therefore is limited to only its local market, then the competition between the larger e-commerce and the local one will be brought down to the Awareness Trust Reputation and price model.

5. Three Company Market collusion

Denote companies A and B discussed before and add company Y. For these companies the e-commerce influence rank determination process will be the same as it was in the previous case. What will be different is that in this case we could have collusion between two companies and not have collusion with the third. I.E. we can have a collusion between A and Y and not have collusion with B. Or we could have a case when companies have a collusion of different strength. Assuming that we have a collusion between companies A and B, of two ranks of countries, and only have collusion of 1 rank of these companies with company Y.

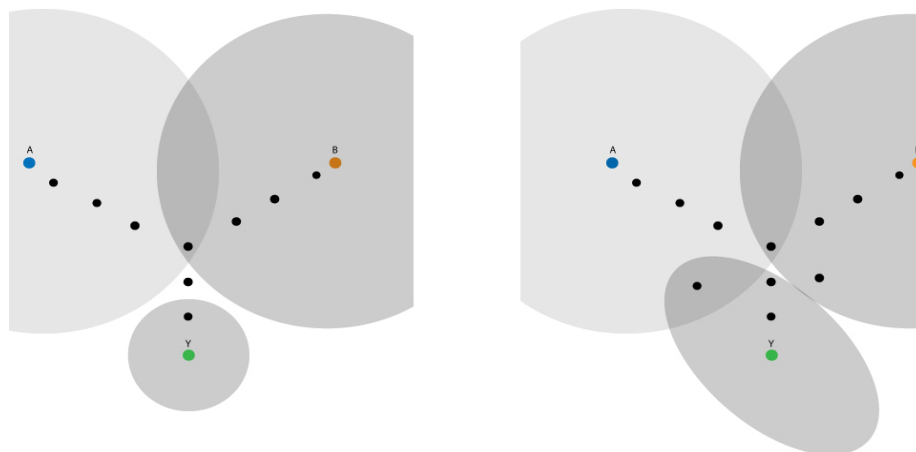


Figure 3: Three company collusion irregular cases

Source: Developed by the author.

We can see that in these two cases the collusions are different since we have more variables included in the model such as P_Y and K_{ij}^Y , which makes it hard to predict. However in a perfect case when the cost is $c=1$ (for each node) then we are more likely to see a collusion market for all of the three e-commerce at the same time.

However even though we have collusion and sometimes can determine it accurately we could not predict the behavior of companies in such a case, since the market where companies have competitive collusion might be an insignificant market for either of them (or both) and not influence the A, B and Y e-commerce prices whatsoever.

In conclusion to this model we can say that the web market is a distinct market that has to be treated separately, as at the moment it doesn't have a clear market definition method and therefore cannot be accurately analyzed by classic market analysis methods.

We can state that the web market is a complex sector which consists of many segments. This market isn't driven by price based competition, as we stated before, it is more of an awareness, trust, reputation driven competition, if we are to speak about the web market companies'

competitive collusion, while it is still price driven if we analyze the web market versus the real market competition.

Another conclusion that we reach is the one that reputation poses a competitive advantage and as we can speak of a web business as being international by definition we can see the effects of a country's reputation as well as that of the company on the country's market. This in turn can help us better understand why some foreign web companies are preferred over the other ones, by customers.

The economics of networks models and theory is the best to describe the competitive collusion on the web market as it is very important, whether a company has a link to a market in order to consider this market as being a potential market for the company.

Though this model provides a useful insight into the way competitive collusion takes place between two web companies from different poles, it is rather hard to be accurately applied due to the lack of awareness in this model. The awareness mentioned before is not the awareness of a web company but the awareness of the majority of consumers that it is a possibility to order online from an e-commerce other than that of your country.

6. Conclusions

The model presented in this paper shows that it is not necessary for two web companies to be located in the same country in order to have a competitive collision. This could be one reason why everyone knows and uses larger e-commerce retailers such as amazon.com and e-bay.com, often in the detriment of the smaller, yet local counterparts.

This model however could be improved in the field of actually calculating the distance of influence of an e-commerce, this can be done, by calculating the geodesic distance as well as more work could be involved in the improvement of a three company game.

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THE REFORM OF AGRIBUSINESS SECTOR OF THE REPUBLIC OF MOLDOVA IN THE TRANSITION PERIOD

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Abstract

The reform of the agricultural sector is a basic component of national economy's reform in the long process of creating the market economy. The formation of functioning of agricultural market on competitive principles needs: to transform (reform) the state ownership to private, to create adequate rural and agricultural infrastructures, to work out the adequate agricultural policies, simultaneously to realize institutional and administrative reforms adopted to new orientations of the market economy, to restructure the processing industries and preserve the environment. The involvement of state in the socio-economic development of agricultural sector follows the formation of effective farms based on the restoration of the private proprietorship, the technical modernization of this sector, and to develop the national biological patrimony, to ensure food security stabilization of prices at agricultural products by establishing farmer's income and increasing budget's accumulation based on a modern and stable system of import-export taxation.

Keywords: market economy, economic reforms of agricultural sector, private ownership, processing industries, demand and supply.

JEL classification: Q13

1. Introduction

Since ancient times Moldova's agriculture was the foundation of its economy, the welfare of the population, and now it is one of the main items of export and GDP's growth. Moreover, this sector provides food security of the country, has important ecological and social functions, as it is directly related to the environment and employment of the rural population. In 2002, there was completed the implementation of the National Program "Pământ", that resulted in the privatization of land and its return to the peasants - those who worked it. In 2003, which was the first year after the formation of land owners there functioned over 31.4 thousand economic entities [5, p.469] in the country which could determine the path of its development, and therefore the fate of the agri-food sector in Moldova. In the same year, in the total area of 3384 thousand hectares in the Republic of Moldova, 2534 thousand hectares are agricultural lands, of which over 70% is arable land, more than 300 thousand hectares of permanent crops. Out of 4 million people living in that period in the country, 49.5% of the employed population worked in the agricultural production and processing industry.

The agricultural complex (AC) at that time constituted more than 50% of GDP and 63% of total exports of Moldova. The authors of this paper proposed to consider briefly a complex way of Moldovan self-identity on the example of agricultural sector during the transition period.

2. Formation of individual households on the basis of private ownership of land

In the early 90-ies of the twentieth century Moldova entered by radical reforms of relations of production – from the central planning and management of the economy to a market system. At that point in agricultural works there have been involved over 63 thousand tractors, 5.5 thousand harvesters, and 34 thousand trucks. In the 80-ies of the last century there were supplied annually up to 1.000 units of fertilizers, more than 600 units of sprinklers, many other agricultural machines in agriculture. The irrigation system has reached 12% of arable land. Every year there was attracted significant capital of investments that allowed to farm in an intensive and effective manner. In 1991 there functioned 534 collective farms and 389 state farms in the country, on the balance of which (in prices by 1984) about 8 billion rubles constituted fixed assets and 25 billion rubles non-productive assets (excluding land) [1, p.2].

The degradation of agri-industrial complex (AC) in Moldova coincided with the beginning of major reforms in the country. In 1990, the concept of transition to a market economy was adopted, and in 1991 – the program of transition to market economic conditions, then the concept of agrarian reform. In this regard there were adopted and implemented a package of market laws, legal, various mechanisms regulating market relations. Among them we can mention the laws on “Property”, “Land Code”, “Land Tax”, “State land’s management, land cadastre and land monitoring”, “Peasants’ farms” etc.

It must be emphasized that the transition from the state and collective farm property to a private one proved to be difficult. There were no professionally trained specialists in this field. Some people naively believed that the way of transition could be completed in 1.5-2 years, reforms were often carried out from the perspective of previous socialist experience. Often, there occurred imitation of reforms that continued the agony of numerous unprofitable farms which debt exceeded their assets. In 1994-1996 there was planned to successfully transfer to large collective farms and state farms 50% of shares of food processing plants, fruits and vegetables, canned goods, wine, meat and dairy, animal feed industries. The creation of joint-stock companies in agribusiness, would close the loop after the producer of the entire promotion chain of goods to the consumer, maintaining the technical and production infrastructure as a unified system – matrix of all economic complexes, and at the same time maintaining control “from below” (from shareholders) on the progress of economic activity of all business entities, “stacked” in a closed cycle. This idea was not developed. In fact, the issue of shares was not carried out. The control from the government agencies of agricultural enterprises was not practically performed.

The entire agricultural sector in 1996 was, according to some estimates, unprofitable. Traditional suppliers of high quality seeds, fertilizers, agricultural machinery and agricultural markets and processing industry have been lost. Essentially, there was dismantled the system of procurement and processing of raw materials in consumer cooperatives as small wholesale link in the agro-industrial sector of the country. There was a precipitous decline in cereal production, pulses, industrial crops, tobacco, completely disintegrated volatile oils industry which was once essentially lucrative. Low efficiency in the livestock sector has led to a reduction in livestock and

poultry, the effectiveness of irrigation system collapsed; the machine-tractor park began to fail. Because of the widespread job losses and the depopulation of the country – the most productive sectors of society began to immigrate in droves.

According to the concept of agrarian reform in 1992 provided not to destroy collective and state farms, and use these shapes to build large commodity competitive farms, changing only the conditions, rules of economic activity, management and forms of payment, i.e. investing in these forms of new content based on private property and competition. However, the Constitutional Court in 1995 recognized as unconstitutional the measures of constraining the output of collective farmers, together with the release of their ownership on the land. In 1998, the Parliament by its decision abolished the collective farms without offering them other organizational and legal forms of agribusiness. Not having a local responsible government authority in the field of state and collective property; in 1984 – 86% of all fixed assets of the Republic, farms' properties and consumer cooperatives were stolen nationwide. Under these conditions, by passing the involvement of Ministry of Agriculture, with the financial support of foreign funds there started the legal registration of property rights of peasants to land quota under the National Program "Pământ". By that time there was created a market land. There appeared a class of owners, about 75% of agricultural land was privatized. Most of the products were produced by the private sector.

3. Agrifood Market after privatization of the land. New channels of distribution and sales

The market represents an economic sphere in which the production of goods takes the form of offer and the consumption needs (productive or individual) as the solvent demand of goods. The term "market" usually expresses two distinct ways: either the venue where a transaction takes place or the conditions of this transaction.

We call agricultural markets the exchanges that relate to agricultural and agro-industrial markets exchanges that relate to agricultural products by producing industries (food and nonfood). These two categories are different: agricultural products are, in most cases, heterogeneous products, often perishable, offered to consumption in the fresh state or after the minimum primary transformations. The agricultural products are stabilized products which involve secondary and tertiary activity that can be stored and preserved for a certain time period, are differentiated, marked and homogeneous for a certain brand.

After Malassis and Chersi (1992) the markets which compete in the transfer of markets from agricultural and food production stage to the stage of consumption may be grouped into four categories, depending on their location in the food system:

- basic agricultural product markets in the agriculture;
- food products markets in the food industry;
- consumer markets in the households;
- international markets for export and import flows worldwide.

This system is complex and dynamic, having multiple interdependent markets upstream and downstream.

It must be taken into consideration that concrete agricultural and food markets, with a few exceptions were almost never competitive markets in terms of pure economic theory, and those

that remain tend to disappear. Market as an area of transactions, is basically a reflection of the status and development of agrifood market, of forms of social organization and economic interests of the sector, the degree of its development, capitalization and concentration.

Agriculture being a vital industry for any country is the most powerful factor in harmonizing the economic development. Agricultural production was, is and will be forever a condition without which the human society cannot exist. Agriculture, being traditional for Moldovan population was and remains a basic occupation. Moldova is a country at this stage of agriculture.

In the centralized economy of the country the agrifood sector of the Republic of Moldova was relatively developed with its share about 40% of GDP, 75% of exports. The population is of 4.3 million inhabitants; mostly all were employed in agriculture. In 2012, according to official data, the agriculture accounted for 12.2% of food industry and 11.2% of G.D.P. The employment in agriculture constituted 27.5%, in processing industry – 10.9%.

During the transition from the centralized economy, until 1990, Moldova was specialized according to the division of the labor union that marketed the agricultural products all across the USSR, which collapse for Moldova signified:

- apocalyptic loss of external sales of agricultural products;
- decollectivization, restitution of land ownership;
- lack of energy resources, of capital stock, of tractors, agricultural machinery and modern technologies.

As a result of fulfilling the “Pământ” program in the agrarian sector, there appeared a new type of corporate enterprises instead of collective farms and state farms: 95 stock companies which constituted 5% of total new forms; 111 cooperative of agricultural production (6%), 300 state enterprises (16%); 1118 limited liability companies (62%), 229 other types of agricultural enterprises (12%). Separately we place the peasants’ farms – 283.2 thousand [2, p. 15].

Land privatization was the first and most important phase of land reform. This socio-economic process of vital importance had positive and negative sides, including:

- Agricultural land, as mentioned above, was chopped into small parcels, which influenced the economic efficiency of land fund;
- There was a mismatch between the size of farms and the implementation of modern technologies for processing the soil;
- The agricultural machinery park does not match to the new conditions of organization and functioning of agricultural households;
- The staff hadn't management, economic and technological trainings.

Following the land reforms there had also changed the distribution of agricultural areas by ownership. The total area of agricultural land in 2012 amounted to 2498 thousand hectares, or 73.8 percent of the total land area of the Republic of Moldova, including arable land – 1.8105 million hectares and 288.7 hectares for perennial plantings. Of sown area with crops about 49 percent are agricultural enterprises, 31 percent – farms and farmers, 18.8 percent – households, 1.2 percent other forms of property.

The structure of agricultural production can be considered as a relatively stable one, which generally for Moldova is 70 percent – of vegetal and 30 percent – of animal origin.

The direct disadvantage of Moldovan agricultural industry generates the indirect processing of agricultural raw materials. In 2012, the output of processing industries increased by 11%. Within the processing industry, 4506 manufacturing firms operated in 2011 compared to 4021 in 2007 and 4630 in 2010 [6, p.285].

The share of processed agricultural products in the processing industry is 80 percent of the structure that is:

- Food and beverages – 50.3%;
- Manufacture of tobacco – 2.8%
- Production, processing and preserving of meat and meat products – 12.6%;
- Processing and preserving of fruit and vegetables – 8.9%;
- Manufacture of bread and pastry products – 9.5%;
- Dairies – 10.6%;
- Wine – 17.2%.

Agricultural growth in the economic increase improves its activity at a slower pace compared to the average growth rate. The development of exports, insignificant in our vision and acceptance of considerable imports of agricultural products further complicates the situation of local farmers.

As a result of land reform there were structured differently distribution channels and selling of agricultural products.

Sales of main vegetal products by all farmers in the past three years are mainly sold in the market, decentralized individually through its own sales network, through the public markets, through transactions:

- Cereals and pulses – 86%;
- Sunflower – 74%;
- Potatoes – 98%;
- Vegetables – 72%;
- Grapes – 46%.

Through the acquisitions made by enterprises and organizations collecting and processing agricultural products it is sold:

- Sugar beet – 100%;
- Tobacco – 77%;
- Vegetables – 28%;
- Grapes – 54%;
- Sunflower – 26% [6, p.348].

Agricultural policies are some regulators of agriculture' operation in any country. There is no country where the agriculture exists without specific agricultural policies. The support of agricultural production and the use of more efficient technologies create facilities:

- farmer increases the offer;
- market price becomes lower;
- imports are reduced;
- exports grow;
- the manufacturer improves his product structure, the demand for capital, personnel.

The success, failure of agriculture and the processing of agricultural products is the result of many vectors:

- brokerage services;
- exogenous services;
- technology services.

In the triad: agriculture - processing - trade, agriculture is being disfavored in most cases.

No government can afford to be indifferent to the problems of consumption. As a criterion, with respect to food consumption, the subsidy on food prices, which consequently contributes to the increase of consumption, the increase of food imports, the increase of budgetary costs. Another component of this criterion is price controls, production becomes distorted, there can occur the shadow market. To the consumption problem, as the criterion, is also attributed food aid. This contributes to increased consumption, to reduced market price, to decreased production, to reduced imports. This economic mechanism of solving this problem does not create premises for the development of production and therefore can have positive effects in the short term, in long term one having only negative effects.

As a result of the analysis of the Ministry of Agriculture and Food Industry of the Republic of Moldova, we can mention that the domestic agricultural export is oriented towards traditional markets mainly towards those to CIS, with developing markets, currently unstable ones. The export to these countries involves big risks. The diminishing of the export of agricultural products was influenced by reduced competitiveness of local agricultural products on domestic and external markets. A good moment constitutes the positive commercial balance of agricultural products for 2003-2010, with the exception of the year 2008 when the commercial balance was negative, being 36.3 million USD.

One of the main important governing function and of the agricultural sector is the security of providing the agricultural products, the stability of local production which implies the government's support. The experience of developed countries offers some characteristics of market relations in agricultural sector [3, p.19].

The agriculture and the market of agricultural products are not completely self-regulated by the state, in case when the demand for agricultural products is characterized by a decreased elasticity, which is specific for the agriculture. At the same time, the agricultural production which is of the first need, some of them being irreplaceable, then their demand cannot be reduced with the prices' increase.

The demand for agricultural products varies relatively and is determined by more factors which are specific for local conditions (peasants' households, private enterprises, auxiliary enterprises, etc.). Therefore, the identification of these specific factors is relevant in the actual conditions from the agricultural market.

The supply of agricultural products based on the modifications of prices has a gap in time, especially in the plant growing sector as well as in the zootechnical one with a long cycle of production. The production volume and the supply volume mainly depend a lot on the soil and weather conditions which have a probable character in the nature and in consolidating the risks, as well as the biological processes linked with crop cultivation and animal growing, more than this, there is a gap between the obtained production and the supply of agricultural products on the market which consolidates the negative impact upon the inflation process. Excluding these impossible characteristics for taking correct decisions, the market conditions are mainly relevance.

Analyzing the evolution of global vegetal production for all categories of households of the Republic of Moldova, we observe a minimization of global agricultural products in 2012 in comparison to the previous year by 2356 thousand lei, but in comparison to 2001 with 11617 million lei. As a result, there takes place the decreasing of vegetal production by 4405 million lei in 2012 in comparison to 2011 and by 2070 million lei and 5772 million lei and services - by 21 million lei and by 236 million lei in 2001 in comparison to 2012.

Currently, the socio-economic situation of agricultural complex is most complicated. There are noticed tendencies of their unbalancing-reducing the supply volume of local producers and accelerated increase of prices in comparison to the increase of population income. This thing takes us to insufficient usage of production capacities of the agriculture as well as to difficulties in commercializing agricultural products in free economic zones, as well as to the efficient formation of regional market's functioning with agricultural products.

The agriculture of the Republic of Moldova faces a difficult stage of reforms, of re-orientating from a centralized planned economy, mainly based on public property to the economy which is oriented towards market relations, based on private property. The reform of national agriculture is accompanied by integration processes, by globalization, liberalization of international commercial exchanges.

The state's interference, in our opinion, is mandatory not only in the process of establishing the prices, but also in the process of regulating the market of agricultural products creating economic premises for the development of agricultural products in qualitative and quantitative proportion. A special role is attributed to the direct support of the agricultural producers by the state by offering subventions and compensations which is an important tool in the model of increasing and developing the agricultural sector.

The major costs of inputs on production unit and the low productivity per hectares, followed by a low quality of some agricultural products, are the main factors in the weak competitiveness on national and international market of local products.

The local prices which benefit our agricultural producers are far less than the international ones and this has an effect upon the profitability of the agriculture, which at present is the least preferable from all the sectors of national economy. So, as a result of politicians' distortion, market's imperfection and inefficiency, important transfers of profit from producers to other subjects of the commercial network take place. By cumulative effect, these distortions reduce the agricultural income, conditioning a failure in investments, which in its turn causes the decrease of productivity of uncompetitive products on export markets and of the proper consumption, the thing which limits the income.

The success of forming the agricultural market depends on the accelerated reforms outlined in the agricultural sector; the formation of new types of agricultural enterprises based on free association of small owners; functioning of market's economy mechanisms; modernizing the techniques and technologies; improving the legislative framework in the domain of agriculture; initiating new mechanisms of financing and subsidizing the agriculture; the degree of rural economy's diversification; educating the economic behavior of farmers and creating a flexible mentality to different changes.

4. Conclusions

After the completion of land reform most of the agricultural land is in private ownership. New organizational and legal forms of agribusiness development were created, based on private form of land and economic liberalization of the agricultural sector. The number of peasant farms (about 283.200) greatly exceeds the number of other organizational and legal forms. Distribution of land made on an equitable basis – the land was received by those who worked it. Privatization has given impetus to the development of agriculture. The agricultural sector has gradually become adapted to the new economic conditions. There appeared agricultural business. Agricultural exports and food consumption slightly increased. But the revival of the agricultural sector due to the change of ownership of land has its limits. Further development of agribusiness in post-privatization economic conditions (giving it stability, efficiency, competitiveness, infrastructure, storage, processing, products' sales) are possible only when there is available and significant investment, subsidies, loans. By 2010, according to the estimations by the World Trade Organization, the agricultural sector of Moldova needed 600 million lei annually at least until 2010.

An important lesson to be drawn from the land reform is the perversity of “equalization of privatization”. This approach is based on the principle of “not to offend anyone”, to give land to those who work it. This led to excessive fragmentation of land. The average peasant farms had 1.5-2 hectares of land with subsequent parceling of this area in various locations. There appeared contradictions between the people about the production, distribution, exchange and consumption of agricultural products, the lack of effectiveness of small areas of the machine and tractor equipment, while the use of this technique provides the required performance only at its operation on large areas. Small farms could not be objectively specialized enterprises, efficient and competitive agricultural producers in the market. “... In the Republic of Moldova, there are 903 thousand households, the average size of a single enterprise is 2.5 hectares, which is usually divided into three plots with an average size of 0.8 hectares” [4, p.38].

The operation of small scattered plots belonging to the same owner, and excessively fragmented structure of farmland at the national level led to a decline in crop productivity, induced breaking rotation in the crop rotation, primitive use of fertilizers, poor soil and water quality, increase level the vulnerability of agriculture to natural risks. Minor scattered areas do not allow the safety of individual irrigation systems in the areas of agriculture venture. The consequence of such an organization in case of crops is fragmented and inefficient on livestock production. Feed mill industry has not been restored, there disappeared qualitative pastures.

The lack of financial resources, domestic certified materials, high prices for imports of high-quality working capital, fuel and lubricants, fertilizers, machinery; inaccessibility of farms to bank loans (even when the land does not cover the security needs of the bank), the lack of markets and primitive conditions of the sale of products in the domestic market, the low efficiency of agricultural production led to the impairment and depreciation. At the national level the land market sometimes does not dominate the supply and demand on the land, but the need of a peasant is either to sell for a knockdown price, or to rent out their land because he cannot handle it. In circumstances when the peasant offers extremely low prices for his plot of land, he does not sell, but does not process because he cannot. This has contributed to the existence of vast areas of non-cultivated land in Moldova. The losses from all these were huge at national level. Therefore, there

were only a small number of owners able to buy large areas of land and create medium and large enterprises with plots from 500 to 1,000 hectares of land. As a result, about half of the country's farmland belongs to the few owners who are able to create high-tech competitive commercial farms. Although the trend of creating high and efficient farms should be maintained, it must be emphasized that in our country this progressive process of the organization is due to the social polarization of the rural population.

An important issue that has remained unresolved for the authors of the national program "Pământ", is that the reform failed to close the whole cycle: production - provision - storage - cold storage - processing - market - the consumer. The loss is obvious to all: producers, processors, buyers. So now, the manufacturer is looking for a storage, refrigerator, processor, market for their products, and practically sells its products mainly unprocessed, through intermediaries, but the processor "is looking for his" producer or tends to create the production. There are no modern processing units of food production, the entire post-harvest infrastructure, transportation, storage, processing, packaging. The consequence of this structure of agro-food trade is the low value of exports and the high costs of imports. The Republic of Moldova has not yet begun to systematically introduce the European standards for food safety, without which the access of Moldovan producers to capacious markets of CIS and EU is difficult.

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IMPROVEMENT OF PRICE FORMATION MECHANISM IN PUBLIC EATING ESTABLISHMENTS

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Abstract

The author proposes a new mechanism of price formation in public eating establishments, which represents a combination of goods and services: a) food preparation, b) sale of goods, c) organization of consumption. Since public eating establishments represent an activity which combines the production with services, the author suggests keeping separate accounting of production and circulation costs. This is only the initial phase of price formation mechanism in public eating establishments.

The next phase is to establish the resulted price, which includes the associated discounts depending on consumers' demand for cooked dishes and marketing actions to serve customers.

The author concludes that the price formation mechanism cannot be based on the calculation of cost of goods plus the bonus of trader, but this process should be adjusted through the marketing approach based on consideration of factors (behavioral, visual, indirect etc.) which influence the customers' behavior.

Keywords: *public eating establishments, mechanism, price, premium of trader, weighted average price, marketing approach.*

JEL classification: D24, E64

1. Introduction

The specific of price formation in public eating establishments is related to the specifics of business activity in the respective field. The transition of catering business to market economy increases the responsibility of companies in the field of price formation for raw materials, purchased goods as well as their own production.

The prices in public eating establishments belong to the system of retail prices, but the methods of their calculation differ from the methods used in retail trade. This specific is due to the fact that public eating establishments are producing and selling their own produced goods as well as purchased goods (bread, confectionery, tobacco goods, etc.).

At present the majority of public eating establishments are making their own rules for price calculation through assessment of market demand and supply. The mechanism of price formation is very complicated and is regulated by the Instruction regarding formation of prices in public eating establishments of all types of economic agents of Republic of Moldova no.12 adopted in 1996, the Government Decision no. 547 of 04.08.1995 "About the measures of coordination and regulation of prices (tariffs) by the state" and other legal texts.

2. Specifics of price formation in public eating establishments

Generally the price formation is based on the production cost of each product or service. Despite that, in public eating establishments the production cost per unit cannot be calculated because they do not keep records of expenses per unit of goods. For this reason they determine directly the selling price of good, which is interpreted as the retail price. But this price is different from the trader's retail price because they use an extra premium in price of goods. This extra premium depends on the type of facility and its specialty, methods of service and purchasing capacity of customers. Besides that they use different prices for goods purchased from other sources. Thus, the price of raw materials is shown in the records as the retail price, which is calculated as a sum of purchasing price, trader premium and VAT.

Some types of raw material and goods used in preparation of a course are bought in industrial packaging at retail prices per each bottle and pot, including the packaging (gross). Because in the calculation of a course price the raw material is included in kilograms it is necessary to determine the price per kilogram of raw material taking into account the net weight of the bottle or pot.

The premium amount is regulated by the Government Decision no. 547 of 04.08.1995 "About the measures of coordination and regulation of prices (tariffs) by the state" and further amendments to it. According to Article 3 of this Decision the amount of premium should not exceed 30% for the 3rd category public eating establishments, for the 2nd category establishments – 70% from the retail price or raw material cost. The amount of premium is unlimited per each type of culinary preparation (with the exception of the 2nd and 3rd category establishments) if it is approved by decision of management and are not social goods.

3. Stages and methods of price calculation in public eating establishments

The process of price calculation can be represented as follows:

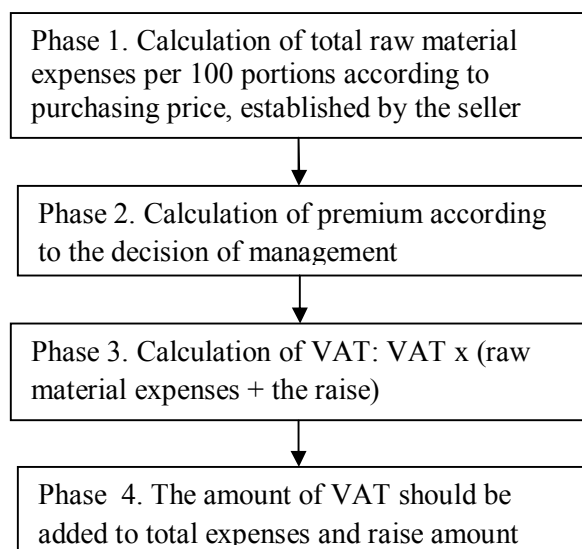


Figure 1: Calculation of selling price of goods at public eating establishments

Source: Developed by the author.

The calculation of selling price per each good is made using technical cards, which contain the following information: consumption of raw material, quantity of issued goods, average price. The

average price is determined as a ratio of total amount of raw material (in retail prices) to quantity, taking into account the waste allowance (see Table 1).

Table 1: Calculation of average price per 1 kilo of cabbage

Retail price, kg	Received quantity of goods, kg	Total value	Waste allowance	Quantity of goods evidencing the waste allowance
10.87	31.92		0.8465	
11.90	18.37		0.8465	

Source: [8].

This method of calculation allows to avoid errors in calculation of goods price in public eating establishments and to accumulate a huge amount of information regarding direct costs per unit of raw material used in this estimation. The information shown in technical cards will be used in the accounting for calculation of selling price of a course and confectionary (see Table 2).

Table 2: Technological card for preparation of dishes

Name of course: **Pyramid of eggplant with cheese**

Raw material	Incoming and outcoming norms			
	I		II	
	Gross	Net	Gross	Net
Eggplant	945	898/700*		
Cheese	204	200	205	210
Total: Amount of resulted dish		800		800

* Amount of roasted eggplant

Source: [8].

The technological card for preparation of dishes is issued for original dishes, because these recipes are not contained in the Recipe book of 1981 and they should be approved by the management.

An essential part of retail price represents VAT, which amounts to 20%, notwithstanding with VAT of purchased raw material and goods – 8 or 20%. Thus, the selling price in the calculation card would be determined as raw material cost plus premium of public eating establishment plus VAT amount.

Taking into account the huge number of goods, it is too complicated to perform such calculations on every day basis at public eating establishments. Therefore it's reasonable to calculate the normative cost of preparation of goods for a month. Using the method of normative cost would allow to plan and set a norm for preparation of goods, to prepare internal reports and set a control based on normative costs.

On the other hand, some types of raw material, shown in the Recipe book of 1981, are not always available. In this case it's possible to substitute the item with another raw material using the substitution ratio contained in the Recipe book.

If the company decides to produce a new dish, for which the norms of waste and losses during preparation is not available in the Recipe book, then companies may perform the control testing by themselves and the results should be fixed in a paper.

The specific of price formation in public eating places consists in the fact that the price for the same item will change because of fluctuation of raw material and purchased goods price, and thus the selling price needs to be recalculated.

In public eating establishments the production cost is determined without raw material cost. It is explained by the fact that raw material and purchased items by their economic meaning represents goods, which can be sold to final customers like in the retail trade. For this reason the production cost in public eating places represents not the full cost of production, but only costs occurred with their own production (transportation and warehousing of raw material and semi-finished products, wages of employees in production area, heating and electricity cost for production purpose, depreciation of fixed assets in the production area etc.).

At present the public eating market has started a new era of development. The public eating market not only fulfills consumers' demand for cooked goods and services, but also represents a chain to cover the demand for social important goods. The Addendum no. 3 to Government decision no. 547 of 04.08.1995 "About the measures of coordination and regulation of prices (tariffs) by the state" contains the list of social important goods (services).

At the same time the Government decision no. 547 does not limit the prices for dishes, but only the retail prices of goods. It does not encourage the public eating establishments of 2nd and 3rd categories to include in their range of goods dishes at lower prices for population with low income. The State should designate a chain of social eating establishments without category to serve population with low income by offering them a reduction in income tax or VAT.

In our opinion it is reasonable to approve a Government decision "Regarding approval of mechanism of price formation for goods and services of social importance" by adding Article 4 concerning the formation of prices in public eating establishments as follows: "For social eating places without category the prices for dishes will be limited to a narrow range of dishes according to the attached list of socially important goods/services".

According to the National Accounting Standards the cost of goods distributed in public eating places is constituted only from the cost of goods which were used to prepare these dishes because public eating establishments are considered a trade activity. On the other hand, this method of cost calculation in public eating establishments is criticized by some specialists, who believes that public eating establishments represent a process of dishes preparation the same as in the food processing industry and suggest to increase the basis for calculation of VAT by adding all costs for preparation of dishes: cook wages, tear-and-wear of fixed assets, electricity and heating etc. despite the provisions of National Accounting Standards.

In our opinion, both ways of VAT calculation do not take entirely into account the specifics of public eating establishments, which represent a combination of goods and services referring to: 1) preparation of dishes, 2) commercialization of goods, and 3) organization of consumption. To express the real content of the activity of public eating establishment we suggest using the following formula:

$$P_g = P_m + S \quad (1)$$

where

P_g - the product as a result of the whole company activity relative to customer's needs;

P_m - the material product, which includes preparation of dishes, confectionary in public eating establishments;

S - services provided (basic services to satisfy the gastronomic needs, services to get a profit, services to organize the consumption depending on the efforts of employees, additional services to increase the attractivity of basic services, services which stimulate the increase of value perceived by the customer, nonmaterial services noticed by customers through different benefits offered).

Thus the service represents an activity which increases the utility of a product for the customer. The quality and quantity of services provided are assessed in accordance with the National Standards. All these elements should be taken into account while fixing the amount of trader's premium by the public eating establishment. The trader's premium should cover all direct and indirect costs related to preparation and serving meals.

It's reasonable to take into consideration a set of indirect price factors, such as psychological or subjective factors. For evidencing indirect factors the administration of public eating establishment should contact more often with customers and know its competitors. If the company decides to fix higher prices compared to average prices its decision should be justified with an exclusive customer service.

The most important indirect factors which justify higher prices are: a refined atmosphere, interior of building, category of customers and their financial possibilities, competitors' prices for prepared dishes, additional conveniences when serving customers (a convenient car parking etc.), presentation of special offers in the menu, special service of customers in restaurants and bars (offering free newspapers, magazines, illustrations, paper for notes with a pen next to a telephone set, a menu with specialties of the house signed by the owner etc.). Customers would note these marketing actions and would not criticize the newly established prices. Presenting a dish in an unusual way would change their perception by the customers and often determines the customer to make the choice in favor of the waiter and other personnel in public eating establishments.

The formation of prices in public eating establishments is influenced by psychological factors. For instance, using unrounded prices, ending in 5 and 9 is understood as lower prices compare to prices rounded to 0 (zero). Thus the price of 8.95 is more attractive than 9 psychologically, because the rounding will be made to 8, not to 9. Unrounded prices allow customers to revise their budget and to divide their purchases in several categories: compulsory purchases (food, transportation costs, electricity and heating, etc.), purchases with social purpose (visiting restaurants for jubilees and other events).

The price formation process should take into account some subjective factors also and cannot be based on calculation of dish cost and trader premium only. The modern approach to price formation assumes that calculation of production and circulation costs is only the beginning of the process, which should be adjusted with a set of factors (indirect, psychological and subjective factors). If we compare the prices of the same dish prepared with the same ingredients at public eating establishments of same category in different cities and regions of the Republic of Moldova we will notice that menu prices are very different. This is because the menu prices depend on the standard of life in different cities.

4. Conclusions

Since public eating establishments represent a combined activity of goods and trade (service) we suggest to keep separate records of production and circulation costs. The production costs should include only costs related to the preparation of meals and the cost of confectionary should be calculated based on real costs. The selling price should be determined by adding to the real cost of confectionary the amount of premium, which varies depending on demand and offer situation. The

experts recommend that circulation costs include only expenses related to the organization of consumption in public eating establishments [7, pp. 216-217].

Such an approach would allow determining the price of services in public eating establishments correctly, which is very important for decision making process in the choice of mechanism of price formation for dishes, confectionary and purchased goods.

It is necessary to establish the method of distribution of indirect production costs in the cost of meals prepared during a certain period (decade or month): cooks and waiters' salary, amortization of fixed assets, rent, electricity and heating. The evidence of such costs should be carried automatically using the software which divides the indirect production costs.

Dividing indirect production costs proportionally to the cost of raw material used in the preparation of courses is difficult because there is no direct connection between the costs carried with preparation of meals (cooks salary, electricity and heating, etc.) and the cost of goods used in production. For this purpose it is necessary to revise the method of meals cost calculation through additional research, which is available in specialized literature.

At the same time the separate evidence of production and circulation costs is only the beginning of price formation mechanism in public eating establishments.

It is possible to solve this problem using the Western model of accounting, according to which the selling price depends on the demand level [7, pp. 215-216]. In such case we don't use technological cards for calculation of selling price for each type of dish.

In our opinion it is worth to establish a combined method of price formation based on calculation of basic catalogue price plus the resulted price, which includes associated discounts depending on the demand level for a certain dish. The most important elements which should be taken into consideration while establishing the final price are: identification of potential customers, estimation of demand, anticipation of competitors' reaction, fixing the share of market, selection of price strategy corresponding to this market segment, including a profit in the price, correlation of price strategy with other marketing policies [4, p.382].

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BASIC ASPECTS FOR MODELLING THE BEST OPERATING PRACTICE FOR THE TRANSFERABILITY OF INVESTMENT ECONOMIC BENEFITS

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Abstract

In the current economic context, whether the reference is for a private or government investment, the best practice in managing an investment interest is dependent on both the ability of authorities mandated to represent the realization of investment interest as well as their ability to use complex methods to assist in risk mitigation decision. Knowledge of such methods requires both a target for rational management of investment interest, geared towards best practice in resource allocation and best practice of allocating operational results to specific destinations and a subjective interest linked to increasing the professional performance and/or minimization the decisional risk. This article presents some basic concepts and ways of the practice methodological approach that can be benchmarks for meeting subjective interest related to the development of professional expertise in a form of addressing topics in another way than the classical one, to maximize profit oriented, mainly, to maximize the benefit of the investment made. At the same time, some derived notions are introduced, such as the function of transfer of embodied economic benefit, the function of request for embodied economic benefit transfer, the best practice in the management of operational activity, the best practice in resource allocation or the best practice in operational results allocation.

Keywords: management of investment interest, transferability of embodied economic benefit, the set of allocation possibilities, set of opportunities for realization, returns to scale, linear programming.

JEL classification: C6, G3

1. Introduction

For any operational unit whose presence in a specific economic sector is due to a private or government investment, operational activity assumes a specific set of operational resources embodying potential economic benefits controllable through historical agreements (commercial, labour, etc.), (\bar{r}) , in which the allocation for consumption $(-)$ in specific operational processes ensures the transfer, τ , of potential embodied economic benefits, $(+)$, as expected economic benefits in a lot of specific outcomes, R^+ , for the activity of business unit in the reference economic sector.

For such an investment unit, the specific of operational activity is describable through a referential of m specific operational resources

$$\bar{r} := (\bar{r}_1, \bar{r}_2, \dots, \bar{r}_i, \dots, \bar{r}_m) \quad (1)$$

allocated for specific operational activities, τ , in order to obtain a referential of n operating results specific for the field of activity

$$r^+ := (r_1^+, r_2^+, \dots, r_j^+, \dots, r_n^+) \quad (2)$$

intended for allocation to specific markets (specific trade market, specific labour markets, markets of specific services, etc.) pending completion of expected economic benefits (effective collection of the commercial contracts counter value, meeting the demand for skilled human resources as a result of allocations of qualified human resources on labour markets of specific competence areas, achievement of goals of economies or diseconomies of specific economic interest (local, regional, national, etc.).

2. Basic concepts and techniques in identifying the best management of investment interest

In general terms, given the structural components above, the description of an operational activity makes reference mainly to a quantitative description formulated in terms of “how much of the potential economic benefits incorporated into the available operational resources must be slaughtered in order to have as destination expected economic benefits whose realization is an uncertain certainty”?

Mathematical formulation of such challenges is

$$\bar{r}q := (\bar{r}_1q, \bar{r}_2q, \dots, \bar{r}_i q, \dots, \bar{r}_m q) \xrightarrow{\tau} q_r^+ := (q_{r_1}^+, q_{r_2}^+, \dots, q_{r_j}^+, \dots, q_{r_n}^+) \quad (3)$$

where:

$$\begin{aligned} \bar{r}q := (\bar{r}_1q, \bar{r}_2q, \dots, \bar{r}_i q, \dots, \bar{r}_m q) &= \text{aggregate operational consumption defined by specific} \\ &\text{operational resources, } \bar{r}_i q \\ \tau &= \text{transfer function of embodied economic benefits in} \\ &\text{operational resources} \\ q_r^+ := (q_{r_1}^+, q_{r_2}^+, \dots, q_{r_j}^+, \dots, q_{r_n}^+) &= \text{aggregate operating result defined by specific operational} \\ &\text{results, } q_{r_j}^+ . \end{aligned}$$

For a decision-maker, whether if, by individual investor, is a factor to decide on future investment destination, based on the subjective interests of maximizing the economic benefits expected, or if, by the person of investment interest manager, is a decision factor on meeting investment interest, within a strictly limited quantitative description, the reporting for specific interest has two historical retrospectives: a retrospective on the operational consumption practice and a retrospective on the operational results practice.

For each of the decision makers, the role of two historical perspectives is different. For an investor these are references on the mode of achieving the historical investment expectations by which reporting can substantiate, discretionary, a perspective on future investment destination based on circumstantial interests on meeting current and future subjective economic benefit. Being a subjective term interest, the investment interest is not always an economic interest within the

general economic framework but an economic interest in the sphere of subjective economic framework, the only economic motivation being the maximization of expected benefits. For this reason, we believe that treating the investment economic interest is rather a subject for a sociological or political treatment rather than strictly economic.

For a decision maker in managing an investment interest, regardless of subjective investment interest of the investor, the interest is purely economic, being focused on how to manoeuvre in the areas of intrinsic economic value (not personal interest), subject to his professional expertise. For this reason, the interest of decision-makers in the management of investment interest is (or wants to be) an objective-oriented interest on its expertise in the practice of operational activities management, meaning by this, the personal expertise in the practice of resource allocation for consumption or for effective recovery of operating results.

The descriptive reference framework of the quantitative component that is part of a decision-maker interest in the administration of the investment interest is represented by two adjacent tables.

Table 1: Operational consumption history

reference range		history of specific operational consumption					
		$\bar{r}_1 q$	$\bar{r}_2 q$	...	$\bar{r}_i q$	...	$\bar{r}_m q$
$t - 1$	aggregate operational consumption history	$\bar{r}_1 q^{t-1}$	$\bar{r}_2 q^{t-1}$	...	$\bar{r}_i q^{t-1}$	...	$\bar{r}_m q^{t-1}$
\vdots		\vdots	\vdots	\vdots	\vdots	\vdots	\vdots
$t - x$		$\bar{r}_1 q^{t-x}$	$\bar{r}_2 q^{t-x}$	...	$\bar{r}_i q^{t-x}$	...	$\bar{r}_m q^{t-x}$
\vdots		\vdots	\vdots	\vdots	\vdots	\vdots	\vdots
$t - k$		$\bar{r}_1 q^{t-k}$	$\bar{r}_2 q^{t-k}$	...	$\bar{r}_i q^{t-k}$	...	$\bar{r}_m q^{t-k}$

$t - x$ arbitrary operating range
 $\bar{r}_i q$ arbitrary specific operational consumption

Table 2: Operational results history

reference range		history of specific operational results					
		$q_{r_1}^+$	$q_{r_2}^+$	...	$q_{r_j}^+$	...	$q_{r_n}^+$
$t - 1$	aggregate operational results history	$^{t-1}q_{r_1}^+$	$^{t-1}q_{r_2}^+$	...	$^{t-1}q_{r_j}^+$	...	$^{t-1}q_{r_n}^+$
\vdots		\vdots	\vdots	\vdots	\vdots	\vdots	\vdots
$t - x$		$^{t-x}q_{r_1}^+$	$^{t-x}q_{r_2}^+$	...	$^{t-x}q_{r_j}^+$	...	$^{t-x}q_{r_n}^+$
\vdots		\vdots	\vdots	\vdots	\vdots	\vdots	\vdots
$t - k$		$^{t-k}q_{r_1}^+$	$^{t-k}q_{r_2}^+$	...	$^{t-k}q_{r_j}^+$	...	$^{t-k}q_{r_n}^+$

$q_{r_j}^+$ arbitrary specific operational consumption result

Each of the two tables is a knowledge base regarding operational consumption and operational results expertise in the management of operational activity of reference investment unit in retrospective of k previous operational activities for a decision making time, t .

Mathematically described, the operational consumption history is the Cartesian product of the operational consumption set during the reference period

$$\begin{aligned}
 {}_{r_m} \bar{Q} &= \bar{r}_1 Q \times \bar{r}_2 Q \times \dots \times \bar{r}_i Q \times \dots \times \bar{r}_m Q \\
 &= \{(\bar{r}_1 q, \dots, \bar{r}_i q, \dots, \bar{r}_m q) | \bar{r}_1 q \in \bar{r}_1 Q^k, \dots, \bar{r}_i q \in \bar{r}_i Q^k, \dots, \bar{r}_m q \in \bar{r}_m Q^k\}
 \end{aligned} \tag{4}$$

representing dimensional m space of the expertise in managing operational resources, each of the reference sets being rationally treated as strictly ordered sets between extreme values

$$\bar{r}_i q = \{\bar{r}_i q \mid \min \bar{r}_i q < \dots < \bar{r}_i q^x < \dots < \max \bar{r}_i q\} \quad (5)$$

where:

$$\bar{r}_i q^x = \text{arbitrary magnitude strictly ordered set of specific operational consumption as recorded during the reporting period.}$$

Similarly, the historical operational results are mathematically described as a Cartesian product of the operational results set during the reporting period

$$Q_{r^n}^+ = Q_{r_1}^+ \times Q_{r_2}^+ \times \dots \times Q_{r_j}^+ \times \dots \times Q_{r_n}^+ = \{(q_{r_1}^+, \dots, q_{r_j}^+, \dots, q_{r_n}^+) \mid q_{r_1}^+ \in Q_{r_1}^+, \dots, \bar{r}_i q \in Q_{r_j}^+, \dots, q_{r_n}^+ \in Q_{r_n}^+\} \quad (6)$$

representing dimensional n space of expertise in managing operational results, as in the case of operational consumption, each of the reference sets being rationally treated as strictly ordered sets between extreme values

$$q_{r_j}^+ = \{q_{r_j}^+ \mid \min q_{r_j}^+ < \dots < {}^x q_{r_j}^+ < \dots < \max q_{r_j}^+\} \quad (7)$$

where:

$${}^x q_{r_j}^+ = \text{arbitrary magnitude strictly ordered set of specific operational results as recorded reference period.}$$

For each of the two tables, line items are aggregate consumption (respectively, aggregate results) relative to operational activity undertaken within a historical reference and column elements are historical retrospective for specific consumptions (respectively, for specific results).

Depending on the particular interest of the decision maker, it can be oriented either towards best practice of allocation to operational consumption, based on the transfer function of the potential economic benefits effectively incorporated therein,

$$\tau(\bar{r}q) \rightarrow q_r^+ \quad (8)$$

or towards the best practice of allocating operating income, driven by demand function transfer to economic benefits with future actual implementation corresponding to

$$\bar{r}q \leftarrow \tau^{-1}(q_r^+). \quad (9)$$

According to (8), each operational result is a correspondence for an operational consumption, in other words operating result is a correspondence arguing, necessary and sufficient, the transfer of economic benefits embodied in the operating results or, according to (9), each operational consumption is a correspondence arguing, necessary and sufficient, a transfer request. An operational activity is therefore justified, necessary and sufficient, by two-way relationship between the two corresponding components.

$$\begin{array}{c} \xrightarrow{\tau(\bar{r}q)} \\ \bar{r}q \xleftarrow{\tau^{-1}(q_r^+)} q_r^+ \end{array} . \quad (10)$$

Theoretically, based on the strict correspondence between the operational consumption and operational results, the freedom of decision maker should be discretionary, his expertise providing a set of possible operating results having correspondence with a set of corresponding operational consumptions

$$\bar{r}Q \xrightleftharpoons[\tau^{-1}(q_r^+)]{\tau(\bar{r}q)} Q_r^+ \quad (11)$$

or, in other words, to achieve a set of possible outcomes there are lots of possible corresponding operational consumptions

$$T^{-1}(q_r^+) = \{\bar{r}q | q_r^+ = \tau(\bar{r}q), q_r^+ \in Q_r^+\} \quad (12)$$

respectively a lot of possible operational consumptions are motivated by a corresponding set of possible operational results

$$T(\bar{r}q) = \{q_r^+ | \bar{r}q = \tau^{-1}(q_r^+), \bar{r}q \in {}_{\bar{r}}Q\}. \quad (13)$$

If, in theory, given the foregoing, between the two structural components there are, apparently, a practically perfect correspondence, because of multiple correspondences, obtaining an operational result can be achieved by a variety of different ways, namely, the operational consumption can lead to a variety of possible operating results. In other words, the existence of a wide range of possible results leads to a large range of possible operating consumptions, both the potential economic benefits of the transfer function

$$\tau(\bar{r}q) \geq q_r^+ \quad (14)$$

and the demand function for the transfer of embodied economic benefits

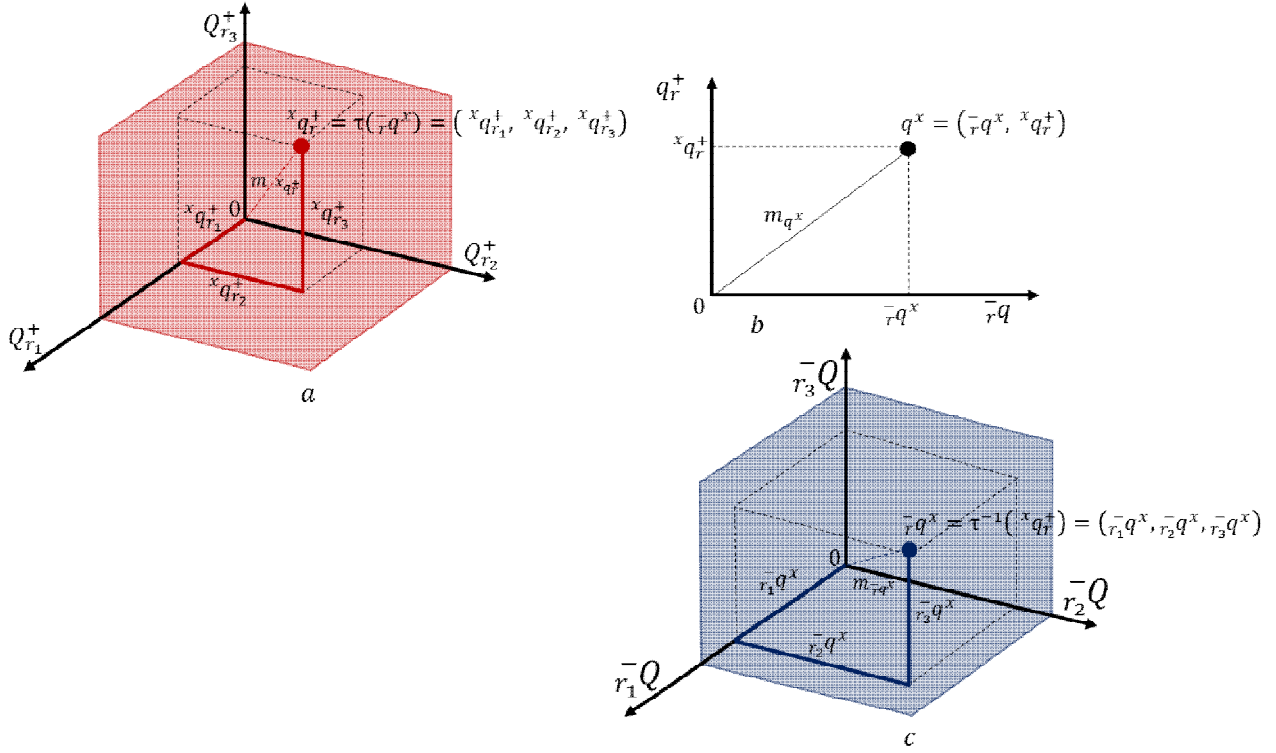
$$\tau^{-1}(q_r^+) \leq \bar{r}q \quad (15)$$

highlighting the possibility of the existence of an incomplete transfer of the potential economic benefits incorporated into the operational resources (operational losses).

Paradoxically, the more varied possibilities for the selection of decision makers, the less certainty of selection accuracy, as choice uncertainty of the best practice is higher. The deviation scale of selecting the best operational practice is, thus, a value of decision-making risk in the management of investment interest. Obviously, minimizing this risk is related to finding the best operational practices of conservation (=) through the transfer of economic benefits in specific business processes or to minimize (\leq) operational losses.

In determining the best operational practices, whether the orientation of the decision-maker is to establish the best operating result or to establish the best operational consumption, the selection

method is based on the reference crowd metrics, a notion introduced by Shephard, referring to the input distance function and measures of technical efficiency introduced by Debreu and Farrell.



- operating result metric, $m_{{}^x q_r^+}$, in operating result space ($n = 3$)
- metric operational relationship, m_{q^x} , in the descriptive space defining the relationship between the structural components of operational activity
- operating consumption metric, $m_{{}_r q^x}$, in the space of operating consumption ($m = 3$)

Figure 1: Representation of a quantitative component of an arbitrary operating activity

Let it be a set of operational consumptions and a set of operating results belonging to a historical retrospective operations of our investment unit. Orientation in space of the two sets of reference is based on strict ordering of the elements

$${}_r q = \{{}_r q | \min {}_r q < \dots < {}_r q^x < \dots < \max {}_r q\} \quad (16)$$

for the set of selection possibilities in the area of operational consumptions, respectively

$$q_r^+ = \{q_r^+ | \min q_r^+ < \dots < {}^x q_r^+ < \dots < \max q_r^+\} \quad (17)$$

for the set of selection possibilities in the area of operational results, rationality of selection results being defined in terms of maximizing results while identifying the best practice of operational resource allocation or alternatively, minimizing operational consumptions while identifying best practices to maximize operational results. Data and selection criteria are shown in Figure 2.

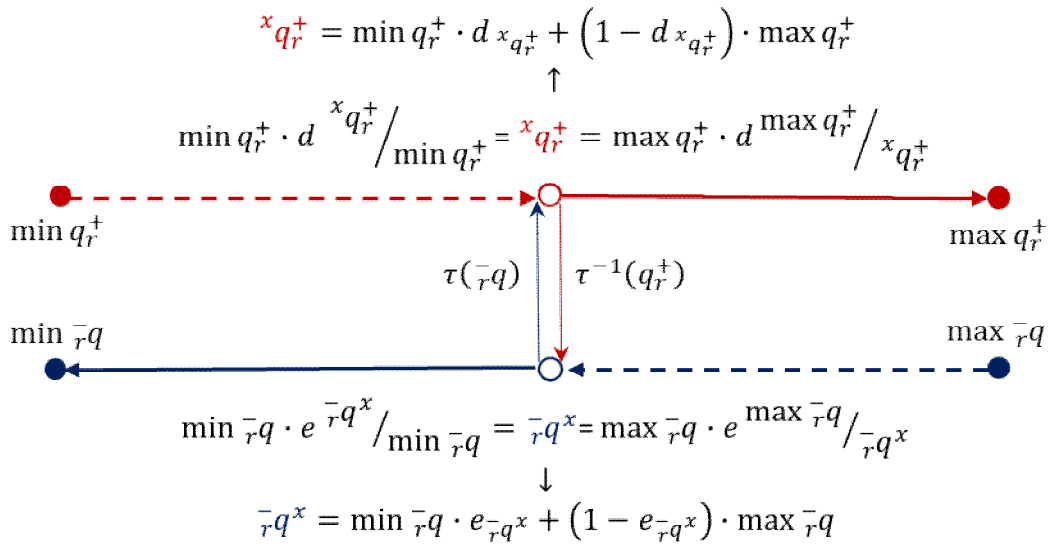


Figure 2: Illustration of the reasoning in the space of possible selection

Let it be an arbitrary operating result, ${}^x q_r^+$, in the operational results space. According to historical recording, the correspondent operational consumption is, $\bar{r}q^x$, leading thereby to the hypothesis that on the basis of function request for transfer of economic benefits, $\tau^{-1}({}^x q_r^+) = \bar{r}q$, this was the way to transfer economic benefits in integrum.

Achieving reference operating result, ${}^x q_r^+$, is, however, possible by any operational consumption in the range $[\bar{r}q^x, \max \bar{r}q]$, these constituting a series of operational consumption surplus accumulated adherently and convergent to $\bar{r}q^x$. The indicator of operational consumption between the extremes of possible excess operational consumption is given by the ratio between the operational consumption referred to as direct correspondence

$$e_{\max \bar{r}q} = \frac{\max \bar{r}q}{\bar{r}q^x} = \frac{\max \bar{r}q}{\bar{r}q^{ref}}. \quad (18)$$

In general terms, for each possible operational consumption of the range there is an index of surplus to operational use of the lower reference

$$e_{\sup \bar{r}q^{ref}} = \frac{\sup \bar{r}q^{ref}}{\bar{r}q^{ref}} \quad (19)$$

each operational consumption is, by reference to the operating result reference, ${}^x q_r^+$, a set of operational consumption operating results (izocante) which do not belong to the multitude of historical operational possibilities, obviously due to the excess that characterizes

$$T_{izo}^{-1}({}^x q_r^+) = \{\bar{r}q_{izo} | \bar{r}q_{izo} \in T^{-1}({}^x q_r^+), e_{\bar{r}q} \cdot \bar{r}q_{izo} \notin T^{-1}({}^{ref} q_r^+), T_{izo}^{-1}({}^{ref} q_r^+) \subseteq T^{-1}({}^x q_r^+)\}. \quad (20)$$

In its turn, the reference operational consumption, $\bar{r}q^x = \bar{r}q^{ref}$, is an operational consumption surplus compared to either operational consumption inferior to it

$$e_{\bar{r}q^{ref}} = \frac{\bar{r}q^{ref}}{\inf \bar{r}q^{ref}} \quad (21)$$

the set of possible operational consumption being, for any reference operational consumption, a convex and compact set

$$\bar{r}q^{ref} = e_{\bar{r}q^{ref}} \cdot \min \bar{r}q + (1 - e_{\bar{r}q^{ref}}) \cdot \max \bar{r}q \quad (22)$$

the characterization of its surplus position in the space of reference operational consumption being given by all surplus indicators to its lower operational consumption, on the one hand, and by all surplus indicators of higher operating consumptions, on the other hand:

$$\bar{r}q^{opt} = \sum e_{\bar{r}q^{ref}} \cdot \inf \bar{r}q^{ref} + \sum (1 - e_{\bar{r}q^{ref}}) \cdot \sup \bar{r}q^{ref} . \quad (23)$$

Having the best practice operational consumption is therefore possible in the set

$$\begin{aligned} & T_{opt}^{-1}(q_r^+) \\ &= \{ \bar{r}q_{opt} \mid \bar{r}q_{opt} \in T^{-1}(q_r^+), e_{\bar{r}q} \cdot \bar{r}q_{opt} \notin T^{-1}(^{ref}q_r^+), \bar{r}q_{opt} \leq \bar{r}q^{ref}, T_{opt}^{-1}(^{ref}q_r^+) \subseteq T_{izo}^{-1}(^{ref}q_r^+) \subseteq T^{-1} \} . \end{aligned} \quad (24)$$

Following the same rationale, operational consumption $\bar{r}q^x$ is presented as an historical correspondent of operating result $^xq_r^+ = ^{ref}q_r^+$ but, also, the possible operational consumption to achieve any operational result in the range $[0, ^xq_r^+]$ in relation to which the reference operating result is a surplus. Among the many possible operational results, a set of achievable operating results is individualized from the same operational consumption

$$T_{izo}(\bar{r}q) = \{ _{izo}q_r^+ \mid _{izo}q_r^+ \in T(\bar{r}q), _{izo}q_r^+ \notin T(\bar{r}q^{ref}), T_{izo}(\bar{r}q^{ref}) \subseteq T(\bar{r}q) \} . \quad (25)$$

Any operational result lower than the reference operational result is a deficit operating result compared to any higher operating result, and the deficit operating indicator is therefore

$$d_{ref}q_r^+ = \frac{\sup ^{ref}q_r^+}{^{ref}q_r^+} \quad (26)$$

the set of possible operational results being, for any reference operating result, a convex and compact set

$$^{ref}q_r^+ = (1 - d_{ref}q_r^+) \cdot \min q_r^+ + d_{ref}q_r^+ \cdot \max q_r^+ \quad (27)$$

so that the characterization of its surplus position in the space of reference operating consumption is given by all indicators of operational deficit of the lower operational results, on the one hand, and all indicators of deficit higher operational results, on the other hand:

$$^{opt}q_r^+ = \sum (1 - d_{ref}q_r^+) \cdot \inf ^{ref}q_r^+ + \sum d_{ref}q_r^+ \cdot \sup ^{ref}q_r^+ \quad (28)$$

the existence of the best practice operational results being possible in the set of

$$\begin{aligned} & T_{opt}(\bar{r}q) \\ &= \{ ^{opt}q_r^+ \mid ^{opt}q_r^+ \in T(\bar{r}q), e_{\bar{r}q} \cdot d_{ref}q_r^+ \notin T(\bar{r}q^{ref}), ^{ref}q_r^+ \leq ^{opt}q_r^+, T_{opt}(\bar{r}q^{ref}) \subseteq T_{izo}(\bar{r}q^{ref}) \subseteq T(\bar{r}q) \} . \end{aligned} \quad (29)$$

Identification of best operational practices assumes that all operational activities in relation to $q^x := (\bar{r}q^x, {}^xq_r^+)$, $x = 1, \dots, k$ belonging to the period, there is an activity $q^{opt} := (\bar{r}q^{opt}, {}^{opt}q_r^+)$ with operational consumption not lower than the given operational consumption $\bar{r}q^{opt} \geq \bar{r}q^x$, and an operational result not higher than any given operating result, ${}^{opt}q_r^+ \leq {}^xq_r^+$, which, obtained by a linear combination of all reference operational activities, is characterized by a large yield, r , constant $(q^{opt} := (r \cdot \bar{r}q^x, r \cdot {}^xq_r^+))$.

This means that, in relation to the set of operational consumption ${}_r\bar{m}Q := \sum_{x=1}^k \bar{r}q^x$ and the set of operational results $Q_{r,n}^+ := \sum_{x=1}^k {}^xq_r^+$, it can be defined as best operational practice

$$q^{opt} = \{(\bar{r}q^{opt}, {}^{opt}q_r^+) | \bar{r}q^{opt} \geq {}_r\bar{m}Q \cdot \Re, {}^{opt}q_r^+ \leq Q_{r,n}^+ \cdot \Re, \Re \geq 0\} \quad (30)$$

which implies that, given the reference data, efficiency of each operational activity should be evaluated and optimized, $e_{q^{ref}}, ref = 1, \dots, k$.

Identification of the best practice in the allocation of operational resources to the operational consumption supposes that based on each possible operational activity, validated by historical evidence

$$e_{q^{ref}} = \max_{e_{r_1q}, d_{q_j^+}} \left\{ e_{q^{ref}} = \frac{d_{q_1^+} \cdot q_{r_1}^+ + \dots + d_{q_n^+} \cdot q_{r_n}^+}{e_{r_1q} \cdot r_1q + \dots + e_{r_mq} \cdot r_mq} \left| \begin{array}{l} \frac{d_{q_1^+} \cdot r_1q^{ref} + \dots + d_{q_n^+} \cdot r_nq^{ref}}{e_{r_1q} \cdot r_1q^{ref} + \dots + e_{r_mq} \cdot r_mq^{ref}} \leq 1 \\ d_{q_1^+}, \dots, d_{q_n^+} \geq 0 \\ e_{r_1q}, \dots, e_{r_mq} \geq 0 \end{array} \right. \right\}. \quad (31)$$

For which $\max_{e_{r_1q}, d_{q_j^+}} \geq 1$, it should be established as an objective, getting those indicators of surplus operating consumption, respectively of the operational result deficit, to maximize their efficiency in terms of

$$\begin{aligned} & \max e_{q^{ref}} \\ & = \max_{e_{r_1q}, d_{q_j^+}} \left\{ \max e_{q^{ref}} = {}^{opt}d_{q_1^+} q_{r_1}^+ + \dots + {}^{opt}d_{q_n^+} q_{r_n}^+ \left| \begin{array}{l} {}^{opt}d_{q_1^+} q_{r_1}^+ + \dots + {}^{opt}d_{q_n^+} q_{r_n}^+ \leq {}^{opt}e_{r_1q} \cdot r_1q^{ref} + \dots + {}^{opt}e_{r_mq} \cdot r_mq^{ref} \\ {}^{opt}e_{r_1q}, \dots, {}^{opt}e_{r_mq} \geq 0 \end{array} \right. \right\} \end{aligned} \quad (32)$$

whose dual problem is to express them with the variables $\max e_{q^{ref}}$ and the returns to scale operational activities $\Re = (r^1, \dots, r^k)$

$$\min e_q = \min_{\max e_{q^{ref}}, \Re} \left\{ \min e_q \left| \begin{array}{l} \min e_q \cdot \bar{r}q^{ref} - {}_r\bar{m}Q \cdot \Re \geq 0 \\ Q_{r,n}^+ \cdot \Re \geq {}^{ref}q_r^+ \\ \Re \geq 0 \end{array} \right. \right\}. \quad (33)$$

Identification of the best practice in designing the operational result is obtained from (33) by applying restrictions

$$\min e_q = \min_{\max e_{q^{ref}, \mathfrak{R}}} \left\{ \min e_q \left| \begin{array}{l} \min e_q \cdot \bar{r} q^{ref} - \bar{r} \bar{m} Q \cdot \mathfrak{R} \geq 0 \\ {}^{ref} q_r^+ - Q_{r,n}^+ \cdot \mathfrak{R} \leq 0 \\ \mathfrak{R} \geq 0 \end{array} \right. \right\}. \quad (34)$$

3. Conclusions

In classical economic theory, any investment objective is to maximize profit. Usually, this means a monetary expression maximize gain. Oscar Wilde wrote that “beauty is in the eye of the beholder”; I would say that profitability is only a particular form of understanding economic benefit.

Usually consumption approach is by reference to a quantitative description expressed in value. Usually current practice discusses about specific consumption, specific costs and rarely about the price of sacrificing economic benefit or unrealized economic benefit price.

Addressing operational activities through the economic benefit prism is an approach somewhat different from the classical one. The proposed method provides a comprehensive analysis of the interrelations between all consumption and / or specific results, based on historical expertise of operational activities management. For a decision maker, taking into account all possible relationships and interrelationships provided and proved by historical practice is a highly complex task. The proposed method, even if the article has been presented, in the given limits, extremely brief, provides a very interesting approach, exciting, sometimes with surprising results. And, if it can be challenging to understand and apply, despite the mathematical instrument, inevitably necessary to understand the reasoning not at all difficult to apply.

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INITIAL TRAINING. MASTER COMPONENT

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Abstract

This paper presents some considerations on the initial training component of the learning process, which contributes to the complete and complex development of the individual and, at the same time, to the sustainable development of society. Training Master offers up-to-date and high quality training, nationally accredited, according to the needs of students and the society, deliver professional development courses in critical thinking skills, motivation, conflict management, work life balance and leadership skills. Our flexible training programme is suitable for groups and individuals. Of all stages through which the individual passes during his professional training, in this paper we address Master's degree studies.

Keywords: initial training, school education, higher education, postgraduate education, bachelor's degree, master's degree, doctorate, motivation for further study, questionnaire administration.

JEL classification: I21

1. Introduction

An individual's initial training is achieved through the learning process.

The first meaning, which is the current one, is that professional training is the activity done by an individual prior to employment, in order to gain general and specialised knowledge needed to exercise a profession or job. ... In a broader sense, professional training may also mean the improvement of this training that is acquiring new knowledge [3, p. 289].

It results from the definition that training is a strategic objective of the national education system.

National Education Law No. 1/2011 stipulates that “the education and training of children, young people and adults have as a primary purpose the acquiring of competences, viewed as a set of multifunctional and transferable knowledge, skills/abilities and aptitudes required” also for “employment and participation in the functioning and development of a sustainable economy” [Art.4, c].

Under the Labour Code, the main objectives of the training are [Art.192]:

- obtaining a professional qualification;
- the employee's adjustment to the job or workplace requirements;
- updating knowledge and skills specific to the job or workplace and improving professional training for the main occupation;
- retraining due to socio - economic restructuring;
- the acquiring of advanced knowledge, modern methods and procedures necessary for performing the professional activities;

- preventing the risk of unemployment;
- promoting and career development.

Training has two main components:

- initial training;
- ongoing training

2. Considerations regarding initial training¹

Initial training is conducted through training programs included in compulsory education and through programs followed by graduates immediately after its completion; these programs ensure the acquisition of professional qualifications.

The main objective of professional training is the forming of competences.

Competence is a multifunctional and transferable set of knowledge, skills/abilities and aptitudes acquired for:

- personal fulfilment and development, by achieving one's goals in life, according to the interests and aspirations of each and willingness to learn throughout life;
- social inclusion and active participation in society;
- employment and participation in the functioning and development of a lasting economy;
- forming a conception of life based on humanistic and scientific values, on the values of national and universal culture;
- educating for dignity, tolerance and respect for human rights and fundamental freedoms;
- raising awareness of human issues, civic and moral values, and promoting respect for natural, economic and socio-cultural environment.

Initial training takes place in schools through:

- vocational education,
- secondary education,
- post-secondary education,

and:

- higher education, which provides initial training at the highest levels of qualification.

School education ensures key skills and progressive professional development. It is organized into levels as follows:

- Upper secondary education - secondary school education lasts from 4 to 5 years (grades/classes IX - XII/XIII) and provides specialised education to young people from 15 to 18 years; registration to the ninth grade is open only to lower secondary school graduates - holders of national test certificates; senior year graduates take the baccalaureate exam and after passing it they receive their Diplomas; education forms are full-time, evening school, part-time and distance-learning.
- Upper secondary education – vocational education lasts from 6 months to 2 years and is available to young people from 15 to 18 years; education forms are full-time, evening school, part-time; registration to the first year is open to lower secondary school graduates with or without a national test certificate; education is offered within the following educational units: vocational schools (arts and crafts), apprentice education, special vocational schools, special rehabilitation schools.

¹ To see PUIU, T. Career and Lifelong Learning, *Revues Economy Transdisciplinarity Cognition*, 2013, 1 (16), 31-37. ISSN 2067 – 5046.

- Post-secondary education – is not equivalent to the first university level; registration to the first year is open only to upper secondary education (high school) graduates, with or without a baccalaureate Diploma; education forms are full-time, evening school, part-time and distance-learning; education is offered within the following educational units: post-secondary schools, foremen schools, special post-secondary schools.

School education is organized for specializations and qualifications established by the Ministry of Education in conformity with the National Register of Qualifications.

Higher education is organized within universities, academies, research institutes, higher education schools and similar institutions.

Higher education institutions can be public, private or religious. They are corporate bodies, non-profit, apolitical and of public interest institutions.

The mission of higher education is to generate and transfer knowledge to society through: [Art.117 of Law no. 1/2011]

- a) university-level initial and ongoing training aiming at personal development, individual employability and complying with competence requirements of the socio - economic environment;
- b) scientific research development, innovation and technology transfer, individual and collective creativity in science, engineering, arts, letters, sports performance and physical development, and also the valorization and dissemination of results.

Higher education currently is structured in three cycles:

- Bachelor's degree;
- Master's degree;
- PhD studies.

Higher education is organized based on the following educational forms: full-time, part-time and open-distance learning; admission requirements for each of these cycles are graduation from the previous cycle confirmed by a "Diploma".

The qualifications acquired by graduates of higher education study programs are confirmed by diplomas, certificates and other documents issued only by accredited higher education institutions [Law No. 1/2011, Art. 120].

Post-graduate education includes:

- advanced research postdoctoral programs;
- post-graduate training and continuing professional development programs.

- Advanced research postdoctoral programs are open to people who took their PhD degree not more than five years before admission to the postdoctoral program and who wish to follow education at a different institution than the one which has awarded the PhD degree; these programs provide the institutional framework for advanced research after completing doctoral studies. Postdoctoral programs are at least one year-long and may be organized either at doctoral schools of higher education institutions or at other research and development units.

Upon completion of postdoctoral program, IOSUD or host institution issues a certificate of postdoctoral studies.

- Post-graduate training and professional development programs can be organized by higher education institutions having at least their Bachelor's degree programs accredited in the particular academic field.

Graduates having at least the university degree or its equivalent are entitled to attend postgraduate studies.

Upon completion of postgraduate training and professional development programs, the organising institution issues a certificate of professional competence relevant to the program.

3. Theoretical considerations on the Master's degree university studies

It was stated previously that according to the Bologna Process higher education consists of three cycles: Bachelor's, Master's and PhD studies.

Table 1 presents a summary of progressive increase in learning outcomes in the three academic cycles as defined by Bologna Process.

Table 1: Learning outcomes within university studies

Descriptor	Bachelor's degree	Master's degree	PhD studies
Level of knowledge and understanding	Knowledge is based on understanding and ability to convey knowledge from textbooks reflecting the current level of scientific knowledge in the field.	Knowledge is based on advanced textbooks, articles and recent studies allowing formulating original ideas aiming at the development and / or application of knowledge gained.	Advanced and systematic understanding of the field of study and of specific research methodology thus providing prerequisites for advanced scientific knowledge and development of new applications.
Skills to apply and use the acquired knowledge	Ability to develop and support arguments for various hypotheses from textbooks.	Ability to creatively solve problems emerging from new contexts, usually through integration of interdisciplinary knowledge.	Ability to develop, adapt and implement original research, whose results extend the frontiers of knowledge and whose original solutions are recognized by national and international citations.
Ability to develop analysis and make conclusions	Ability to collect relevant information and interpret data.	Ability to combine and integrate different information from complex contexts and to formulate assumptions under circumstances of incomplete information.	Ability to develop critical analyses, evaluations, conclusions and syntheses in order to produce judgments and new ideas.
Ability to communicate and work in a team	Ability to circulate information, ideas, problems and solutions.	Ability to present own conclusions and judgments to specialist and/or non-specialist audience.	Ability to comprehensively communicate results of own investigations in dialogue with other individuals with or without specialized training.
Willingness to learn	By entering further training programs.	Motivation for individual study.	Ability to pursue an advanced research career in an academic or professional environment.
Autonomy and willingness	Responsibility in resource management.	Leadership and creativity within work-related environments.	Leadership, innovation, involvement in team's strategic performance.

Source: [1].

Master's degree study programs represent the second cycle of university studies, completed in compliance with level 7 of EQF/CEC and with the National Qualifications Framework. These programs usually last from 1 to 2 years and require a minimum number of transferable study credits, between 60 and 120. The Diploma or Bachelor's degree of higher education graduates

prior to the implementation of the three Bologna cycles was equivalent to the Master's degree in the relevant field [Law No. 1 /2011, art.153] .

In compliance with the national legislation, the following types of Master's degree studies can be organized in Romania:

- professional master, oriented mainly to acquiring professional skills;
- research master, focused mainly on acquiring scientific research skills;
- teaching master, organized primarily for those who work in education.

The law allows higher education institutions to establish partnerships with businesses, professional associations, etc., aiming at the development of Master's degree study programs meeting labour market requirements at certain periods of socio-economic development.

Master graduates, after successfully defending their dissertation, are awarded Master's degree containing all the information describing the curriculum and which is accompanied by the diploma supplement, which are mandatorily issued both in Romanian and in an international language.

Master's degree Diploma certifies holders' skills and is an asset when entering the labour market.

4. Practical considerations regarding further Master studies

In order to analyse the perception of Master studies in Bacau I conducted a study at "George Bacovia" University.

"George Bacovia" University of Bacau was established in 1992 as an alternative to public higher education. It is currently accredited for Bachelor's and Master's degree studies.

The study aims to analyse the motivation to continue higher education at Master's level.

Data collection was performed through a questionnaire responded by undergraduate master students specialising in: Management of Public Administration Institutions, Business Management and Management Marketing. The total number of people questioned for this study was 72, all senior year students.

The conducted research is largely a survey because the target group is not entirely representative of the university master cycle. However, I believe the results are relevant because they have enabled the feedback on how students perceive the master studies.

The questions aimed the following aspects:

- knowing the respondents (age, gender, employment status, etc.);
- revealing the motivation behind continuing higher education at Master cycle as well as its importance for success in life.

Processing of questionnaire responses

The first module of questions aimed highlighting respondents' main features.

The analysis of respondents' main characteristics has revealed the following:

- in terms of the gender feature the group has a very balanced structure (32 female and 40 male respondents);
- the age structure of respondents indicates a dominant share of young people (over 79% are under 30 and only 12.5% are over 35 years), a normal structure for a higher education institution;

- 75% of questionnaire respondents already have jobs, thus confirming the situation of Romanian contemporary society, where, in order to be able to continue studies many young people need to work in order to have financial support; also, working during studies helps meeting the experience criterion of many employers when recruiting labour resources. Only about 48% of employees carry out an activity relevant to their Bachelor's specialization, showing a relative difference between the majors followed and labour market requirements;
- over 90% of questioned Master students have urban residence, the situation generally corresponding to job offer situation.

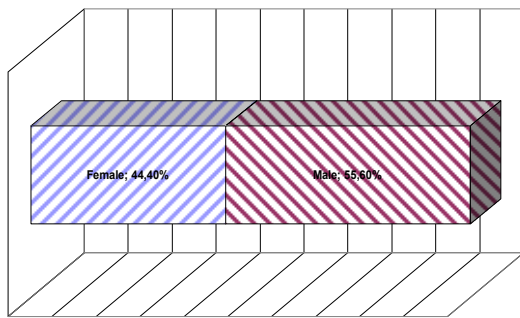


Figure 1: Structure of respondents by gender

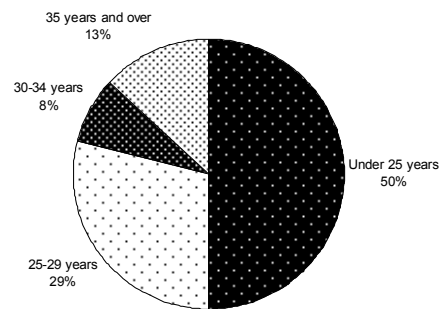


Figure 2: Structure of respondents by age

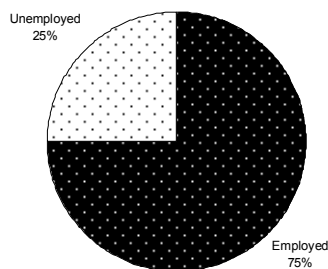


Figure 3: Structure of respondents by labour market situation

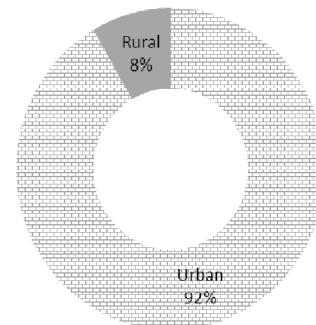


Figure 4: Structure of respondents by place of residence

The age of respondents (50% under 25 years) leads us to the conclusion that most of them chose to pursue graduate studies immediately after graduation and Bachelor's degree exam.

The students addressed in the sample come from families with a high level of education (60% post-secondary and university education), families which focus on educating young people as they are aware of the role of education and training in achieving a successful career.

The questionnaire also included questions relevant to the motivation to continue higher education through the second cycle of education.

The results of processed answers to these questions are given below.

Regarding the reasons for continuing graduate studies at Master cycle, the responses revealed the following range:

- 34% - for professional fulfilment,
- 32% - for a better positioned job within the organization,
- 19% - for better pay,
- 15% - to be recognised and respected in society.

Having been asked to rate their level of motivation for Master studies on a scale of 1 to 10 (1 the lowest rate and 10 the highest rate), about 75% indicated 8 (32%), 9 and 10 (21.5% each), evidencing a very high level of motivation.

With regard to the meaning of success in life, which could mean: successful career, social prestige, starting a family, money, relationships, the students were asked to indicate two possible answers. 63% of the respondents indicated “a successful career” coupled with “starting a family”.

Response options to the question “To what extent is a successful career important in life?” indicated the role and importance that students attach to professional achievement. Thus, 94% of the respondents considered a successful career of high and very high importance.

Regarding background influence on success in life, 68% of the respondents placed family first, followed by university, with 25.5%. Other options (friends and colleagues) were considered very important by an insignificant number of respondents.

When asked “Do you consider that attending Master courses helps increase the chances for success in life?” the students gave the following responses:

- 11% - heavily,
- 55% - largely,
- 28% - in an appropriate manner,
- 6% - to a small extent.

There were no respondents who considered attending the second cycle of higher education unnecessary.

5. Conclusions

Vocational training is a complex process that takes place at two levels:

- initial training, which runs throughout schools from the national education system;
- ongoing training, taking place during professional activity.

Within initial training, university training holds an important place and is done at three levels: bachelor, master and doctorate.

Master's degree studies represent the second cycle of university education and in compliance with level 7 of EQF/ CEC and the National Qualifications Framework.

In order to highlight the perception of Master studies and the motivation behind them, I designed a questionnaire administered to a sample of Master students from “George Bacovia” University of Bacau (although the sample cannot be considered representative of the entire number of master students, nevertheless the information gathered offers a potential vision on this cycle of university studies).

Processing questionnaire data led to several conclusions, namely:

- currently, mainly young people apply for Master studies usually after taking their Bachelor's degree exam;
- young people from families with a high degree of education, having urban residence, are more interested in continuation of their university studies;
- young people make the connection between education and success in life; in fact, apart from starting a family, they believe that success in life is also determined by a successful career; the same conclusion results from the responses regarding the background that determines success in life, where respondents placed family first, closely followed by university (education).

The final conclusion on Master courses is that attending it an individual greatly contributes to increasing the chances of success in life.

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