



**WORLD BANK GROUP**

# **Moldova Investment Climate**

**Moldova**

**2015**



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# General Overview

# Doing Business Report 2015

- Moldova ranks 63<sup>rd</sup> out of 189 economies, and **demonstrated improvements by 19 places**

- Moldova made starting a business easier by abolishing the minimum capital requirement. It made paying taxes easier for companies by introducing an electronic system for filing and paying social security contributions

- Moldova has become **closer to global best practices**, moving from 55.9 in 2006 (earliest available) up to **66.60** in 2015

*DB cumulative “Distance to the Frontier” indicator*

However, it is underperforming in -

- Dealing with Construction Permits – **175<sup>th</sup>**
- Trading Across Borders – **152<sup>nd</sup>**
- Getting Electricity – **149<sup>th</sup>**
- Paying Taxes – **70<sup>th</sup>**

## WB-EBRD Business Environment and Enterprise Performance Survey BEEPS – 2013

- Overall, the results show **improved business sentiment in all 16 areas of business climate measured by BEEPS**

- Two lowest- rated areas – **Corruption** and **Political Instability**

- Business sentiment deteriorated in relation to **transport, customs and trade regulations** and **electricity**

## IFC Cost of Doing Business Survey (CODB) - 2014



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- Overall perception of business environment has worsened in 2014 compared to 2013

- Survey observed improvements as well, however there are still major bottlenecks in respect of **Construction Permits, Unfair Competition**, as well as **unofficial payments**

**BEEPS:**

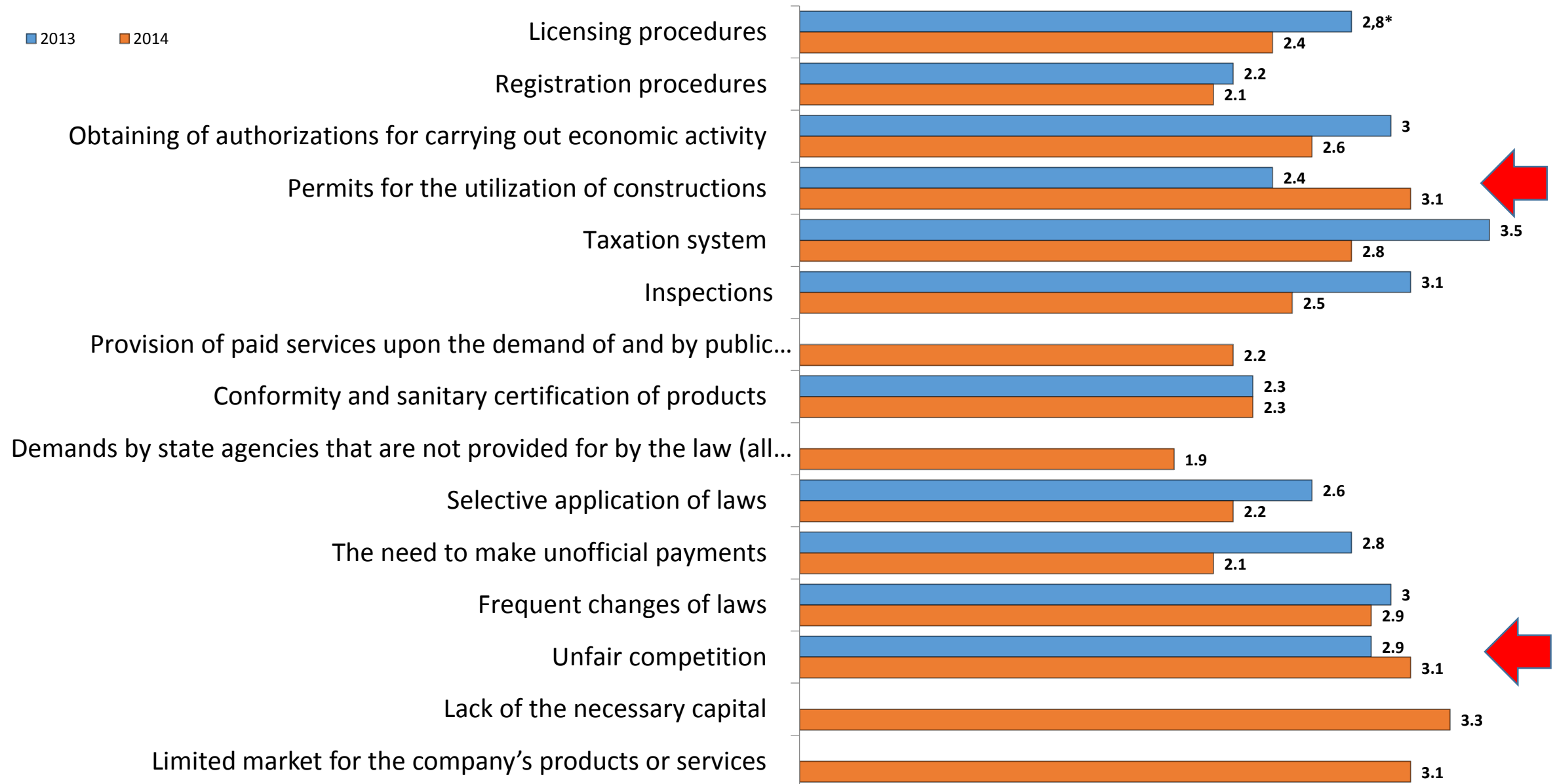
- Perception of **political instability** and **corruption** have not changed much, but have increased in relative importance as obstacles to doing business
- Political instability went up from 3<sup>rd</sup> place in 2008 to the 1<sup>st</sup> place in 2013, and corruption went up from 6<sup>th</sup> place to 2<sup>nd</sup> place
- This shift reflects the volatility of coalition politics over this period of time

The most severe problem ranks number 1, the least 16	Rank in 2008		Rank in 2013
Tax rates	2		4
Corruption	6		2
Electricity	11		5
Skills and education of workers	4		3
Access to finance	5		11
Crime, theft and disorder	8		13
Tax administration	10		10
Telecommunications	12		9
Courts	9		16
Access to land	1		15
Business licensing and permits	15		12
Transport	13		6
Labor regulations	16		14
Customs and trade regulations	14		7
Practices of informal economy competitors	7		8
Political instability	3		1



# CODB 2014 vs. 2013 at Glance

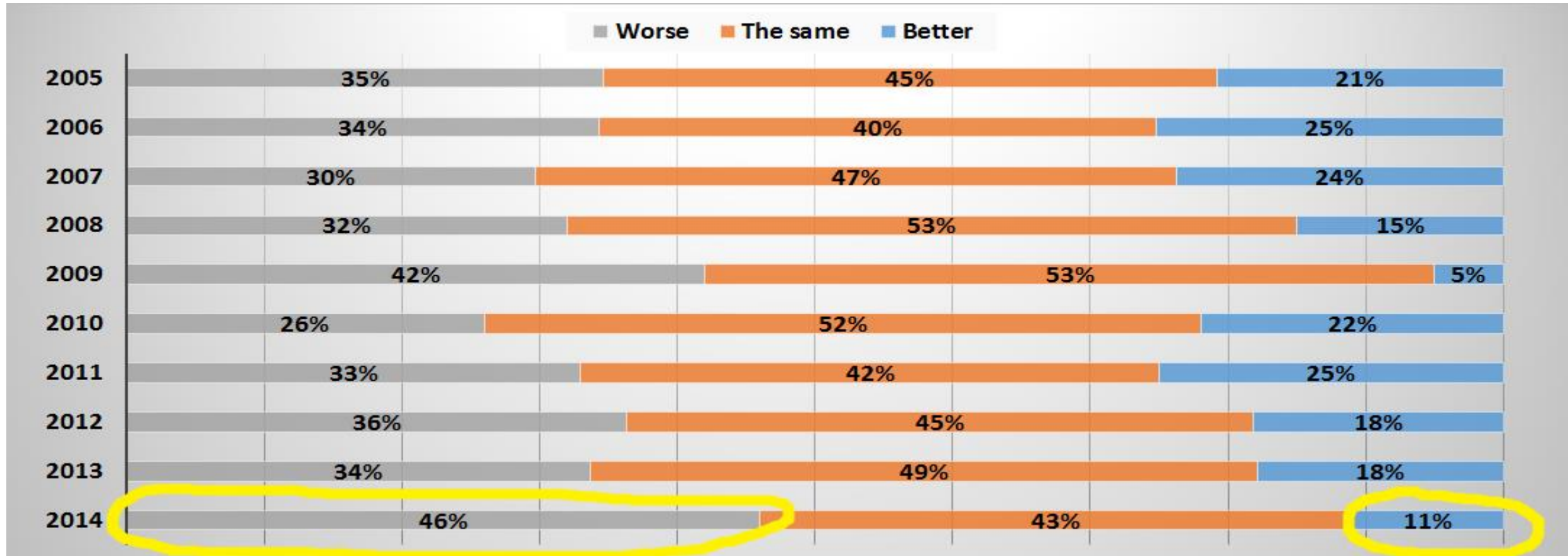
■ 2013 ■ 2014





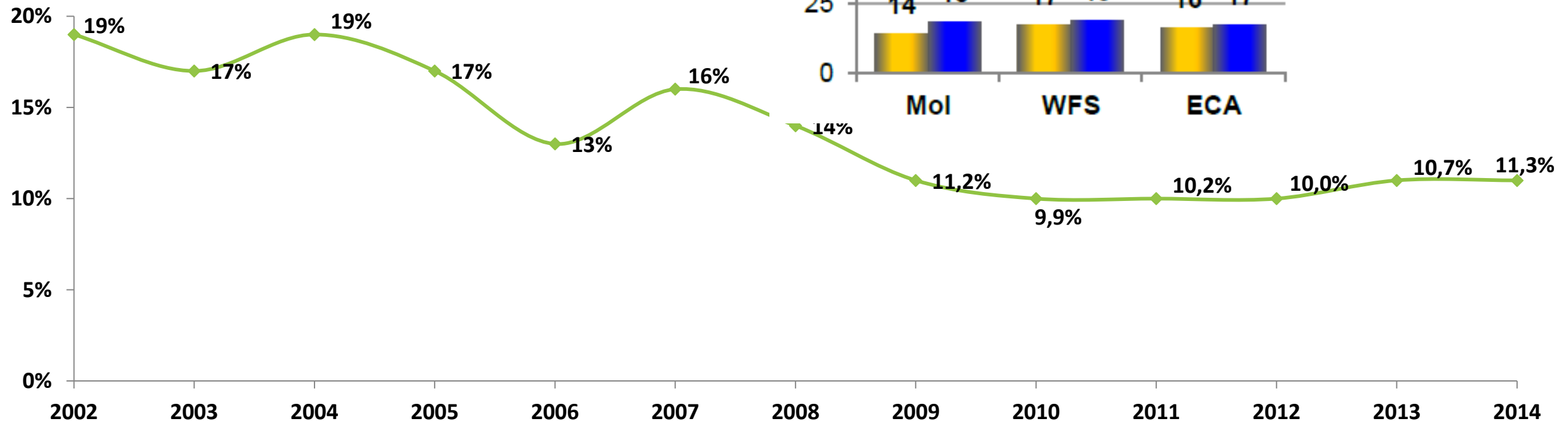
# COBD: Almost Every 2<sup>nd</sup> Respondent Considers that Business Environment Worsened over 2014

- Business climate worsened especially for companies operating in commerce and in the area of research, development, science, legal, notary and consultancy



# BEEPS: Percentage of senior management's time spent dealing with public officials or public services

**CODB:** Share of management time dealing with government bureaucracy has slightly increased





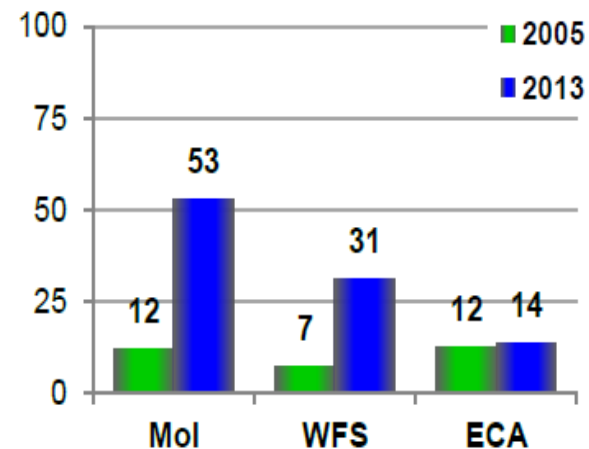


# BEEPS: Perception of State Capture has Worsened Significantly between 2005 and 2013

- Perceptions of large-scale corruption (state capture) have also likely been influenced by the **“raider attacks”** in the financial sector, attempted **hostile takeovers** by non-transparent investors that may involve fraudulent actions affecting at least four financial institutions, including one of the largest banks in Moldova; deterioration in a systemically important domestic bank that is partially owned by the state (Banca de Economii); and highly-publicized corruption cases such as **tape recordings** of conversations between the former Prime Minister and former head of the State Tax Inspectorate and allegations of a **non-transparent concession** of the Chisinau airport.

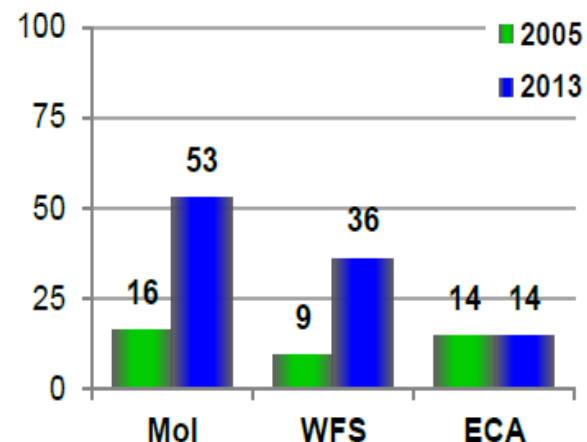
## Private payments/gifts or other benefits to **government officials** to gain advantages

Percentage of respondents indicating gifts/payments have "moderate", "major", or "decisive" impact



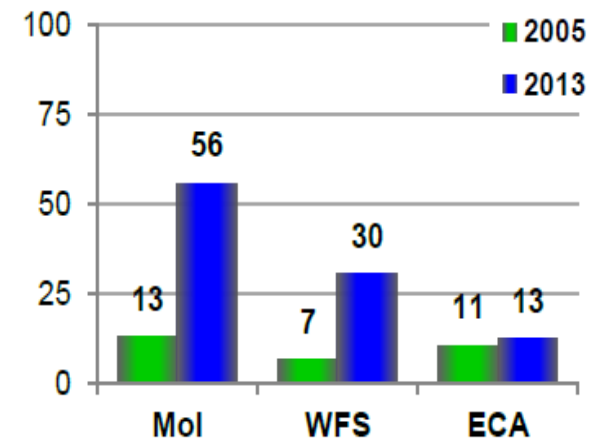
## Private payments/gifts or other benefits to **local government officials** to gain advantages

Percentage of respondents indicating gifts/payments have "moderate", "major", or "decisive" impact



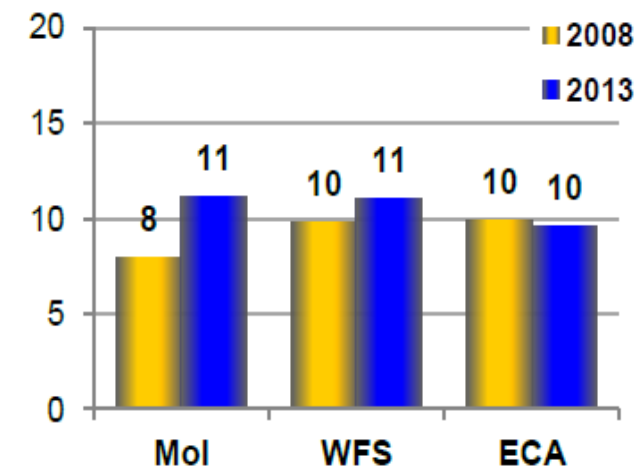
## Private payments/gifts or other benefits to **parliamentarians** to gain advantages

Percentage of respondents indicating gifts/payments have "moderate", "major", or "decisive" impact



## **Unofficial Payments:** Government Contracts – Firms reporting payments

Percentage of contract value typically paid to secure a government contract



# Construction Permits



# Doing Business Report 2015 – 175<sup>th</sup> out of 189 Economies in Dealing with Construction Permits

## Dealing with Construction Permits

Procedures (number)

Time (days)

Cost (% of warehouse value)

	Moldova	Worse by ↓ Europe & Central Asia	Worse by ↓ OECD
Procedures (number)	27.0	40.3%	16.1
Time (days)	247.0	28.4 %	176.8
Cost (% of warehouse value)	0.8		5.0

11.9

149.5

1.7

## CODB

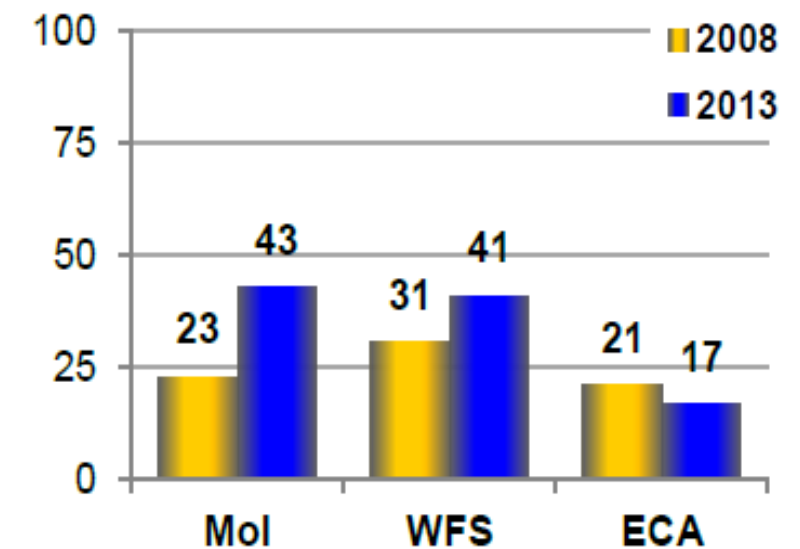
- Cost for construction of a new premise is almost 2-times higher, than for renovation of existing premises; However, unofficial payment for renovation is almost 9-times higher
- Time spent correlate in a direct way with **unofficial payments**: less days spent to get permit - more money paid unofficially
- Overall, almost every 2<sup>nd</sup> business entity reported experience with **unofficial payments** to specific state authorities

Starting of Construction Works	Time		Costs			
	Time, hours	Time, days	Official payments	Disclosed Cost Range	Unofficial payments	Disclosed Cost Range
Construction of a new premise	301	57	786	229.9 – 1839.1	35	15.3 – 76.6
Renovation of existing premises	73	29	479	15.4 – 1877.4	308	15.3 – 1992.3

# CODB: Official cost for commissioning a new building is almost 2-times higher, and unofficial cost is almost 8-times higher than for commissioning a repaired premise

Commissioning the Object	Time		Costs			
	Time, hours	Time, days	Official payments	Disclosed Cost Range	Unofficial payments	Disclosed Cost Range
Construction of a new premise	112	30	449	13.8 – 4214.5	367	76.6 – 2836.2
Renovation of existing premises	62	53	288	7.7 – 1226.1	46.8	15.3 – 383.1

## BEEPS: Construction Permit - informal payment from companies was expected

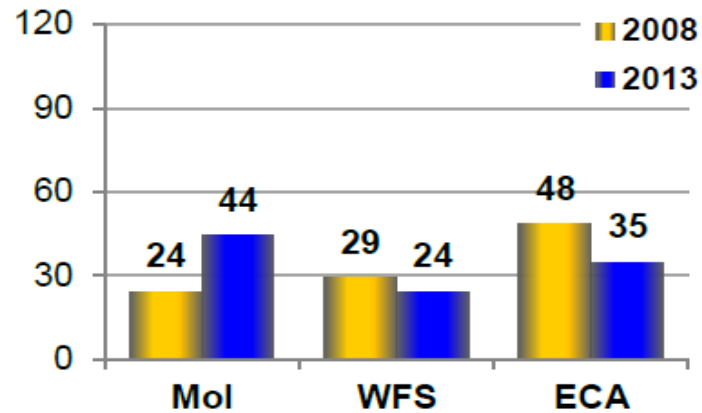




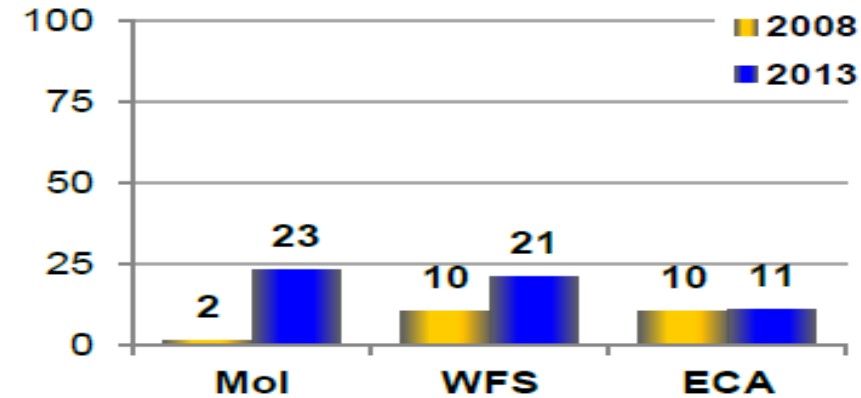
# CODB: After construction works were completed, it took at least additional 30 days to commission a building

## BEEPS: Electrical Connection **Wait Time**

Average number of days

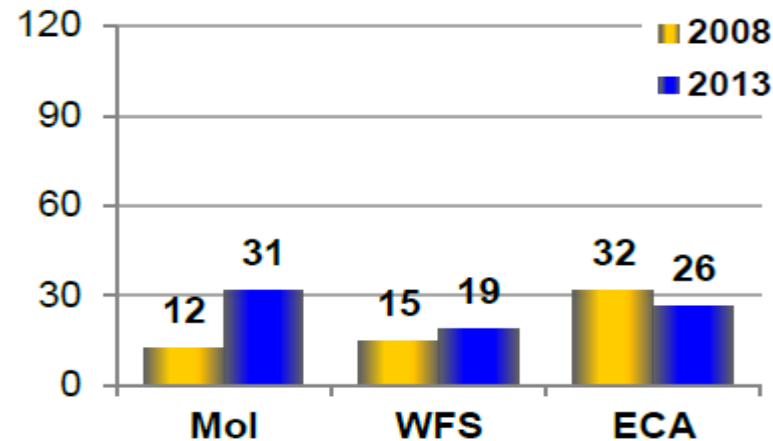


## BEEPS: Electrical Connection - **informal payment** from companies was expected

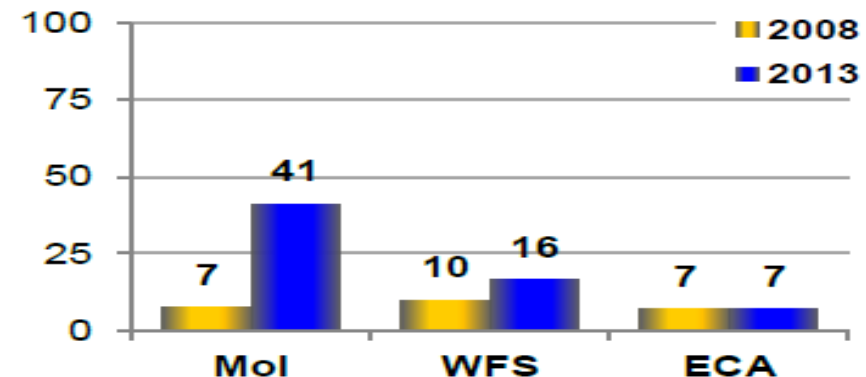


## BEEPS: Water Connection **Wait Time**

Average number of days



## BEEPS: Water Connection - **informal payment** from companies was expected



# International Trade and Competitiveness

# Doing Business Report 2015 – 152<sup>nd</sup> out of 189 Economies in Trading Across Borders



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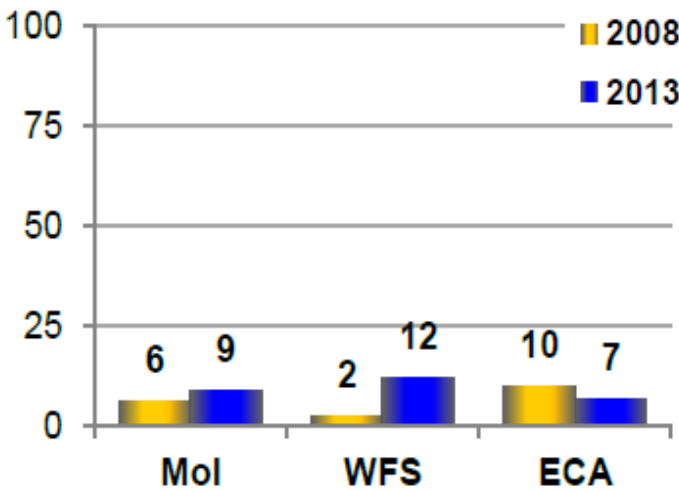
Trading Across Borders	Moldova	Worse by ↓ Europe & Central Asia	Worse by ↓ OECD
Documents to export (number)	9	22% 7	55.5% 4
Time to export (days)	23.0	23.6	54.3% 10.5
Documents to import (number)	11	27.2% 8	63.6% 4
Time to import (days)	27	4% 25.9	64.4% 9.6

## CODB:

- Most significant concerns are related to **high fees** for customs clearance procedure, **unfair conditions** for importers, as well as **corruption** of customs officers
- Companies indicate to unofficial payments amounting approximately 21% of total costs
- Total cost for customs procedures has increased by 33% compared to 2013
- Companies from urban area paid more compared to rural area, those from the Central part – more compared to the North and the South, large firms – more compared to smaller companies, and foreign entities – greater amounts compared to domestic owners

## BEEPS: Import License – Bribes

Percentage of firms indicating an informal gift was expected



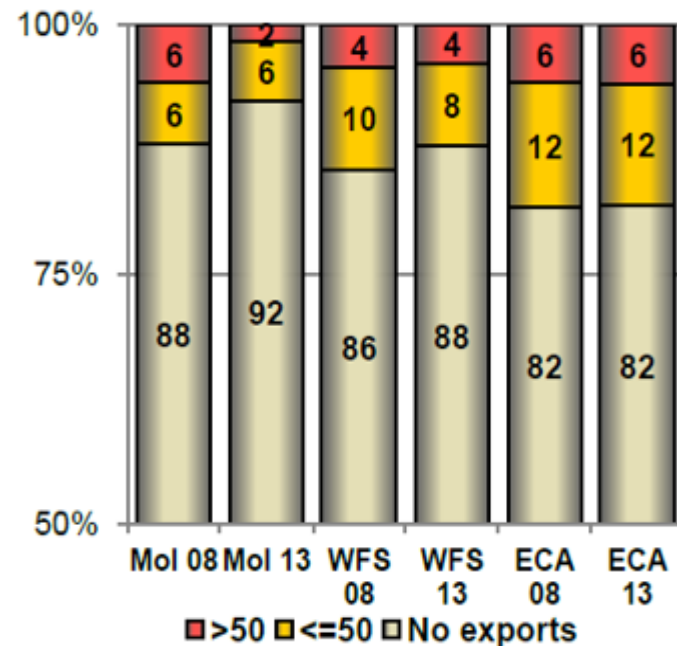


# BEEPS: Export Got Concentrated in Fewer Hands - proportion of respondents that received more than 50% of their sales from direct exports decreased from 6% to 2%

- Percentage of firms that are not engaged in direct export rose from 88% to 92%. This could indicate that export growth is being concentrated in a smaller share of companies, which could be restraining the broader-based economic growth promoted by the Government and overall small and medium enterprise development

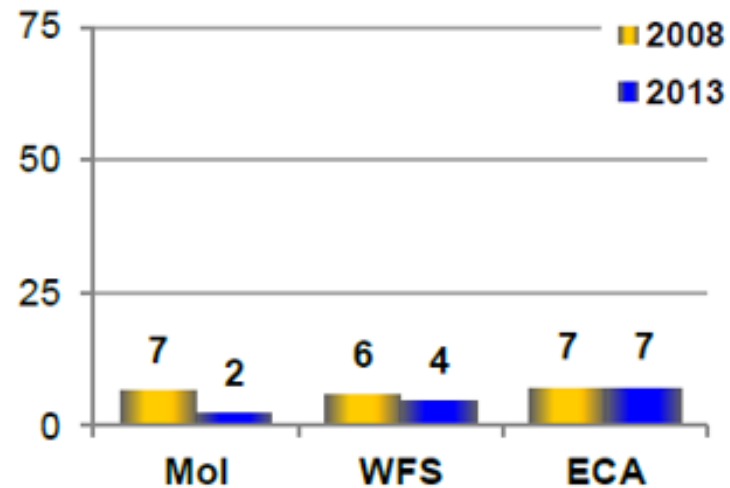
## Direct Exports: Distribution of Firms

Percentage of firms that had no sales, 50% or less, or more than 50% of annual sales from exports



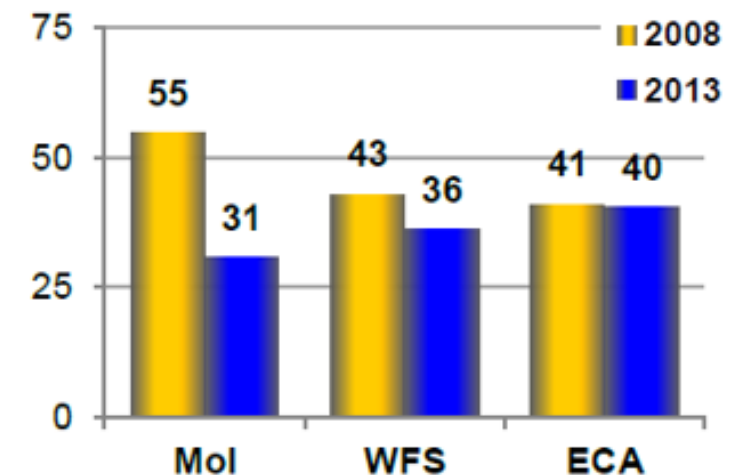
## Direct Exports - All Firms

Percentage of total sales coming from direct exports



## Direct Exports - Firms with Sales from Exports

Percentage of total sales coming from direct exports







**BEEPS: Number of Companies having problems in respect to customs regulations decreased, however the relative importance of customs regulations as a problem has increased, from 14<sup>th</sup> place in 2008 it went up to 7<sup>th</sup> place in 2013**

	Rank in 2008	Rank in 2013
Tax rates	2	4
Corruption	6	2
Electricity	11	5
Skills and education of workers	4	3
Access to finance	5	11
Crime, theft and disorder	8	13
Tax administration	10	10
Telecommunications	12	9
Courts	9	16
Access to land	1	15
Business licensing and permits	15	12
Transport	13	6
Labor regulations	16	14
Customs and trade regulations	14	7
Practices of informal economy competitors	7	8
Political instability	3	1

- International trade was affected by a lack of transparency and predictability in the rules of the game, including issues with unpublished customs orders, import valuation processes, and poor public-private dialogue

- **However, the Customs Service and the Government are making efforts to rectify the situation**

- Customs Service has recently **made improvements** in public-private dialogue, transparency, electronic customs declarations for exports and imports, risk based inspections, and streamlining procedures for 64 “authorized economic operators”

- Customs Service **strengthened** its international cooperation and put forward quite an **ambitious reform agenda**

- Licenses
- Authorizations
- Certification
- Conformity Assessment



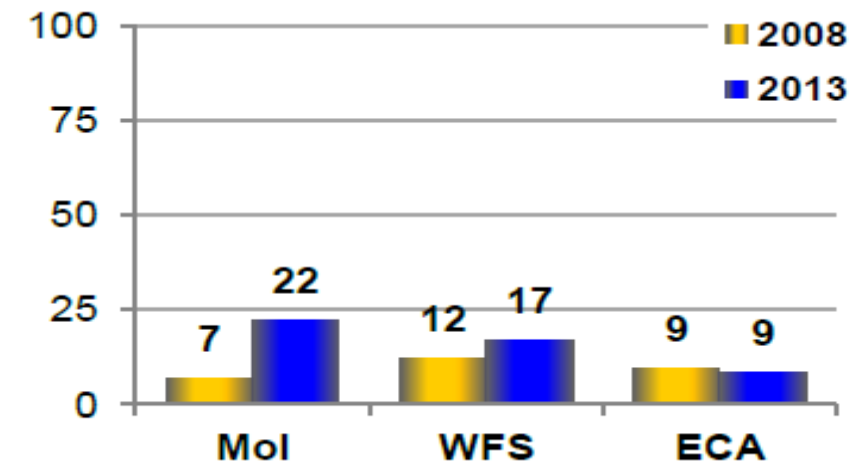
# CODB: Time to Get a License Decreased by 22% in 2014, However Costs Increased by 36%

Companies indicate to **unofficial payments** (approximately 22% of total costs in CODB) and 15% increase in BEEPS

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Share of enterprises subject to licensing	58%	56%	68%	71%	61%	61%	52%	49%	37%
Average number of licenses	1.9	1.8	1.6	1.3	1.3	1.3	1.3	1.4	1.4
Time to obtain a license, days	20	20	18	20	22	18	16	18	14
Average cost, \$	273	286	301	193	270	240	266	294	401.6
Share of unofficial payments, %	9%	8%	10%	15%	14%	7%	9%	8%	1.3%

	Share	Cost, sub-sample	Disclosed Cost Range
Fee for obtaining the license	93.8%	348.4	0.8 – 19 923.4
Expertise and evaluation	18.8%	193.6	4.6 – 2298.9
Payments for notary services	20.4%	57.5	0.9 – 766.3
Payments to attorneys and intermediaries	1.6%	33.9	9.2 - 92
Transport costs	39.1%	59.8	38.3 – 352.5
<b>Unofficial payments</b>	1.3%	<b>212.7</b>	<b>0.8 – 2758.6</b>
<b>Total cost</b>		<b>941.9</b>	<b>1.8 – 20 076.6</b>

**BEEPS: Operating License – Bribes**  
Percentage of firms indicating an **informal gift** was expected





# CODB: Time to Get Authorizations Decreased by 11%, However Costs Have Increased by 8% Compared to 2013

- Overall perception of procedures and conditions is that no improvements were noted in 2014, and companies face the same difficulties: **bureaucratic, long and expensive procedure**
- Companies indicate to **unofficial payments**, representing approximately 15% of the total costs

	2007	2008	2009	2010	2011	2012	2013	2014
Share of companies requiring authorizations	56%	76%	78%	78%	80%	71%	71%	63%
Time to obtain an authorization, days	14	16	16	17	13	13	15	13.3
Average cost, \$	147	212	210	283	198	224	215	231.9

	Share	Cost, sub-sample	Disclosed Cost Range
Fee for obtaining an authorization	78%	237	1.4 – 10 957.9
Expertise and evaluation	13%	143	3.8 – 2452.1
Payments for notary services	9%	35	3.8 – 306.5
Payments to attorneys and intermediaries	1%	229	137.9 – 766.3
Transport costs	34%	45	0.2 – 2298.9
<b>Unofficial payments</b>	7%	<b>121</b>	<b>15.3 – 383.1</b>
<b>Total cost</b>		<b>810</b>	<b>0.5 – 10 957.9</b>



# CODB: Cost for Getting Conformity Certificate for Equipment

## Increased by 209% and Time – by 22%

- The bigger the company, the higher is the share of those purchasing equipment. The share of companies with foreign owners acquiring equipment was higher than that of local owners
- 60% of companies who bought equipment have certificates of conformity with Moldovan standards. In 87% of cases the equipment were accompanied with certificates, while 13% of the companies got the certificates themselves

Time and Cost	2006	2007	2008	2009	2010	2011	2012	2013	2014	Disclosed Cost Range
Time to obtain a conformity certificate, days	13	13	12	12	13	12	10	9	11	
Average cost, \$	70	73	56	-	-	35	62	75	232	7.7 – 1149.4



# CODB: Time Spent for Getting Conformity Certification has decreased, while Costs - Increased

- Costs increased by 6% and 151% respectively, for Manufacturing line (assortment) and lots of goods
- 81% of respondents stated that no improvements occurred since 2013; Overall, the main concerns are related to **procedure length** and **high tariffs**
- Companies reveal some **unofficial payments**

	2007	2008	2009	2010	2011	2012	2013	2014	Disclosed Cost Range
Time spent for obtaining a certificate for Manufacturing line (assortment), days	13,2	13,1	17,8	13,6	13,0	16,6	11,7	10,7	
Costs for obtaining a certificate for Manufacturing line (assortment), \$	133	234	217	192	158	191	158	167,4	3.8 – 2337.2
Time for obtaining a certificate for lots of goods, days	13,8	7,5	11,2	13,3	11,7	12,1	10,3	9,8	
Cost of obtaining a certificate for lots of goods, \$	179	149	174	160	83	145	124	311,3	7.7 – 766.3

Getting a Conformity Certificate	Cost	Disclosed Cost Range
Official payments, including the expertise, \$	191	1.5 – 2298.9
Transport costs, \$	16	0.7 – 1149.4
<b>Unofficial payments, \$</b>	<b>8</b>	<b>0 – 306.5</b>
<b>Total costs, \$</b>	<b>215</b>	<b>0.7 – 2298.9</b>

# CODB: Costs for Obtaining a Sanitary Authorization Increased by 44% and Time - by 73% Compared to 2013

- At least 47% of companies are obliged to get sanitary authorizations for their goods or services
- Companies disclosed some **unofficial payments** approximately 31% of the total costs

	2007	2008	2009	2010	2011	2012	2013	2014
Time for obtaining a health authorization, days	11	13	13	10	8	8	6	<b>10,4</b>
Cost of obtaining a health authorization, \$	66	71	104	97	67	94	71	<b>102</b>

Getting Sanitary Authorization	Share	Cost sub-sample	Disclosed Cost Range
Official payments	92%	89	2.6 – 919.5
Payments to lawyers and intermediaries	4%	44	11.5 – 229.8
Transportation expenses	47%	22	0.2 – 153.3
<b>Unofficial payments</b>	11%	<b>70</b>	<b>7.7 – 383.1</b>
Total costs, \$		<b>225</b>	0.9 – 934.9

# Inspections





# CODB: More Companies Were Inspected and by 42% More Frequently

- Almost every 4<sup>th</sup> company reported visits of 6 and more different state inspection agencies
- Every 9<sup>th</sup> company thinks the frequency of controls went up
- Highest expenditures (sanctions) were caused for companies after they were inspected by Tax Inspectorate
- 83% of companies consider the procedures and conditions in relation to inspections did not improve in 2014 compared to 2013

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Average number of inspections per company	10,3	8,7	9,0	8,2	7,9	4,2	5,2	3,6	6,5
Average time of annual controls, days	15	16	19	10	15	6,5	6,3	4,7	4,5

# CODB: Number, Frequency and Length of Inspections Increased in Case of Almost All Inspection Bodies Compared to 2013



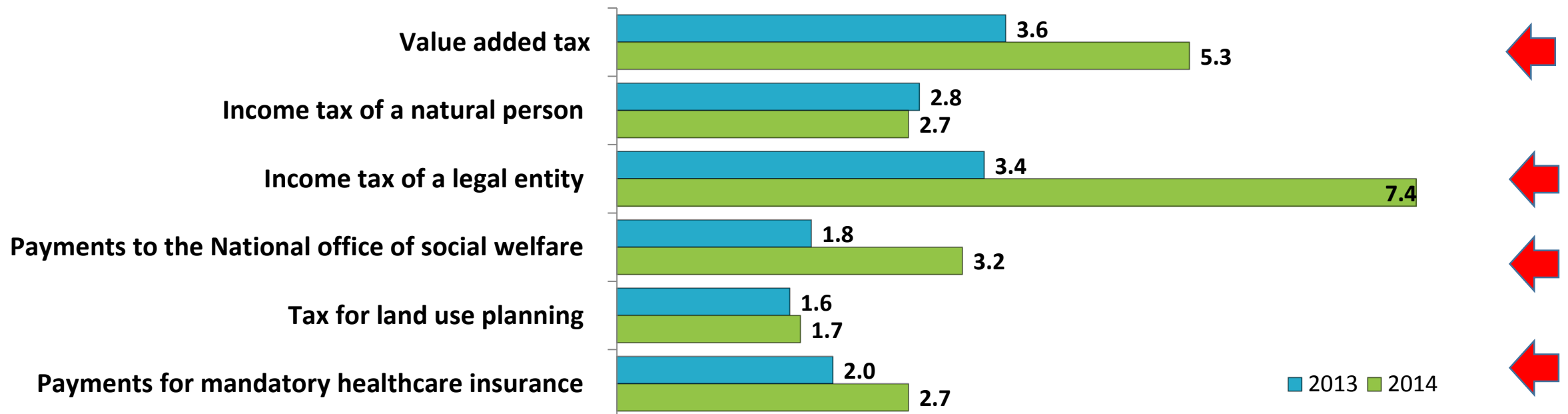
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		Share of inspected companies, %				Frequency				Number of days per visit			
INSPECTION BODY	Period of survey	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Tax inspection Fire Department Sanitary-epidemiological service Police Road police Price oversight agencies Standards oversight agencies Ecological control agencies Licensing authorities National Anticorruption Center Other ministries and agencies Local authorities Labor inspection		67	74	54	58	1,5	1,7	1,4	1,9	2	2,9	2,8	1,5
		54	53	42	56	1,2	1,3	1,2	1,4	1,2	0,6	0,4	0,3
		23	31	18	48	1,5	1,6	1,6	1,9	1,7	0,6	0,4	0,4
		23	31	22	41	1,9	1,7	1,5	3,9	1,3	0,5	0,3	0,3
		20	23	20	10	3	2,8	3,8	6,1	0,7	0,5	0,1	0,4
		7	11	8	5	1,8	1,2	1,5	1,1	1,6	0,7	1,1	0,8
		9	16	10	18	1,5	1,1	1,3	1,3	1,5	0,8	1,3	0,5
		6	17	13	22	1,3	1,2	1,2	1,4	1,3	0,4	0,4	0,3
		27	15	9	12	1,3	1,1	1,1	1,2	1,2	0,7	0,9	0,3
		14	22	11	8	1,3	1,3	1,1	1,8	1,7	1,1	2,3	2,3
		13	13	19	10	1,5	1,4	1,2	1,5	1,5	1	1,3	2,6
		14	27	24	20	1,7	1,5	1,3	2,7	1,3	0,5	0,4	0,5
		35	54	48	40	1,4	1,4	1,2	1,4	1,5	0,7	1,7	0,6

# Taxation

# CODB: Time Spent to Submit a Report Increased for Almost All Types of Taxes

- Most significant increase was registered for **income tax** of a legal entity (doubled), payments to **social welfare** and **VAT**
- Companies indicate **high value of taxes**, **high penalties** in records keeping and reporting, as well as **unclear taxation procedures** as the most significant problems
- Percentage of companies that need to hire full time accountant increased by 9%, reaching the level of 73%

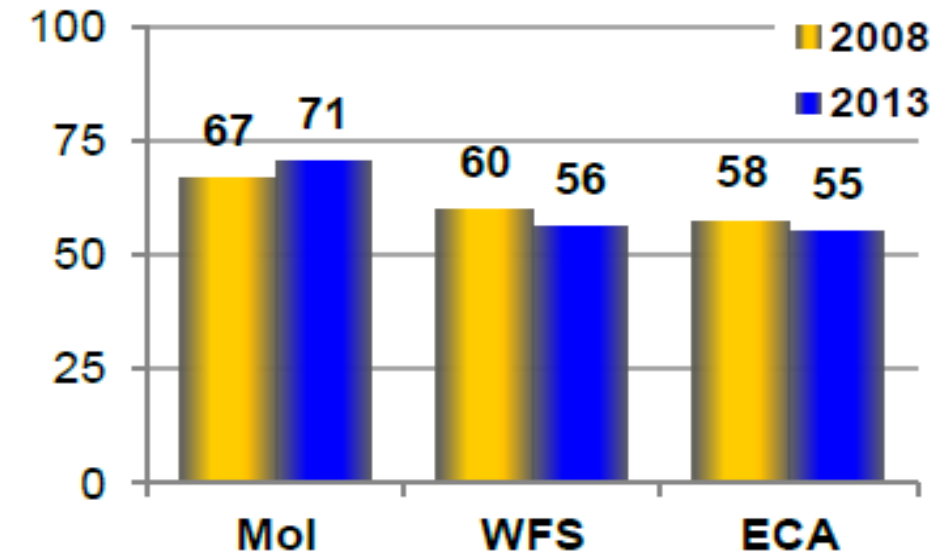




# BEEPS: Percentage of firms stating that tax administration is a problem has decreased but deeper analysis suggests that firms managed to adjust to the current environment and reveals areas for further improvement

- While the frequency of bribes while dealing with taxes has not changed, the percentage of firms being inspected has gone up slightly
- **Concerns** in this area include: a rigid approach taken by the tax authorities, based on strict controls and inconsistencies in normative acts; a lack of consistency in awarding fines and penalties; and inefficiencies in the tax dispute resolution system and in the administration of VAT refund claims, as well as frequent allegations of corruption
- Some **improvement** in the approach and performance of MSTI have been noted following changes in management in May 2013. The Ministry of Finance has sought World Bank **support for its reforms in tax administration** which seek to strengthen voluntary compliance, improve efficiency and reduce transaction costs for taxpayers

Percentage of firms indicating they were inspected



# Court System and Conflict Resolution

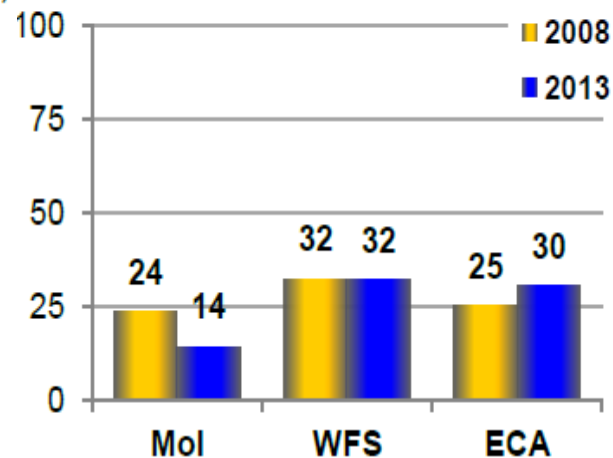
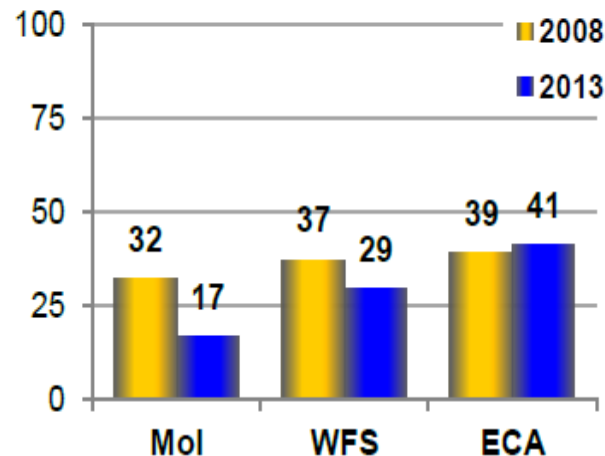


# BEEPS: Enterprises Have a More Negative View of How the Court System Functions in 2013 than they did in 2008

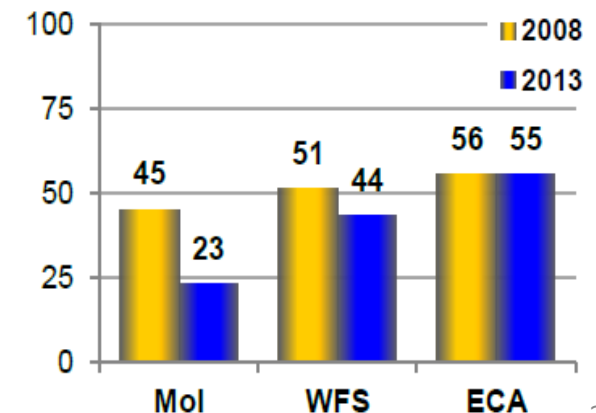
- The proportion of firms reporting that the court system is “fair, impartial, and uncorrupted” and that the court system is “quick” dropped by nearly a half (from 32% to 17% in the first case, and from 24% to 14% in the second case)
- Fewer companies are using the court system – in 2008, 22% of firms had been to court in the past 3 years, versus 14% in 2013
- Fewer companies indicate that court system is able to enforce its decisions – dropped from 45% down to 23%
- These results are a strong indication that firms simply prefer to avoid the courts whenever possible, due to the overwhelmingly low level of trust in the court system, as courts still pose important problems to the overall quality of governance and protection of property rights in the country

Percentage of firms indicating that court system is quick

Percentage of firms indicating that court system is fair, impartial and uncorrupted



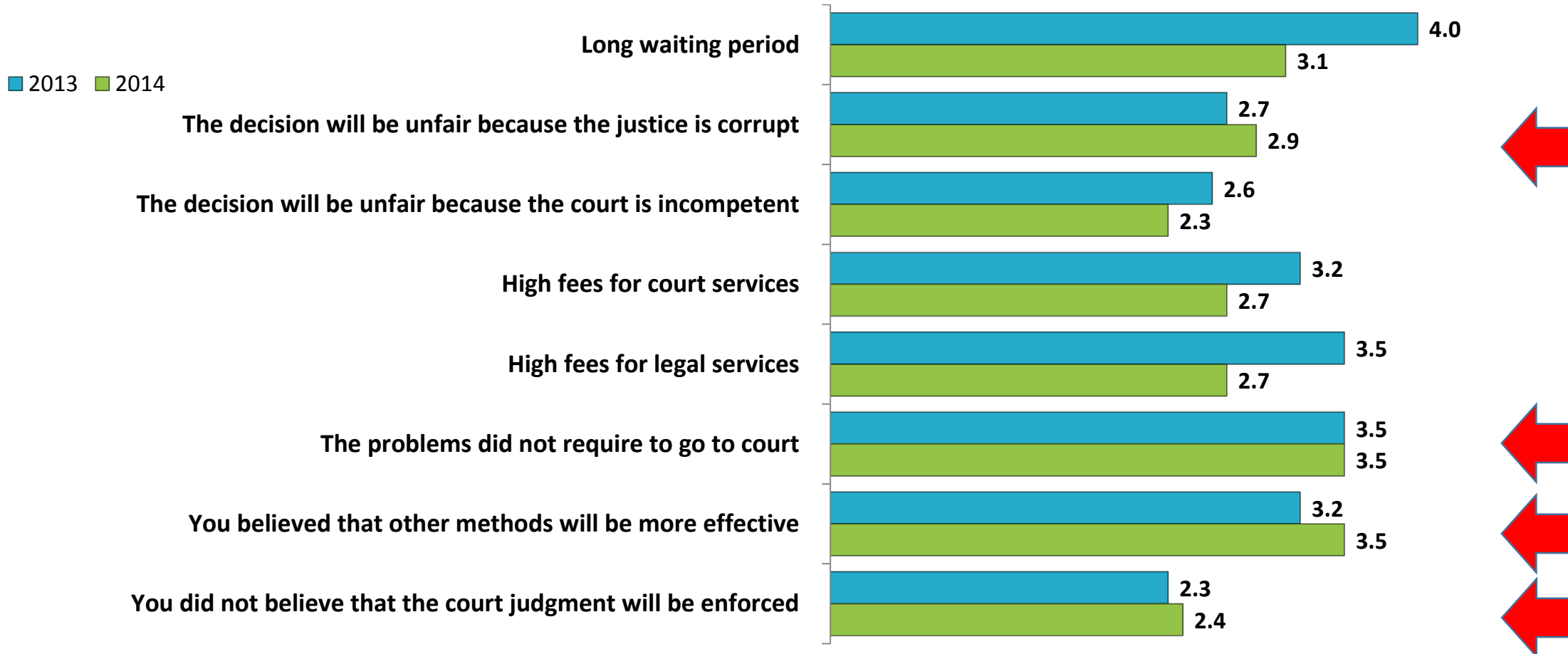
Percentage of firms indicating that court system is able to enforce its decisions





# CODB: Reasons for not Using Courts to Settle Conflicts

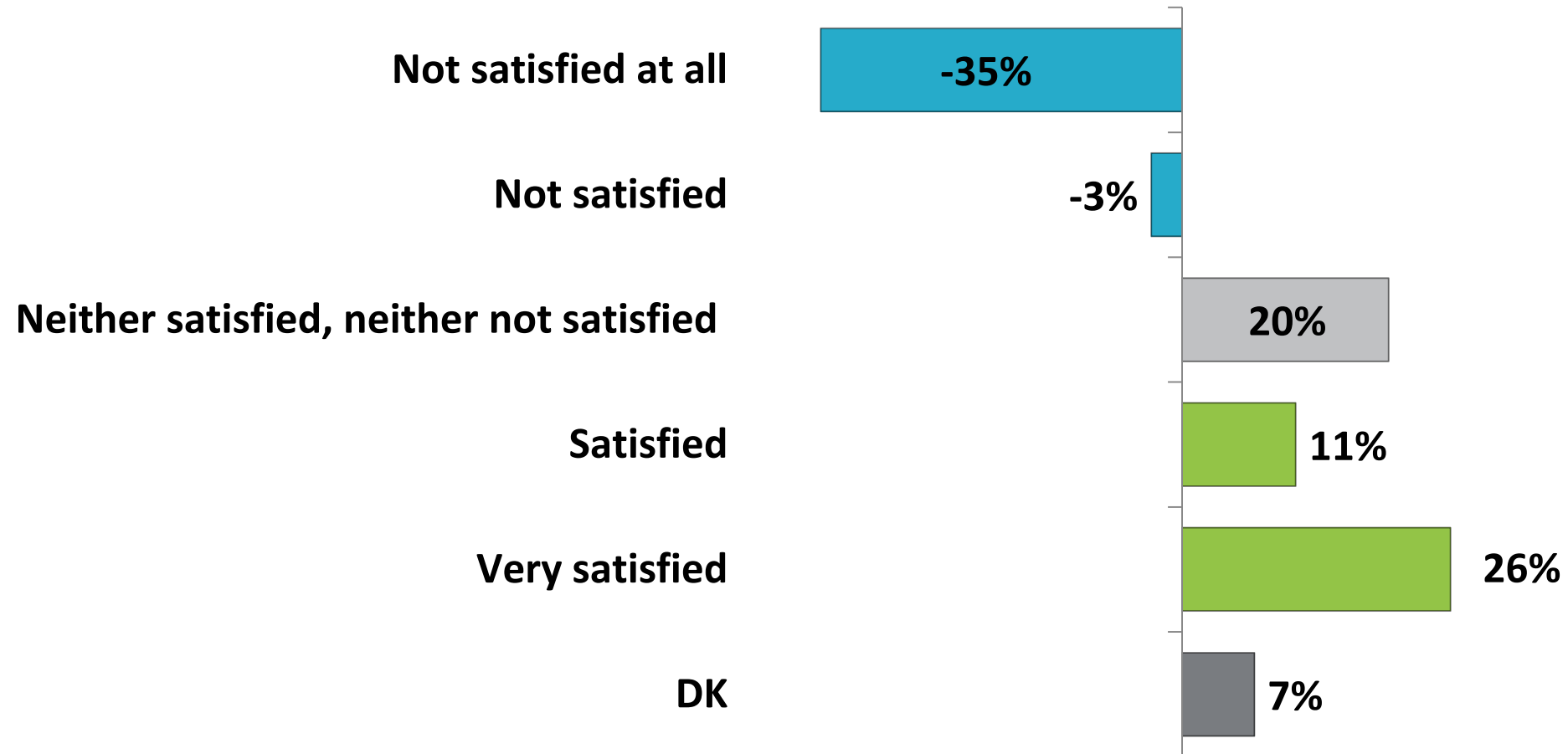
- Companies have a perception that problem does not require to use courts
- Companies believe that there are more efficient methods, supplemented by bureaucracy in judicial process
- Existing corruption within the judicial system will lead to getting unfair decision
- Companies do not believe that court judgment will be enforced







# CODB: 38% of those Companies who Applied, Are Dissatisfied with Courts



# Conclusions



- The ***Doing Business Report 2015***, the ***Cost of Doing Business Survey 2014*** and ***Business Environment and Enterprise Performance Survey 2013*** findings reveal the positive trends as well as some negative signals that took place in Moldova in 2014
- There is a progress made for the recent years, however investment climate is characterized with number of considerable drawbacks and bottlenecks
- Moldova is progressing, but the pace of improvements and developments is rather slow, which is inconsistent with Moldova's aspirations for European integration, and the country is lagging behind its regional or global competitors
- Competitiveness of Moldovan companies remains constrained in a business environment characterized by regulatory uncertainty, constrained competition, regulatory implementation gap between de facto and de jure, excessive regulation and controls that lead to high transaction costs, and restrictive FDI investment climate. This seriously undermines country's export performance and investment growth
- Trade facilitation challenges have a direct impact on Moldova's external trade and competitiveness of industries. Therefore, importance of export competitiveness, diversification and sustainability is critical. Burdensome business climate creates additional costs for companies that make them not competitive on European and other markets
- The new Government will need to broaden the agribusiness work to carry on food safety reforms, streamline input and output markets, as well as address competition bottlenecks in agribusiness value chains
- The new Government needs a clear reform agenda to improve investment climate in the areas of construction permits, trading across borders, getting electricity and paying taxes



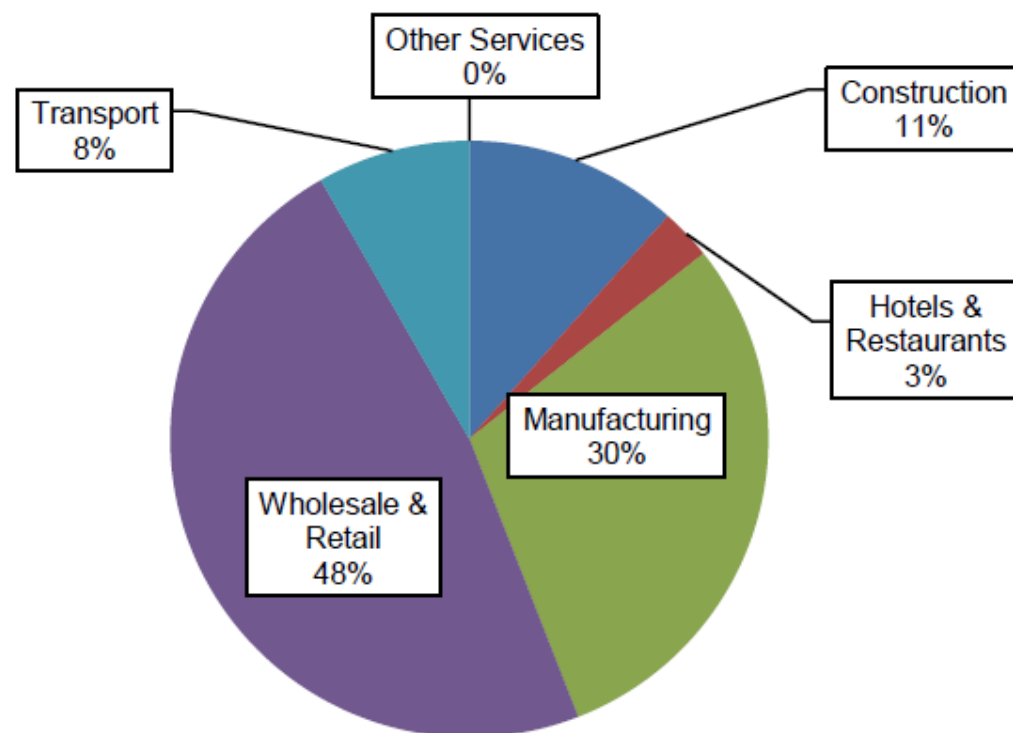
- Foreign Direct Investments (FDIs) are crucial for the country's economic development, creating wealth and improving living standards of every citizen, so the new Government needs to **revisit investment policy** to improve investment climate with the aim to attract and retain investments, among other things, by introducing Investors Grievance Mechanism, Investment Agreement and Advanced Tax Ruling to the legislation. Putting in place a formal mechanism for servicing investors and resolving their issues can serve as a powerful instrument to restore investor confidence
- **Corruption, political instability, and low level of trust** in the court system, as courts still pose important problems to the overall quality of governance and protection of property rights in the country, need to be addressed by the new Government
- **State capture** and **unofficial payments** represent one of the major problems for investment climate and private sector development, these need to be eradicated
- Procedures related to permits and licenses, conformity assessment, and certification are excessively burdensome for companies thus hindering the overall competitiveness of Moldovan companies; the new Government needs to **revisit regulatory framework** and close all **implementation gaps**
- Inspections need to **be based on risk-based approach** and **published in advance** on Government's web-portal thus ensuring transparency, clarity and impartiality of state control
- **Implementation of reforms has been a challenge.** Insufficient implementation capacity has also constrained the effectiveness of reforms. In addition, several high-profile cases of weak protection of property rights in the financial sector have undermined perception of business climate (several alleged and proven cases of "raider attacks") that needs to be changed fundamentally



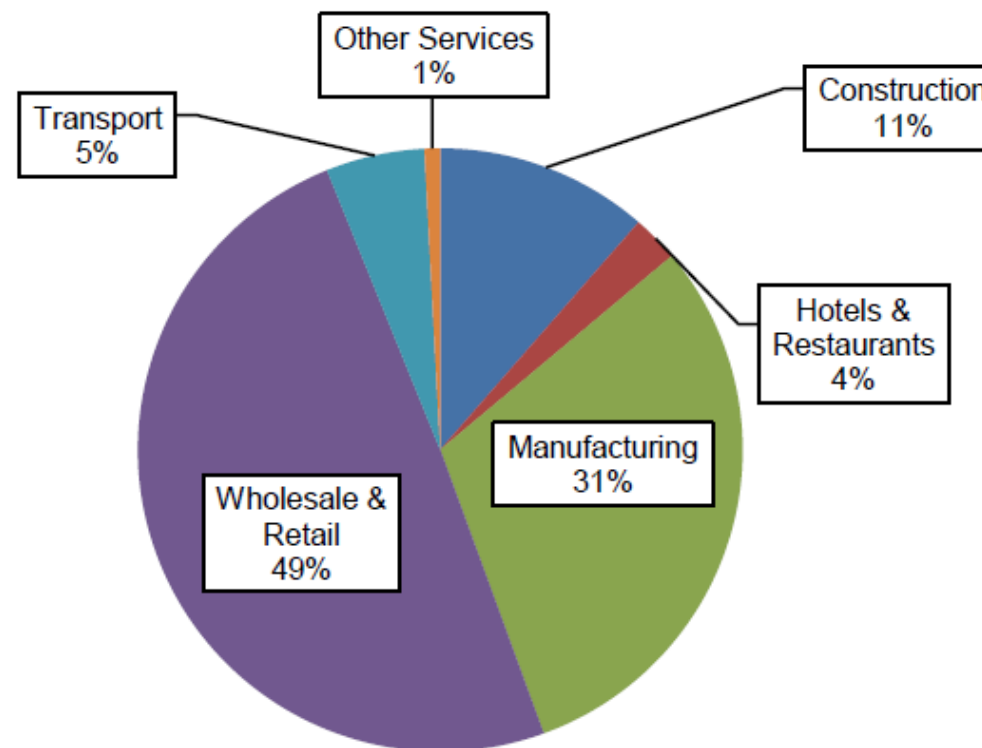
**WORLD BANK GROUP**

**For MOLDOVA**

2008 Industry Sample composition (Moldova)



2013 Industry Sample composition (Moldova)



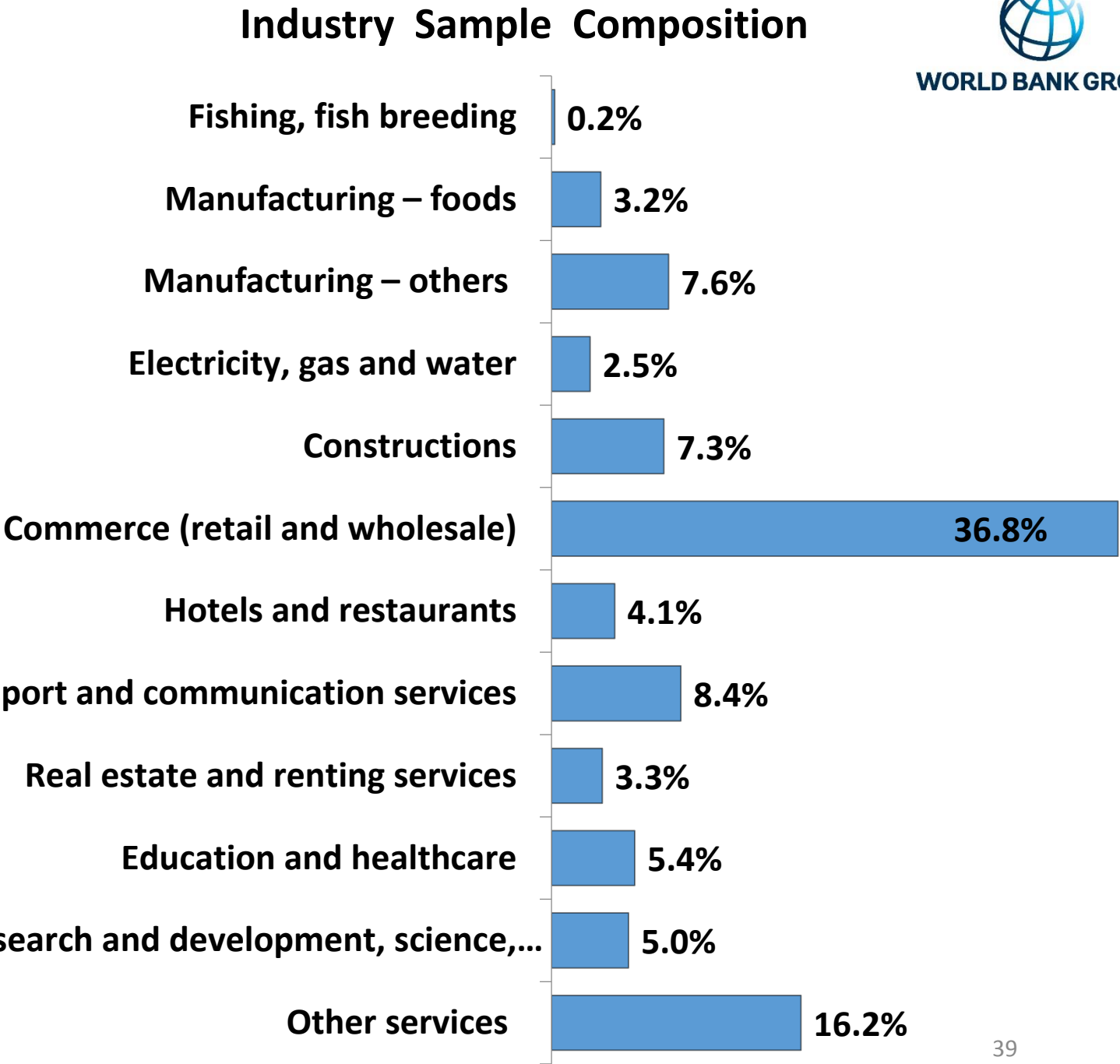
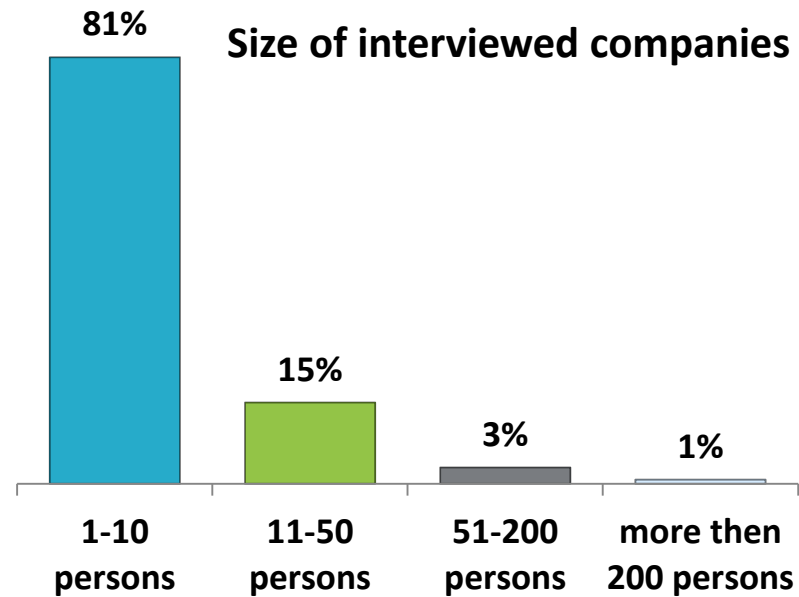
Sector	2008 Sample Description	2013 Sample Description
Construction	Construction	Construction
Hotels/Rest	Hotels and restaurants	Hotels and restaurants
Manufacturing	Manufacturing	Food, Textiles, Garments, Plastics and rubber, Chemicals, Non-metallic mineral products, Basic metals, Metal fabrication, Machinery and equipment, Electronics, Other manufacturing
W&R	Wholesale and retail trade	Wholesale, Retail
Transport	Transport, storage and communication	Transport, storage and communication
Other Svc	Other services	Information technology



# CODB Survey Sample Profile

Legal organization form of the company	Share
Limited liability company (Ltd.)	89%
Joint stock company (J.S.C.)	5%
State or municipal undertaking	4%
Others	2%

Companies' property	Share
Private, domestic owner	98%
Foreign legal entities or individuals	1%
Mixt	1%



The table below presents the country composition of the ECA region and the four sub-regions.

The ECA average (ECA) includes all 29 countries:	Caucasus (CAU)	Central Asia (CAS)	Western Balkans (WBL)	Western FSU (WFS)	European Union (E11)
Albania ( <b>Alb</b> ), Armenia ( <b>Arm</b> ), Azerbaijan ( <b>Aze</b> ), Belarus ( <b>Bel</b> ), Bosnia and Herzegovina ( <b>BiH</b> ), Bulgaria ( <b>Bul</b> ), Croatia ( <b>Cro</b> ), Czech Republic ( <b>Cze</b> ), Estonia ( <b>Est</b> ), FYR Macedonia ( <b>Mac</b> ), Georgia ( <b>Geo</b> ), Hungary ( <b>Hun</b> ), Kazakhstan ( <b>Kaz</b> ), Kosovo ( <b>Kos</b> ), Kyrgyz Republic ( <b>Kyr</b> ), Latvia ( <b>Lat</b> ), Lithuania ( <b>Lit</b> ), Moldova ( <b>Mol</b> ), Montenegro ( <b>Mon</b> ), Poland ( <b>Pol</b> ), Romania ( <b>Rom</b> ), Russia ( <b>Rus</b> ), Serbia ( <b>Ser</b> ), Slovak Republic ( <b>Slk</b> ), Slovenia ( <b>Sln</b> ), Tajikistan ( <b>Taj</b> ), Turkey ( <b>Tur</b> ), Ukraine ( <b>Ukr</b> ), and Uzbekistan ( <b>Uzb</b> ).	Armenia Azerbaijan Georgia	Kazakhstan Kyrgyzstan Tajikistan Uzbekistan	Albania Bosnia & Herzegovina FYR Macedonia Kosovo Montenegro Serbia	Belarus Moldova Ukraine	Bulgaria Croatia Czech Republic Estonia Hungary Latvia Lithuania Poland Romania Slovak Republic Slovenia

**NOTE:** Russia and Turkey are not included in any of sub-regions, while being included in the ECA average. Croatia joined the EU in 2013. However, for comparison purposes Croatia is included in the EU-11 sub-regional comparison in 2008 as well, even though it was not yet an EU member at that time. Accordingly, Croatia is also *not included* in the WBL sub-regional estimate, even though it still belonged in this group of countries in 2008.





# Corruption and State Capture

- The general definition of **state capture** is that “... efforts of firms to shape the laws, policies, and regulations of the state to their own advantages by providing illicit private gains to public officials”.
- **State capture** also occurs when powerful individuals or firms use “...legitimate and transparent channels” in order to deny competing groups have access to state officials.
- **State capture** also occurs when “...unclear boundaries between the political and business interests of state officials” are exploited by specific groups and state officials for their mutual benefits at the expense of the society in question.
- In differentiating **state capture** from **corruption**, the consensus of the empirical literature is that the latter deals with the extent in which **how the bribe payer uses the existing laws, rules, and regulations to tip the balance in his favor**, while **state capture refers to corrupt efforts to influence how those laws, rules and regulations are formed and implemented**.
- **The survey results show that the payment of bribes during interactions between business and the state may be less of a problem than state capture.** In contrast to these measures of administrative corruption, perception of state capture has worsened dramatically between 2005 and 2013. The percentage of respondents stating that private payments, gifts, or other benefits that may have an impact on dealings with **Parliamentarians, government officials, and local government officials** has increased from 12-16 percent in 2005 to a much larger 53-56 percent in 2013. While the survey found that fewer firms attempted to secure government contracts in 2013, those which did had to pay much more in bribes and kick-backs to public officials. These factors most likely added to further increase in relative importance of political instability as an obstacle to firms’ operations.