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GOVERNANCE EFFICIENCY - ESSENTIAL CONDITION TO FOSTER ENTREPRENEURIAL COMPETITIVENESS. CASE OF THE REPUBLIC OF MOLDOVA

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Abstract: *The Republic of Moldova is the country with the lowest level of gross domestic product and living standards among the European countries, a situation which, although improved in dynamics, has not comparatively meliorated in the regional context. On the contrary, the development discrepancies that the country registers have become even more acute, the nation is still behind in terms of economic development even considering the regional context of the Eastern Europe. The main goal of the present study is to comprehensively assess and carry out a thorough analysis of the quality and competitiveness of the entrepreneurial and business environment of the Republic of Moldova, considering the regional context. Particular objectives of the study include: the analysis of the extent to which the entrepreneurial environment in the Republic of Moldova facilitates economic activity and individual initiative. Also, it is sought to perform a comparative analysis of the entrepreneurial competitiveness of the Republic of Moldova as compared to the rest of the Eastern European countries, including members and non-members of the European Union. At the same time, it is aimed to analyse the weakest positions of the entrepreneurial competitiveness of the Republic of Moldova that undermine the economic growth potential.*

Keywords: Institutions, governance, the Eastern Europe, economic competitiveness, the Republic of Moldova

JEL Classification: D73, L26, M21, O17

1 Introduction

The Republic of Moldova is the country with the lowest level of gross domestic product and living standards among the European countries, a situation which, although improved in dynamics, has not comparatively meliorated in the regional context. On the contrary, the development discrepancies that the country registers have become even more acute, the nation is still behind in terms of economic development even considering the lesser context of the Eastern Europe. This situation, in the current conditions of massive population emigration and considerable demographic decline in most of the country's territory, is set to further degrade due to the erosion of the internal institutional efficiency and the diminution of the quality of governance identified through political stability, government effectiveness, regulation, rule of law, control and eradication of corruption. It should be mentioned that the Republic of Moldova also faces important external challenges such as the increase of global competition as a result of globalization, the increase of the commercial rivalry and of the density of the global supply chains. Under these circumstances, the Republic of Moldova has the urgent need to increase its economic competitiveness, mainly the attractiveness and efficiency of the business and

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entrepreneurial environment in order to provide the economy with more dynamism, flexibility and growth potential. This is imperative as to ensure the country with a favourable economic environment able to develop in the competitive conditions of the modern world. It should be based on a consolidated private sector oriented towards fostering innovation and sophistication enabling the business sector to compete effectively for international and local markets.

Although there is an immense variety of the available literature on economic development, the study of economic competitiveness under the conditions of globalization and trade liberalization has become more prominent starting with the last decade of the 20th century. At the same time, it grows the importance of entrepreneurship as a determinative factor of economic development and competitiveness, Michael Porter, Daron Acemoglu, Philip Kotler, Joseph Stiglitz, and Paul Krugman being some of the most important economists researching this subject. It should be noted that many of these authors grounded their works on the studies of Joseph Schumpeter. These notable economists are just few of the most known since the subject is of major importance in the field. However, once we adjust the scale of our analysis, first of all in the context of the Eastern Europe, and then to the realities of the Republic of Moldova, the degree of the study of the subjects related to economic and entrepreneurial competitiveness is lower. In this regard, the present study comes to answer the question whether the modest entrepreneurial competitiveness of the Republic of Moldova is a factor that reduces the country's economic development potential. It also aims to analyse what are country's economic dynamics, considering the regional context of the Eastern Europe. Thus, the main goal of the present study is to comprehensively assess and carry out a thorough analysis of the quality and competitiveness of the entrepreneurial and business environment of the Republic of Moldova, considering the regional context. Particular objectives of the study include: the analysis of the extent to which the entrepreneurial environment in the Republic of Moldova facilitates economic activity and individual initiative. Also, it is sought to perform a comparative analysis of the entrepreneurial competitiveness of the Republic of Moldova as compared to the rest of the Eastern European countries, including members and non-members of the European Union. At the same time, it is aimed to analyse the weakest positions of the entrepreneurial competitiveness of the Republic of Moldova that undermine the economic growth potential.

The present study develops a new comprehensive approach through which it can be analysed the entrepreneurial competitiveness of states based on a relevant set of structured indicators. It will consider specific criteria that analyse the role of institutions to assure enhanced economic competitiveness. The indicators consist of a set of qualitative and quantitative quantifiers, the fact which will allow to test and identify logical and regressive relations between entrepreneurial competitiveness and economic development.

2 Competitiveness in economic theories

The concept of "economic competitiveness" has gained weight and specific attention in the literature starting with Krugman (1990) and Porter (1990) becoming a priority for policy making in the various countries. Yet, long before these authors offered a comprehensive definition for competitiveness, different aspects of it were widely debated by representatives of various economic traditions (Reinert, 1995). For instance, Adam Smith was a pioneer who researched "economic competitiveness", in the distant 1776, through the prism of causes of varying welfare

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across nations, ideas reflected in his famous work "An Inquiry into the Nature and Causes of the Wealth of Nations". He is the father of classical economic liberalism, who advocated for minimal intervention of government in the economy underlining the role of independent and free markets for countries' development. Some of the core mechanisms in this regard are private property, individual contracts, and the "invisible hand" or self-interests which fostered accumulation of welfare by individuals, and served as a prerequisite for more prosperous societies. He concluded that countries should concentrate on the production of the goods in which they hold "absolute advantage".

Another famous classical economist with liberal views, David Ricardo (1817) introduced the concept of "comparative advantage", mentioning that "a nation can also benefit from foreign trade even if it does not hold any absolute advantage over its trade partners in terms of goods production. It only needs to have relative advantage in any of the good in order to sell it abroad". Later, Heckscher & Ohlin (1991) widened the classical views on economic competitiveness developing the "natural resource abundance trade theory" in 1933 stating that "a capital-abundant country will export the capital-intensive good, while the labour-abundant country will export the labour-intensive good". It should be mentioned that this theory is built on the trade theory of Ricardo adjusting it to local abundant production factors. Liberalistic ideas were also developed by Alfred Marshall (1920), one of the most famous representatives of neoclassical economics, who established a supply-and-demand curve which is still used to define the market in equilibrium. His studies put the basis for institutional and geographical economics as well as for clustering through describing the economic relations in the "industrial districts" of England. He underlined the importance of vertical and horizontal specialisation for states' economic competitiveness.

Joseph A. Schumpeter, notable economist and representative of the Historical school of economics and Evolutionary economics, considerably contributed to enlarging the theoretical framework of "economic competitiveness". In his work of 1934 "The theory of economic development", Schumpeter underlined the necessity of firms to permanently adapt to the changing environment and market conditions through implementing innovation and recombining methods and resources. In 1950, he published "Capitalism, Socialism and Democracy" where it was strengthened the role of entrepreneurship and innovations for fostering economic competitiveness of countries. He stated that "the normal mode of economic affairs" is destroyed by entrepreneurs who introduce innovations which makes all the previous technologies obsolete forcing all market players to adapt, thus, the economy is set to develop. In this regard, an economy which has more propitious environment for businesses and entrepreneurs is set to quicker implement innovations and be more flexible.

Contemporary concepts and theories of competitiveness are based on the works of Paul Krugman (New Trade Theory and New Economic Geography) and Michael Porter (Theory of economic clustering). Paul Krugman in his theory explains the accumulation of economic power in certain regions through the formation of various clusters at different geographical levels. The complexity of the local cooperation networks which is determined by the available socio-economic resources is marked by the efficiency of integration of local factors within wider networks. Based on this assumption it could be mentioned that networks and their interferences at

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local levels are direct determinants of regional development (Krugman 1990 & 1994). Moreover, Krugman (1996) emphasizes the role of local economic cells i.e. industrial organisations, cities or minor regions for the global welfare distribution, as these structures provide opportunities to increase returns due to the spatial concentration. In an earlier work Krugman (1979) mentions that previous theories focused too much on perfect competition and symmetry explaining trade and subsequent economic growth, instead, Krugman concentrated on the role of industrial organisations and their increasing returns which are rather aligned to imperfect market competition. Krugman in cooperation with Hatsopoulos (1987) and in his work of 1994 mentioned that trade, and economic competitiveness should not be linked only to availability of resources or any kind of advantages, it should also consider historical context and structure of cooperation networks. Moreover, he mentions that viewing economic competitiveness through the national perspective could be dangerous as it leads to misallocation of resources, protectionism and trade wars, and poor public policy. Krugman (2008) highlights that the concept of competitiveness is by far larger than simply ability to sell products and maintain favourable trade balance, it also reflects the rise in living standards and employment as well as its ability to follow straight policies on the international arena. He concludes that competitiveness of countries is conceptually different in relation with the competitiveness of companies, a country, unlike a bank or company, does not cease to exist in case it goes bankrupt (Krugman, 1994).

In his turn, Michael Porter (1990) identifies competitiveness of countries as the ability of states to attract businesses by offering favourable operating environment and relevant support easing their access to local and global markets. These can apply both to regional and national levels. Porter *et al* (2008) underlines the idea that governments' main priority is to enhance sustainable productivity growth through creating the necessary conditions. Porter & Rivkin (2012) mention that competitive economies provide sustainable opportunities to companies to benefit from employment and high living standards, the main factor of competitiveness being productivity. According to Porter (1998), nations can create opportunities by adjusting local procedures to business environment requirements. The key towards competitive advantage is assured by more propitious conditions or offering clients better and greater value, in our case, clients being enterprises. It is also important to underline that Porter (1990) identifies economic competitiveness of countries with the interaction of several factors which, besides the governments, include the role of demand conditions (i.e. economies of scale, transportation costs and the size of the home market), firm strategy, structure, rivalry (entrepreneurial culture of the nation), availability of production factors (particularly labour, knowledge and infrastructure), and interconnection to related and support networks. Domestic competitiveness and permanent search for competitive advantage motivates domestic business to develop.

Similar ideas to Porter's are expressed by Daron Acemoglu. Thus, the important role of institutions in assuring enhanced economic competitiveness and development has been extensively researched by this economist who is one of the most important representatives of the New institutional economics. In his work of 2002 which was made in cooperation with Johnson & Robinson, Acemoglu uncovers the influence of different institutional structures in creating more or less efficient mechanisms of generating and distributing economic welfare. In a later work, Acemoglu *et al* (2005) concluded that institutions are determinant factors motivating long run

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economic development of countries, they establishing more or less favourable climate and environment for undertaking economic activities. Namely the institutions determine the quality of legal and administrative frameworks which establishes the rules of interaction among the market participants including individuals, firms, and governments, the situation resulting in the generation of wealth and its distribution. Acemoglu (2009) underlines that institutions can raise or lower the costs of entrepreneurs to operate and generate income either through imposing overregulation (causing corruption and red tape, lack of transparency and kleptocracy) or by freeing the environment stimulating individual initiative and business activity. As a result, it can be underlined that economic development is conditioned by the efficiency of institutions which regulate the all the processes within the society. Thus, it is a primary responsibility to ensure that institutions work properly. Particular danger in this regard, it the transformation of institutions in controlled entities which could model the socio-economic environment based on individual interests.

3 Entrepreneurial competitiveness of the Republic of Moldova in economic literature

Growth, particularly in the socio-economic aspects, determines how the people live in terms of welfare, social conditions and income. It is the responsibility of governments to establish a favourable economic environment capable of insuring proper operational conditions to generate income and progress. Economic competitiveness is determined by institutional strength, availability of proper infrastructure, degree of technological and innovation development as well as governmental initiatives which altogether stimulate entrepreneurship and business activity, the main contributor to economic development. In this regard, Aculai *et al* (2017) determined that economic transition in the Republic of Moldova has been accompanied by the bankruptcy of the largest state owned enterprises which diminished the economic output of the country more than 70% during 90s. This situation made the state the poorest in Europe. Thousands of citizens became unemployed choosing emigration as an option or went in small business failing in short time due to highly unfavourable entrepreneurial environment and wide spread corruption. Political decisions and reforms lead to stagnation of competitive business sector, the country losing many skilled and initiative driven citizens. This fact undermines the possibility of the Republic of Moldova to gain competitive advantages in the future. Moreover, Belostecinic (2007) highlighted that during the soviet age the Republic of Moldova has not been endowed with a strong industrial base as compared for instance with Ukraine or Belarus. This situation determined the direction of transition and constant erosion of the remaining industrial sector the fact causing significant drop of income during the 1990. These circumstances worsened as the traditional economic relations were destroyed, the state failing in establishing new ones as it could not meet already existing competition requirements on the new markets, the Western Europe going far away in this area. These conditions tend to persist over the time, just slightly improving in dynamics. At the same time, Ianioglo & Polajeva (2017) underlined that despite of the recent evolutions, the business sector remains weak and underdeveloped as compared to the regional context. In these conditions, its abilities to increase innovative capacities remain limited since entrepreneurs lack resources and macroeconomic stability. Moreover, according to Crudu (2019) policies which have been promoted until present are controversial not eradicating the key institutional weaknesses as well as improving the regulatory clarity the fact reducing the competitiveness of the business. Economic

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competitiveness of enterprises is insured by their abilities in developing more innovative product and processes capable of insuring competitive advantage over the rivals on the market. However, these assumptions are poorly fitting the realities of the Republic of Moldova, where other factors such as political and judiciary connectivity is decisive. Simultaneously, Belostecinic & Guţu (2008) concluded that the Republic of Moldova has very low economic competitiveness the fact which is explicitly reflected in trade balance, the state registering important deficit. The exports of the country are highly concentrated, the first 5 positions in terms of products having consistent dominance over the period the situation which underlines the weak state of affairs in the economy. Moreover, the direction mainly towards the EU and CIS states highlight that the economy is not prepared to compete for more distant markets, and the business sector is not prepared to deal with larger logistic challenges.

Kleinschnitger & Knodt (2018) underlined that the European Union through launching the Eastern Partnership initiative in 2009 supposed to consolidate the quality of democracy and economic basis of the included countries. The Republic of Moldova, Ukraine and Georgia managed in efficiently exploiting the opportunities offered by the community, thus, these nations being able to establish free trade areas with the EU which opened the single market for the business sectors of these countries. Nevertheless, due to strong institutional, political and economic challenges reaching full potential of enhanced cooperation is not valid in the present, deepening the relations is hampered by the poor dialogue and inconsistent policies between these states and the European Union. Furthermore, Muravska & Berlin (2016) said that the established free trade areas between the European Union and the Republic of Moldova, Ukraine and Georgia is set to strengthen these states' business performance through providing development opportunities. Entrepreneurial performance of these countries at the moment could be considered in its incipient stage especially considering regions. Entrepreneurs lack sufficient resources and qualitative institutions as well as experience. In the conditions of high competitive environment of the EU's single market, the businesses originating from the Eastern Partnership countries setting free trade areas with the community could succeed rather in the conditions of exceptions. Much policy improvements and investments have to be made in order to make these economies competitive. Also, Baltag & Bosse (2016) underlined that the business sector lacks more comprehensive support of the European Union. The community's policies in this state are weak and have little influence upon the democratic and market processes. Thus, during the last years, the Republic of Moldova's European integration route failed, the country sliding towards hybrid authoritative regime, the EU's authorities being restrained from all these process and not taking adequate measures. European Neighbourhood Policy in the Republic of Moldova has been too permissive the situation leading to consolidation of oligarchy and economic monopolies. No significant improvements should be expected in terms of economic competitiveness and income in the country since the environment is over regulated and corrupted. Moreover, Nilsson & Silander (2016) concluded that in the conditions of declining democratic quality, the business sector in the Eastern European nations member of the Eastern partnership initiative is supposed to decline since entrepreneurs will face more impediments. This negative effect will be stronger than the opportunities provided by the single market of the European Union, as businesses originating from these countries will face strong institutional pressure. In these conditions, the community should

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change policy approach towards these countries to stimulate directly the business and protect entrepreneurs through available mechanisms. In this regard, the EU should apply more coercive measures motivating more efficient reforms implementation.

Delcour (2015) mentioned that the Russian Federation is the traditional power which has influenced and determined the decision making in most of the Eastern Europe for centuries. The collapse of the Soviet Union has opened this region for growing influence of the West including the European Union and USA. The competing interests between the West and Russia in the Eastern Europe undermines the possibility of the states to progress since neither of the parts are willing to concentrate investments in a region of instability, policies being conducted in parallel rather than establishing complementary relations. Competition of interests aim establishing legitimacy of power and enlarging the areas of influence. At the same time, Ghedrovici & Ostapenko (2016) concluded that in countries such as the Republic of Moldova business is determined by the political connectivity of the entrepreneurs which assure protection against over claimant institutions. In case there is no such "an umbrella", the business risks to be forced either to live the market and close the activities or to obtain protection. Nevertheless, the growing economic and political integration with the European Union lead to strengthening entrepreneurial sector, many practices which have been widely spread during the transition period, presently, are much less intervening in the affairs of the private sector. Also, Aculai *et al* (2015) as well as Dodu-Gugea & Stihi (2014) said that the Republic of Moldova's entrepreneurial sector is highly vulnerable and underdeveloped due to restrictiveness of policies and extractive institutions. Particularly, it should be mentioned the small and medium sized enterprises which lack both resources and feasible business opportunities as well as efficient policy support, the fact diminishing the survival rates (Crudu, 2019). This circumstances explain massive emigration of citizens which are not able to develop competitive businesses home and do not find suitable employment opportunities capable of insuring better living standards. Extractive institutions tend to suppress the entrepreneurial spirit decreasing the ability of the economy to growth and enhance economic competitiveness. Further, Aculai, Maier & Novac (2017) identified that the international rankings of entrepreneurial environment in the Republic of Moldova are comparable to the weakest economies in Asia and Africa. High corruption, monopolisation of each market by political backed businesses, red tape, petty bureaucracy and lack of competences are among the factors which decrease the ability and willingness of business sector to increase its competitiveness and innovation. In these conditions, the business sector is not able to insure sufficient boost of the economic processes capable of generating higher productivity and employment. The EU's support in this regard is feeble incapable to assure stable improvement of the situation.

Campbell (2017) stated that despite of the weak business environment, the Republic of Moldova has a strong potential in attracting investments and developing innovative oriented business sector. This fact is determined by relatively high quality of the human capital, gained abilities and experience during wide implication in migration. In these circumstances, the right policy measures and reforms implementation, the government is capable in relatively short term of consolidating the business environment. This fact is improved by establishing free and comprehensive trade area with the European Union which is a large market providing important

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profit opportunities. Moreover, Le Heron & Yol (2018) determined that an important boost to Moldovan business environment was insured by affluence of remittances which is a consistent source of income fostering the development of the country through increasing the household consumption. Nevertheless, government has failed in building efficient mechanisms of transforming remittances into investments the situation which minimised the growth potential. Since the vast majority of the income was paid for imports on consumer goods, the economic growth did not improve the capital accumulation in the country, thus, not consolidating the productivity basis. Moreover, remittances minimised the attractiveness of the economy for foreign investments through raising salaries and prices for consumer and industrial goods. Finally, Turcan & Fraser (2016) underlined that the Republic of Moldova needs consolidation of the business sector through liberalising the legislation and reducing the influence of the institutions on the economic processes.

Therefore, good governance and efficient institutions is, in this regard, the key component to economic development and general societal progress. Corner stone features of good governance are integrity and efficiency. Integrity is important to assure the neutral character of legislation and regulation taking into account general interests of the society and not the individual interests of the bureaucratic representatives or politically affiliated business. Efficiency regards operational capacities of institutions to develop, implement and monitor regulations' application considering time and resource constraints. Moreover, efficiency is linked to the quality of developed policy and its impact upon business environment and living standards. These preconditions are important since transparency, equity and efficiency are the basic values assuring harmonisation of socio-economic processes.

3 Methodology

The dataset analysed contains information regarding 14 countries of the Eastern Europe alongside with the Republic of Moldova. The fundament of the data is assured by Worldwide Governance Indicators which are provided by the World Bank. The period covered in the research is 2002-2017. The directions regarded are voice and accountability (VA), political stability (PS), government effectiveness (GE), regulatory quality (RQ), rule of law (RL), and control of corruption (CC), which serve as the independent variables of the present study. The dimensions analysed is the minimal percentile rank indicating the countries' rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank. The dependent variable is the natural logarithm of the GDP per capita, which is intended to show the evolution of economic dynamics of the countries considering the independent variables. The first step of the analysis consists of qualitative assessment of the raw data. Analysis of the independent variables is aimed to identify the efficiency of mechanisms of assuring social order marking the patterns of interrelating and networking among individuals, private and public sectors. These factors determine the overall efficiency of the legal and administrative organization creating an enabling environment for generating wealth within economies. It should be highlighted that these dimensions are fundamental factors which are crucial in motivating business sector in engaging in economic activities. Fundamental factors form the means assuring the functionality of the economic system by empowering people and businesses to pursue and benefit from unique

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opportunities. Fundamental factors determine the efficiency of the markets and assure the basis for entrepreneurial development and competitiveness. Control of corruption shows the extent to which public sector is transparent and do not exercise their power to gain personal benefit; government effectiveness includes the quality of civil and public services, institutional independence, efficiency of policy developing and implementation, and government legitimacy; regulatory quality determines the extent to which the legal environment and its enforcement allows the business sector to progress; rule of law shows the extent to which all participants in the economy are considered equal in the front of law; voice and accountability marks the extent to which citizens' voice is accounted for when developing policies, and efficiency of monitoring; political stability underlines the stability of government, degree of uncertainty and the propensity of government to change. The second step of the analysis consists of a throughout statistical assessment which is aimed to provide a strong fundament on which the conclusions will build. Firstly, there are identified the descriptive statistics of the dataset. Afterwards, it is analysed the Pearson's correlation coefficients among the indicators to show the extent to which the indicators are linearly associated. Further, it is undertaken a multiple linear regression estimation between log GDP per capita, as the dependent variable, and the selected indicators, respectively as independent ones. Finally, the Kaiser-Meyer-Olkin test is performed to identify the proportion of variance in the variables that might be caused by underlying factors as well as Bartlett's test of sphericity to prove that the variables are unrelated and therefore unsuitable for structure detection. In this way, it can be identified where the dataset is adequate and the regressions are relevant.

4 Results

Table 1 provides information regarding the performance of the Republic of Moldova in the area of fighting both petty and grand corruption as compared to the rest of the Eastern European nations. As it can be remarked, the Republic of Moldova is the second most corrupted country in the Eastern Europe, its performance being slightly higher than Azerbaijan. Moreover, this fact means that the country is positioned among 21.2% most corrupted countries of the world, the situation which underlines serious problems in policy making and implementation of the legislation. For comparison, the least corrupted country is Estonia the performance of which exceeds 87% of the countries, followed by Georgia, 77.4%. It should be underlined that Georgia has consistently improved its scoring within 2002-2017, registering the highest growth among the countries. At the same time, Moldova rather stagnated over period, no consistent melioration of the situation being recorded, similar results being reported by Ukraine. Being one of the most corrupted countries in the world and second in the region, the Republic of Moldova certainly decreases its entrepreneurial attractiveness both for local and foreign businesses, the situation which undermines its competitiveness and economic potential. Despite of the wide support of the European Union, anticorruption measures which the Republic of Moldova has implemented since 2009 proved to have little effect in increasing country's performance.

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Table 1. Worldwide Governance Indicators: Control of Corruption (CC), Min. Percentile Rank

	2002	2004	2006	2008	2010	2012	2014	2016	2017
Estonia	77.8	82.4	82.0	81.1	80.5	82.0	88.0	88.9	87.0
Georgia	5.6	37.1	58.5	54.4	57.1	68.7	76.4	74.0	77.4
Poland	70.2	59.0	64.9	69.9	71.9	73.0	72.6	76.0	76.0
Czech Republic	69.2	69.8	67.8	67.0	66.7	64.9	66.3	69.2	70.7
Lithuania	63.1	69.3	60.5	61.7	69.0	68.2	70.7	75.0	70.2
Latvia	59.6	60.5	68.8	63.6	63.8	64.5	67.8	66.8	69.7
Slovak Republic	58.6	67.8	69.3	67.5	64.8	61.1	60.1	63.5	62.5
Hungary	74.2	75.6	74.1	70.9	68.6	67.3	60.6	60.6	59.1
Romania	40.4	46.8	53.2	53.9	52.4	48.8	53.8	56.7	55.3
Bulgaria	53.0	58.0	56.1	49.5	53.3	51.2	50.5	51.0	51.0
Belarus	30.8	23.4	31.7	32.0	27.1	36.5	48.1	48.6	47.1
Armenia	27.8	30.2	29.8	27.7	26.7	33.6	36.1	32.7	32.7
Ukraine	11.6	16.6	24.9	19.9	16.2	12.8	14.9	20.7	22.1
Moldova	19.2	14.6	31.2	31.6	29.0	31.8	20.7	14.9	21.2
Azerbaijan	7.1	10.7	12.7	11.2	6.7	11.8	14.4	19.2	17.8

Source: The World Bank Group, retrieved from info.worldbank.org on February, 22nd, 2019

Government effectiveness is a basic factor, a *condicio sine qua non* for business development. It affects directly entrepreneurial competitiveness of the countries through reflecting the quality of the civil service, the quality of provided public services, as well as the degree of its independence from political pressures. At the same time, it comprises the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Based on the information provided in table 2, it can be underlined that the Republic of Moldova is the least performant country in the region in terms of government effectiveness, shortly after Ukraine. The government of the state is ranked among 34.1% least efficient in the world, the situation which considerably reduces the ability of the nation to compete for local and foreign business investments. The registered dynamics are also weak no significant improvement being reported within 2002-2017. Estonia, Czech Republic and Lithuania are the Eastern European states with the most competitive governments, while Georgia is the country with the most remarkable evolution. It should be underlined that Belarus, Romania and Azerbaijan, alongside with Moldova and Ukraine have the least competitive governments in the region being positioned significantly behind the leading powers in this area of the Eastern Europe.

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Table 2. Worldwide Governance Indicators: Government Effectiveness (GE), Min. Percentile rank

	2002	2004	2006	2008	2010	2012	2014	2016	2017
Estonia	75.5	80.3	83.9	84.0	82.3	78.2	80.3	82.7	83.7
Czech Republic	81.6	78.3	83.4	79.6	78.5	77.3	80.8	79.8	81.3
Lithuania	71.9	75.9	75.1	73.3	74.2	73.9	78.8	81.3	80.3
Latvia	71.4	72.4	74.1	70.4	72.7	75.8	78.4	78.8	78.8
Slovak Republic	73.0	78.8	79.0	77.7	76.1	74.4	75.0	76.9	75.0
Poland	69.9	69.5	65.9	67.5	71.3	72.0	74.5	73.6	74.0
Georgia	24.0	36.5	47.8	65.5	65.1	70.1	71.6	70.7	72.1
Hungary	82.7	77.8	77.6	75.2	72.2	70.6	72.1	69.2	70.2
Bulgaria	63.8	63.1	54.6	53.4	59.3	60.7	57.7	65.4	63.9
Armenia	54.1	54.2	46.3	49.0	48.8	54.0	45.7	49.0	50.0
Azerbaijan	14.8	23.6	30.2	22.8	23.0	25.1	41.8	48.1	47.1
Romania	49.5	49.8	48.8	45.1	45.9	45.0	54.8	47.6	46.2
Belarus	15.3	10.8	11.7	12.6	11.5	19.9	34.6	36.1	39.4
Ukraine	30.1	32.5	36.6	27.2	24.4	32.2	39.9	31.7	35.1
Moldova	33.2	18.7	24.4	23.3	29.7	33.2	38.9	29.8	34.1

Source: The World Bank Group, retrieved from info.worldbank.org on January, 22nd, 2019

Another important indicator which is a fundament for entrepreneurial competitiveness is regulatory quality. It should be remarked that the Republic of Moldova registers relatively high performance in this area ranking better than 54.3% of all countries of the world (table 3). Yet, in the regional context, its results are rather modest recording the fourth lowest efficiency in terms of regulatory quality. In this regard, Moldova scores better than Belarus, Ukraine, and Azerbaijan, however, consistently lower than Armenia and Romania. During the researched period, the country has increased its performance, nevertheless, during the last years the growth has stagnated the fact pointing severe difficulties in implementing European supported reforms. Estonia is the leading force in terms of regulatory quality in the Eastern Europe being positioned higher than 93.3% of all countries of the world. It is followed by the Czech Republic, Lithuania, Latvia as well as Georgia, the least registering consistent improvement of the performance dynamics. It should be underlined that the region's scores, on overall, are favourable with 10 states out of 15 recording results exceeding 70th percentile. In these conditions, the performance of the Republic of Moldova, which is higher than in the previous cases, is not providing any significant advantage since in the regional context it is still not sufficient.

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Table 3. Worldwide Governance Indicators: Regulatory quality (RQ), Min. Percentile rank

	2002	2004	2006	2008	2010	2012	2014	2016	2017
Estonia	88.8	87.2	88.2	91.7	88.5	91.0	93.3	93.3	93.3
Czech Republic	84.2	79.3	83.3	85.0	86.1	81.0	80.8	80.8	86.1
Lithuania	81.6	80.8	77.9	83.0	79.4	82.9	86.1	84.6	83.2
Latvia	76.5	78.8	79.4	80.6	80.4	80.1	85.6	83.7	82.7
Georgia	21.4	36.5	51.0	64.6	70.8	74.4	79.3	81.7	81.7
Poland	74.0	75.9	72.1	75.2	79.9	78.7	81.3	79.8	78.8
Slovak Republic	78.1	82.8	84.8	82.5	80.9	80.6	78.4	78.8	76.4
Hungary	87.2	83.3	85.8	85.9	81.3	79.1	75.5	71.6	73.1
Bulgaria	69.9	72.4	68.1	72.8	74.2	69.7	70.7	73.6	72.6
Romania	56.6	59.6	64.7	68.0	71.8	69.2	71.6	70.7	70.2
Armenia	57.1	58.1	58.8	62.1	60.3	61.1	59.6	63.0	64.4
Moldova	39.8	37.4	42.6	50.0	49.3	49.3	54.3	50.5	54.3
Azerbaijan	23.5	28.1	31.4	41.3	39.2	35.5	44.2	43.8	43.3
Ukraine	30.1	39.4	31.9	33.0	34.0	29.9	29.3	36.1	40.4
Belarus	5.1	10.3	3.4	9.2	12.4	13.7	15.4	16.3	24.5

Source: The World Bank Group, retrieved from info.worldbank.org on January, 22nd, 2019

Table 4 provides information regarding the performance of the Eastern European countries in terms of rule of law. As it can be remarked, the Republic of Moldova scores the fourth least competitive country in the region being ranked on the 37.5 percentile in the world, which is rather a modest performance and could insure a competitive advantage. Moreover, the Republic of Moldova is stagnating in dynamics, thus, during 2002-2017 the state has not registered a significant improvement of the results. The declining scoring for the last two years points severe difficulties in terms of the rule of law, neither the Association Agreement nor the comprehensive support of the European Union being efficient in this regard. As in the cases of the previous indicators, the leading country in the Eastern Europe considering the rule of law is Estonia which is positioned on the 86.5 percentile, followed by the Czech Republic, Lithuania and Latvia (table 4). Georgia which has been one of the leaders in the cases of the previous indicators records more modest scoring being positioned on the 63rd percentile. The states with the lowest results, besides the Republic of Moldova, are Belarus, Ukraine and Azerbaijan. Thus, these markets have reduced attractiveness for doing business since weak rule of law imposes high operational risks, thus, conditioning un unfavourable environment for development.

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Table 4. Worldwide Governance Indicators: Rule of Law (RL), Min. Percentile rank

	2002	2004	2006	2008	2010	2012	2014	2016	2017
Estonia	75.2	81.3	88.0	87.0	85.3	85.9	86.5	86.5	86.5
Czech Republic	77.7	72.7	76.6	80.8	80.1	82.2	84.6	82.2	83.7
Lithuania	65.3	68.9	70.3	71.6	73.5	76.1	79.3	81.7	80.8
Latvia	63.4	67.9	68.9	74.5	73.9	72.8	78.4	80.3	80.3
Slovak Republic	60.9	65.1	65.6	68.8	66.4	65.3	70.7	74.5	71.6
Hungary	80.7	77.5	82.8	81.3	73.0	68.1	71.2	66.8	70.2
Poland	72.3	63.2	62.7	66.8	68.7	72.3	77.4	74.0	68.3
Romania	46.0	47.4	50.7	53.8	56.4	57.7	63.5	63.9	63.9
Georgia	15.3	32.1	40.2	47.6	47.9	54.9	64.9	64.9	63.0
Bulgaria	52.0	49.3	51.2	52.4	53.1	52.1	56.7	52.4	51.9
Armenia	39.6	39.2	35.4	44.7	37.4	42.7	41.3	50.5	49.5
Moldova	34.2	42.6	38.3	39.4	43.1	46.0	46.6	33.2	37.5
Azerbaijan	20.3	20.1	21.5	21.6	20.9	23.5	28.8	32.2	32.2
Ukraine	24.8	26.3	24.9	27.4	25.1	26.3	23.1	24.5	25.0
Belarus	7.4	9.6	8.1	13.9	14.2	17.4	20.7	26.4	21.6

Source: The World Bank Group, retrieved from info.worldbank.org on January, 22nd, 2019

Another important indicator determining the competitiveness of the entrepreneurial environment is voice and accountability. Based on the information provided in table 5, it can be remarked that the performance of the Republic of Moldova is relatively low considering the regional context since it scores the twelfth most performant, in the world being positioned on the 45.3th percentile. Even if the score has increased during the period of 2002-2017, it decreased during the last two years the fact underlining important challenges which the state is confronting with. Alongside with the Republic of Moldova, low scoring is registered also by Azerbaijan, Armenia and Belarus as well as Ukraine and Georgia. The Eastern European nations which managed to integrate into the European Union are significantly more competitive than the previous states. The leader is Estonia which is ranked in the 89.7th percentile, followed by Lithuania and Czech Republic and Slovak Republic. It is important to underline that the Eastern Partnership countries which established association agreements as well as deep and comprehensive free trade areas with the European Union i.e. Moldova, Ukraine and Georgia report considerably higher performances than the states which have not deepened the cooperation with the community i.e. Armenia, Azerbaijan and Belarus. This fact underlines the favourable effect of European backed reforms on fostering democratic capacities in the Eastern European states which have chosen to follow the European integration route.

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Table 5. Worldwide Governance Indicators: Voice and accountability (VA), Min. Percentile rank

	2002	2004	2006	2008	2010	2012	2014	2016	2017
Estonia	79.6	83.7	84.6	85.6	83.4	85.9	88.2	89.2	89.7
Lithuania	73.1	77.9	74.5	72.6	75.4	75.1	76.4	78.3	78.3
Czech Republic	76.6	80.3	77.4	81.7	78.7	77.0	78.8	81.3	76.8
Slovak Republic	74.6	79.3	76.4	74.0	74.9	77.5	75.9	76.4	75.9
Latvia	72.6	71.2	74.0	71.2	72.0	71.8	72.4	73.9	73.9
Poland	80.6	82.2	73.6	76.0	80.1	82.6	82.3	74.4	72.9
Romania	60.7	60.1	63.0	62.0	59.2	57.7	60.6	65.5	64.5
Bulgaria	63.7	66.3	65.9	65.9	64.5	61.5	59.6	59.1	59.1
Hungary	86.1	85.6	78.8	76.4	73.5	70.9	66.0	59.6	58.1
Georgia	33.8	46.6	43.8	39.4	41.7	50.2	57.6	55.7	54.7
Ukraine	33.3	28.4	47.6	50.5	45.0	40.4	43.3	47.3	47.3
Moldova	32.3	29.8	37.0	36.5	46.9	47.4	49.3	46.8	45.3
Armenia	36.8	30.3	26.4	24.5	25.1	30.0	30.5	31.0	32.0
Belarus	8.5	5.8	5.3	6.7	7.1	6.1	7.9	12.8	12.3
Azerbaijan	20.4	18.8	10.6	11.1	12.8	12.2	7.4	6.4	6.9

Source: The World Bank Group, retrieved from info.worldbank.org on January, 22nd, 2019

Another important indicator which determines the competitiveness of countries in terms of entrepreneurship and business is political stability. Based on the information provided in table 6, the Republic of Moldova is the fifth least competitive country among the selected in terms of political stability being ranked on the 38.6th percentile ahead of Georgia, Armenia, Azerbaijan and Ukraine. It should be mentioned that all of these countries including the Republic of Moldova have frozen military conflicts on their territory and significant social tensions. If analysing the dynamics, it can be underlined that political stability in Moldova has slightly declined over the researched period and stagnated during the last years. The states with the highest political stability in the region are the Czech Republic being ranked on the 84.3th percentile, followed by Slovakia, Hungary and Lithuania. Estonia which was a leader in the cases of the previous indicators records rather modest results. Romania, the European neighbour of the Republic of Moldova, registers modest scoring in terms of political stability being positioned near the countries of the Eastern Partnership. Thus, the regional context of the Republic of Moldova is unfavourable for business activities since the neighbouring countries i.e. Ukraine and Romania, as well as the proper low scoring of Moldova, condition less attractive business environment.

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Table 6. Worldwide Governance Indicators: Political stability (PS), Min. Percentile rank

	2002	2004	2006	2008	2010	2012	2014	2016	2017
Czech Republic	83.1	68.4	85.5	85.6	82.9	86.7	83.3	81.4	84.3
Slovak Republic	81.5	65.0	71.0	87.0	86.7	88.2	85.7	71.4	76.2
Hungary	91.0	75.2	80.7	71.2	69.2	68.7	68.6	67.1	74.3
Lithuania	77.2	72.8	74.9	70.7	70.6	72.5	70.5	73.8	72.9
Estonia	80.4	71.4	68.6	65.9	67.8	67.3	72.9	68.6	69.0
Poland	71.4	51.0	55.1	77.9	84.4	86.3	76.2	63.3	64.8
Latvia	82.0	66.0	72.9	51.9	64.5	61.1	61.9	62.4	63.8
Bulgaria	64.0	45.1	57.5	56.3	57.8	58.8	49.5	49.0	60.5
Romania	63.5	47.6	50.2	50.5	54.0	48.8	48.6	56.2	49.0
Belarus	55.6	51.5	49.8	62.5	42.2	47.9	52.9	51.0	45.7
Moldova	41.8	37.9	31.9	35.6	33.2	46.9	39.0	34.8	38.6
Georgia	16.9	19.4	17.9	16.8	24.2	24.2	34.8	33.8	32.4
Armenia	37.6	40.8	37.7	44.2	49.8	51.2	35.7	22.4	20.5
Azerbaijan	16.4	17.0	16.4	32.7	36.5	23.2	26.2	18.6	18.6
Ukraine	33.9	29.6	44.0	45.7	45.5	41.7	5.7	6.7	6.7

Source: The World Bank Group, retrieved from info.worldbank.org on January, 22nd, 2019

Table 7 provides information regarding the descriptive statistics of the dataset. As it can be observed, the countries of the Eastern Europe register higher performance in terms of regulatory quality, followed by governmental effectiveness, voice and accountability. The lowest levels of institutional efficiency are in the area of control of corruption, rule of law and political stability. The highest discrepancies are recorded in the area of voice and accountability, while the lowest is remarked for political stability. Yet, it should be remarked that the performances across the selected indicators are more or less similar, the countries' governance efficiencies not changing much from one to another indicator. All the considered indicators are strongly correlated. Thus, by examining table 8, it can be noticed, that there is an accentuated linear association in all cases, the situation which underlines two fundamental ideas. First, the evolution of governance efficiency is directly linked to all considered dimensions. Second, there is a high level of linear association between the indicators reflecting institutional strength and the dynamics of economic development.

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Table 7. Descriptive statistics of the indicators.

	VA	PS	RL	RQ	GE	CC	Log GDP
Mean	56.2	55.6	54.9	64.0	57.2	51.2	9.5
Standard Error	1.6	1.3	1.4	1.5	1.4	1.4	0.0
Median	64.1	56.3	59.3	72.8	65.5	58.3	9.7
Standard Deviation	24.7	20.9	22.0	22.9	21.3	22.0	0.6
Sample Variance	611.6	434.8	484.2	523.9	455.6	484.3	0.4
Kurtosis	-0.7	-0.7	-1.0	-0.2	-1.0	-1.1	-0.4
Skewness	-0.7	-0.4	-0.4	-1.0	-0.6	-0.5	-0.7
Range	86.3	85.8	80.6	89.8	75.1	83.4	2.8
Minimum	3.4	5.2	7.4	3.4	10.5	5.6	7.7
Maximum	89.7	91.0	88.0	93.3	85.6	88.9	10.5
Count	240	240	240	240	240	240	240

Source: Own calculations

Table 8. Pearson's correlation matrix of the indicators

	VA	PS	RL	RQ	GE	CC	Log GDP
VA	1						
PS	0.72	1					
RL	0.92	0.74	1				
RQ	0.89	0.64	0.95	1			
GE	0.87	0.69	0.94	0.94	1		
CC	0.85	0.73	0.90	0.85	0.90	1	
Log GDP	0.55	0.68	0.65	0.57	0.63	0.66	1

Source: Own calculations

Further, it has been undertaken a linear regression analysis between log GDP per capita and the selected indicators of institutional efficiency, to check the extent to which governance efficiency affects economic growth in the countries of the Eastern Europe. Accordingly, if the relations among these indicators are relevant, it can be built a model of showing the dependence of economic development on the institutional efficiency. The multiple linear regression performed takes the form of $y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \cdots \beta_k x_k + e$. By examining the information presented in table 9, it can be underlined that the model which has been built has a relatively high coefficient of determination of 0.558. This fact underlines that the variation in the dynamics of GDP per capita are explained by the selected explanatory variables at an extent of more than 55.8%, which is a consistent rate for our model containing 6 independent variables. It is important to underline that the significance level F is relevant for the model built reaching negligible values. Referring to the P-values of the model, it can be observed that the majority do not reach 0.05, the fact highlighting the idea that they can be considered as relevant. Moreover, two P-values recorded slightly overpass 0.05 reaching 0.058 and respectively, 0.062. Since the values are very close to 0.05, it has been decided to include them in the model, as they may be also regarded as consistent, the difference being negligible. As a result, the performed multiple linear regression makes it possible

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to build the following model exemplified by the 1 formula. It has been performed the Kaiser-Meyer-Olkin test (Kaiser, 1974) for sampling adequacy which has the value of 0.985, the fact which underlines that the factors identified are reliable and the sample is relevant. Moreover, it has been performed the Bartlett's test of sphericity (Tobias & Carlson, 1969), with a p-value being close 0, the fact which expresses the idea that factor analysis is relevant for the present study. It should be mentioned that Mavragani *et al* (2016) have used similar methodology of analysis in an attempt to identify the dependence of efficient environmental protection on the quality of institutions.

$$Log\ (GDP\ per\ capita) = 8.254 - 0.01VA + 0.012PS + 0.016RL - 0.009RQ + 0.009GE + 0.007CC \qquad (1)$$

Table 9. Multiple linear regression estimations of log GDP per capita and the selected indicators

Regression Statistics		*ANOVA*						
Multiple R	0.747			*df*	*SS*	*MS*	*F*	*Significance F*
R Square	0.558	*Regression*		6	55.21	9.20	48.94	0.000
Adjusted R Square	0.546	*Residual*		233	43.81	0.19		
Standard Error	0.434	*Total*		239	99.02			
Observations	240							
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	8.254	0.099	83.7	0.000	8.059	8.448	8.059	8.448
VA	-0.010	0.003	-3.4	0.001	-0.016	-0.004	-0.016	-0.004
PS	0.012	0.002	5.6	0.000	0.008	0.017	0.008	0.017
RL	0.016	0.006	2.7	0.006	0.005	0.028	0.005	0.028
RQ	-0.009	0.005	-1.9	0.058	-0.019	0.000	-0.019	0.000
GE	0.009	0.005	1.8	0.062	0.000	0.018	0.000	0.018
CC	0.007	0.003	1.9	0.047	0.000	0.013	0.000	0.013

Source: Own calculations

5 Conclusions

This study concludes that the Republic of Moldova is one of the least competitive countries in the Eastern Europe considering the attractiveness of the business and entrepreneurial environment, the fact which is reflected by weak overall institutional performance regulating economic processes. This fact determines that the economic competitiveness of the Republic of Moldova is lower as compared to other nations of the Eastern Europe. This situation contributes to

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state's more modest level of economic development and living standards. Partly, this unfavourable situation is determined by weaker entrepreneurial competitiveness and reduced efficiency of the business sector. Based on the undertaken analysis, the present study accepts the first hypothesis mentioning that the Republic of Moldova has a limited and non-competitive environment for the private sector. At the same time, the study accepts the second hypothesis highlighting that low institutional performance of the Republic of Moldova hampers the development of its business environment. Accordingly, as it was possible to observe based on the qualitative and quantitative data analyses, the country has relatively weak positions considering the fundamental factors for entrepreneurial competitiveness (i.e. control of corruption, government effectiveness, regulatory quality, rule of law, voice and accountability, political stability) as compared to other Eastern European countries, both members and non-members of the European Union. This fact reduces the economic attractiveness of the country the fact which demotes business initiatives and private sector growth. The business environment in the Republic of Moldova is suppressed by an extractive institutional framework which assure a non – competitive and unfair business climate.

Accordingly, it can be remarked that the Republic of Moldova in the context of the global economy is economically weak and register feeble entrepreneurial activity and, consequently, economic competitiveness. It is much weaker than the leading economies of the world such as the United States of America or the European Union, and China, or less developed economies such as Ukraine, Georgia and Romania, the fact which should alarm governing elites towards implementing more business-oriented policies acting as a pillar of competitiveness. Moreover, the economic attractiveness of the Republic of Moldova in the region is shrinking due to institutional stagnation, the situation minimising the ability of the state in attracting foreign and domestic investments. The most recent evolution of the country in terms of institutional effectiveness has demonstrated the inability of the governing elites in the country in pursuing efficient anti-corruption policies the fact leading the Republic of Moldova to declining economic competitiveness and growth potential. Weak unity, leadership and institutions undermine the strategic socio-economic security of the country, the national institutional structures which despite of large investments and support from the EU has limited political influence both in reducing corruption and improving governmental policies' efficiency.

Over-regulation which in most of the times is applied to extract benefits from entrepreneurs by the representatives of the public sector. This interference into the economic processes is leading towards misallocation of resources and concentration of them into unproductive areas the fact resulting in very income growth in the country. Moreover, paying protection taxes leads to minimising the investments of business in strengthening innovation and research and development capacities since entrepreneurs could gain advantages through implying protection mechanisms. Despite the fact that government developed several policies oriented towards fostering the business activity, they rather proved to be inefficient due to unfavourable economic environment. The country intended to stimulate the progress of the private sector through reforms implementation, yet, they were not well-designed and over complex. Countries with more efficient policy making are more effective in generating welfare and improve the long-term wellbeing of the population as compared to states promoting initiatives restricting the entrepreneurial freedom and imposing additional direct or indirect barriers to the free market mechanisms. Additionally, in the economies with stronger bureaucratic interference, as is the case of the Republic of Moldova, into the business processes, the public institutions responsible of overall day to day activities tend to become affected by red tape and corruption at different levels the fact causing the decline of economic competitiveness and entrepreneurial performance. These conclusions have as a strong fundament the economic model which has been built by the present study explaining the interdependence between economic growth and institutional efficiency, a key pillar of entrepreneurial competitiveness the fact being confirmed by the Kaiser-Meyer-Olkin test and Bartlett's test of sphericity.

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