

## Recommendations for High Impact Quick-Wins for Small Business to the Prime Minister’s Economic Council

Presented on 8/7/19

All of these proposals are outlined in additional detail in our [High Impact Reforms for SMEs](#) document available online and sent electronically to the PMEAC.

**Methodology:** In selecting 3 issues to focus on that can be accomplished in the next 3 months we made the following assumptions about the Government’s current priorities.

Underlying Assumptions:

1. The focus should be on High impact and Wide Ranging reforms so that the maximum number of people feel the maximum benefit from the Government’s actions.
2. That the focus on Quick Wins is primarily a confidence building measure so that people see the government taking actions that impact their lives while larger, harder to see structural reform, is worked on.
3. That the Government’s goal is that through reforms that are wide ranging, quick and confidence building there will be more than a 3 month window of reform. In short, our assumption is that the restriction to small, quick-wins is a political concern not a technocratic one.

Given those assumptions and given our desire that this Government be as successful as possible so that we may move on to future reforms, here are our recommendations.

Nr.	Problem & Short Description	Solution & Proposed Actions	Delivery Time	Risk Analysis
1	Confidence between state institutions and small business is at an all time low. The lesson of the transition in 2009 is often talked about where a businessperson had to transition from bribing 1 official under the communists to bribing 3 officials under the new coalition. Political change brings uncertainty.	The breadth of these problems is such that there are a few realities. <ol style="list-style-type: none"> <li>1. They cannot be solved in a short period of time with legislation alone. In many cases there is no clear legislative solution because the law is already quite good. The implementation is not.</li> <li>2. These problems represent a breakdown in the social compact</li> </ol>	If the Government approves of the Small Business Bill of Rights proposed by AIM then this could be done tomorrow at a press conference.  More likely, there would need to be a small working group	By proposing a working compact with Small Business there is always a risk of failing to meet the goals you set forth. But this risk largely exists from an inside Chisinau political angle. In reality, the problems outlined here are so vast that trying and failing holds far less risk than failing to try.

	<p>In addition to this uncertainty, small business owners are already dealing with the following:</p> <ol style="list-style-type: none"> <li>1. Abusive authorizations and control processes</li> <li>2. Unclear or intentionally hidden key regulatory information</li> <li>3. Lack of recourse via courts or state authorities</li> <li>4. Retribution by state agencies when companies speak up about corruption</li> <li>5. Rude and abusive attitudes of Public Servants</li> </ol>	<p>between Small Business and their government. Trust and communication are as much an issue as the law.</p> <ol style="list-style-type: none"> <li>3. Academic research shows that it is not effective to attack problems like this 1 by 1. You need to indicate some progress on all fronts or public confidence will fail (<a href="#">citation</a>).</li> </ol> <p>We want the Government to propose a Small Business Bill of Rights publically as a compact with Small Businesses. We believe that this is a first step towards using these rights as a program of reform and change. While we at AIM have ideas for some of these reforms specifically, we believe the biggest impact will come from the Government extending their hand to Small Business Owners and declaring a willingness to work together.</p> <p>Fundamentally this is a confidence building measure that will have effects in this 3 month period but will also serve as a basis for longer term reform.</p> <p><i>To read the full text of the Small Business Bill of Rights see Appendix A: The Small Business Bill of Rights. <a href="#">English</a>   <a href="#">Romanian</a>   <a href="#">English with Annotations &amp; Explanations</a></i></p>	<p>proposed to review this list of rights and create a roll-out strategy (Communication Campaign).</p>	
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		More details in <a href="#">here</a> .		
2	<p>After Corruption and Bureaucracy the 3rd most common complaint of Small Business is Access to Finance. In our meetings with the National Bank as well as International Partners we have discovered that the Macro-Level picture of the access to finance question is usually viewed very well. Banks have liquidity and even complain about not being able to lend enough. The micro-level is much different. Predatory policies and confusing norms and standards make the process of getting a bank loan very daunting. Examples of abuse / issues are as follows:</p> <ul style="list-style-type: none"> <li>● Negotiating one interest rate and then finding it raised in fine print on your contract with no notice.</li> <li>● Aggressive tactics to bully business owners into taking loans as physical persons thereby risking their property and making them directly liable</li> <li>● Excessive collateral requirements (up to 150%). Every business owner hears stories of those who sign and are then forced to default because the bank makes more money on defaults than payments</li> <li>● Highly unclear terms and conditions - often with fees hidden in fine print that can raise the stated interest rate as much as 15%</li> <li>● Banks hiding information about government loan guarantee</li> </ul>	<p>We propose a transparency reform for banks and private financial lenders entitled the <b>Borrowers and Debtors Bill of Rights</b>.</p> <p>Examples of provisions included would be:</p> <ol style="list-style-type: none"> <li>1. Extension of the requirement to list an effective interest rate to non-bank lenders</li> <li>2. Requiring standard presentation of information (effective interest rate, fees, term, etc) to all prospective lenders</li> <li>3. An enumeration of borrowers rights posted on the walls of a bank with a hotline for complaints</li> <li>4. Requirements for lenders to inform borrowers about government guarantee programs in which they participate as well as the means of applying</li> <li>5. Etc</li> </ol> <p>We believe a working group of representative stakeholders and experts can draw on <a href="#">international best practice (link)</a> to create an impactful reform requiring transparency from these institutions.</p> <p>More details in <a href="#">here</a>.</p>	<p>The implementation time, following the drafting and passage of the law, is essentially immediate. Banks will need to re-work their products and messaging and should be given a reasonable amount of time to do so.</p> <p>Given that this is 100% a transparency focused reform banks and other lenders will have to adapt policies but not fundamentally change their work process. As such this can be a high-impact, low cost reform.</p>	<p>Banks and private lenders may not like this as it will force them to drop certain predatory habits. Given the overall lack of health in the financial sector as it pertains to Small Business and given how key such a sector is to a healthy economy, this risk seems acceptable.</p>

	<p>programs for SMEs, either from ignorance or other motivation.</p> <p>And while there are moderate regulations for banks there are none for private sector lenders.</p>			
3	<p>Every Small Business Owner would like to commit more resources to their business and retain more of their earnings. Policy-wise this usually means people want tax cuts as economic stimulus that can directly promote flagging economic sectors, such as SMEs in Moldova.</p> <p>What we don't talk enough about though is <b>time</b>. If the truism Time=Money is applied to Moldova then the real worry for SMEs is that the Government takes too much of their time in reporting and endless bureaucratic processes. Thus, a key economic stimulus idea is to give some of it back.</p> <p>Fiscal Invoicing in Moldova is far more time consuming than in neighboring or developed countries and the burden of this falls disproportionately on small business. They key issues are as follows:</p> <ol style="list-style-type: none"> <li>1. Different processes for physical and juridical persons when making purchases. This results in companies spending more time making transactions and locking SMEs out of B2B sales because they can't afford a 24/24 on-site accountant</li> </ol>	<p>We propose the following reforms to address this problem.</p> <ol style="list-style-type: none"> <li>1. <b>Acceptance of Bon-Fiscals for business accounting for pay on site Transactions.</b> Bon-fiscals are legally binding tax documents and should be extended to cover Business to Business transactions. This would eliminate the Fatura Fiscal for all transactions carried out with in-person payment and receipt of goods. It would also fundamentally change the current system whereby a company making a sale has multiple processes for physical verses juridical persons. A distinction that wastes lots of time and energy.</li> <li>2. <b>Simplification of Payment Invoices.</b> For goods that are ordered and delivered to a company, or which are taken in credit (with payment coming later as specified by the company's contracts) Invoices should be simplified. The</li> </ol>	<p>We do not know how long writing this reform will take as FISCAL matters are especially complicated in Moldova. In AIM we are putting together a team to assist in making this process as quick as possible.</p> <p>This reform will require careful implementation by state agencies which may take time.</p> <p>For business, this is a non-mandatory process-simplification meaning that those who wish to continue issuing facturas as they had been can do so - other companies just won't need to take them. This means that the implementation process can be a fluid</p>	<p>This is a sweeping reform and will find opposition from people concerned about such large changes. But this change has been successfully implemented in Romania and elsewhere and was unnecessary in Western European Countries which never had a legacy of communism.</p> <p>The FISC may oppose this change as they will collect less paper which they view as key to auditing tax payments. In reality though these reforms align with international best practices and past Romanian reform so there are many experts who can come and talk about implementation with them.</p> <p>Large companies stand to save vast amounts of time and equipment expenses by transitioning to Bon-Fiscal only purchases. That said,</p>

	<p>2. An ineffective e-factura system implemented by the state. This is burdensome for SMEs to use, time consuming and fundamentally adds an e-layer on top of the same problems.</p> <p>3. State mandated signature and stamp requirements for B2B sales adds time and high-level staff interaction to the smallest transactions</p> <p>For a further overview of the issues with examples please See <a href="#">Appendix B: Fiscal Invoicing Reform</a> to our <a href="#">High Impact Reforms for SMEs</a> document.</p>	<p>government should set out a minimum requirement for such invoices similar to other European nations. For example, in Romania, any document (printed on any paper) or electronic document (email, pdf, etc) that conveys the company's identifying information as well as a list of goods should be considered a factura / invoice. This simplification has been done Romanian <a href="#">LAW NO 227/2015 FISCAL CODE ART.319</a>.</p> <p>3. <b>Elimination of Transit Facturas.</b> The transit factura is meant to prove to the road police the right of a person to transit goods. This concept is a relic of Moldova's Soviet past and does not have an equivalent in Modern European Countries.</p> <p>4. <b>Elimination of the Requirement for Stamps and Signatures.</b> While the stamp has been optional in Moldova for over 2 years it is still required by almost all vendors and government departments. While the total abolishment of the stamp should be the ultimate goal, it is a difficult cultural issue in Moldova where people are very accustomed to this symbol of power and formality. We propose to require that every invoice clearly state that signing and</p>	<p>switch over carried out at individual pacing.</p>	<p>they will lose a competitive advantage over small companies. Some may oppose this change.</p>
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