

METHODOLOGICAL PROVISION OF INVESTMENT MECHANISM MANAGEMENT IN THE REPUBLIC OF MOLDOVA

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Abstract

The understanding that investments are one of the key factors in the process of reproduction and are also one of the most unstable components of the aggregate demand stipulates the need for effective management of the investment process on the macro as well as micro levels. Investment process management is carried out through the investment mechanism, which is a local part of the economic mechanism of the state. Thus the effective investment process management relies on the coherent work of the investment mechanism as a whole. Mainly this article focuses on examination of the methodological provision of investment mechanism management, the process of formation of the objectives of the investment mechanism and interaction of the objects of the investment mechanism with the objects of other local economic mechanisms. Basing on the analysis of FDI in the Republic of Moldova by type of economic activity and accumulated FDI in the Republic of Moldova by country and taking into consideration the strategic economic priorities of the Republic of Moldova the author has defined the hierarchy of priority types of FDI for the Republic of Moldova.

Key words: *FDI; investment mechanism; investment policy; investment strategy; Republic of Moldova*

JEL Classification: *F21*

I. INTRODUCTION

The work of the investment mechanism assumes that the state as the main subject of this process launches the entire investment mechanism, creating a legal, methodological and organizational basis for achieving the set objectives. As a result of these actions, as well as the interaction of various economic phenomena in the country, a certain investment climate is created that facilitates the formation of investment projects according to priorities of the investment policy. The main motives for implementing investment activities are the availability of attractive investment projects or the availability of free investment resources. Having carried out a preliminary study of the motives of investment activity and the expectations of investment, potential investors turn to the resource support unit to form the optimal structure of sources of financing investment projects. The process of initiating, developing and monitoring the entire investment process and the operation of the investment mechanism is carried out by specialized organizational structures. In the opinion of the author, the algorithm described above is the basis for constructing an effective investment mechanism.

II. METHODOLOGICAL PROVISION OF FUNCTIONING OF THE INVESTMENT MECHANISM: DETERMINATION OF OBJECTS OF INVESTMENT MECHANISM AND THE SETTING OF OBJECTIVES

To form the structure of the investment mechanism of an individual country, first of all, it requires the specification of objects and objectives, which are then transformed into specific measurable management criteria. Table 1 provides an algorithm of the formation of the objectives of the investment mechanism for a particular country.

Table 1. Scheme of formation of the objectives of the investment mechanism

| Object | Auxiliary question | Objective formulation |
|-----------------|---|--|
| Investments | What investments are needed for the country? | It is necessary to determine the priority types of investments for the country. |
| Investors | What investors are needed for the country? | It is necessary to determine the categories of investors that the state policy should be targeted to attract. |
| Economic entity | What types of economic entities should be actively involved in investment processes? | It is necessary to determine the types of economic entities that will be the priority participants in investment processes and determine their place in this process. |
| Sectors | Which economic sectors of the country should be the object of investment attraction? | It is necessary to determine the investment priorities of the country. |
| Territory | Which countries and regions should be strategic investment partners in the process of attracting investments and investment directions? | It is necessary to determine countries and regions that, are a priority for investing in, as well as countries and regions that are a priority as providers of investment resources. |

Source: compiled by the author

Having determined the objects and objectives that make up the basis of the country's investment mechanism, then it is necessary to form a set of methods and tools for achieving the set objectives. When choosing the methods and tools of the investment mechanism, one should take into account the fact that many local mechanisms interact with each other because of the natural relationship between various economic phenomena that are the objects of various local mechanisms. Existing interrelations allow to influence the objects of the investment mechanism through methods and tools of other local mechanisms, for example, financial mechanism, taxation mechanism, monetary mechanism, etc. Interrelationships:

1. Change in the size of money supply (↑) → Change in interest rate (↓) → Change in investment size (↑)
2. Change in tax burden (↓) → Change in investment size (↑)
3. Change in government spending (↑) → Change in investment size (↑)
4. Change in rate of return (↑) → Change in investment size (↑)
5. Availability of profitable alternative investments on the international market (↑) → Change in investment size(↓)

Thus, the identification of existing relationships is an integral preparatory stage in the selection of effective methods and tools for achieving the set objectives. Once the objects, goals, methods and tools of the investment mechanism are defined, a legal, methodological and organizational basis is created for the application of the developed methods and tools. All previously identified objects and objectives, which can be identified as investment priorities of the state, as well as measures of developing legal, methodological and organizational basis for ensuring the introduction of a previously defined set of tools and methods of the investment mechanism, represent nothing less than *the investment policy of the state*. The main provisions, as well as specific plans for implementing the measures of the state investment policy are fixed in such a document as the investment strategy of the state. In other words, the investment strategy of the state is a long-term plan of concrete measures of implementing the investment policy of the state.

III. FORMATION OF OBJECTS AND OBJECTIVES OF THE INVESTMENT MECHANISM OF THE REPUBLIC OF MOLDOVA

According to the National Strategy for Investment Attraction and Export Promotion 2016- 2020 in the Republic of Moldova (http://www.mec.gov.md/sites/default/files/snaipe_2016-2020_eng.pdf, accessed July 22, 2017), one of the main objects of the investment mechanism of the Republic of Moldova are foreign direct investments. As a basis for determining the priority type of FDI, the authors of the National Strategy for Attracting Investments and Export Promotion (2016-2020) of the Republic of Moldova adopted J. Dunning's typology according to which foreign direct investment is divided into 4 groups on the basis of investor motives (prerequisites for FDI), namely (John H. Dunning and Sarianna M. Lundan, 2008, pp. 67-68): 1) FDI aimed at resource seeking (1 type of FDI aimed at resource seeking – Export of material-intensive manufacturing; 2 type of FDI aimed at resource seeking – Export of labor-intensive manufacturing; 3 type of FDI aimed at resource seeking – technological potential); 2) FDI aimed at market seeking; 3) FDI aimed at efficiency seeking; 4) Strategic FDI

In our opinion, when identifying priority types of FDI within the framework of the functioning of the investment mechanism of the Republic of Moldova, one should also take into account the typology proposed by

K. Ekholm, namely complex FDI, which are divided into (Ekholm, Karolina, Rikard Forslid et al, 2005): 1) Export-platform FDI; 2) Complex-vertical FDI.

So, the section of data on FDI in the Republic of Moldova by types of economic activity (see Table 2) allows to state that the bulk of FDI accumulated in the real sector of the economy of the Republic of Moldova - about 62% in 2013 and 68% in 2015 - falls on the services sector, namely: financial intermediation, real estate transactions, rent, wholesale and retail trade, household goods repair, transport and communications. It should be noted that such a high proportion of FDI in the services sector in the Republic of Moldova reflects the global trend: according to the World Investment Report 2016, the share of FDI accumulated in services sector was 64% of all FDI accumulated in the world in 2014 (http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf, accessed July 22, 2017). Investments in the services sector are mainly market seeking (John H. Dunning and Sarianna M. Lundan, 2008), since the provision of services is primarily focused on the domestic market and/or final consumption, these investments constitute the overwhelming majority in the overall structure of FDI in the Republic of Moldova. However, taking into account such comparative advantages of the Republic of Moldova as a geographical location, multilingual environment, preferences of trade and visa regimes, it can be assumed that some of the FDI in the Republic of Moldova in the service sector may also include complex FDI, whose share is significantly lower than that of the market seeking.

Table 2. FDI in the Republic of Moldova by type of economic activity (%)

| Type of economic activity | 31.12.2013 | 31.12.2014 | 31.12.2015 |
|-----------------------------------|------------|------------|------------|
| Agriculture, hunting and forestry | 1,2 | 1,4 | 1,3 |
| Services | 61,5 | 65,5 | 67,5 |
| Industry | 33,6 | 27,4 | 29,2 |
| Other types of economic activity | 3,7 | 5,7 | 2 |
| Total | 100 | 100 | 100 |

Source: Data of the National Bank of the Republic of Moldova (<https://www.bnm.md>, accessed July 22, 2017)

FDI in the sector of agriculture, hunting and forestry is an insignificant share in the total volume of FDI in the Republic of Moldova and can be unambiguously assigned to the resource seeking investments. In the industry sector, it is most difficult to distinguish between the FDI types without more detailed statistics, since these FDI can potentially be classified as resource seeking investments, as well as market seeking, and complex, and strategic FDI. However, taking into account that the main motive for implementing complex investments is to gain access to the markets or resources of countries in the same regional economic association, as well as the existing free trade agreements between the Republic of Moldova and other countries within the framework of integration free trade associations in which the Republic of Moldova takes part in and the structure of accumulated FDI in the Republic of Moldova by country (Table 3), it can be noted that the share of complex FDI in the Republic of Moldova is very small. Even assuming that all companies from countries that are not in any economic integration unions with the Republic of Moldova, as well as companies from the countries with which the Republic of Moldova forms a free trade zone on a bilateral basis, would implemented only complex FDI in the Republic of Moldova (among these companies - companies from the USA, Turkey, Israel, Canada, Australia, China), their share will make up just over 5% of all accumulated FDI as of December 31, 2015.

Table 3. Accumulated FDI in the Republic of Moldova by country (top 20)

| 31.12.2013 | | 31.12.2014 | | 31.12.2015 | |
|--|--------|-------------------|--------|-------------------|--------|
| 1. Russia | 24,02% | 1. Russia | 25,81% | 1. Russia | 28,33% |
| 2. Netherlands | 16,09% | 2. Netherlands | 12,87% | 2. Netherlands | 12,36% |
| 3. France | 7,81% | 3. Cyprus | 8,81% | 3. Cyprus | 8,50% |
| 4. Spain | 7,38% | 4. France | 7,76% | 4. Spain | 8,05% |
| 5. Germany | 6,36% | 5. Spain | 7,27% | 5. France | 7,83% |
| 6. Cyprus | 6,17% | 6. Germany | 5,87% | 6. Romania | 5,53% |
| 7. Romania | 5,28% | 7. Romania | 5,64% | 7. Italy | 5,02% |
| 8. Italy | 5,25% | 8. Italy | 4,94% | 8. Germany | 5,01% |
| 9. Great Britain | 3,68% | 9. Great Britain | 3,54% | 9. Great Britain | 3,12% |
| 10. United States | 1,81% | 10. United States | 1,73% | 10. United States | 2,08% |
| 11. The Virgin Islands (United Kingdom) | 1,76% | 11. Liechtenstein | 1,57% | 11. Austria | 1,49% |
| 12. Liechtenstein | 1,69% | 12. Ukraine | 1,45% | 12. Liechtenstein | 1,47% |
| 13. Switzerland | 1,65% | 13. Switzerland | 1,38% | 13. Ukraine | 1,36% |
| 14. Israel | 1,37% | 14. Israel | 1,35% | 14. Israel | 1,27% |
| 15. Belgium | 1,08% | 15. Austria | 1,30% | 15. Turkey | 1,14% |
| 16. Austria | 1,04% | 16. Belgium | 1,03% | 16. Switzerland | 0,86% |

| | | | | | |
|-------------|-------|---|-------|---|-------|
| 17. Turkey | 0,97% | 17. The Virgin Islands (United Kingdom) | 0,87% | 17. The Virgin Islands (United Kingdom) | 0,80% |
| 18. Brazil | 0,88% | 18. Turkey | 0,84% | 18. Latvia | 0,77% |
| 19. Greece | 0,83% | 19. Belize | 0,76% | 19. Greece | 0,70% |
| 20. Hungary | 0,67% | 20. Latvia | 0,75% | 20. Hungary | 0,65% |

Source: Data of the National Bank of the Republic of Moldova (<https://www.bnm.md>, accessed July 22, 2017)

Strategic FDI are the fewest in the Republic of Moldova, their number has been practically reduced to 0 in recent years. Strategic FDI are the fewest in the Republic of Moldova, their number has been practically reduced to 0 in recent years. So, considering that strategic FDI is almost always connected with the processes of inter-firm mergers and acquisitions and analyzing data on mergers and acquisitions of companies of the Republic of Moldova (http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf) for the period 2013-2015, not a single investment deal on mergers and acquisitions of the companies of the Republic of Moldova and foreign companies was conducted. The most favorable periods when the companies of the Republic of Moldova managed to attract investments of foreign investors through the mechanism of mergers and acquisitions were: 2000 - 27.5 million US dollars, 2003 - 18.7 million US dollars, 2004 - 15.5 million US dollars, 2006 - 9.9 million US dollars, 2007 - 24.2 million US dollars, 2008 - 4.1 million US dollars (http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf, accessed July 22, 2017). However, in the total amount of accumulated FDI, they occupied an insignificant place.

Taking into account the data from Table 3, it can be noted that a significant part of the FDI accumulated in the Republic of Moldova is FDI from countries belonging to offshore jurisdictions. Such FDI is called offshore oriented (or there and back again investment) (Svetlana Ledyeva, Päivi Karhunen et al, 2013, p. 7), and their main point is that first the investor directs his funds to offshore, and then returns them back in the form of FDI. Over the past 5 years (2009 - 2015) there is a very wide geography of offshore jurisdictions, companies from which FDI was carried out to the Republic of Moldova. Countries that can be listed among such offshore jurisdictions are Cyprus, Liechtenstein, Virgin islands (United Kingdom), Belize, Seychelles, United Arab Emirates, Singapore, Switzerland, Vietnam, San Marino, Luxembourg, Ireland, Panama, Lebanon, Liberia, etc. According to the author's calculation as of 31.12.2009, 31.12.2010, 31.12.2011, 31.12.2012, 31.12.2013, 31.12.2014, 31.12.2015 companies from offshore jurisdictions accounted for 15,52%, 16,8%, 15,76%, 15,47%, 13,82, 14,79%, 13,15% of the accumulated FDI in the Republic of Moldova. This indicates that about 1/6 of all accumulated FDI in the Republic of Moldova is offshore oriented and is of a fictitious character, with the aim of money laundering, tax evasion or tax reduction, obtaining foreign investor preferences for investing in the national economy masked through offshore companies. Despite the fact that during the analyzed period in the Republic of Moldova there is a tendency to reduce the share of off-shore oriented FDI in the total volume of accumulated FDI in the Republic of Moldova, their volume remains high enough to have a negative impact on the economy and be considered harmful.

IV. CONCLUSION

In summary, market seeking FDI in the service sector dominates in the Republic of Moldova, as well as offshore oriented FDI, and only a small fraction consists of resource seeking FDI, complex FDI and strategic FDI. Taking into account the strategic priorities of the Republic of Moldova and the above analysis, it is possible to form a hierarchy of priority types of FDI for the Republic of Moldova. Thus, the most desirable and favorable for the Republic of Moldova are complex FDI, strategic FDI and resource seeking FDI (1st and 2nd type). Thus, the investment mechanism of the Republic of Moldova should include the following objectives for the object "foreign direct investment":

1. Increase of complex FDI, strategic FDI and resource seeking FDI (1st and 2nd type) to the Republic of Moldova.
2. Decrease in the share of offshore oriented FDI in the total amount of accumulated FDI in the Republic of Moldova.

V. REFERENCES

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