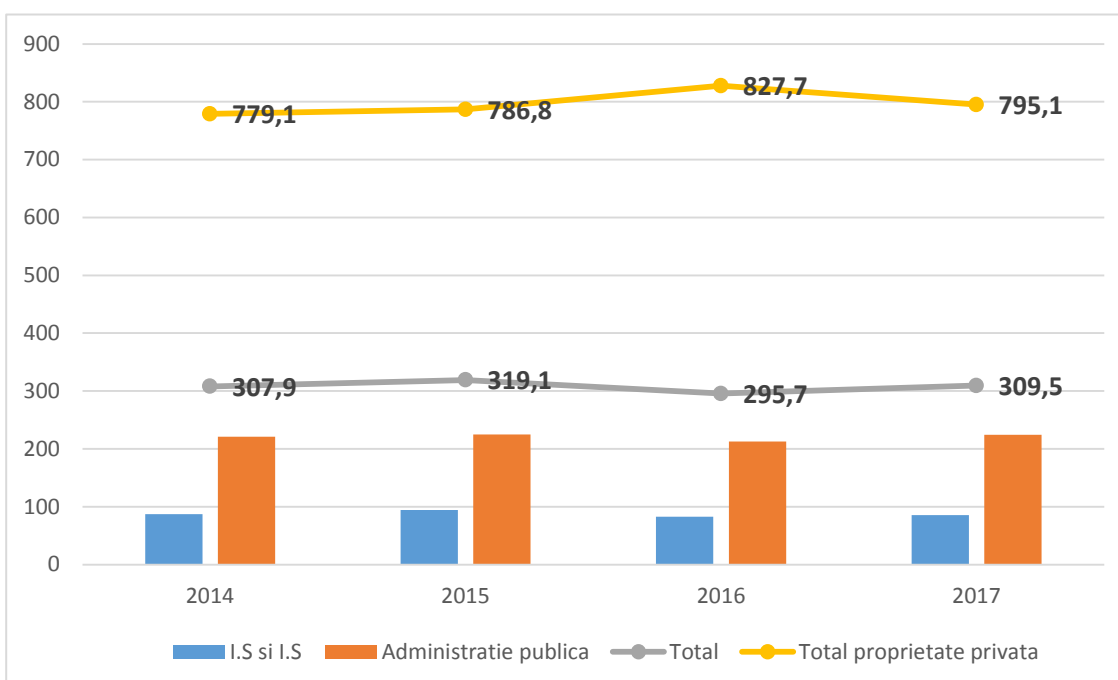


Financial sustainability of state-owned enterprises in Moldova: Findings and trends

Joseph Stiglitz: „Every successful economy is a synergetic combination between the Government, households, private sector and other institutions”

Once the Republic of Moldova declared its independence, it started the process of economy liberalization and privatization of public property. Currently, according to the information provided by the Registration Chamber, **in Moldova are registered 1 572 municipal and state companies, and 4 483 joint stock companies, from which almost 5% have the state as a shareholder.** The effect of these companies on the national economy in terms of employed people, according to the data provided by the National Bureau of Statistics, is almost 8.4% of the whole amount of employed people in the country. At the same time, the Government employs approximately 21.9% of the total number of employed people in Moldova.

Table 1. Number of employed people according to the legal status of the employer



At the same time, according to the National Bureau of Statistics, **for 2016 the revenues from sales of companies in which state is shareholder amounts to approximately 20,1% of the whole revenues generated by the business.** Furthermore, the effect of these companies on the national economy, but also on the welfare of the population is huge. Besides the social effect they have, by employing a big number of people, these companies also provide important public services such as: utility services, sanitation and sewerage, build and maintain infrastructure, the supply of energy resources, etc.

“The main beneficiary and shareholder of the companies in which state is the shareholder is the citizen, this is why these companies should be managed in a transparent and efficient manner, while the public benefit should be the priority number 1”.

State companies are not transparent and managed inefficiently

Meantime, the assets that are managed by these companies have not only an intrinsic value, but also a strategic one as it manages the infrastructure, without which the economy of the country wouldn't exist.

Even though these companies are tremendously important for the national economy, the analysis reveals **lack of transparency, inefficient management fueled by political influence**. One of such example is the impact of poor and inefficient management of BEM, a cause that leads to its privatization and afterward the theft of the reserves from National Bank of Moldova.

With this initiative, implemented by IDIS and INEKO, the authors follow the objective to create tools used to assess the financial sustainability and transparency of major companies in which state is the shareholder. It is a fact that once the decision-making process and the data is made public; the circles of influence have a smaller space for corruption and theft.

Only 66% of the analyzed companies made public the financial statements

Even though national law regarding the state-owned companies nr. 146 since 16.06.1994 compel these companies through art. 16 to publish in electronic format the annual report, which will consist of the following:

1. Annual financial statements;
2. The management's activity report;
3. The report regarding the economic-financial development and performance, along with the main risks faced by the company;
4. The audit report;

We find that **only 66% of the analysed companies made public, on their web page, the financial statements**; only 10% of them published the audit report; and none of them published the report regarding the economic-financial development and performance of the company and the management's activity report. At the same time, it is important to mention that even though some of the ministries had published on their web pages the financial statements of companies, once the government reform was implemented the old web pages were closed while the new ones were not updated.

Joint stock companies in which state owns shares are not transparent

The topic of energy resources' price was and it is a sensitive subject for the population, this is why the transparency of energy companies will give more information to civil society about the real situation of these companies and less room for manipulation of tariffs. Analysis of these companies with a major social impact reveals the following: S.A. Moldovagaz (at the moment of the study on the web page the most recent financial statements were from 2013); S.A. Energocom's web page is not functional and the last time was modified in 2014; S.A. Metalferos the monopole company in the market of collecting and exporting scrap metals has a web page which is not informative as it was last time updated in 2013.

It is important to mention that S.A. Termoelectrica, the heating company that supplies the capital has published on its web page besides the financial statements also the audit report.

Legislative framework is imperfect

The legislative framework is imperfect as the loopholes give room for influence and mismanagement. It can be stated the following deficiencies - accountability of the management and board, the professional skills and background necessary to be hired in the management team, the lack of transparency in the process of selecting the CEO. All of these create additional risks for these companies, while in some cases because of the political influence the companies are bankrupted deliberately so that they could be privatized for a value less than the market one. In the end, the citizens are those who lose.

Conclusions and recommendations regarding the financial information transparency:

1. Companies in which state owns shares or a state owned are not transparent and do not respect the legislation that rules their activity. The institutional and public control should be improved in order to hold the management of these companies accountable;
2. In order to make this companies efficient it should be defined and imposed some clear criteria and indicators, based on which the performance will be evaluated;
3. The management team should be selected according to rigorous criteria and the political factor should not have the possibility to interfere in this process;
4. Companies should publish their medium and long-term strategies according to their objectives;
5. It should be required by law to have an open selection process for choosing the top management. It means that the CVs of top candidates should be published and there should be a public hearing with all of them before selecting the winner. It is also good to have a selection committee assessing the candidates by given criteria.

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