

MODERN TRENDS AND STRATEGIC GUIDELINES FOR THE DEVELOPMENT OF DOMESTIC TRADE

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Abstract

After becoming one of the most significant parts of modern economy as well as a main element of market economy, trade is strategically important for the sustainable development of the society. In terms of modern economy trade is also imperative for a balanced and sustainable development of any economic system.

Changes occurring in this branch over the past two decades contributed to trade liberalization, trade entrepreneurship development, activity extension, and certain deficiencies have emerged at the same time: normative, legislative, organizational, managerial, consumer protection, etc.

The aim of this paper is to highlight domestic trade issues in the Republic of Moldova and to propose solutions for their recovery.

This paper analyses the current situation regarding domestic trade and its positioning within the socioeconomic system, as well as the challenges encountered. Based on this analysis, strategic objectives for the development of domestic trade have been pointed out. The study was performed employing a large array of research tools.

The research results obtained have provided support for the development of Domestic Trade Development Strategy for 2014-2020 period, under implementation.

Keywords: domestic trade, strategic development, efficiency, modernization of trade activity.

JEL classification: E01, F14, O24

1. Introduction

Trade has become one of the most complex and dynamic areas of the modern economy, claiming strategic importance for the sustainable development of society. As a branch of economy, trade takes part in gross domestic product formation, at the same time when interfacing with consumers this sector exerts a substantial influence on the quality of life.

This places trade into the coordinates of the need for continuous modernization on all dimensions: improvement of legal and normative framework, development of strategies and trade policies, efficientization of trade activity, optimization of trade management, trade infrastructure

development, and implementation of international best practices in the management and organisation of domestic trade system.

Over the past two decades Moldovan trade is undergoing a continuous transformation and reorganization, adapting itself to economic and social realities as well as to the competitive environment, all having a different impact on the organization, management and efficiency of trade activity. Various activities carried out in this respect, including the increase of traders' number as well as the expansion of their commercial infrastructure, contributed only partly to the improvement of the situation and to the increase of commercial activity quality. Therewith, differences remain visible in relation to the requirements of modern trade and their impact is felt mainly in rural areas.

The challenges of competitive environment, the uneven development of trade, as well as the need to adjust to economic realities, to current commercial trends and technologies applied in international trade, and increased consumer market globalization require a new vision of trade activity and enforce the need for commercial policies re-thinking, management and trading system structure re-designing, its modernization in terms of field performance. This paper attempts to address the demands generated by these objectives.

2. Domestic trade within the socioeconomic system of the country

Trade has strategic importance for a balanced and sustainable development of economic and social systems within the economy of any country. Due to its complexity and role played in the formation of macroeconomic indicators, in the distribution of goods and services, as well as in meeting consumption needs, trade represents one of the most important parts of modern economy.

The importance of trade for the socioeconomic system of the country is determined mainly by its contribution to the formation of Gross Domestic Product (GDP). Participation of trade to GDP formation is characterized by an annual slow, but relatively stable, growth pattern during recent years (Table 1), from 11.5% in 2006 to 14.0% in 2012, positioning itself among branches with major contributions to Gross Value Added (GVA). During 2006-2012 trade GVA increased about 2.4 times registering 12 250 million lei in 2012. In 2012 the share of retail and wholesale trade in GVA was 16.7%, in 2006 - 13.8%. During the reference period (2006-2012) product net taxes registered substantial growth – about 2 times, their share in GDP increasing from 16.6% in 2006 to 19.2% in 2012.

Table 1: Trade contribution to GDP

million lei

Indicators	2006	2007	2008	2009	2010	2011	2012	2012/ 2006,%
Gross Domestic Product (GDP), of which:	44754	53430	62922	60430	71885	82349	87847	196.2
Gross Value Added (GVA), including:	37339	44413	51774	50809	59921	68390	73319	196.36
retail and wholesale trade	5145	6714	8149	7954	9213	11119	12250	238.0
Product net taxes	7415	9017	11148	9621	11965	13959	14528	195.9
share of retail and wholesale trade:								
- in GDP formation, %	11.5	12.6	13.0	13.2	12.8	13.5	14.0	
- in GVA formation, %	13.8	15.1	15.7	15.4	15.4	16.3	16.7	
Share of product net taxes in GDP, %	16.6	16.9	17.7	15.9	16.6	17.0	19.2	

Source: [14, p. 266, 279-280].

Note that in the analysed period the contribution of trade to GDP registered a higher growth rate (2.4 times) compared to other branches of the national economy, which are considered pillars of the economic system of the country (by 47.6% in agriculture, by 87.0% in industry). Within the GDP structure (2012) trade (Figure 1) is on the first place (14.0%), followed by processing industry (11.4%), agriculture, hunting and forestry (10.9%), transport and communications (10.8%).

Recognition of economic and social role of trade in population welfare insurance aims and requires a complex approach in terms of final household consumption. In this respect the analysis of GDP growth in relation to final consumption is of interest, as it reflects the complicity degree of domestic production factors (of the sector) in satisfying consumption needs as well as internal resources efficiency of the main economic branches (agriculture, industry, services). In the reference period (2006-2012) a difference between these two indicators can be noticed, with a relevant consumer spending growth trend (Figure 1). Thus, in 2006 the total final consumption was 50 972 million lei, exceeding GDP by about 13.9%, and in 2012 it increased up to 102 954 million lei, registering approximately 17.2% growth to GDP. Such a situation imposes the requirement to cover domestic consumption needs from imports, with the trend of continuous dependence on the imported goods and services.

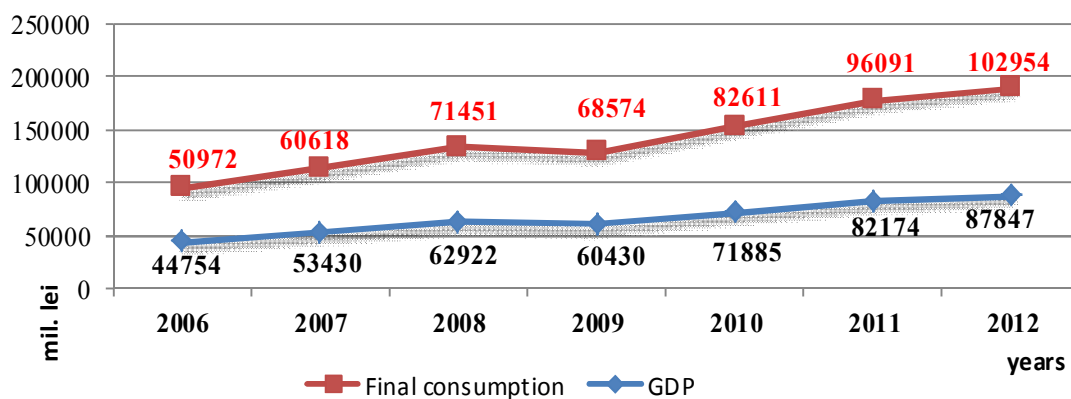


Figure 1: GDP and final consumption evolution in 2006-2012

Source: [14, p. 266, 469].

The evolution of investments in wholesale and retail trade is a significant criterion that reflects the level of attractiveness of the commercial sector and the sustainability of its development (particularly infrastructure development, implementation of modern technologies, improvement of commercial services quality, insurance of economic growth etc.).

Fixed capital investments in wholesale and retail trade increased from 1 231.6 million lei in 2006 to 2 047.9 million lei in 2012, or by 66.3%. The analysis of fixed capital investments by activity type highlights the attractiveness of trade for entrepreneurs in the country and abroad. The share of fixed capital investments in trade increases, with some fluctuations, from 11.2% in 2006 to 12.3% in 2012 (registering the highest value of 14.9% in 2008).

Trade stands on the fourth place in terms of fixed capital investments, the first place being occupied by the transport and communications sector (21.2%) of total investments, followed by

the sector of real estate deals, renting and business services rendered to enterprises (15.8%) according to year 2012 (Table 2).

Trade positioning in the social and economic system of the country is characterized in a relevant manner by the development and share of companies operating in the area of trade.

Table 2: The structure of fixed capital investments by economic activity types

%

Indicators	2006	2007	2008	2009	2010	2011	2012
Total fixed capital investments	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>including:</i>							
real estate deals, renting and business services	20.9	22.5	21.5	21.6	21.0	16.4	15.8
transport and communications	26.3	20.6	18.7	20.2	25.1	22.0	21.2
wholesale and retail trade *	11.2	14.0	14.9	11.0	11.0	12.2	12.3
electricity and heat, gas and water	8.4	7.6	6.5	10.8	9.1	8.4	8.4
processing industry	15.3	15.6	14.5	8.6	10.3	12.9	13.5

* Including repair of car vehicles, motorcycles, household and personal goods

Source: [14, p. 373].

In 2012, 20 494 companies registered within wholesale and retail trade sector, this number increasing by 5 639 companies compared to year 2006. Of all enterprises operating in the national economy, trade has the largest share - 40.4% (2012), and this trend has been maintained for the last few years (Table 3).

Table 3: Evolution of enterprises within wholesale and retail trade

Indicators	2006	2007	2008	2009	2010	2011	2012	2012/ 2006, %
Number of companies, all activities	36158	39987	42121	44633	46704	48541	50681	140.2
Number of companies within wholesale and retail trade *	14855	16309	17247	18330	19095	19837	20494	138.0
Share, % from total	41.1	40.8	40.9	41.1	40.9	40.9	40.4	

* Including repair of car vehicles, motorcycles, household and personal goods

Source: [14, p. 488].

The large number of companies in the trade sector can be explained, on the one hand, by field peculiarity - delivery of goods to final consumers that implies the existence of trade units close to the consumers scattered in the territory, on the other hand, by the attractiveness of the sector for entrepreneurs due to a smaller volume of capital required for carrying out trade compared to other sectors of the economy.

Trade development and strengthening of its position in the domestic market facilitated the growth of the number of people employed in this area.

In the period from 2006 to 2012 the average number of employees in the trade sector has been growing, increasing by 13 000 people (6.6%), while the total number of employees in the national economy declined by 110 200 people (8.8%). In 2012 the number of employees within wholesale and retail trade, hotels and restaurants services accounted for 209 000 people. It is important to note that the number of employees in trade and their share in the total number of employees in the economy is steadily growing (2006 - 15.6%, 2012 - 18.2%). It must be noticed that the contribution of the trade sector to employment is higher than its contribution to GDP formation, thus reflecting a relatively high share of human labour within the organic structure of sector-

specific production factors. Increasing number of employees in trade is explained by an increased number of companies and by labour force migration from other sectors (agriculture, industry, etc.). Based on the above it can be concluded that national economy transits from a predominantly agrarian-industrial economy to a service-based economy. An important role in this regard belongs to the “quality” of human resources operating in the commercial area as well as the development of their professional skills.

Evolution of the market mechanisms as well as the development of small and medium business sector, privatization of commercial units and support of entrepreneurship within all spheres of economic activity have created conditions in the Republic of Moldova that favoured the development of small business in the area of trade at a more advanced rate than in other sectors of the national economy and have stimulated the creation of small and medium enterprises (SMEs) [9].

In early 2012 the number of SMEs in the area of trade was 20 thousand (2006 - 14.7 thousand), accounting for 98.0% of all wholesale and retail trade profile companies operating on the domestic market. Within the structure of economic activities these amount 40.5% (Table 4), while other important spheres of economic activity present a smaller share (agriculture - 5.1%, manufacturing (processing) industry - 9.9%).

This situation can be explained by the fact that commercial business is easier to organize and requires little initial capital. A quick return on investment is possible due to a higher turnover speed of funds. Profit can be obtained in a relatively small time period; therefore trade is more profitable, respectively more attractive in comparison with other types of business activities.

Table 4: Dynamics of small and medium enterprises (SMEs) per activity types in the Republic of Moldova

Activity types	2006				2012				SMEs 2012/2006, %
	No. of companies (thousand)	No. of SMEs (thousand)	SMEs share		No. of companies (thousand)	No. of SMEs (thousand)	SMEs share		
			Total companies %	By activity type %			Total companies %	By activity type %	
Total	36.2	35.5	98.1	100	50.0	49.4	98.8	100	139.1
of which:									
agriculture, hunting and forestry	2.1	2.0	95.2	5.6	2.5	2.5	100	5.1	125.0
processing industry	4.7	4.5	95.7	12.7	5.0	4.9	98.0	9.9	108.9
constructions	2.1	2.1	100.0	5.9	2.7	2.7	100	5.5	128.6
wholesale and retail trade	14.9	14.7	98.7	41.4	20.4	20.0	98.0	40.5	135.1
transport and communications	2.6	2.5	96.2	7.0	3.3	3.3	100	6.6	132.0
other activities	9.8	9.7	99.0	27.4	16.1	7.5	99.3	32.3	77.3

Source: [14, p.488, 494].

However, in the Republic of Moldova the under-developed agriculture and processing industry cannot ensure a balanced economic and social development. And trading activity in such conditions focuses on the import of goods with all resulting consequences.

Based on the above one may conclude that trade has placed itself within the socioeconomic system of the country as an important area due to its contribution to the formation of main macroeconomic

indicators as well as due to its impact on the quality of life, reflecting the degree of efficiency with regard to the use of economic resources.

3. Analysis of domestic trade current situation and sector development trends

Since the 90's, trade has undergone major changes imposed by the establishment of the market economy. Along the way many transformations occurred in this area and multiple reforms were undertaken, with different impacts in certain periods (Figure 2).

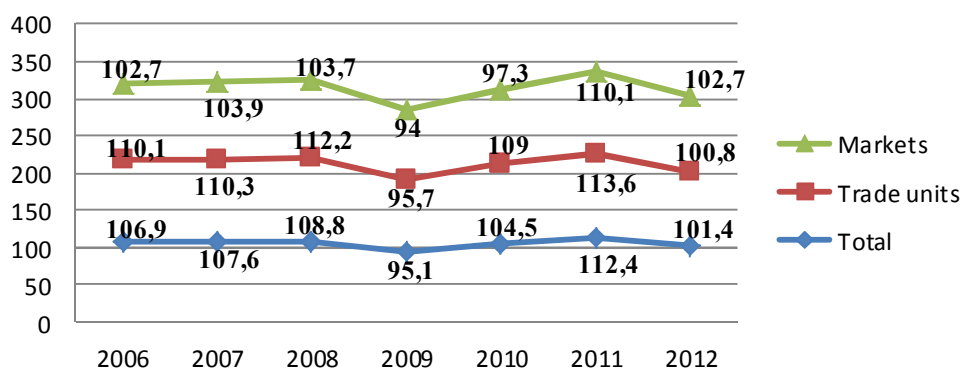


Figure 2: Growth rates of retail trade sales in 2006-2012

Source: [14, p.468].

In the period 2006-2012 the volume of retail sales by all trading means (by trade units and markets) increased 2.2 times in current prices, representing 518 738.8 thousand lei in 2012 (23356.6 million lei in 2006), due to the growth of population income and increasing purchasing power of goods. In 2011 the decrease in retail sales was generated by the economic crisis and by the drought of that year, which diminished domestic supply of products in the agri-food sector.

Entrepreneurship development in trade, expansion of small and medium enterprises, and substantial increase of companies engaged in trade generated a diversification of trade organization forms. At the first stage the implementation of market relations resulted in the emergence and development of unorganized trade, carried outside the stores, with a dominant share of “street trade”. Later, it has been gradually transferred to commercial markets. Thus, if in 2001-2003 the trade units (organized sector) made 46-50% of retail sales in the country; in 2006 this indicator reached 58.3%, in 2010 - 64.7% and in 2012 - 65.0% (Table 5). However, a considerable part of sales (35%) remains to be carried out through commercial markets, which do not offer modern marketing technologies and, correspondingly, a high level of trade services and consumers’ protection.

Table 5: Evolution of retail sales in the Republic of Moldova in 2006-2012

Indicators	2006	2007	2008	2009	2010	2011	2012	2012/ 2006,%
Volume of retail sales – total (mil. lei), through:	23356.6	28220.1	34684.4	32143.0	38765.8	51568.9	51873.8	222.1
a. trade units (organized sector)	13620.7	16866.6	21387.2	19960.6	25096.5	32132.7	33707.1	247.5
b. markets (unorganized sector)	9735.9	11353.5	13297.2	12182.4	13669.3	19436.2	18166.7	186.6
Share of trade units’ sales (organized sector), %	58.3	59.8	61.7	62.1	64.7	62.3	65.0	x

Source: [14, pp. 468-469].

Thus, one can conclude that when trade passes from an unorganized format into an organized one, the quality of commercial benefits grows. In the future this trend will increase as a result of entrepreneurial patent reform, aimed to facilitate step-by-step transition of patent holders to other organizational and legal forms.

Trade entrepreneurship development generated changes in the structure of sales per ownership types. The dominant share belongs to retail sales in the private sector - 68.3%, followed by joint ventures and foreign companies - 28.5% in 2010 (for the further period the statistical information is missing) [1]. In recent years, the trend is characterized by the transfer of mixed ownership companies, without foreign participation, to the private sector (the share of sales via such companies in 2010 was 1.5% compared to 4.2% in 2006).

During the last years non-food goods prevail in the sales structure per groups of goods, registering in 2006-2012 an uneven growth trend, from 68.5% in 2006 to 71.1% in 2011 and 67.5% in 2012. Although the share of non-food products prevails in the organized trade sector thus favouring the life quality improvement trends, in the consumption structure the expenses for food and beverages (alcoholic and non-alcoholic) are 44.3% (42.0% in urban and 47.9% in rural areas).

Trade infrastructure is of particular importance for the development of retail trade [13]. The evolution of this indicator registered a non-uniform trend (oscillations) in the analysed period (Table 6). Thus, in 2012 the national trade network comprised 9 594 trade units, of which 7 012 stores (compared to 9 014 trade units with 7 159 stores in 2006). It's worthy to mention that while the number of stores decreased by 2.1% during the reference period, the number of trade booths and kiosks increased significantly - by 39.2%, that is 2 582 units in 2012. Such a trend highlights the inefficient character of the domestic trade organisation, because trade carried out through booths and kiosks offers very limited possibility for implementing advanced trading technologies, a broad and thorough assortment of goods, as well as adequate price policy.

The analysis of presented information shows a non-uniform distribution of retail trade network. The majority of trade units are located in Chisinau (50.4%) and in the northern region (19.6%), and only 8.6% of all trade units are located in the southern region. Therefore, Chisinau is the most attractive location for the placement of trade units, while other regions, especially rural ones, indicate a rather slow development, thus registering an unbalanced situation regarding the trade network between the cities and remaining areas.

Table 6: Evolution of retail trade network in 2006-2012

	2006	2007	2008	2009	2010	2011*	2012*	2012/2006,%
Trade units – total	9014	9980	11066	11082	12215	7385	9594	106.4
<i>of which:</i>								
stores	7159	7833	8527	8889	9556	5340	7012	97.9
booths, kiosks	1855	2147	2539	2193	2659	2045	2582	139.2
<i>from total:</i>								
Chisinau	2597	2788	3266	2874	3800	3704	4840	186.4
NORTH region, <i>of which:</i>	2648	2998	3215	3460	3553	1476	1878	70.9
Balti	576	681	715	733	777	405	491	85.2
CENTRAL region	2136	2419	2696	2735	2865	1433	1733	81.1
SOUTH region	1073	1166	1256	1337	1342	532	827	77.1
ATU of Gagauzia	560	609	633	676	655	240	316	56.4

* Between 2011- 2012 a new method for calculating the number of trade units according to company registration place was used (data were presented for companies with 10 and more employees)

Source: [14, p. 469].

Along with retail trade the **wholesale trade** plays a very important role in the distribution of goods and services. In 2006-2012 period the volume of wholesale sales increased 1.4 times in the Republic of Moldova and registered 33 254.5 million lei in 2012. The dominant share within sales structure, in terms of territorial distribution, is registered in Chisinau - 79.6%, in Balti - 4.8% and in other regions - 15.6% (Table 7); the structure maintaining a steady trend during the whole reference period.

Table 7: Wholesale sales in the Republic of Moldova in 2006-2012

million lei

	2006	2007	2008	2009	2010	2011	2012	2012/ 2006,%
Wholesale sales – total	23236.2	28624.8	32314.1	28209.2	34723.7	31271.2	33254.5	143.1
of which:								
Chisinau	19205.4	22709.0	25605.9	22155.0	27738.7	24598.3	26489.1	137.9
Balti	808.6	1412.2	1569.8	1468.9	1802.4	1676.7	1597.9	197.6
districts	3222.2	4503.6	5138.4	4585.3	5182.6	6996.2	5167.7	160.4

Source: [12, 14].

The analysis of wholesale goods sales per ownership type of wholesale traders (Table 8) reveals that 64.2% of sales were done by private companies in 2012, followed by joint ventures (with foreign capital participation) and foreign companies - 35.3%. It should be noted that the latter, along with the private companies, recorded a considerable growth rate of sales (135.9% and 165.0% in 2006-2012 respectively).

Table 8: Wholesale sales structure per company ownership type

million lei

	2006	2007	2008	2009	2010	2011	2012	2012/ 2006,%
Wholesale sales - total	23236.2	28624.8	32314.1	28209.2	34723.7	31271.2	33254.5	143.1
including								
public	290.8	292.6	236.0	22.3	40.7	27.1	18.8	6.46
private	15712.0	19531.0	22692.8	20890.6	24729.7	20157.7	21361.6	135.9
joint ventures (public and private)	107.8	85.4	81.3	94.1	99.3	111.8	114.8	106.4
joint ventures (with foreign capital) and foreign	7125.6	8715.8	9303.9	7202.2	9854.0	10974.5	11759.2	165.0

Source: [12, 14].

In 2012, there were 7 615 wholesale companies operating on the domestic market, of which 6 057 specializing in non-food products sale (Table 9). It should be mentioned that in the reviewed period (2007-2012) the number of companies, specializing in wholesale trade with non-food product, significantly increased (by 2 106 units) compared to the increase in the number of companies (by 546 units) specializing in food products sale. The dominant share goes to non-food profile companies. A more detailed analysis of the development of this sector is difficult due to extremely limited statistics for this sector.

Table 9: Evolution of wholesale companies in the Republic of Moldova

Indicators	2007	2008	2009	2010	2011	2012	2012/2007, %
Wholesale trade companies - total	4963	5016	4814	4779	4764	7615	151.4
specializing in:							
- food products sales	1012	1024	994	1000	985	1558	154.0
- non-food products sales	3951	3992	3820	3779	3779	6057	153.3

Source: [10].

Although in recent years some actions of improving the situation in the wholesale trade were undertaken with the purpose to identify real sales figures (excluding tax evasion) and to exclude shadow activities in this sector, these actions have had an episodic character only. Other effective mechanisms are also required here to ensure wholesale companies transparency. The provisions of Law on domestic trade, no. 231 of 23.09.2010 [5], regarding the obligation of traders carrying wholesale trade to pay purchased goods via transfer only, will help to transform wholesale trade into a controlled and transparent business.

Market economy mechanisms, as well as globalization, increase the role of wholesale trade not only locally, but also in the international trading of goods. In such conditions wholesalers should adopt new visions and strategies to withstand the competitive pressure.

4. Challenges and constraints faced by domestic trade

Trade liberalization during the establishment of market relations, in addition to beneficial trends registered in the development of domestic trade in the last two decades (increasing contribution to GDP, growth of sales volume, infrastructure expansion and modernization, economic change, diversification of trade organizing forms, emergence and development of e-commerce [6] and franchise agreements-based trade, emergence of supermarket chains, development of associative-type and integrated trade, etc.), has also generated certain imbalances in the operation of the trading system and, as consequence, lack of enforcement mechanisms for the exclusion of tax evasion, for consumers' protection, for trade services quality, etc.

Among the main constraints and barriers to the development and legalization of domestic trade, the following are highlighted:

- imperfection of normative and legal as well as institutional regulatory framework for trade, and deficiencies in the application of these regulations;
- differences in current approaches to EU countries' trade and practices, regarding institutional, legal and organizational framework;
- lack of an efficient management system for trade activity and its continuing monitoring, duplication of some trade related functions, in particular control functions exerted by various central public authorities;
- existence of unfair competition on the market, boosting unorganized trade;
- low level of competitiveness of products sold on the domestic consumption market;
- presence of illicit trade;
- deficiencies in terms of security consumption and consumers' protection assurance;
- non-balanced placement of the commercial infrastructure;
- low level of economic efficiency of trade activity;
- continuation of trade activity with manufactured goods (which should be sold within an organized trade network) based on entrepreneurial patent;
- increased penetration of foreign products on the domestic market, thus contributing to the substitution of domestic products with imported products;
- insufficient human resources with high professional performance and non-compliance with the requirements for professional qualification of employees in the trade area, etc.

With regard to the imperfection of normative and legal as well as institutional regulatory framework one can note:

- certain legislative discrepancies and double interpretations regarding products and services marketing (e.g. commercialisation of alcoholic beverages and tobacco items),
- overlapping of procedures for obtaining permits (authorizations/licenses/trade units operation certificates),
- lack of regulations for certain products marketing (furniture, construction materials, toys, perfumes, second-hand goods),
- lack of technical regulations for certain products, as well as of measures for the protection of the domestic market from low quality and counterfeit products,
- fragmentary character of the legal framework with regard to products conformity assessment,
- deficiencies regarding the regulation of customs and tax policies, that create barriers to the development of trade business environment,
- gaps in adjusting national legislation to EU regulations (in particular regarding distance sales).

Another group of challenges envisages the maintenance of illegal trade. According to estimates, about 2/3 of the existing volume of goods, on the domestic consumption market, come from imports. Studies demonstrate that a significant part of products is delivered to the domestic market and sold illegally (the main sources are: smuggling-type evasion from customs control, fraudulent use of product-supporting documents, not declaring/inauthentic declaration of cargo in customs documents, counterfeiting) without paying proper taxes and duties, jeopardizing the state budget in such a way, and restricting the ensurance of fair conditions for business development, consumers' protection and quality of products. It's worth mentioning in this respect that at present there are no normative acts/methodologies that would allow an accurate assessment of the degree of smuggling. However, according to some estimates regarding oil smuggling in the Republic of Moldova it was found that the share of oil products introduced into the country via smuggling ranges between 30-50% of all sales on the domestic consumption market, from the total oil products volume. According to Sugar Producers Union estimates, in 2012 sugar smuggling damaged the state budget by 200 million lei. At the beginning of 2013 nearly half of the sugar entering the domestic market has been smuggled from Ukraine. The smuggling blacklist also includes such products as computers, shoes and clothing of various international brands, meat and meat products, fish, cigarettes, etc. [2, p.12]. Liability for criminal offenses and administrative infringements of this kind is rather soft and does not stimulate legal trade activity and preventing breaches of legislation.

Abundance of counterfeit goods is another issue that generates tax evasion and danger for consumers' health protection, which requires urgent solution. A European Commission report on customs interventions places the Republic of Moldova on the fourth place among the countries supplying counterfeit goods to Europe, accounting for about 2% of the total volume of goods seized at the border. Some counterfeit products include also domestic products. According to a study of the Consumer Protection Agency on the quality of dairy products, 4 out of 10 local producers traded composition-distorted and standards non-complying foods by using raw materials prohibited by law [4].

Unfortunately, national authorities do not have the necessary means to perform efficient and consistent market supervision. The situation is becoming worse further because the country lacks a

mechanism for the destruction of counterfeit products and for efficient accountability concerning non-compliance with legislation.

The low level of product competitiveness on the domestic consumer market and the existence of unfair trade practices identify another challenge for domestic trade. Many products placed on the market are not safe and violate the rules established by existing technical regulations; their quality and real value often do not comply with the requested price. Presence of multiple intermediaries within the supply chain inevitably leads to higher prices of certain products; at the same time, illegal penetration of products on the domestic market facilitates setting up lower prices for products compared to similar products supplied by domestic producers, thus discouraging the development of a competitive business environment. In this context, it is important to establish efficient monitoring mechanisms for imported commercial transactions and product distribution value chain.

The existence of unfair trade practices contributes to unjustified increase of the marketing price on certain products. For the purpose of their omission it becomes urgent to assess the supply chain, including the added value produced by each segment of the chain, in order to identify possible deficiencies and risks arising from unfair commercial practices, to ensure the effective application of rules envisaged by the national legal framework aiming at fighting with these practices and developing modern products distribution channels.

Existing imbalances in the location and development of commercial infrastructure affects the efficient functioning of the internal trade sector. The trend, regarding the concentration of trade activity mainly in urban centres and district centres, affects provision with goods of the rural population, generates migration of demand towards these centres and influences negatively the quality of commercial services and living standards of consumers in rural areas.

Rural population is forced to buy products mainly from markets episodically organized by individual traders in the settlements (these traders supply highly insecure products - often without documents confirming the origins and quality of products).

Special consideration requires the typology and specialization of retail trade units in terms of adjustment to European practices and of developing recommendations for trade units' placement.

Despite the fact that wholesale trade plays an important role in the distribution and management of this activity, together with the transition to a market economy, this area passed through a period of economic, managerial and organizational decline, being frequently ignored not only by operators on products and services market, but also by the authorities. Therefore, one can find that currently in the country there is no wholesalers typology, no evidence of their storage and logistics infrastructure, no other indicators etc.

Keeping the trade activity in the sphere of entrepreneurial patent-based manufactured products (which should be sold through an organized trade network) directly influences the competitiveness on the domestic market. Originally, the entrepreneurial patent system [8] was created as an exception to the traditional legal taxation and business framework, giving socially vulnerable groups the possibility to support themselves by practicing entrepreneurship. However, in the process of implementation, this system has become a tax evasive scheme and a shadow business activity that affects consumers' rights and safety; also proving to be an unfair practice compared to the economic entities doing business under traditional legal organizational forms.

According to the Main State Tax Inspectorate, 16 140 holders of patent authorisation have operated in 2012, of which 59% in commerce, selling various products, including manufactured ones and food products as well (which require special storage and selling conditions), mainly from booths, counters, stalls and vehicles staying in markets (in 2010 around 30 197 patent holders operated covering 48 types of activity, of which 60.0% were practicing trade). Practicing patent-based trade is a profitable activity for patent holders but not for the state budget. Budget revenues remain insignificant due to the lack of patent holders' tax records.

In 2006 in order to avoid the acknowledged deficiencies, the reform of national trading patent-based system was initiated (by Law no. 208-XVI of July 7, 2006, aiming amendments and additions to Law no. 93-XIV of July 15, 1998, regarding the entrepreneurial patent) [3] with the purpose to limit product categories subject to entrepreneurial patent-based retail trade and to facilitate patent holders transition to a different legal organizing form. This reform was not completed, the deadline being delayed until January 1, 2017.

In our opinion, patent-based activity must be authorized for small producers, especially those involved in crafts activities, not practicing series production and for service providers in areas where there are no specialized economic operators. Namely, these products and services may be the subject of trade activity of patent holders. The current situation, under which patent holders sell manufactured products, including food products in conditions not complying with consumers' protection requirements, is in the detriment of consumers, while the existing trade network can provide enough space for quality performance of trade and technological processes. Therefore, we support the efforts of moving manufactured products trade into an organized framework.

Insufficient human resources with high professional performance and non-compliance with professional qualification requirements of employees in the trade area increase the gaps within the organization of trade activity and the quality of commercial services, thus becoming a significant barrier to the development of the domestic trade. Despite the fact that it is an attractive sector employing a considerable number of active population, trade is experiencing a deficit of skilled and well-trained professionals, especially those having vocational- technical education. The attractiveness of trade has contributed to the migration of the labour force to trade, from other areas not even close to the sphere of goods circulation, which have developed some practical skills over time (gained from the working experience), but not having any initial training in this area. As a result, the quality of trade services and the consumers' protection fail to comply with modern trade requirements.

Given the above and due to the fact that the quality of human resources employed in trade activities directly affects the security of product consumption as well as the quality of trade services, the Law on domestic trade (no. 231 of 09.23.1010 [5], Article 13(2)) states that "commerce activity, except for small traders, shall be performed by physical persons (individual entrepreneurs) who have been trained within legally authorized commercial (economic) education institutions, or by persons who have certified their skills, competences acquired as result of working experience at the same institutions". However, this provision is not respected.

The economic efficiency of trade activity is the performance indicator that characterizes the quality of trade services and the efficient use of resources in this area. Wholesale and retail trade companies provide 46.6% of total revenues from sales, but in the small and medium business they have registered 49.7% in 2012 [14, p. 489, 494].

Although during recent years a progress in the development of trade activity in terms of quantity can be noticed, in terms of quality and economic efficiency this sector displays major deficiencies. During the last several years the share of trade companies operating with losses is maintained around 50%. In 2012, only 8 087 out of 20 494 wholesale and retail trade companies registered profits (39.5%) (including those performing repair of motor vehicles, motorcycles, personal and household goods); at the end of financial year, 11 329 companies registered losses (55.3%) and 1078 companies did not operate (5.2%). In 2006 these indicators in weighted values have displayed 41%, 51% and 8%, respectively [14, p.488].

The above trends contradict the continuous growth of legal entities in the trade area. Thus, the number of companies submitting financial reports increased by 5 639 units or by 38.0% in 2006-2012 [14, p. 488]. The characterized situation justifies the existence of problems and imbalances within the trade sector, at the same time, identifying the need and opportunity for proper mechanisms to improve the situation.

5. Strategic priorities and actions for the development of domestic trade

Taking into account the importance of trade for economic development and life quality improvement, and aiming at solving the existing deficiencies in trade activities, facilitating the domestic trade development and legalizing process, and ensuring an adequate level of domestic consumers' protection *The Domestic Trade Development Strategy of the Republic of Moldova for 2014-2020 period* (hereinafter the Strategy) and *2014-2016 Action Plan* for its implementation [2] have been developed, with the contribution of the authors of this paper. The Strategy was designed as a medium-term basic regulatory framework to ensure sustainable development and to establish guidelines for the development of domestic trade sector in the Republic of Moldova.

The Strategy sets the following priority objectives for domestic trade development:

- ✓ increasing regulations efficiency regarding domestic trade;
- ✓ enhancing competitiveness of marketed products/services;
- ✓ improving trade infrastructure in the districts, especially in rural areas;
- ✓ modernizing distribution and marketing activities for products/services;
- ✓ providing trade with qualified and permanently trained labour force.

For the achievement of these objectives the following is envisaged.

In order to improve the normative and institutional framework regulating trade activities and to adjust it to the European practices, the following is necessary: a review of legal and normative framework for the marketing of products/services; elimination of gaps and double interpretations in the legislation; updating the existing regulations; development of new regulations for domestic trade.

The following is proposed for the next period (2014):

- setting the rules regulating reduced price sales (liquidation and sell-off, promotional and outlet sales),
- amendment of the Law on domestic trade (no. 231 of 23.09.2010) [5] in order to simplify the start of trading business and to obtain the required permits,
- development of legislative framework regarding distance and off-premises contracts,

- completion of the Contravention Code with administrative sanctions for the violation of products/services marketing rules,
- elaboration of regulations for trade activity in public areas, including markets, and for agricultural products trade; for the marketing of certain products (cosmetics, construction materials, toys, second-hand goods, etc.), for commercial services, including catering; authorization of trade activities by establishing the single-window system; training of employees for the trade area, etc.,
- improvement/elaboration of methodologies in the area of pricing/tariffs as well as the creation of an organization responsible for regulated prices/tariffs policy development.

In order to perform the supervision of domestic consumption market, it is necessary to strengthen institutionally the Competition Council, the National Food Safety Agency, the Consumer Protection Agency and the State Supervision Service for Public Health.

The objective of enhancing the resources of quality products with affordable prices focuses on the production of competitive goods in line with the market demand and on the stimulation of domestic goods supply. In this respect, the following aspects are urgent:

- development of national food security policy at national and regional levels, strengthening, in this context, institutional capacities of the product councils;
- supporting consumer cooperatives activity (especially the production and purchase of agricultural products);
- promotion of local products through various activities;
- stimulation of non-agricultural activities in rural areas;
- diversification of cooperative forms, development of associative structures;
- improvement of domestic products quality accompanied by production costs reduction in order to raise the competitiveness of manufactured products;
- enhancing extensive implementation in production of the Food Safety and Quality Management Systems;
- establishment of a single information system for placing products on the market and for their supervision, connecting to this system the institutions with supervision and control powers (Customs Service, National Food Safety Agency, Consumer Protection Agency, Public Health Service, product conformity assessment institutions, etc.).

Supporting independent economic activity plays an important role in strengthening products/services resources. In this context, it is necessary to improve the tax policy by introducing a single tax on the annual estimated income obtained from the activity of family companies and/or physical persons.

The development of trade infrastructure as well as optimization of its location has to play an important role in the ensurance of quality and trade activities efficiency. The current situation, with the uneven placement of trade network and 36.8% of the total number of trade units representing kiosks and booths, scattered throughout public places and violating most elementary architecture and, frequently, sanitation rules, does not meet modern trade requirements as well as security requirements for products consumption marketed in such a manner. Based on the above it is necessary to develop certain criteria and rules for the placement of trade units that will consider trade space norms for the population, and the existing practices are to be connected to urban

development plans in order to provide a harmonious combination of large commercial areas (located in specially designated areas) with the small shops (located mainly in residential areas).

In recent years a relevant issue is the decrease of trade units in the rural areas, one of the main reasons being high placement taxes for these units set by local authorities. In such circumstances trade entrepreneurs operating in these areas and supplying mostly first-necessity products to the population (which do not generate high income) are forced to stop their activity or to seek illegal ways of conducting their business. Therefore, the support of trade activity from central and local public administrations in rural areas, especially in remote ones or areas with a small number of inhabitants (offering tax incentives, granting subsidies for covering expenses related to delivery of the first-necessity products, exemption from placement fee payment or its reduction, preferential loans for businesses investing in the development of trade infrastructure in rural areas, supporting public-private partnership, granting facilities for purchase of land for the construction of trade buildings and for trade unit tax payment, granting tax exemptions to those who contribute to job places creation by expanding the trade infrastructure, etc.) would facilitate the development of commerce and supply of the rural population with consumption goods, in particular with first-necessity products.

In order to eliminate constraints regarding starting of trade activities, the Strategy stipulates the establishment of single-window booth to issue authorizations for the operation of traders, which will serve as a platform for the creation of trade information system. Such an information system will allow monitoring of the trade infrastructure development both at national and territorial levels (in the districts of the country).

Of particular importance is the bringing of all commercial operators (large businesses, SMEs, individual enterprises, patent holders etc.) into a fair economic activity framework, which will ensure activity transparency, exclusion of tax evasion and boosting competitiveness on the domestic market.

An important part of domestic trade modernization and efficiency aims the optimization and diversification of goods distribution and marketing system. The main focus in this regard requires the elimination of multiple intermediaries which do not add value to products or quality of trade services, but only contribute to price increase and slow down products circulation.

Due to the agricultural profile of the country, actions are needed to improve food products distribution channels. In this context, the Strategy focuses on direct delivery of products on the market by farmers. It is also appropriate to establish small farmers associations in order to sell products jointly and to create regional logistics and wholesale distribution centres for these products (regional wholesale markets), as well as to open centres for collecting surplus agricultural products from population through the renovation of co-operative businesses.

Next to the actions mentioned above it is necessary to assess the supply chain (number of operators in the chain, costs incurred, revenue obtained, including profit on each segment of the food chain) in order to detect unfair trade practices and to counteract them.

The Strategy also provides other actions for the efficient distribution and marketing of products, including:

- expansion of integrated distribution systems (for wholesale and retail trade);

- development of trade through retail centres of enterprises (supermarkets of domestic and foreign producers) that will help increase the safety of goods purchased by consumers, narrowing of product distribution value chain and, therefore, optimization of products' purchase prices;
- employment of modern forms of sales (catalogue-based sales, e-mail sales, TV sales, Internet sales, etc.) and improvement of trade technologies;
- growth of the number of large commercial units with high capacity of covering extensive areas of commercial attraction. These units, due to their nature, will move away the trade network from the consumer, but given the sale methods they can employ (selling at home, by order, TV sales, sales through electronic stores, etc.) these units will compensate the lack of small stores close to consumers, supplying products to consumption places;
- expansion of franchise-based sales;
- development of pure and joint e-commerce;
- creation of national and regional logistic centres for food products with the related infrastructure (warehouses, refrigeration chambers, transportation means) together with the creation of an adequate management, marketing, finance and information system, etc.

Wholesale trade plays an important role in the optimization and streamlining of the distribution process. This sector requires switching from a traditional wholesale trade format to a modern one, reflecting the diversity of wholesale distribution forms and co-operation with manufacturers and retailers, the choice of appropriate target-markets, the placement, and products range and price strategies, the extension of services offered to partners and customers. However, the transition is slowed due to the lack of appropriate legal regulations. In such a context we consider extremely necessary to develop the national normative base that would regulate principles, requirements, wholesale branch operational scope, and wholesale subjects and structures typology.

Implementation of these actions will contribute to the strengthening of domestic consumer market and to its integration into the European common market.

Speaking about human resources development and strengthening of human potential employed in trade activities, provision with qualified personnel of trade companies has become a serious problem. In particular, its absence can be felt in rural areas.

It is also necessary to implement legal provisions [5, Article 13] on mandatory initial training and certification of professional skills for employees from the trade sector, especially for those coming into contact with consumers and which are responsible for the safety of products marketed to the population. In this regard the following high-priority actions are required:

- elaboration of methodology regarding professional competences assessment and certification of the staff employed in trade, without special training (confirmed by education documents), and carrying out certification;
- creation of a sectorial committee for professional training of the employees working in the trade sector;
- development and validation of occupational standards for employees working in the trade sector;
- development of university-business environment partnerships regarding specialists training;
- establishment of trade employers association.

Human resources are the key factor for the efficient use of all trade resources and for business success. In this context the development of professional competences must become a continuing process, being stimulated by the employers.

6. Conclusions

Development of market mechanisms, liberalization of trade and promotion of reforms in domestic trade and in its associated areas have contributed to significant changes in the organization and deployment of trade activity in the country. In addition to benefits, those above also generate certain deficiencies and imbalances in the operation of domestic trade. Identification of problems faced by this sector of the national economy together with the corresponding solutions can ensure sustainable development of the domestic trade in the future.

Priorities, objectives and strategic actions set for the development of domestic trade, presented in this paper, inspire confidence that this area will experience considerable quantitative and qualitative changes in the following years and will contribute to country's integration into the European common market and into the international economic circuit, turning from a reactive to a proactive sector of the national economy.

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