

The Republic of Moldova:
National Human Development Report
2006

**The quality of economic
growth and its impact on
human development**



EXPERT-GRUP



**United Nations
Development
Programme**

Moldova

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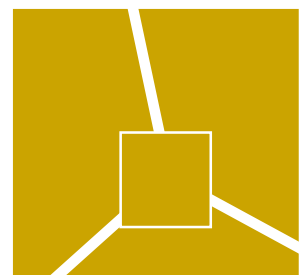
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General data about the Republic of Moldova

The information does not include Trans-Dniester, except where specified



Sources: The National Bureau of Statistics, Ministry of Health and Social Protection, the National Bank of Moldova, the World Bank

Geography and demography

Geographic location	South-Eastern Europe
Geographic coordinates	28°50' Eastern longitude 47° Northern latitude
Area, sq.km2 (including Trans-Dniester)	33.8
Population, thousand people, January ,1 2006, based on the results of general population census of October 2004	3,395.6
Share of rural population, % of total, 2005	61.3
Rate of natural increase of population, ‰, 2005	-1.9

Human development

	2000	2001	2002	2003	2004	2005
Human Development Index	0,703	0,711	0,716	0,723	0,730	0,733
GDP per capita, USD, PPP-based	2112	2300	2533	2785	3046	3360
Life expectancy at birth, years	67,6	68,2	68,1	68,1	68,4	67,8
Adult literacy rate, %	98,2	98,3	98,5	98,7	98,9	99,1
Combined gross enrolment ratio for primary, secondary and tertiary education	70,3	70,4	70,7	71,0	70,9	71,7

Health

	2000	2001	2002	2003	2004	2005
Infant mortality rate (per 1000 live births)	18,3	16,3	14,7	14,4	12,2	12,4
Maternal mortality rate (per 100,000 live births)	27,1	43,9	28,0	21,9	23,5	18,6
New cases of active tuberculosis (per 100,000 inhabitants)	83,1	83,6	87,5	91,5	105,7	83,1
Public health expenditure, % of GDP	3,2	3,2	4,0	4,0	4,2	4,3

Education

	2000	2001	2002	2003	2004	2005
Preschool net education enrolment, %	38,5	42,4	54,0	58,7	63,7	68,6
Primary net education enrolment, %	93,5	92,4	92,4	92,4	91,0	87,8
Number of university students, per 10,000 inhabitants	217	238	262	288	318	351
Public education expenditure, % of GDP	5,5	5,8	6,9	6,7	6,8	7,3

Social-economic indicators

	2000	2001	2002	2003	2004	2005
GDP growth rate, %	2,1	6,1	7,8	6,3	7,3	7,1
Unemployment rate, %	8,5	7,3	6,8	7,9	8,1	7,3
Inflation rate, end of year, %	18,4	6,3	4,4	15,7	12,5	10,0
Poverty incidence, %, national poverty line	67,8	54,6	40,4	29,0	26,5	29,0*
Work remittances, % of GDP	13,8	16,4	19,4	24,4	27,0	30,6
Annual inflow of foreign direct investment, % of GDP	9,8	6,9	8,0	4,0	5,5	7,0

Country profile



Map 1. The Republic of Moldova

Source: Cartographic Division of the UN, <http://www.un.org/Depts/Cartographic/english/htmain.htm>;

The Republic of Moldova became an independent state on August 27, 1991 following the disintegration of the Soviet Union. After independence, the Republic of Moldova began to implement economic and political reforms to create a democratic political system and a market economy. The Republic of Moldova is

a parliamentary republic. The legislative body is a one-chamber Parliament, with 101 seats and is elected based on a proportional electoral system with one national constituency. The head of state is the President who is elected by the Parliament for a four-year term. The Republic of Moldova is divided into 32 districts,

five municipalities, the autonomous territorial region of Gagausia and the administrative-territorial region located on the left bank of the Dniester River (known as Trans-Dniester).

The Republic of Moldova is situated in South-Eastern Europe, bordered in the South, East and North by Ukraine and in the West by Romania. The country has no direct access to the Black Sea but has a short portion of Danube coast which is able to provide access to sea traffic. The Republic of Moldova falls into the category of small European states with an area of 33.8 thousand square kilometres. It stretches 350 kilometres from North to South and 150 kilometres from West to East.

The Republic of Moldova has relatively few natural resources. Virtually 100% of its energy resources are imported. The country has important reserves of mineral resources which are used for construction materials. The main natural asset of the Republic of Moldova is its black soil called "cernoziom" which is propitious for the development of highly competitive agriculture and a predominantly temperate-continental climate, generally characterized by warm winters and hot summers.

With a GDP of about 2.9 billion US dollars (2005) and international trade exceeding 150% of its GDP, the Republic of Moldova is the typical case of a small open economy. The economy is highly dependent on the agricultural sector which employs more than 40% of the labour force but contributes only 14.3% to GDP (2005). Industry and construction provide 20.5% of the GDP. The services sector has seen strong growth since 2001 and contributes 50.8% to GDP.

From 1991 to 1999 the Republic of Moldova suffered a severe economic downturn, with its output shrinking by 65% in real terms. In the period 2000 to 2005 there was remarkable growth in GDP ranging from 2.1% to 7.8% per year. Economic growth has been led by consumption and has been financed by, among other things, Moldovan migrant's remittances. According to official statistics, there were about 394,000 people working or looking for work abroad in 2005, which was 14% more than in 2004. Remittances from migrants in 2005 accounted for 30% of the GDP.

Separatism in the east of the country, the region of Trans-Dniester, which makes up 11% of the territory and 14% of the population, represents one of the most difficult security problems of the Republic of Moldova. The self-proclaimed Trans-Dniester regime asserts that the region under its control has clear cut geographic and political frontiers (the Dniester river and the constitutional frontier of the Republic of Moldova with Ukraine), as well as a historic legacy that is distinct from that of right-bank Republic of Moldova. The secessionist pretensions of the Trans-Dniester region have been strengthened by the economic and political support offered by the Russian Federation over the past 15 years

As of January 2006 the Republic of Moldova had a population of almost 3.4 million people, excluding Trans-Dniester. Preliminary data from the 2004 census showed that Moldovans made up 75.8% of the population, compared to 64% in 1989. Ukrainians accounted for 8.4% of the population and Russians – 5.8%. The Gagaus minority which mainly lives in a compact administrative autonomous region in southern Moldova makes up 4.4% of the population and Bulgarians 1.9%. Over 61% of the population lives in rural areas making the Republic of Moldova the European country with the highest share of rural population.

The Republic of Moldova is a member of the Council of Europe. In 2001 the Republic of Moldova became a member of the World Trade Organization. In 2004 the country adopted its Economic Growth and Poverty Reduction Strategy Paper which was appraised by the International Monetary Fund and the World Bank and contributed to unfreezing financial relations of the country with both international financial institutions. In 2005 the Republic of Moldova signed the Plan of Actions with the European Union. The goal of the Plan is to strengthen political, security, economic and cultural relations, reinforce cross-border cooperation and establish a joint responsibility regarding the prevention and settlement of conflicts. The document, though it does not explicitly mention the accession of the country to the European Union, is in line with the pro-European ambitions of the Government, which has named full European integration as a major national goal.



Executive Summary of the National Human Development Report 2006



Chapter I.

Economic growth: quantitative and qualitative aspects

After a decade of severe recession stemming from the systemic transformation of the economy and from policy errors, the Republic of Moldova's economy began to grow again in 2000. The growth has been sustained by macroeconomic stability and increasing external and internal demand. The growth would have begun earlier and been more rapid if the country had been able to balance its exports and increase their added value geographically, and if it had more aggressively implemented structural reforms and created an institutional environment favourable for private sector development. An essential factor which formed the basis for growth was the income remitted by Moldovan emigrants working abroad, which in 2005 accounted for 30% of GDP. If the recent crisis in trade relations with the Russian Federation had not occurred (which introduced import barriers for vegetable, animal and alcoholic products from the Republic of Moldova), the Republic of Moldova would have recovered production and income levels it had in 1993 by 2006-2007.

About 30% of growth was brought about by the expansion of transport services, telecommunications and real estate transactions, but these sectors employ only 8% of the population. Certain indicators suggest that economic growth has been strong in trade and the construction industry, but this is mainly in the informal sector of the economy. Agriculture, though employing 40% of the working population, contributed very little to GDP growth. The agricultural sector is facing acute problems that hamper long-term eradication of rural poverty. Such a distribution of growth has important implications, as it suggests that the growth is relatively narrow and only a small number of employees benefit from it. Women have benefited less than men from the economic growth, a fact illustrated by a significant wage gap between the genders. Also relatively more women than men abandoned their low paid jobs in the agriculture and education sectors and emigrated.

Weak development in the agriculture sector is responsible for the increase in rural poverty and is partially responsible for failures regarding the health and education of rural inhabitants. Agricultural reform brought fundamental changes to the sector, with many old enterprises unable to survive in the new market economy conditions. Reform was absolutely necessary but errors made during its implementation have generated high costs which have been borne by rural communities to the present day. Nowadays the agricultural sector is characterised by economic and technical inefficiency, a lack of former advantages and an unstable output. The uncertainty in agriculture undermines the development of agriculture-related areas. Some individual agricultural producers were able to seize the opportunities offered by a market economy. But a large group of rural inhabitants is simply and desperately trying to survive. The majority of individual farmers continue to produce low value-added crops because they lack the necessary resources and knowledge to produce more profitable crops. Thus, farmers are caught in a vicious circle of subsistence agriculture, which does not allow them to obtain a higher income in the future because their current income is very low. The corporate sector has been in a period of expansion and it has leased agricultural plots, which should be regarded as an obvious solution for the problem of small average plots of agricultural land.

In urban areas, poverty is a direct consequence of de-industrialization and the inability of the service sector to absorb the labour force which was laid off from industrial enterprises. The situation is aggravated by the fact that many urban settlements were dependent on one or two large enterprises whose bankruptcy resulted in severe unemployment and shrinking incomes. During the Soviet era, industrial enterprises were responsible for the maintenance of some social infrastructure (hospitals, schools). Therefore, liquidation of these enterprises had an immediate impact not only on income but also on other sectors, particularly, on health and education. The present structure

of the industry is archaic, geographically polarized, labour intensive and limited in technologies and innovations. Though some branches have a good potential for growth and are competitive, their perspectives are worsened by uncertainties related to the main export markets in the East and relatively restricted access to the Western markets.

Another flaw of economic growth in the Republic of Moldova is that the growth occurred at the same time as the liquidation of jobs and the migration of the labour force. Revenues derived from migration fed consumption which was the main pillar of economic growth, but at the same time migration reduced the available labour resources. The biggest contribution to 2000-2005 growth was made by physical capital and the increase of total factors productivity (technological progress and efficiency earnings coming from factors combination). Human capital had a relatively modest contribution, while emigration of the labour factor reduced economic growth.

In 2000-2005, global demand constantly exceeded internal supply, the imbalance being determined by very high final consumption. The high propensity for consumption should have spurred faster development of the domestic productive sector, but local companies were slow in responding to the demand signals. As a consequence, imports grew rapidly. Consumption grew considerably due to the fact that following a long period of poverty, citizens receiving more income from wages and from abroad were willing to return to a normal level of consumption.

The economic collapse in the transition period was particularly severe in the outer regions of the country. The years 2000-2006 were marked by uneven economic growth in different parts of the country, which slowed the pace of poverty reduction and the advancement of human development indicators in different parts of the country. The Chisinau municipality continues to be the hub for economic growth; some positive trends are emerging in Balti (a large city in the North) and there is economic growth in several other medium-sized towns. But small towns and rural areas remain economically depressed and the precarious situation of local economies continuously leads to emigration. In Trans-Dniester, the economy evolved differently from 2000-2006. Growth was much less stable than in the rest of the Republic of Moldova due to the self-

isolation of the region, the domination of local clans with strong political and economic connections, limited internal resources and lack of access to international financial markets, combined with an inadequate allocation of resources.

The impact of the financial sector on growth has been ambiguous. On the one hand, bank credits contributed to the growth of big industrial enterprises, but on the other hand, the access of small business to credits has been restricted by objective and subjective factors. Intensification of competition among banks has caused banks to become more interested in giving credit to the population, so they now are able to make a direct contribution to citizens' prosperity and to invest in human capital through loans for education.

Chapter II.

The impact of economic growth on human development

Human development includes a large number of dimensions related to development. In order to evaluate the progress of individual countries and in order to make an international comparison, the United Nations Development Programme elaborated a Human Development Index incorporating three important aspects of human development which are: health, education and income. According to official statistics, the Human Development Index for Moldova was 0.733 in 2005, which is above the level of human development for 1993, but still below those in 1990-1991. Although there are no statistical data for a rigorous evaluation, the situation in Trans-Dniester regarding human development is generally the same as in the rest of country.

The quite low Gender Empowerment Measure indicates that in the Republic of Moldova women still do not benefit from all existing opportunities for getting more involved in development processes. Large disparities in the level of human development persist across the country, Moldovan villages being particularly destitute. Moreover, in a number of small towns and even in the suburbs of big Moldovan cities, living standards prevail which are uncommon for a genuine urban settlement. National strategies are not prioritizing urban development as a major precondition for social and economic modernization of the country.

The human development concept is inherently related to the Millennium Development Goals. The Republic of Moldova adapted the Millennium Development Goals, tasks and indicators in order to better reflect its national priorities and own situation. In 2006 the first intermediary assessment of progress has yet to be made. According to available statistical data, the Republic of Moldova has registered important progress in eradicating extreme poverty and hunger, reducing child mortality and improving maternal health. However, there has been regression in cases of HIV/AIDS and the control of tuberculosis.

During the period of economic growth, major reforms have been implemented in the health sector. In particular, a system of compulsory health insurance was introduced. It is too early to thoroughly evaluate the impact of the reforms, but public opinion on this subject is divided. Because of high mortality rates, the natural increase of the population remained negative. In 2005 the situation was worse than ever before in the last fifteen years (with a rate of natural increase of -1.9 per 1000 inhabitants). Life expectancy registered some positive trends, but still remains below the European average. Although women live on average 7 years more than men, their life expectancy is shorter than in Central Europe and CIS countries.

A number of programs of assistance and intervention have been implemented, which have allowed for very good progress. In 2000-2005 infant mortality declined steadily from 18.4 per 1,000 live births to 12.4. In 2005, the mortality rate of children under 5 was 14.7 per 1,000 live births compared to 20.3 in 2001. Maternal mortality has also decreased significantly, from 43.9 to 18.6 cases per 100,000 live births.

Socially conditioned diseases have become a major risk for the Republic of Moldova. From 2001 to 2005 the global incidence of tuberculosis followed an upward trend from 93.2 cases per 100,000 inhabitants to 130.5 cases per 100,000 inhabitants which is ten times more than in the EU and twice that of the group of transition countries. The mortality rate associated with tuberculosis, which mainly affects men, was extremely high during the period which was studied, and in 2005 there were 18.9 deaths per 100,000 inhabitants, compared to 15.5 in 2001. Another social evil, alcoholism, registered an alarming rate of

growth. In 2005, chronic alcoholism incidence affected 112.8 per 100,000 inhabitants, compared to 81.8 in 2001, and the incidence of alcoholic psychoses – 19.6 per 100,000 inhabitants, as compared with 5.9 in 2001. Although drug addiction tended to stabilize over the last four years, the cumulative number of persons consuming drugs is growing. Compared to neighbouring countries, the death rate from HIV/AIDS is not very high in the Republic of Moldova, but from 2001 this index became much worse. According to preliminary data, HIV incidence reached a level of 13.3 cases per 100,000 inhabitants in 2005. As absolute figures, 538 new cases were registered, 50% more than in 2004.

Education is of major importance not only for reducing the risk of poverty but also for a complete fulfilment of human potential. In 2004 families headed by persons who had received higher education faced a poverty risk seven times lower than families headed by persons without any education or illiterate. During the economic growth period attendance at pre-school institutions significantly improved. Nevertheless, the access of children from poor families to pre-school education is extremely reduced. Primary education enrolment declined due to the decreasing enrolment in rural areas (86.5 in 2005 as compared to 92.5 in 2000). This reduction is due to systemic causes: some families are not able to afford primary education, some schools are not operating, children without parental supervision are dropping out of school and children abandon school when they travel abroad with their parents. Net enrolment in secondary education improved due to increased enrolment in rural areas, but in the future it might decrease to the level registered in primary education. The interest in higher education is growing, the number of students increasing from 218 per 10,000 inhabitants in 2000 to 373 in 2005. The commercialization of higher education offered by public institutions has considerably reduced the access of young people from poor families to higher education. There is no gender discrimination in the education system of the Republic of Moldova.

Economic growth has increased pressure on the environment. Emissions discharged into the air by mobile sources has increased, while the impact of emissions from stationary sources has been reduced through implementing some technologies with better ecological efficiency.

A lack of investments in water purification equipment has worsened water purification indicators, especially in rural areas. Degradation of the environment has resulted in weaker agriculture growth and, the area of eroded agricultural lands has increased yearly by 0.9% and has generated losses of more than \$250 million US dollars.

The situation of monetary poverty has significantly improved during the period of economic growth. The number of poor people living at the national poverty line, decreased from 67.8% in 2000 to 26.5% in 2004. Comparatively, the decline was very rapid in Chisinau and Balti but inert in rural areas. Women and men are equally exposed to the risk of poverty, but the inhabitants of small towns face the highest risk of poverty. The poverty incidence increased again in 2005 due to the spread of poverty in rural areas. The intensification of remittances coming from Moldovan emigrant workers played a crucial role in helping alleviate poverty, as well as in maintaining the economic growth.

However, emigration has generated unfavourable social consequences; in particular, it has contributed to the disintegration of families and increased the number of children living without parents. Income inequality registered some positive trends as a result of the money remitted from abroad to relatively poor families, and by social payments which grew in several rounds. However, sustainable reductions in inequality will not be possible unless there is strong economic growth in the agriculture sector.

Chapter III.

Good governance as a prerequisite for economic growth and human development

The quality of governance is very important for maintaining economic growth and for sustainable human development. The influence of governance goes through: (1) quality of the political process; (2) administrative capacities of authorities; (3) functioning of the rule of law. However, in order to support economic growth and human development, good governance must include policy continuity, a favourable business climate, a rigorous respect of laws and last but not least, an educated and healthy labour force.

Within this context, the quality of governance in the Republic of Moldova has a long way to go in order to get closer to the level of EU member states. In regional comparison, the governance indicators of the Republic of Moldova are similar to those of CIS countries, and are sizeably outranked by those of Romania and states which joined EU in 2004.

Transformations in the political process in recent years may positively influence the governing process, first of all by a “national consensus” on reforms and the road of Moldova’s development. The authenticity of this consensus will be tested by the progress in implementing two strategic documents: Economic Growth and Poverty Reduction Strategy and EU – Republic of Moldova Action Plan. Meanwhile, the input of governance changes to economic growth and human development will greatly depend on the reform progress in some key domains, including the reform of central and local public administration, social assistance policies, the business regulatory framework, fighting corruption and the guarantee of an impartial and efficient justice system.

Economic growth has allowed the Government to mobilize more financial resources for financing priorities in human development. However, the combination of financing priorities is not optimal. Furthermore, the impact of government expenses on human development is limited by poor targeting in the social assistance policy. The efficiency of this policy is undermined by large errors in the targeting of the beneficiaries of social payments, and thus it is not contributing to poverty reduction.

Reforms focused on optimizing the business regulatory framework started in 2005, but they should be followed by a radical revision of the legislation. An efficient public administration system composed of bureaucrats who are competent and receptive to citizens’ needs is a prerequisite for any successful strategies of economic growth and human development. So far the capacities of this system are limited. In recent years the trend of reducing the degree of local autonomy has prevailed, while the advancement of human development requires the opposite. Local administration capacities are seriously undermined by lack of knowledge, a narrow fiscal base and deficiencies of intergovernmental fiscal relations.

Corruption in the Republic of Moldova represents a social plague which discredits public institutions and undermines economic growth. Corruption leads to an inefficient distribution of resources within society and distorts the fair competition. The losses associated with bribes represent big costs for companies and citizens alike. These costs amount to 4-5% of GDP. Corruption acts also as a tax on foreign direct investments, increasing the risks and minimizing the rate of return of business projects.

Chapter IV.

Economic growth, human development and international competitiveness

In a global economy, economic growth and human development are in a relationship of mutual dependence with the international competitiveness of the nation. On the international level, there is a strong correlation between a nation's human development level and its capacity to be competitive on the international market. For the Republic of Moldova, with its small and open economy, international markets are of major importance. Thus, our country can ensure both sustainable economic growth and human development by maximizing the benefits emerging as a result of opening up international markets. Meanwhile, it is very important that not only the Republic of Moldova offers unrestricted access to its market, but also that its commercial partners from the West and East do not impose barriers to Moldovan exports.

Foreign trade serves as a primary litmus test for the international competitiveness of the Moldovan economy. As statistical data show, Moldovan exports suffer because they are excessively concentrated in certain geographic areas and are limited to a small number of products. In order to enhance their competitiveness, exports should be geographically diversified to reduce the excessive dependence on one single external market. Also, the assortment of exported products should be diversified with products of higher value, which would make them more competitive. In this context, an ongoing search for new market niches is necessary, both by

modernizing traditional industries (i.e. the wine industry, value added agriculture, textiles) and initiating business in some industries which are less known in the Republic of Moldova.

Neither of these is possible without foreign direct investment. Besides capital, foreign investors can bring new technologies, management practices, experience and knowledge. The importance of foreign direct investment is appreciated by many countries competing to attract it. Nevertheless, in order to bring maximum benefits for the host economy, foreign investments should benefit from a set of conditions: an open economy (without formal and informal barriers), a favourable business framework, reduced corruption, a developed infrastructure (traditional and digital), and an educated population. New impetus for enhancing the international competitiveness of the Republic of Moldova should come especially from progress achieved in these important domains.

The improvement of management practices is essential for consolidating the nation's capacity in international economic competitiveness. An increase in the number of profitable companies and of the sales and the profitability of assets indicates the improvement of management performance in the Republic of Moldova. The training of managers within diverse programs financed by foreign partners represents one factor which has led to better management performance. The continuous expansion of training and positive practices is necessary, especially in small enterprises and in rural areas.

Research, technological development and innovation all improve the competitiveness of a nation. The transition period witnessed a drop in government financing of research and innovation activities, leading to the drain of precious human resources in the Republic of Moldova. This has deepened the gap of the Republic of Moldova in the research-development-innovation sector. Nevertheless, the Republic of Moldova still has considerable potential advantages in this field. Adequate economic exploitation is possible only through the integration in common projects of the research sector, financial capital and university human resources. This combination will serve to give the Republic of Moldova more competitive advantages.



Introduction: looking for a virtuous link between economic growth and human development¹

About the Human Development Reports

In 1990, the United Nations Development Programme launched its series of global Human Development Reports. The goal of these reports is to bring the human being in the centre of policy debates and development strategies. These reports advance the idea that the final goal of development should be an expansion of human freedoms and choices and that this process should help people advance and be put forward by people. Every report focuses on a certain topic of global importance and tries to direct the attention of the international community to major economic, political, social and cultural challenges faced by humanity in the current era. At the same time, the global reports offer statistical data which permit an international comparison of human development. The reports are translated in many languages and are launched almost simultaneously in about 100 countries, thus having a particularly strong public impact.

Shortly after launching the first global reports, a number of regional and national human development reports appeared. Currently more than 500 regional and national reports have been published. The former identify the development priorities which are common for many countries in a certain region of the world and encourage the formation of regional partnerships for meeting these priorities. National reports have been conceived as analytic tools which can animate national debates and advance human development issues towards the top of policy agendas. National reports are valuable also for the fact that they contain statistical data for monitoring how a country is progressing along the path of human development. These reports identify national priorities for human development, contribute to the consolidation of national analytic and policy capacities and try to engage national and international development agencies in sustainable partnerships for advancing human development in areas which represent a priority for a nation.

In the Republic of Moldova the first National Human Development Report was published in 1995 and up to 2004, seven reports have been launched. The Moldovan National Human Development Reports are independent reports, prepared by teams composed of representatives from the academic community, civil society and policy makers from different areas of human development. The reports offer pertinent analysis and policy recommendations on several issues of national interest: human development in the early transition, the consolidation of the state and integration of the society, increasing social cohesion, the role of the state in the transition period, human security, a culture of peace and good governance. By approaching human development from innovative perspectives, these reports have generated policy debates and then have influenced national development strategies.

About the 2006 National Human Development Report

The topic of this National Human Development Report (hereinafter referred as the report) is 'The quality of economic growth and its impact on human development'. In the first chapter of the report there is an analysis of economic growth in the Republic of Moldova from 2000 to 2005². Chapter II is dedicated to direct and feedback connections of economic growth and human development. In Chapter III the role of good governance for the consolidation of economic growth and human development is analysed, and the governance is in both cases identified as a key for success. Because of the intimate links between economic growth, human development and international competitiveness of any country, the authors have focused in Chapter IV on this trilateral influence.

¹ The expression "virtuous circle" belongs to the authors and is used as opposite to "vicious circle".

² In this report the period 1991-1999 is called the early transition, and the period 2000-2005 – the period of economic growth.

Frequently one tries to posit the idea that faster economic growth would guarantee faster human development. But the link between economic growth and human development is not immediate or automatic and this is because economic growth is a necessary but not sufficient condition for the fulfilment of human potential³. The latter requires not merely rapid economic growth, though the speed is also important, but also another necessary condition is a high quality of growth.

The topic of the report is particularly relevant for the current situation of economic convalescence of the Republic of Moldova. In its early transition, our country suffered an acute economic collapse which also worsened its social indicators. The year 2000 was a turning point for the economy, after which, in the period 2001 to 2005 the economy grew on average 7% annually. But what about the *quality* of this growth? Is the Republic of Moldova able to provide the conditions which are necessary for long-lasting economic growth? What has to be done in order for this economic growth to translate more into human development? This report is trying to answer these and other questions.

For the preparation of this report the authors used data from publications of: the National Bureau of Statistics of the Republic of Moldova, the National Bank of Moldova, the Ministry of Economy and Trade, the Ministry of Finance and the Ministry of Health and Social Protection of the Republic of Moldova. The statistical data published by the International Monetary Fund, the European Bank for Reconstruction and Development and the World Bank are also used occasionally. Also, other analyses are based on data taken from surveys and reports published by government and non-government research organizations from Moldova and abroad.

The set of tools and data for the research comprise also a sociological survey "Economic Growth and Human Development in the Opinion of Citizens" (quoted in this Report as HDNR Survey) and the results of two focus-groups – "Economic Growth, Monetary and Human Poverty" and "Governance Impact on Human Development"⁴. The opinions expressed by members of the focus groups are quoted in this Report with the purpose of rendering a "human face" to the quantitative analysis. The authors hope that this will make the reader

understand that behind the curtain of statistical data there are real people who are directly affected by the economic trends and human development.

Definitions

Over the entire report the notions of "economic growth", "quality of economic growth", "human development" and indexes of human development play central roles. It is important to explain from the very beginning the categories used in order to set a clear framework for the report.

Economic growth. Usually, *by economic growth we understand the process of growth of the productive capacities of a given country and of its Gross Domestic Product (GDP)*. GDP represents the monetary value of goods and services produced over a certain period of time by a country's economy. The GDP does not include the goods and services made by a country's residents working in other countries, but it includes the goods and services made by non-residents in that country. In order to compute the rate of GDP growth, one should subtract from the nominal growth the impact of price variation. Economies have to grow because human needs are growing and getting more diverse. Acceleration of growth can be achieved by improving capital endowment, qualitative and quantitative growth of the labour force, technological development and a better combination of these production factors.

Naturally, goods and services are produced to be sold and to get revenue, this is why another side of economic growth is the increase of national revenue. But national revenue may increase also for reasons which are independent from economic growth. In particular, it can increase due to money remitted by workers from abroad to their families back home.

Quality of economic growth. Defining the "quality of economic growth" is a much more difficult task than defining economic growth itself. Obviously, qualitative aspects of any real phenomenon are difficult to express quantitatively.

³ The definition of human development in terms of fulfilment of human potential was formulated by Mahatma Gandhi, quoted in Todaro, 2000.

⁴ The 2006 HDNR Survey and focus-groups were organized by the Sociologic Company CBS-AXA upon the request of EXPERT-GRUP and ADEPT.

For this reason, the quality of economic growth has to be analysed on several levels. Accepting the fact that the quality dimension of economic growth has to be judged by its “human face” the authors of this report consider several elements as being particularly important.

The larger and socially and geographically more inclusive is growth, the higher its quality. High quality economic growth assures a large degree of human inclusion in economic processes, it reduces the inequality of income and poverty incidence by increasing the income of the poor and it improves the population’s health and education. Also, economic growth is considered of high quality when it is environmentally sustainable. Depletion of natural resources and the environment’s regeneration capacities can undermine the economic prosperity of the future generations. Growth has to be sustainable from an economic point of view too. For this to happen, a certain amount of income has to be reinvested in maintaining or extending the productive basis for future growth. Qualitatively advanced economic growth results also in the economic development of the nation, a process featured by major structural changes such as upgrading infrastructure and shifting resources among agriculture, manufacture and services⁵. A strongly developing nation is constantly increasing its own abilities to compete globally. As for the competitiveness, it feeds back into the economic growth and human development of the nation.

Summing up the ideas above, the definition that we propose encompasses five elements: *Economic growth is of high quality if it: 1) assures the reproduction of resources and knowledge necessary for human development; 2) consolidates social cohesion; 3) is environmentally sustainable; 4) is economically sustainable and 5) associates with profound structural changes.* At the same time, it has to be noted that government policies are important for both improving the quality of growth and for the correction of production and distribution failures inherent to any market economy.

A complex definition of the quality of economic growth implies also a large number of monitoring indicators. Some authors suggest that changes in employment and in social expenditures of the government help to elucidate the quality of economic growth⁶.

Others use such indicators as longevity, fertility rate, atmosphere and water industrial emissions, income inequality, political institutions, personal security etc.⁷ Starting from the above definition, the following indicators are proposed for analysing the quality of economic growth:

- 1) *Human development* component: dynamics of employment and of government social expenditure (education, health, social protection);
- 2) *Social cohesion* component: poverty incidence and Gini coefficient of income inequality;
- 3) *Environmental sustainability* component: water and atmosphere emissions, energy intensity of the GDP;
- 4) *Economic sustainability* component: growth volatility, rate of investment as expressed by the ratio of investment to GDP;
- 5) *Structural modernisation* component: structure of output and of employment by sectors (agriculture, manufacture, services), share of labour force employed for production of technologically advanced goods, share of high-technology in total exports.

Human development. The concept of human development is still a rather ambiguous concept, even though it is widely used. Intuitively, it is clear that the idea of human development is linked to the *fulfilment of human potential*. But human nature is very complex and there are an immense number of values and ideals that human beings may pursue over their lifetime. Due to this, any effort to rigorously define human development is not without reproach. One of the most laconic and nonetheless comprehensive definitions of human development was proposed in the 2005 global Human Development Report. “Human development is about freedom. It is about building human capabilities – the range of things that people can do, and what they can be⁸. [...] but people are restricted in what they can do with that freedom if they are poor, sick, illiterate, discriminated against, threatened by violent conflict or denied a political voice⁹”.

⁵ Hardwick and others, 2002.

⁶ UNICEF-ICR, 2004.

⁷ Barro, 2002;

⁸ UNDP, 2005, p.18.

⁹ Idem.

An academically more rigorous definition of human development would be: “*human development is the process of enlarging people’s choices in a way which enables them to lead longer, healthier and fuller lives*”¹⁰. However, while really important, these elements are not sufficient for describing the extent to which the human *can effectively choose* or *from what effectively to choose*. Other inherent dimensions of human development are education, political freedom,¹¹ cultural liberty¹², personal security, the possibility of living in a clean environment, equality of chances regardless of gender, nation, race or religion, social inclusion etc. Therefore, human development is a multifaceted concept which is probably easier to understand intuitively than it is to rigorously define.

Indexes for measuring human development.

The United Nations Development Programme (UNDP) has made the most systematic and ambitious efforts of measuring and internationally comparing progress along the path of human development¹³. In order to evaluate countries from the point of view of human development, the UNDP has been using five indexes: the Human Development Index (HDI), Human Poverty Index (HPI-1) for developing countries, Human Poverty Index (HPI-2) for selected high-income OECD countries, Gender-related Development Index (GDI) and Gender Empowerment Measure (GEM).

HDI is normally used as the most suggestive indicator of overall development. Its calculation is based on three major dimensions of the development process: 1) *longevity* as measured by life expectancy at birth; 2) *education*, measured as a weighted average of the adult literacy rate (weight 2/3) and gross enrolment rate in primary, secondary and tertiary education (weight 1/3); and 3) *living standards*, measured as GDP per capita as USD dollars adjusted at Purchasing Power Parity of the national currency (for details, see in the main text and the Technical Notes).

Connection between economic growth and human development

Contemporary economic literature shows that there is a mutual link between human development and economic growth¹⁴. Human development, which should be perceived as a final goal of humanity, is not sustainable

unless there is high quality economic growth. The latter impacts human development via social expenditures of the central and local governments, of the households and of non-governmental organizations. In its turn, a higher level of human development assures a more robust rate of economic growth. Human development ensures the physical and intellectual abilities of the work force. This influences the set of imported technologies and capacities of the adaptation and innovation of the economy, which in its turn determines directly the composition and volume of output, trade and income distribution.

One of the essential factors that consolidates the virtuous link between economic growth and human development is good governance. By legal and institutional adjustments, good governance ensures a more equitable distribution, and stimulates innovations and investment. Facilitating the combination of high quality economic growth with human development, governance contributes in this way to the consolidation of the international competitiveness of a nation. Moreover, enhanced competitiveness helps to attract resources from abroad which in turn can speed up both economic growth and human development.

For consolidation of the positive links of human development, the quality of economic growth is more important than the speed of this growth. History offers us concrete examples of economies advancing rapidly without substantial improvements in the area of human development. A number of countries in Latin America and Africa stagnated from a human development point of view during long periods of economic growth. It is natural to expect that the link between economic expansion and poverty reduction is dependent on increased number of well-paid jobs. In reality, however, the growth of the economy may not necessarily be accompanied by a multiplication of jobs; indeed, taking the Republic of Moldova as an example, the growth in production can occur along with layoffs and even together with the emigration of the labour force from the country. When there are no fair and efficient policies of income redistribution and economic growth is

¹⁰ Boozer and others, 2003.

¹¹ UNDP, 2003.

¹² UNDP, 2004.

¹³ Todaro, 2000.

¹⁴ This paragraph builds on the research by Boozer and others, 2003.

limited to a few economic sectors or geographic regions, this increases rather than decreases the inequality of revenues and gaps in living standards. Developing nations from the Amazon basin and South-East Asia (especially China) provide examples of the negative side of uncontrolled economic growth, namely its unfavourable impact on the environment. It should also be noted that economic growth should strengthen democratic and not autocratic regimes, as frequently happens. And finally, higher productive performance, economic modernization and integration into global networks should contribute to the prosperity of the national culture, not to its disintegration.

How does the economic growth of Moldova look from a qualitative point of view? The majority of research conducted by Moldovan and foreign authors indicates that the factors of the current growth suggest it is temporary. Unless qualitative changes in this growth emerge the influence of these factors will fade away. The impact of growth on human development is ambiguous at this time. From 2000 to 2004 growth was accompanied by an improvement of indicators measuring poverty (incidence, gap, sternness¹⁵). But the correlation between economic growth and poverty reduction may be merely a statistical artefact. In the concrete situation of the Republic of Moldova, both economic growth and poverty reduction can be explained to a large extent by a common underlying variable – remittances from Moldovan workers abroad to their families¹⁶. In 2005 economic growth continued but the rate of poverty has increased a fact that points to the weak correlation between economic growth and poverty reduction.

During the period of economic growth the majority of human development indicators of the Republic of Moldova improved. Particularly, the HDI improved. But in many areas the progress achieved is very fragile, due to the fact that economic growth itself is vulnerable and the economic system is exposed to major external risks. GDP growth went along with the reduction in the number of economic opportunities accessible to the active population, whereas the number of layoffs in large

enterprises most frequently surpassed the number of newly created jobs. Real wages have increased but to a great extent this is explained by the decline in labour supply. Labour productivity grew, but in many sectors this was more a result of reducing the number of employees rather than of improving the capital endowment of the enterprises. During the economic growth period the enormous income inequality did not substantially decline. In a regional profile, growth has remained concentrated in a proportion of 60-65% in the capital area. Although the districts are not stagnating either, growth at the regional level is too weak to expect a substantial reduction of income inequality and disparities of the quality of life.

Central messages of the 2006 National Human Development Report

Policy makers should understand that for the Republic of Moldova *it is extremely important to accelerate growth, as well as to improve its quality*. Growth acceleration is necessary for bridging the huge income gaps with other European countries, whereas the improvement of quality and sustainability are necessary to provide effective “transmission belts” from economic growth to human development improvement. In the medium to long-term, higher human development will foster economic growth. If higher human development standards are not achieved, the Republic of Moldova risks, at best, entering a new period of economic stagnation (if not recession), with few chances of European integration or of achieving any other national goals. The quality of governance, the efficiency of the administrative system and effective implementation of existing national projects will have a crucial impact on human development progress over the next few years. In 2005 and the beginning of 2006, the political context of the Republic of Moldova saw new developments. First of all, lawmakers reached a minimum necessary political consensus between the government and opposition regarding a range of problems of national interest. This temporary window of opportunity should be used for developing and implementing effective policies that would consolidate the virtuous circle of economic growth and human development.

¹⁵ For a good explanation of the meaning of these indicators see in PPMU, 2003.

¹⁶ For a more detailed analysis, see Weeks and other, 2005 and World Bank, 2005.

A trend which poses questions marks regarding the quality of economic growth in the Republic of Moldova is labour migration. The official number of those who went abroad for work increased from 231,000 in 2002 to 394,000 in 2005 with no sign of reversal. On the contrary, high unemployment among young people continuously replenishes the emigrants' cohort, whereas the Moldovan Diaspora that has emerged in a number of European and CIS countries makes emigration for new migrants simpler. The intensity of this process points to a collective lack of confidence in the future of the country and proves that for many citizens economic growth has brought nothing. *Cultivating confidence in the future of the Republic of Moldova, by using an efficient, socially-responsible and human-oriented economic policy, is the monumental political task of the current and future governments of the Republic of Moldova.* This is the second message of this report.

Finally, the *Republic of Moldova can become internationally more competitive only as result of the synergy between economic growth and a continuous process of human development.* Paradoxically, despite economic growth the competitiveness indicators of the Republic of Moldova have deteriorated mainly because human resources are not developing fast enough. If the Republic of Moldova does not try to become more competitive, it has little chance of attracting resources, knowledge, technologies and the ideas which are necessary for a vigorous, higher quality economic growth and for strengthening the achievements in human development. The global dimension of economic, political and cultural processes becomes more visible. If it succeeds in building up a robust economy and moves beyond the threshold of mediocre human development, the Republic of Moldova will advantageously integrate into the "global concert" of nations, as well as into their global competition.



Human development balance-sheet during the economic growth period



Analysed Element	Achievements	Failures
Human Development Index	From 2000 to 2005 the HDI of the Republic of Moldova increased from 0.703 to 0.733.	The Republic of Moldova remains below the global average regarding the HDI (0.741 in 2003).
Income	GDP per capita increased from 354 USD in 2000 to 860 USD in 2005 ¹⁷ . The poverty rate decreased from 67.8% in 2000 to 26.5% in 2004, whereas the food poverty rate – from 52.2% to 14.7%.	In 2005 poverty incidence rose to 29%, due to poverty in rural areas and small towns. Our country is perceived as the poorest in Europe. In 2004 more than 21% of rural areas were living in food poverty.
Inequalities	The quintile ratio of income shrank from 10.9 in 1999 to 8.5 in 2004 ¹⁸ . Due to income derived from migration, the Gini coefficient of monetary income reduced from 0.70 in 1999 to 0.54 in 2004.	Because of income vulnerability in rural areas, the progress achieved in reducing inequality is fragile. Inequalities are to a large extent eased by factors independent of economic policy (foremost, income from migration).
Economic opportunities	The private sector represents about 80% of GDP. Economic activity is more liberalised. The stock of foreign direct investments in 2000-2005 grew almost four-fold.	In 2000-2005 the number of persons occupied in the economy decreased by 12%. The intensification of labour emigration suggests that failures in creating domestic economic opportunities prevailed over successes. Youth unemployment increased from 15-16% in 2000-2002 to 18-19% in 2003-2005.
Longevity	Life expectancy for women grew from 71.2 years in 2000 to 72.2 in 2004, and for men from 63.9 to 64.5 years	The discrepancy between longevity of women and men increased from 7.3 to 7.7 years in 2000-2005. Life expectancy remains 10 years shorter than in EU countries. In 2005, longevity decreased to 67.8 years.
Environment	In 2000-2004 emissions from stationary sources were reduced by 14%. There is a trend of improving industrial ecological efficiency.	In 2000-2004 the number of cases of severe water pollution increased three-fold. Atmosphere emissions from mobile sources increased by 30%. The area of soil erosion increases by 0.9% annually.
Education	Gross enrolment rate in all levels of education increased from 70.3% in 2000 to 71.5% in 2005. Public expenditures for education increased from 5.5% to 7.3% of GDP.	Gross enrolment rate in primary education in rural areas diminished from 92.5% in 2000 to 86.7% in 2004. Education continues to be under-funded thus stimulating unofficial private payments.
Health	Infant mortality decreased from 18.3 cases per 1,000 live births (year 2000) to 12.4 (2005), and maternal mortality – from 27.1 cases per 100,000 live births to 18.6 cases.	The natural rate of population increase remained negative in 2000-2004, with an annual average of -1.1. Socially conditioned deceases are becoming a serious concern. Tuberculosis-associated mortality rate increased from 16.9 per 100,000 inhabitants in 2000 to 18.9 in 2005.

¹⁷ The indicator was calculated based on the market exchange rate. For the 2005, the reviewed figure on the population of the Republic of Moldova according to the general demographic census of 2004 was used. (GRM, 2006).

¹⁸The quintile ratio is defined as the ratio between the total income of the 20% of the richest people (5th quintile) and the total income of the 20% of the poorest people (1st quintile).

<p>Living conditions</p>	<p>The rate of population with sustainable access to improved water sources grew from 37.8% to 44.5%, and the rate of the population with access to the sewage system from 41.1% to 43.6%.</p>	<p>Endowment of rural households with sewage and running water systems is only 4% of total households. Only 10% of households are effectively connected to the gas distribution system. Less than 1% of rural families have bathrooms and showers indoors.</p>
<p>Personal security</p>	<p>In 2000-2004 the number of registered crimes decreased by 25%.</p>	<p>In 2000-2004 the number of rapes and attempted rapes increased by 40%. Drugs-related offences have increased three times from the 1998 level.</p>
<p>Gender</p>	<p>In 2000-2005 the Gender-related Development Index improved from 0.700 to 0.732. Gender Empowerment Measure increased from 0.413 to 0.564. A number of international conventions have been ratified (ILO, Social security Code, European Social Chart, (compulsory articles).</p>	<p>In county (district) and municipal public administration bodies, gender specialist positions were initially created and later eliminated. Though women are prevailing as total number in the workforce in a series of sectors (primary education, health), men are primarily appointed in management positions. Female wages are only 70% of male wages.</p>
<p>Democracy</p>	<p>From 2000 to 2005 a peaceful transmission of political power was ensured in Moldova. Moldova ratified a series of international conventions on human rights.</p>	<p>In electoral processes the principle equal access to mass media was violated. Political interference remained in the justice system which was funded by government. There was no reduction in the degree of politicization of the public administration system.</p>



Chapter I. Economic growth: quantitative and qualitative aspects



This chapter attempts to outline “the human face” of the economic growth taking place in Moldova from 2000-2005. The fundamental factors which determined growth and structural changes are reviewed. The role of migration in maintaining economic growth is analysed and the report examines how the labour market is functioning as the economy grows. The chapter reflects the use of the domestically- and foreign-generated revenue and its implication on growth. The role of the financial sector in sustaining economic growth is assessed and the distribution of growth by regions, in particular, the economic evolution in Trans-Dniester, is analysed. The chapter ends with policy recommendations for consolidating economic growth.

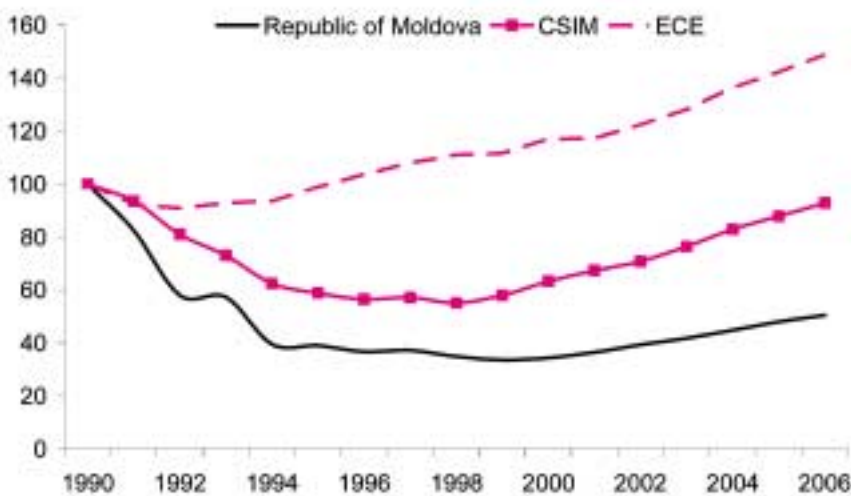
Evolution of economy in transition

The Republic of Moldova entered the transition period poorer than most countries from Central and Eastern Europe (CEE) and those from the West of the Commonwealth of Independent States (CIS). Due to a delay in applying reforms as well as structural weaknesses and great macroeconomic shocks, the country suffered an extremely acute and protracted transformational collapse (Chart 1). As a result of the collapse, the economic differences

between the Republic of Moldova and the countries of CEE and CIS have been accentuated.

The year 2000 marked the end of a decade of economic crisis. The average rate of GDP increase reported from 2000 to 2005 was 6.1%, which is below the CIS level (7.2%) and above the CEE level (4.2%). The return of the economy to a path of growth has been encouraged by macroeconomic stability and the strong expansion

Chart 1. GDP of the Republic of Moldova in the regional context, 1990=100%.



Note: CISIM – Commonwealth of Independent States and Mongolia, CEE – Central and Eastern Europe, Malta and Turkey (IMF classification).

Sources: IMF, 2006; annual reports of NBM, CISR and calculations of the authors.



“What do I mean by economic growth? If I could open a farm or plant a vineyard, I could offer jobs to several people. Thus, the economy in the country would grow and people would live better.” (Emilian, 40, land owner, seasonal worker in Russia, rural inhabitant.)

of internal and external demand. The incomes remitted by the migrants are among the main factors that stimulated economic growth¹⁹.

The economic growth would have started earlier and been stronger if the Republic of Moldova had managed to diversify foreign trade and implement consistent structural and institutional reforms. Accomplishing these tasks would have minimised the losses incurred as a result of the Russian financial crisis of 1998. However, even after the crisis of 1998, efficient strategies that would reduce the exposure of the country to commercial risks have not been adopted. The consequences of the excessive concentration of exports resurfaced again in 2006 when the economy suffered a blow after the Russian Federation banned the import of Moldovan wines.

How does today's production relate to the situation from the beginning of transition? According to our calculations, the GDP in 2005 was higher than in 1994 and lower than that in 1993 (Chart 1). If there are no major unfavourable circumstances and if an annual growth rate of 5.5% continues, the Republic of Moldova will be able by 2009 to return to the levels of

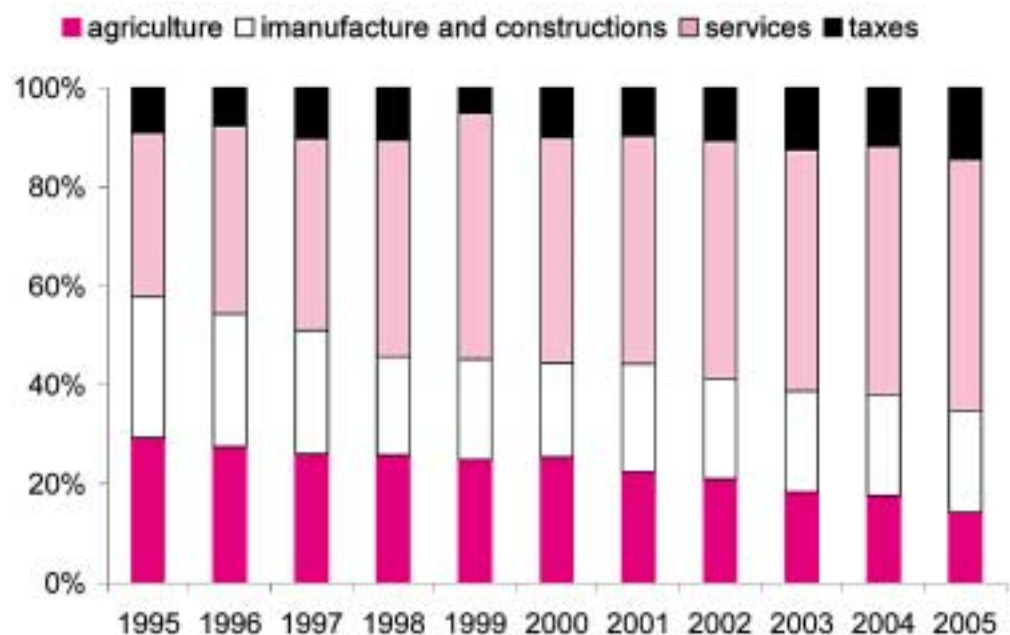
production reported in 1993. According to estimates for this report, another decade of economic growth would be necessary to recover income levels of 1989-1990. As for the convergence towards the European level of income, not even a stable growth of 5-6% would allow a significant recovery of the existent discrepancy in the next few decades.

Structural modernisation

Services made the most important contribution to economic growth from 2000-2005. Growth was reported particularly in the transportation, telecommunications and real estate transaction services. Together, these branches have generated 30% of GDP growth. Due to its sinuous evolution, agriculture contributed only 15% to GDP. The processing industry generated a fifth part of GDP growth. The result of these changes has been a significant shift of the output structure (Chart 2). The share of agriculture in gross added value decreased from 28% to 22%, services increased from 53% to 58%, while the share of industry essentially has remained unchanged.

Chart 2. Modification of production structure in the Republic of Moldova.

Source: Estimates of the authors on the basis of NBS, 2006.



¹⁹ WB, 2005.

During the period of economic growth a substantial reduction of the share of the population working in agriculture and an increase of the share of those involved in services has been observed. (Table 1). A fundamental change is the fact that services outpaced agriculture as the sector employing the largest share of the labour force.

Table 1. Distribution of labour force by sectors, % of total.

	1999	2005
Agriculture	49.8	40.7
Industry	11.1	12.1
Services	39.1	47.2
Total	100	100

Source: NBS, 2006, b).

Apparently, these structural changes mark an incipient modernisation of the Moldovan economic system²⁰. However, this modernisation has resulted in rather high social costs. The reason is that this phenomenon has been achieved by simple elimination of the excessive labour force from the active economic category and not by relocation of the labour force from less successful sectors to more efficient ones. In 2005, the economically active population was 13% less than in 2000 and in agriculture it was 30% less. The ultimate consequence of this uncontrolled “modernisation” is a great number of citizens working abroad.

Does the growth of the GDP reflect the real sector development of the economy? According to statistical methodology, the GDP comprises the gross added value and the net taxes on export and import. It is the dynamics of the gross added value that represents the indicator of the real sector development. However, from 2000 to 2005, taxes levied on products and imports increased much more rapidly than the gross added value (131% to 33%). The accelerated growth of taxes became possible due to the intensification of the final consumption taxed by VAT and excises. Thus, due to the considerable growth of the taxes reflected in the GDP, the economic increase seems to be a bit “inflated” arithmetically. Almost one-third of the GDP growth from 2000 to 2005 was



„I used to work in the village as a teacher of Russian language and literature. I opened my own shop, we managed to earn our living. But we were not allowed to grow. Some people related to local authorities forced us to shut down the business. Then we were forced to move to town since there was no work for us in the village. ”

(Ludmila, 44, employee at the furniture factory, Chisinau.)

determined by tax collection and only two-thirds – by the expansion of the real sector. Consequently, the share of added value in the GDP decreased from 89.3% in 2000 to 83.6% in 2005.

The evolution of the gross added value in different sectors was extremely unstable, indicating the existence of high risks threatening economic growth. Agriculture is the sector where there are the highest risks which undermine rural economic development. However, growth was unstable in the other branches as well. Even during the first three quarters of 2006, there was a substantial industrial recession caused by a 50% decrease in wine production.

The significant structural imbalance is observed when analysing the efficiency of the labour force. Thus, agriculture employs 41% of the labour force, but contributes merely 22% to the added value of the economy. On the other hand, telecommunications and transport, though employing under 6% of the labour force, have actually contributed just as much as agriculture to the total growth of the production value. This demonstrates that economic growth has a relatively narrow basis from the point of view of the labour force involved. The relative income of farmers is continuously decreasing and this fact complicates the eradication of rural poverty. Labour productivity is the main factor that explains the disparities in efficiency and income. Labour productivity in agriculture is only 20% of the labour productivity in transport and telecommunications. Nevertheless, there are also other factors that limit agricultural income to an unjustified low level - agricultural policy and market structure.



„I tried to work in Straseni and I could not survive. I had to pay for transportation, rent and the salary was low.” (Galina, 34, unemployed, rural inhabitant.)

²⁰ According to Rostow's theory, during the process of their development, countries advance from traditional societies characterised by a high share of the primary sector towards modern societies characterised by a higher share of secondary and tertiary sectors (for more details see Todaro, 2000).

The above findings lead to a complicated dilemma of economic policy. On the one hand, the agricultural sector, inefficient and labour intensive, represents a barrier on the way to economic modernisation of the country and is costly for the public budget. Due to these reasons, the dependence of the economy on agriculture has to be reduced. On the other hand, agriculture represents the only option of survival for the over 650,000 poor citizens living in the countryside. The modernisation of the agricultural sector by improving the capital endowment will imply a reduced demand for the labour force. If along with the modernisation of agriculture in rural areas no jobs are provided in manufacture and services, a forced reduction of the dependence on agriculture could precipitate a more intense emigration of rural population either to towns, where the job opportunities are not plentiful, or abroad.

However, this reform was absolutely necessary since the large agricultural households were functioning very poorly and were unable to adjust to the realities following the collapse of the Soviet system. Retrospective analysis shows the correctness of the strategic decision to reform agriculture, the errors committed during the implementation and a lack of a coherent agricultural policy in the post-privatisation stage. Consequently, a many agricultural enterprises still function according to the model of the Soviet collective farms (kolkhoz). One of the results of the managerial deficiencies is also the low salaries paid to workers.

Privatisation of agricultural land was based on the distribution of land to people who had worked in agricultural households or in enterprises that served agricultural households. Even though the selected model ensured the impartiality of the distribution of land, the mechanism of running the land reform was defective²¹. The deficiencies of the mechanism and other errors have generated considerable economic, social and human costs that rural communities are still facing.

Delays and errors committed during the implementation of reform explain why during the process of transition Moldovan agriculture suffered one of the most acute recessions

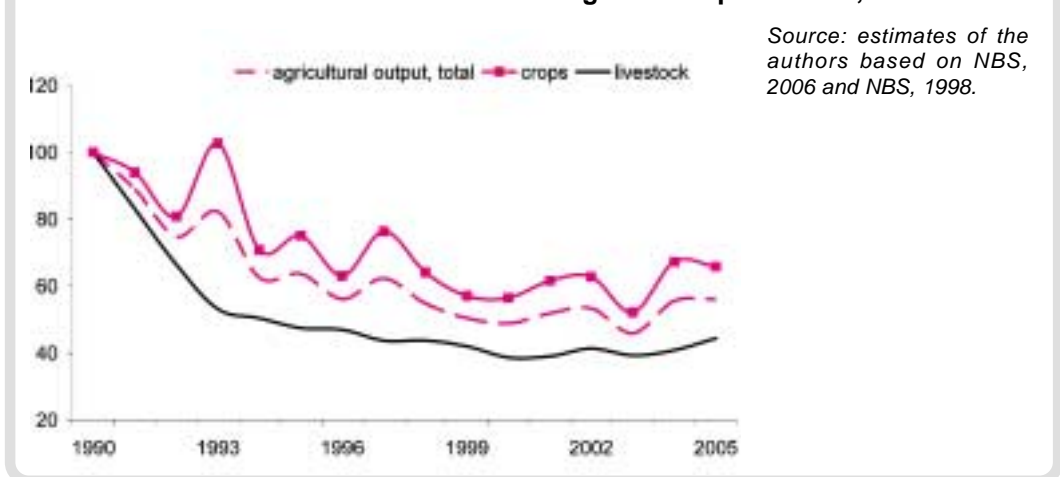
The situation of agriculture

Agricultural reform was implemented in the Republic of Moldova from 1992 to 1999. It advanced amid adverse conditions, and even halted at one point. The rural nomenclature showed an open hostility towards reform. Even today, attempts to contest the results of privatisation in agriculture or the need for reform per se still continue.

„Poor peasants work hard and still have nothing. They plough and still it is not enough”
(Galina, 34, unemployed, rural inhabitant).



Chart 3. Evolution of agricultural production, 1990=100%.



Source: estimates of the authors based on NBS, 2006 and NBS, 1998.

²¹ The distribution of agricultural plots in accordance with soil bonity (the bonity is used with the meaning of soil quality depending not only on soils fertility but also on other factors such as placement, distance to road etc.) seems to be a rather strange measure. Soil bonity is a relative indicator that depends on many factors. The haste, the lack of transparency in distributing agricultural lots and destruction of fixed capital have undermined the results expected from the implementation of the reform. The reform of agriculture advanced without a considerate strategy of sector development that would suggest the new private owners of agricultural plots how to manage their property.

compared to other countries in reform²². In 2000, agricultural production represented only 50% of the level it was in 1990 (Chart 3). In contrast to industry and services, agriculture stagnated from 2001 to 2005.

Today, after the completion of agricultural reform, over 86% of agricultural land is in the hands of the private sector. Most agricultural plots are worked by peasant households who have an average lot of 1.36 ha²³. This segment of agricultural households determines to a high extent the evolution within the whole agricultural sector (Box 1).

The small size of agricultural plots generated intense debates regarding agricultural policy. After 2001 the government of the Republic of Moldova periodically promoted the idea of consolidating agricultural plots. To make a

comparison, in the European Union the average size of agricultural plots is 18.7 ha. Nevertheless, the fragmentation of the land stock similar to that of the Republic of Moldova is a characteristic of the other transition countries as well²⁴. Approximately 82% of agricultural cultivation in CEE is on an average area of 5 ha. According to the agricultural census in Romania, in the year 2003 there were over 4.7 million agricultural entities with an average size of 2.9 ha, the absolute majority being represented by individual agricultural cultivation.

At the moment, the average area of agricultural plots in the Republic of Moldova tends to extend in an expected way, the lots being consolidated by their owners by purchasing or renting. The main problem in Moldovan agriculture is not due to the size of plots. Low incomes of

„Working the land brings no income at all.”

(Nicolae, 55, land owner, rural inhabitant.)



Box 1.

Profile of small agricultural entities in the Republic of Moldova

Though active on relatively small plots, peasant farms accounted for 60% of the country's vegetable production and 90% of animal production in 2004²⁵. Most of these their agricultural produce was for family consumption and less for the market. Since the collapse of the collective farm system, the peasant household became the most accessible form of organising rural agricultural activity. The evolution of these forms has depended on many economic and social factors. Small agricultural producers can be divided into three groups:

The first group comprises agricultural enterprises that adjust to the new conditions by implementing new production systems. As a rule, the founders of agricultural households have a rather higher social stature and possess the knowledge necessary for managing an agricultural enterprise. These producers react to the market signals, possess a relatively constant income and have access to information and various programs of agricultural assistance.

The second group represents peasant households that practice mono cultures, preferring cereal crops and leguminous plants. They have rejected the cultivation of crops with high added value due to their lack of financial resources necessary for applying modern agricultural technologies, which play a crucial role in the process of producing these crops. The economic behaviour of these entities is influenced to a great extent by the lack of managerial skills of the leaders.

The third group of agricultural producers wear themselves out in subsistence agriculture and have a derisory monetary income, if any at all. As time goes by, a considerable number abandon agricultural activity and sell or lease their agricultural lots. Frequently, they are employed for a symbolical payment in manual labour, working agricultural plots leased to other producers.

²² WB, 2005.

²³ The average area of the agricultural plots is estimated according to the land cadastre from 1 January 2005.

²⁴ Manoleli and others, 2004.

²⁵ From 2000 to 2004, the rate of agricultural production of peasant farms constituted 68-75 % of the total volume of agricultural production (NBS, 2006).

agricultural producers result from the limited commercial character of the economic activity in most agricultural farms (half of the income obtained is in kind) and the ridiculously low prices the producers receive for the final products (the prices for agricultural production as a percentage of the costs of agricultural inputs have been constantly decreasing). The structure of the agricultural market has also had an adverse impact on income: farmers have limited power to negotiate the price as compared with the final or intermediary purchasers and do not possess complete information as regards the conditions of the national or regional market. They are constantly under time pressure and have no possibilities for long-term storage of their produce.

From the point of view of planted crops, the structure of agricultural households is far from being optimal. Crop rotations and technologies are not being respected and the predominating crops do not allow farmers to gain a high added value. The share of crops for fodder and multi annual crops is very low and the share of cereal crops and leguminous plants is exaggerated. Although the farmers do realise that the production of crops with high added value is more reasonable, they do not possess the resources and knowledge necessary for

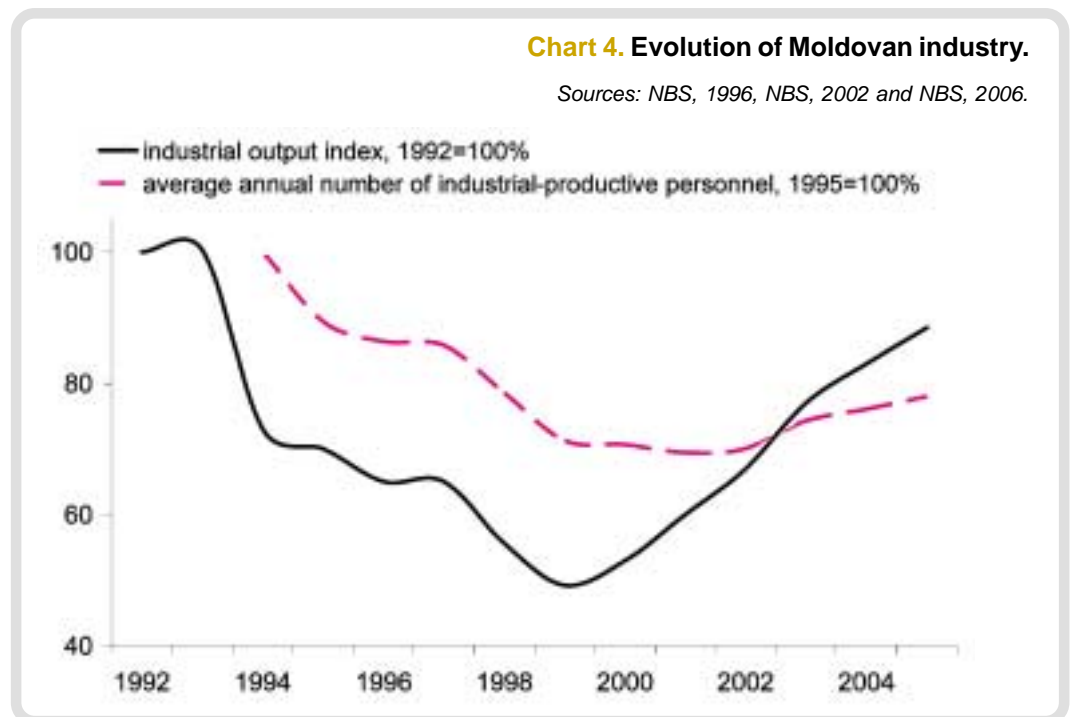
developing a more advanced agricultural business and their extremely low current income does not allow them to invest in the production of valuable crops. Many are captured in a kind of vicious circle of subsistence agriculture. In order to change the situation, there should be more private and public institutions providing economic training to the farmers, and both the price for financial services rendered to the farmers and agricultural risks should be reduced. The results would be to overcome underdevelopment of the sector, stimulate economic and technical efficiency, maintain stability of production and recover the advantages the agriculture sector enjoyed in the past.

The evolution of industry

Before 1989, Moldovan industry developed as an appendix of the Soviet industrial system, relying on food and light industry and on some science-intensive and technologically advanced branches such as electronics, machinery and equipment building²⁶. At the stage of early transition, the Moldovan economy experienced an acute de-industrialisation. The technologically advanced branches did not manage to ensure a conversion from military

Chart 4. Evolution of Moldovan industry.

Sources: NBS, 1996, NBS, 2002 and NBS, 2006.



²⁶ MII, ASM, 2006.

to civil production. Consequently, the extremely valuable technological and, particularly, human potential has been lost.

Parallel to the decrease in production and return to a more archaic industrial structure, the de-industrialisation has been characterised by the shutting down of a great number of enterprises and liquidation of jobs (Chart 4). The share of industry in gross added value per economy decreased from 28.2% in 1995 to 18.6% in 2000, after which from 2001 to 2005 it oscillated around 20%.

De-industrialisation is one of the fundamental factors that led to rapid growth of poverty in urban areas. During the Soviet period, many urban settlements became dependent on one or two large industrial enterprises. As economic restructuring advanced, a considerable part of these enterprises was liquidated, a process that generated massive unemployment and the ensuing reduction of income in small towns. Moreover, during the Soviet period, industrial enterprises were responsible for maintaining some of the local social infrastructure (hospitals, schools) as well. It is of little surprise that the liquidation of these enterprises had an immediate impact not only on income but also on other dimensions of human development, particularly on health and education.

From 2000 to 2005, industry followed the strong trend of economic growth accompanied by a real increase in salaries and profits. If the value of industrial output in 1999 constituted only 50% of what it was in 1993, then by 2005 this indicator increased up to 89%. Nevertheless, industry is still characterised by a small number of produced goods being geographically polarised and dominated by the food and beverage industry. The rather limited competitive capacity of industry is demonstrated by the relatively minor share in technologically advanced sectors (0.2% of industrial production) as compared to 20% in the EU²⁷.

The sustainable growth of industry is also undermined by the external vulnerability of the sector. In January-July 2006, industry decreased by 6.7% due to the recession in the wine-making industry that resulted from Russian barriers imposed on the import of Moldovan alcoholic drinks. However, along with wine-

making, other branches not directly influenced by this crisis of trade relations with Russia also decreased in 2006. This fact proves that, besides unfavourable trade conjuncture, there are also systemic barriers that prevent industry from developing and transforming into a competitive sector. Among these are physical and moral wearing out of production capacity, a deficit of highly trained human resources, a lack of managerial and marketing abilities and difficult access to credit resources and international markets.

Economic growth and labour market

At the level of households, the effect of economic growth on human development is generally translated through jobs. In this respect, the Republic of Moldova proves a notable counter-performer, the economy growing rapidly as the number of jobs has been reduced. In comparison with 1999, the number of employees in 2005 was 20% lower (in agriculture – by 50%, women by 53% and in construction – by 30%). The negative dynamics of jobs has an unfavourable influence on human development as wages have the greatest share in household income.

The attractiveness of the local labour market is decreasing, as is evidenced by the decrease in the activity rate of the population aged 15 and above from 60% in 2000 to 49% in 2005. At the same time, the employment rate decreased from 55% in 2000 to 45% in 2005, more significantly among men than among women. The key issues affecting the functioning of the labour market in the Republic of Moldova are:

- a large number of jobs with low productivity and low payment;
- insufficiently developed mechanisms for establishing salaries in which do not adequately reflect the productivity and the level of qualification;
- high share of informal activities in some sectors and production branches;
- high unemployment among youth;
- high level of long-term unemployment;



„I think attention should be paid to the enterprises that once were active here and now are closed and more jobs should be opened. The economy should be about producing and not only about selling and selling. Then the economy will grow.” (Dumitru, 26, trade employee, urban inhabitant.)

²⁷ MII, ASM, 2006.

- reduced participation of the unemployed in vocational training, insufficiency of vocational training within enterprises, and in paid public works;
- lack of an adequate monitoring and estimation system of the labour force market;
- insufficient monitoring of the impact of measures on various groups addressed to inform policy planning in employment²⁸.

It is interesting that during the period of economic growth the number of unemployed decreased by 44%, the unemployment rate remaining at a level lower than in the CEE and CIS countries and similar to the one of EU-15 (Chart 5). Nevertheless, the unemployment duration was very high, 2 years on average. A positive tendency is the reduction of the number of long-term unemployed from 60.4% out of the total number of unemployed in 2000 to 48.9% in 2005. The main reason for this rather low unemployment level is the fact that the population has the opportunity to emigrate. A person without a job takes into consideration alternative opportunities for gaining income, including launching an enterprises, self-employment or finding another job. However, the fact that emigration has

prevailed over other options proves that the risks of an economic activity in the Republic of Moldova are much higher than the risks of illegal emigration.

Because of migration, the unemployment rate is not a very relevant indicator in examining the national labour market. In order to create a clear idea as regards the proportions of labour force waste, besides unemployment, one should take into account the large number of emigrants that have left due to the lack of jobs or lack of satisfaction with their place of work. Evidently, as they are working abroad, these emigrants cannot be considered economically inactive per se. However, looking into the Moldovan economy, it is clear that emigration does not represent anything but a waste of labour forces with long-term negative effects.

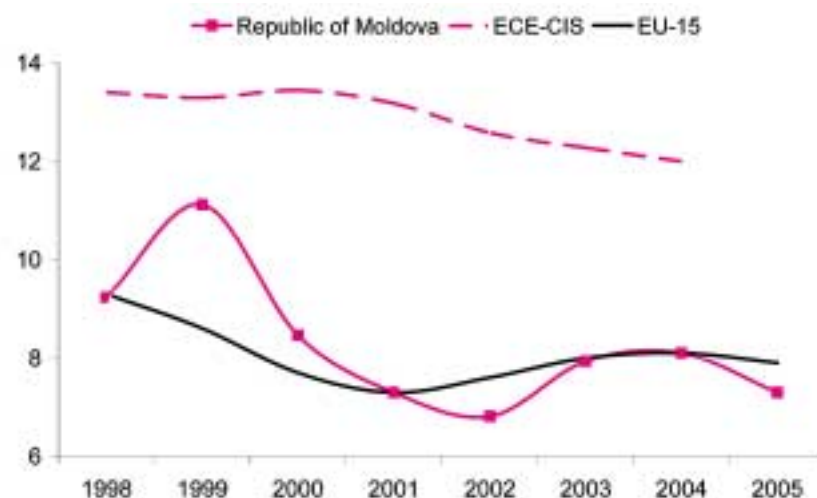
We should also take into account the rate of underemployment - 4-5% of employed persons. In agriculture, a considerable part of the labour force used is not paid in money. The reduced unemployment in rural areas if compared to the urban areas (Chart 6) is explained by the fact that a rural inhabitant is actually always busy with agricultural works, even though this work may bring only income in-kind. Taking into account the facts mentioned

„There are places of employment paid for 2-3 years in advance. The student still goes to the university and s/he is already provided with a job.” (Vadim, 28, student, rural inhabitant).



Chart 5. Unemployment rates in the Republic of Moldova, CEE–CIS and EU-15 %.

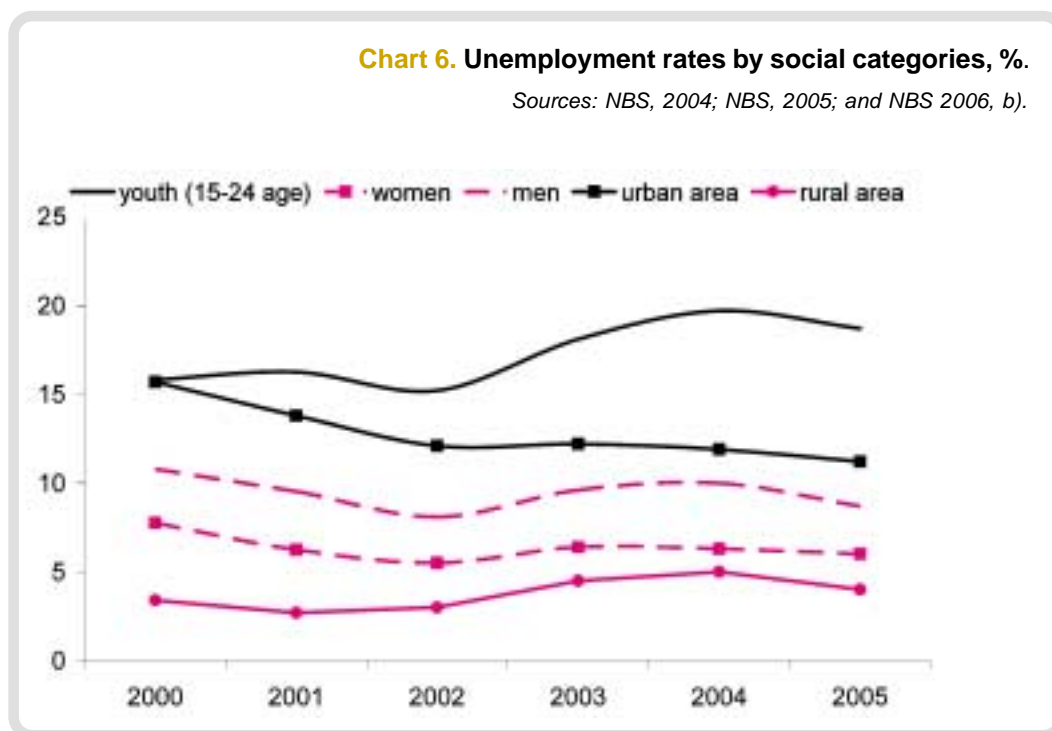
Source: European Office of Statistics “Eurostat”; UNICEF-ICR, 2006; NBS, 2006; and NBS, 2006, b).



²⁸ MET, 2006, b.

Chart 6. Unemployment rates by social categories, %.

Sources: NBS, 2004; NBS, 2005; and NBS 2006, b).



in this paragraph, it could be estimated that one-third of the total labour force in the Republic of Moldova is not involved in the formal economic process.

Unemployment among those aged 15-24 is fairly high (18.7%) as it tended to increase in 2000-2005. The relation between unemployment and the level of post-secondary education is particularly strong. The rate of unemployment decreases as the level of education goes up. This fact, however, does not seem to be of too much in advantage for the youth, most of them experiencing extremely difficult periods after graduation. (Box 2).

The poorest citizens are those most affected by unemployment. More than half of the total number of unemployed belong to the first two quintiles of income¹¹. At the level of primary quintiles, the relation between unemployment and poverty is bilateral: high unemployment determines a risk of poverty; and permanent poverty diminishes the human capital of the poor (health, previously acquired skills, social relations) and makes it more difficult to find a job sufficient to overcome poverty.

A curious peculiarity of the unemployment phenomenon in the Republic of Moldova is the

higher rate of unemployment among men than among women (8.7% to 6.0% in 2005). For the countries of Western and Central Europe the opposite is common. In EU-25 in 2005, unemployment among men was 7.9% as compared with 9.8% among women. This peculiarity is explained not by a particularly advanced emancipation of women in the Republic of Moldova but rather by a number of cultural-economic factors:

- women themselves often accept a lower remuneration as compared to men for the same type of work;
- certain low-paid jobs are taken mainly by women (cleaner, yard-keeper);
- women prevail in some sectors where the activity is mainly informal and low paid (for instance, street selling);
- a large number of men depending on the transfers from their wives working abroad prefer to hold out for a longer time for well-paid jobs or to wait for an opportunity to emigrate rather than accept a low-paid job;
- women prevail in the group of long-term migrants that actually have no expectations from the local labour market.



„The situation is rather bearable in the town, you can find some paid work here and there, while in the village, though there is much work all the year round, it is unpaid, except for a little in autumn.”

(Nicolae, 55, land owner, rural inhabitant.)

²⁹ Estimates of the authors based on the Households Budgets Surveys 2000-2004.

Box 2.

Youth in the labour market.

Though the proportion of youth in the total population has increased over the last decade, their share within the total labour force has decreased. The reasons for this are their more active participation in education and their intense migration abroad. A survey conducted by the National Bureau of Statistic (NBS) during the second quarter of 2005 illustrates that every fifth young person aged 15-29 went to work abroad, three-quarters of them from rural areas and the same number being men³⁰. The lower the educational level of the youth, the stronger the temptation to emigrate. Poor wages among youth is the main factor determining their desire to emigrate. Over 70% of young people stated that they would work abroad if they had the opportunity. According to the estimates for this report, during the second quarter of 2005, young people were paid an average salary of 770 lei as compared with the average salary per the economy of 1,250 lei.

Young people seem to be increasingly less attracted by economic activities in agriculture. According to the NBS survey, the rate of young people employed in agriculture is 34.4%, as compared to 42.9% of the general population and in industry 15.3%, as compared with 12% of the general population (II quarter 2005).

Many young people express a professional "freezing". Over 70% of the young people questioned in the survey conducted by the NBS declared that they do not need any improvement of their level of skills for the activity they perform. Curiously enough, the lower the level of education of the young people, the less they would like to increase their level of skills. On the other hand, due to low remuneration, every other young person interviewed wanted to change his or her job. This fact suggests a certain rigidity of the labour market in respect to young people, the latter aiming at higher salaries by changing the activity and not by advancing the career in the initially selected field.

Unemployment among the young generation in the Republic of Moldova is an alarming phenomenon. Almost one-fifth of the economically active young people aged 15-24 are unemployed. The discrepancy between the rate of youth unemployment and the rate of general unemployment has increased constantly in 2000-2005. Young men from urban areas have a higher risk of unemployment. During the first quarter of 2005, the unemployment of young men aged 15-19 from urban areas reached the record level of 39%.



„Most workplaces are budgetary and if the budget is low, the salaries are low as well.” (Dumitru, 26, trade employee, urban inhabitant.)

In 2000-2005, the average salary increased from 305 Moldovan lei (28.9 USD) in 1999 to 1,318.7 lei (104.7 USD) in 2005, remaining far below the European average. The differences among the sectors of activity, gender and place of residence have not changed significantly. The relative remuneration of farmers and specialists financed from the budget remained much lower than the salary paid in the market economy. The official remuneration in construction and industry have not changed, though it is these sectors that have increased considerably in importance in the economy. The discrepancies between the sectors and the village/town discrepancies are explained by the differences of labour productivity among sectors and the profitability in these sectors.

In non-agricultural activities, in 2005, women received only 70% of the salary paid to men. This discrepancy is explained by the fact that women prevail in the sectors with lower salaries and by the existence of some factors of obvious discrimination of women as compared to men³¹. If we do not take into consideration the agricultural sector, more than 1/3 of the women in the Republic of Moldova prevail in the fields where the salary is under the average salary in the economy: education, commerce and health. In these fields women represent more than 70% of the total number of employees.

³⁰ NBS, 2006, c).

³¹ ILO and EC, 2005.

The role of emigration in economic growth

The Republic of Moldova has always been the European country with the highest share of rural population (Table 2). In rural areas the level of well-paid employment in non-agricultural branches has been very low. Taking these two facts into account, the Moldovan governments would have understood from the beginning of the 90s that the reorganisation of the economy would lead to the migration of a part of the rural population, if not abroad, than from villages to towns. During the process of transition both phenomena have been observed. Nevertheless, due to the fact that services and industry are primarily located in towns, emigration became the only reasonable economic option for rural inhabitants.

Currently, emigration is among the main factors that shape the economic, social and political evolution in the Republic of Moldova, and will remain as such in the foreseeable future. Within the economic field, the crucial role of emigration is illustrated by the fact that almost 20% of the labour resources work beyond the boundaries of the country (Box 3), and the income transferred by the emigrant workers in 2005 represented 30% of GDP³².

As the share of remittances in the GDP, the Republic of Moldova takes the second place in the world³³.

Emigration creates catalytic as well as inhibitory effects on growth. According to some surveys, over 80% of the Moldovan emigrants send financial means to their homeland and over 70% of them transfer over half of their income³⁴. These remittances are compensatory and countercyclical by nature. Being a major source of foreign currency, remittances have fundamental implications for economic growth, payment balance and the labour market³⁵. Remittances partially finance the trade deficit and encourage the rapid growth of salaries in some branches of the national economy where a deficit of labour forces is already being observed. These flows of currency have also reduced the dependence of the Government on the conditioned loans, offering a certain degree of independence in macroeconomic policy.

In 1999-2005, the catalytic effect of remittances on economic growth prevailed over the inhibitory ones. Money from abroad

„It is no secret how Moldova stays alive – from the dollars coming from abroad.”

(Vasile, 35, farmer, seasonal worker in Russia, rural inhabitant.)



³² GRM, 2006.

³³ WB, 2005.

³⁴ CBS-AXA, 2005.

³⁵ See IMF, 2005, b).

Table 2. Demographic indicators in European countries.

Country	Share of rural population, 2005	Average annual rate of population growth, %, 2000-2004	
		Urban	Rural
Belgium	3	0.24	-0.84
United Kingdom	11	0.38	-0.26
Czech Republic	26	0.02	-0.45
Denmark	15	0.34	-0.37
Albania	56	2.07	-0.39
Poland	38	0.04	-0.27
Moldova	62	-0,51	-0,03
Slovakia	42	0.49	-0.48
Hungary	34	0.14	-1.57
Armenia	36	-0.75	0.09
France	24	0.72	-0.34
Azerbaijan	50	0.62	1.16
Romania	45	-0.20	-0.26

Source: IDIS, 2005.

„Many specialists, doctors, go to work abroad. They go where they are paid better but for the country this is not a solution.” (Grigore, 21, student, B 1c 1i.)



How many Moldovan citizens are working abroad?

In the Republic of Moldova there is a tendency to consider estimates that show larger number of emigrants as more credible. Table 3 presents only the scientifically grounded estimations.

There are no other estimations based on scientific methods. The figures “600 thousand” or “1 million Moldovan emigrants” in the press and in some international reports can be traced back to a groundless statement made by a government official. However, even the relatively modest scientific estimations are considerable if compared to the economic and demographic dimensions of the country.

Currently, emigration is to a great extent a seasonal phenomenon. In the future, however, there could be important changes. New waves of emigrants are already getting younger. This means that the new migrants will have fewer ties to the Republic of Moldova, they will come back less frequently and, perhaps, they will send less money home.

Certain loosening of the emigration policies in Russia and in some European states are not excluded as well. In such cases, many seasonal workers will prefer to settle definitely in these countries where they will be able to take their families with them.

Another important factor that could encourage emigration is the fact that a large number of Moldovans hold Romanian citizenship. If economic and social perspectives worsen, it could produce a new wave of emigration to Romania after Romania joins the EU.

In other words, the Government can expect the intensification of emigration rather than for a short-term decrease. Within the NHDR survey participants were asked if they had ever thought of going abroad. Only 38% replied that they had never seriously thought about going abroad. Over 14-15% of potential emigrants intend to settle abroad for good and those who are not yet decided as regards their return to the homeland represent over 20% of the emigrants.

Table 3. Estimates of the number of emigrated Moldovan workers.

Year	Number of emigrated workers	NBS, estimates based on annual surveys on the labour force
2002	234, 000	NBS, estimates based on annual surveys on the labour force
2003	290, 000 285, 000	Ghencea B., Gudumac I. „Migration of labour forces and remittances in the Republic of Moldova”, 2004,
2004	345, 000 357, 000 571, 000 (inclusively 399, 000 effectively left +172, 000 returned temporarily home)	NBS, estimates based on annual surveys on the labour force NBS, estimates based on the preliminary results of the Census of the population of the Republic of Moldova from October 2004 CBS AxA, Monetary transfers from the citizens of the Republic of Moldova that work abroad
2005	394, 500	NBS, estimates based on annual surveys on labour force

constituted the main factor in the increase of available income of the population and it has been spent mainly on current (over 22% of the total) or durable (20%, including on education and health) consumer goods. Over 22% is invested in households (for purchasing or repairing the residences)³⁶. As Chart 7

shows, the income transferred from abroad has increased proportionately to the final consumption and has conditioned the GDP growth rate. At the same time, the secondary effects of expansion of the national income

³⁶ WB, 2005.

(the Keynesian multiplier mechanism) is not to be ignored as well. Some authors state that most international surveys have underestimated the multiplying effect of the income remitted by the emigrants³⁷. For instance, the remittances used for reparation or building houses generate more multiplication effects than any other industry, creating many workplaces as well.

The positive effects for the economy arise from the fact that over 21% of the income received from emigrants are saved in the banking system. Only 7% of the income delivered to the country is actively invested, most frequently among small or medium economic entities (shops, bars, workshops) and 8% of the income has been used to pay back the loans contracted by households³⁸. Finally, it cannot be ignored that a considerable part of the long-term emigrants return from abroad with a changed mentality. They want to be active, independent, they have formed a new labour culture, they want to start a business and participate in the development of the society according to the social models they have seen abroad.

However, very often remittances, even though they increase the welfare of households, do not have a long-term influence on the economy as a whole. Particularly, in rural areas of the Republic of Moldova, an improvement of the standards of living within households that depend on emigrants is observed (endowment with household appliances, purchasing of furniture, modernisation of living conditions).

Nevertheless, there is hardly any progress in the development of social and physical infrastructure in these communities and when there is any, the progress has not as much to do with the phenomenon of emigration as with external donors. In the Republic of Moldova, an increasing consumption demand financed by remittances has stimulated the increase of the supply from the part of the local producers and this fact is positive for the economy. However, imports have grown as the economy is unable to satisfy such a large and diverse demand. Also, if homes are purchased from the secondary market and are not built or if the higher education received by the children of emigrants is not demanded on the local market and the graduates are forced to emigrate, then welfare at the level of the economy does not change.

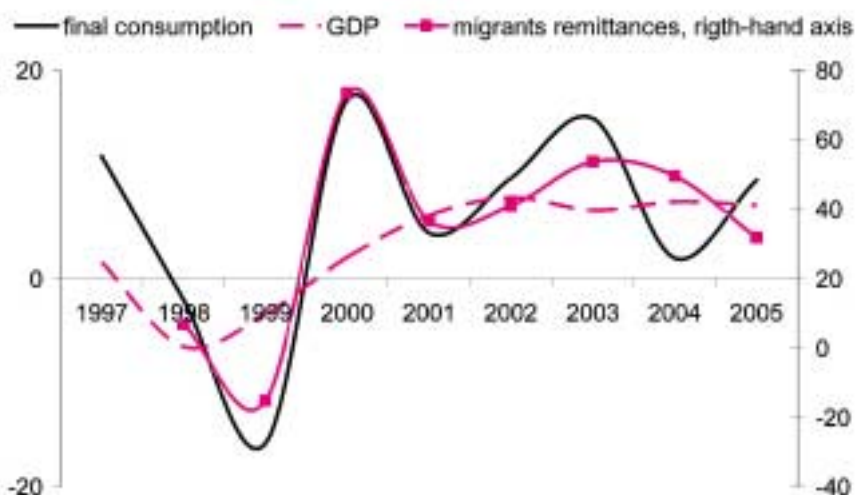
After gaining its highest point in 2003, the rates of growth of income remitted by emigrants decreased in 2004-2005. If this tendency persists, the final consumption could grow slower in the future leading also to the reduction of the rate of economic growth and the negative effects of emigration will prevail over the benefits.

The negative effects of emigration on economic growth result mainly from the quantitative reduction of the available labour force. A

³⁷ Durand and others, 2006.

³⁸ idem.

Chart 7. Annual growth of the incomes remitted by emigrants, final consumption and the GDP, %



Sources: NBM, 2000; NBM, 2001; NBM, 2002; NBM, 2003; NBM, 2004; NBM, 2005; NBS, 2006 and the estimates of the authors based on the NBM, 2006, a).

breakdown of economic growth by factors of production shows that the reduction of the supply of labour force has undermined by some percentage points the growth achieved in 2000-2005. The qualitative erosion of human capital is not to be ignored as well. According to some surveys, the Moldovan Diaspora is one of the most educated in Eastern Europe and the CIS, thus proving that an important part of the population with advanced professional skills that could contribute to economic growth does not actually contribute directly to it³⁹. The money they remit home determines a quantitative economic growth but not a qualitative one.

Emigration is continuously fuelled by the large number of young people who do not find economic opportunities in the country. The considerable number of skilled young emigrants should give rise to concerns of a “brain drain” from the country⁴⁰. It is often stated that, though as result of emigration countries lose their human resources – an essential factor for development – the incomes remitted to the country compensate this loss and cover the deficit of financial resources. However, these factors are not substitutable. Moreover, in most cases, the quality of the human factor that went abroad downgrades, since the emigrants have jobs for which they are overqualified (most frequently, construction work for men and household services for women).

In some cases there is concern that the emigration of workers and the remitted income could cause so-called “Dutch disease”⁴¹. Countries that depend on emigration affected by this disease become exposed to external shocks, the imports being stimulated excessively and the exports being undermined. The labour force becomes the main export since the export of goods with advanced processing requires consistent efforts for the creation of necessary institutions and infrastructure. Moreover, “Dutch disease” stimulates the proliferation of financial business as the real economy is underdeveloped⁴². As regards the Republic of Moldova, the concerns related to the contraction of the “Dutch disease” are not groundless.

Emigration also generates a serious concern regarding the moral hazards that government and households manifest. The fact that emigration ensures the constant flows of income makes family members who are dependent on emigrants become much more

inert in searching for jobs or in starting individual enterprises. In the Republic of Moldova, a culture dependent on emigrants is being formed. As for the moral hazards of governing, the explanation is simple. By financing the consumption that is taxed with VAT or excises, emigration also ensures high income in public budgets. This fact reduces the temptation of the government to implement a number of economically necessary but politically risky reforms.

Use of income

A result of economic growth in the Republic of Moldova is an increase in available income. At the same time, a part of the available income is generated abroad. The way this income is used influences not only the prosperity and the short-term standards of living, but also the long-term ones. A high rate of investment will improve the future production capacity and this implies giving up a part of the current consumption. According to Table 4, the final consumption has a considerable share in the GDP in the Republic of Moldova, even more than 100%. This is entirely due to the high consumption in the private sector and is a symptom of a low quality of growth.

Transition countries seldom display a share of final private consumption higher than 70% of GDP (Table 4). Such a high proportion of the final private consumption in the Republic of Moldova can be explained by two main reasons. The first is that, during the years 1990-1999, living standards deteriorated, nutrition became unbalanced and poor, and the endowment of households with durable consumption goods worsened. After living some years in acute poverty, it is obvious that the citizens now spend a considerable part of the acquired income in order to return to a decent level of consumption.

The second reason that explains why consumption is prevailing derives from the fact that a considerable part of this income is gained abroad. Usually, this income is remitted with the destination of consumption within the household and not for investment. At the moment, investment in small businesses and

³⁹ WB, 2005.

⁴⁰ Tamas, 2006.

⁴¹ Hugo, 2006.

⁴² idem.

Table 4. GDP by expenditure, % of GDP.

Country	Year	Final consumption		Net capital formation		Net export
		Private	Public	Net formation of fixed capital	Stock variations	
Republic of Moldova	2005	91,8	16,4	22,3	3,9	-34,5
Bulgaria	2005	78,8	9,8	23,8	4,2	-16,6
Albania	2003	63,1	11,3	53,2	-1,8	-24,0
Romania	2003	77,9	6,9	22,2	0,7	-7,8
Hungary	2004	53,1	25,3	22,6	2,1	-3,1
Estonia	2005	52,1	19,8	29,1	2,7	-6,1
Lithuania	2005	64,9	17,1	22,3	2,7	-7,1
Ukraine	2005	56,9	20,8	21,7	0,7	0,5
Slovakia	2005	56,0	19,9	26,2	2,4	-4,4
Georgia	2004	71,7	15,3	28,5	0,8	-16,4

Source: web pages of the statistic agencies of the mentioned countries.

bank savings holds little attraction and has little availability for families that are dependent on emigration. Individual enterprises have to deal with a rather complicated business environment and public trust in the banking system is only just beginning to consolidate. It also must be taken into account that the citizens who are most capable of assuming the risks of starting and managing a small business are those abroad. People who are dependent on them often do not possess the personality, the knowledge and abilities necessary for running a business.

The GDP by expenditures elements from Table 4 prove that internal demand considerably exceeds the economy's capacity to supply goods and services. In the predictable future, the supply capacities will not increase substantially if the private sector remains so inert. This is the reason why a considerable part of the income gained abroad will be used for purchasing some imported consumption goods, this circular flow of income (abroad – domestic economy - abroad) having no major positive impact on the real sector. According to some estimates, over 80% of the internal growth is the demand for imported goods⁴³. In 2005, exports increased by only 11% while imports increased by 30%, with the trade deficit reaching 1.22 billion USD.

Does the discrepancy between the global demand and global supply present any risks for the economy? Such risks would not exist if the trade deficit were financed in a sustained way by capital inflows. Currently, the Republic

of Moldova has not become an attractive destination for foreign direct investment. That is the reason why the currency remittances of the emigrants represent the main capital inflows. In 2000-2005, they increased from 13.8% to 30.5% of GDP. However, their growth has slowed down during the last two years. During the first half of the year 2006 the evolution of exports has been negative and imports continued to rise, 70% of them being non-substitutable. Thus, the deficit of the current account could further worsen, and the discrepancy between the global demand and supply could generate major risks. With an anaemic internal supply, the Republic of Moldova risks reaching the situation when the rebalancing of its economy would be achieved by compressing the demand and reducing the economic growth.

In order to make the real sector able to respond to the growing internal and external demand, it is necessary to increase the investment in modernisation of the existent productive capacities and in the formation of new capacities. During the first years of economic growth, the level of investment in fixed capital was obviously suboptimal, and growing slower than the final consumption (Figure 8). The rate of investment began to grow rapidly in 2003, reaching 22.3% of the GDP in 2005. Nevertheless, the rate of investment should increase in order to reach



„Money comes from abroad and it goes back abroad since the construction materials are imported from there.” (Emilian, 40, land owner, season worker in Russia, rural worker.)

⁴³ GRM, 2006.

Chart 8. Real increase of the final consumption and capital investment in the Republic of Moldova, %.

Sources: NBM, 2000; NBM, 2001; NBM, 2002; NBM, 2003; NBM, 2004; NBM, 2005; NBS, 2006.

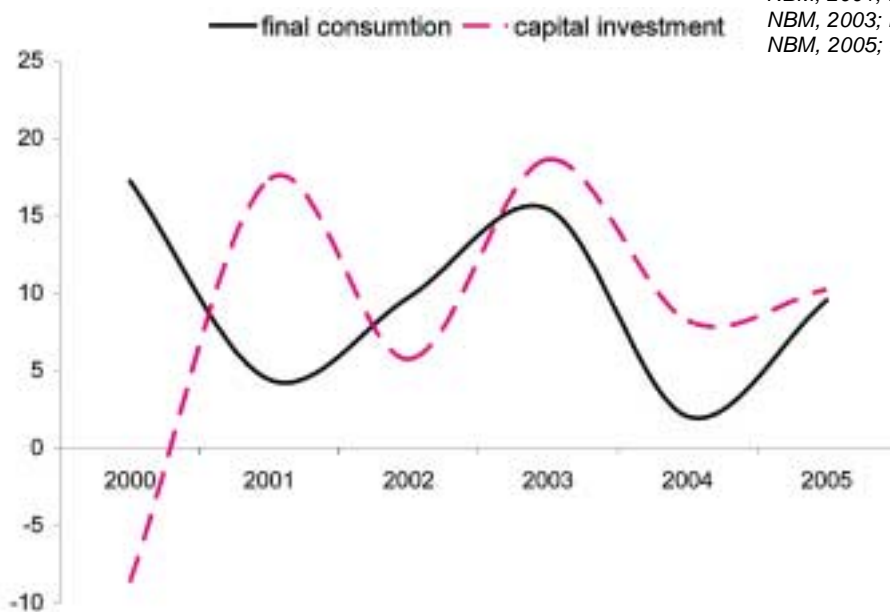


Table 5. Structure of investment in fixed capital by sectors, %.

	2000	2001	2002	2003	2004	2005
Total	100	100	100	100	100	100
Agriculture	3,4	4,9	5,7	5,2	6,0	5,9
Processing industry	14,5	26,7	26	31,8	22,3	21,0
Energy industry	12,8	17,6	10,2	8,8	10,6	7,9
Construction	1,8	1,4	1,2	1,3	1,7	2,6
Wholesale and retail sales	9	7,9	6,5	6,9	15,4	11,6
Transport and telecommunications	43,8	24,3	31,1	24,9	22,5	21,3
Financial activities	1,3	2,4	2,6	1,2	1,4	1,4
Real estate transactions	7,1	7,6	8,2	10,6	12,6	16,9
Public administration	0,7	1	1	1,7	1,6	3,8
Education	2,1	2	1,8	1,6	1,1	1,4
Health and social assistance	0,3	0,1	0,3	0,4	1,5	1,0
Other sectors	3	4,1	5,4	5,6	3,3	3,9

Source: courtesy of NBS.

the optimal level (estimated at 26-27%) and this level should be maintained for a rather long period of time. In 2004-2005, investment had grown more rapidly than the final consumption (22.7% to 11.7%). However, compared to the investment needs of the economy, this rate of growth is not sufficient. According to some estimates, the agricultural sector only requires a capital investment of

over 2 billion dollars so that the sector may reach its optimal level of production⁴⁴. In 2005, only 31 million USD⁴⁵ was invested in this sector. It also received the lowest investment

⁴⁴ USAID, CNAF, 2004.

⁴⁵ Electronic publication "Investment in fixed capital (1997-2004)", National Bureau of Statistics, accessible at http://www.statistica.md/statistics/dat/743/ro/Investitii_ro.htm.

as compared with its share in the GDP and to the labour force use.

From the viewpoint of the sector distribution, investment reported an exaggerated dispersion (Table 5). Agriculture – the sector that offers the greatest number of jobs and on which over 70% of the poor population depends – has benefited from too little investment even if taking into account the fact that the natural intensity in capital of this sector is clearly lower than that of the others. As is illustrated above, the acute lack of investment resulted not only in the degradation of the agricultural sector per se, but also in the escalation of rural poverty and worsening of many parameters of human development in rural area.

It is interesting that in 2000-2005, the investment financed from own resources of the local enterprises prevailed at a considerably higher level as compared with the investment financed by financial intermediaries. This fact demonstrates not the financial health of enterprises but the lack of an adequate financial mediation.

Financial sector and economic growth

After the liberalisation and the reform of the banking industry and the creation of a capital market, the financial sector began to play a more important role in the economic growth of the Republic of Moldova. The banking system is more advanced compared to the insurance and capital markets. The total assets of the banking system have reached 49% of GDP in 2005 and the number of banking institutions increased from 388 in 1999 to 891 in 2005. During the period of economic growth, the commercial bank credit increased almost six-fold. Existing surveys show that most of the indicators of the banking sector are at a good level. However the positive picture is altered by structural issues related to deficiencies of corporate governance and lack of transparency in property relations⁴⁶.

Currently, it can be stated that the banking system in the Republic of Moldova has reached a balanced level, and since 2002 the number

of banks has remained constant. A balanced evolution of the banking industry would mean a constant fuelling of the real sector with financial resources that would maintain a balanced, gradual growth of the economy without major fluctuations⁴⁷. The essential problem that lies in the activities of the banks and which has a negative impact on the evolution of the Moldovan economy is the asymmetry in crediting activity. Banks prefer to offer credits to large enterprises while the small and medium enterprises that predominate have not benefited from an essential increase of the volume of credits⁴⁸. Such a banking strategy is explained by the objective to diminish the risk of crediting. However, this risk is not necessarily related to the risk of investment projects per se proposed by small and medium enterprises, but rather to the informational asymmetry.

As regards the banks' time preferences, they are explained by their level of confidence in the evolution of the economy. Notwithstanding the fact that the average period for which credits are offered is continuously increasing, the banks still prefer to offer short-term credits. Most long-term credits do not come from personal resources of the banks. They are financed by international financing institutions (mainly, EBRD).

In sector profiles, the credits offered to large enterprises from industry and agriculture are the most important in terms of volume, and have been supporting the economic growth⁴⁹. However, it is remarkable that the banks manifest a rather reserved attitude towards the sectors that are directly related to population welfare. The share of credits offered to the real estate sector had been decreasing until 2004 and due to the involvement of some banks in mortgaging projects, the share of these credits slightly increased in 2005. Moreover, before 2004, a reticence of the banks was observed as regards credit for consumption. The situation turned around significantly in 2005, the share of this type of credit increasing from 3.6% to 7.8% out of the portfolio of bank credits. This sector of financing not only contributes directly to the population's welfare

„State banks should offer credits – as we heard on the radio – with lower interest to rural inhabitants so that they could also start a small business”. (Vasile, 35, farmer, season worker in Russia, rural inhabitant.)



⁴⁶ IMF, 2005, a).

⁴⁷ Research that analyses the level of competitiveness on the banking market of the Republic of Moldova mentions that the banking sector is in equilibrium, the results of their activity following a gradual evolution (Lapteacru, 2006, a).

⁴⁸ IMF, 2005, a).

⁴⁹ The explanations for this is that the largest enterprises that the banks prefer to work with operate in these sectors.

Box 4.

Credit for consumption, human development and economic growth.

The development of the banking sector has a direct influence on credit for consumption. The direct effect of such a policy is an increase in welfare. The study of this effect is important as it influences the quality of economic growth.

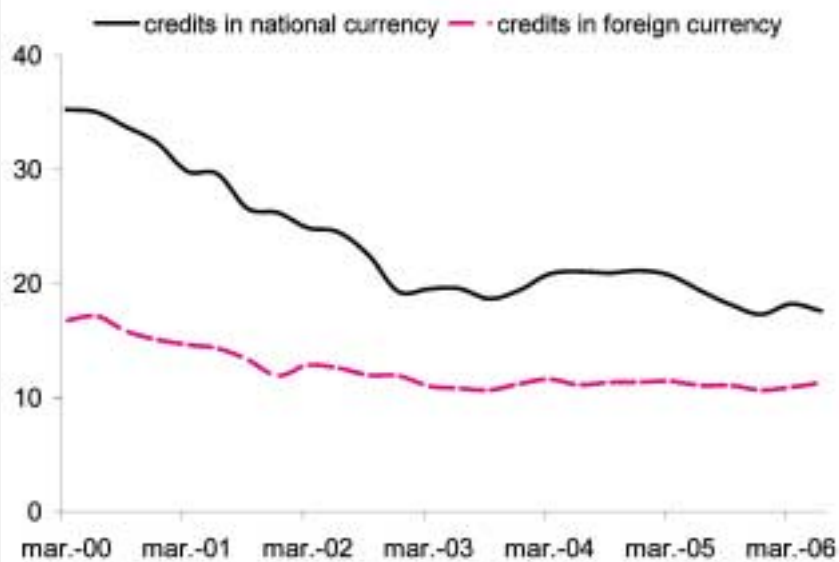
The essential idea is that the credits for consumption offer the population additional sources that allow it to pay for education. Thus, the investment in the accumulation of human capital determines a qualitative growth of economy.

Lapteacru and Djistera (2006, a) have determined that the limitation of credit for consumption reduces the speed of growth due to the limitation of the level of accumulation of human capital and of the compression of the general savings. In their work, the increase of the interest rate for consumption credits has a negative impact on the general level of population savings as well as on the time the population is ready to dedicate to education. Another essential element is that credit for consumption allows not only an increase in the time allocated to education, but also an increase in the expenses for education per unit of time. The authors show that the increase of these expenses contributes to the growth of population savings and thus to the growth of the economy.

In an empirical study (Lapteacru and Djistera, 2006, b), the same authors demonstrate that considerable volumes of consumption credit have positively influenced the increase of human capital, and, thus, the economic growth in developing countries.

Chart 9. Evolution of nominal interest rates, %.

Source: Monthly reviews of NBS, available at <http://www.bnm.md/md/index.html>.



„I have 2 houses in the village, but I left everything and came to town as I must bring up my children, help them and provide them with education. How can I bring them up there if salaries are not paid? I had a cow and 12 pigs but there is no opportunity to sell the produce. You have to stay at the market, and it is very hard to work the land.” (Ludmila, 44, employed at the furniture factory, Chi_în_u.)



but also, indirectly, influences economic growth (see Box 4). This contribution could increase considerably if the interest for the consumption credit goes down (which is currently very high at 25-30% per year).

The behaviour of banks can influence significantly the accessibility of banking services and the economy as a whole. An Imperfect competition on the market could have a negative effect on the level of channels

of monetary policy transmission, as well as on the real sector by means of the financing cost.

Analysing the indices of bank concentration and the rates of interest, it can be stated that competition in the Moldovan banking sector has amplified. Reduction of the interest spread both in the national currency and in foreign currency is an indicator of competition intensifying among banks. Consequently, during the last six years, interest rates on credits and deposits in the national currency have decreased except in 2004 (Chart 9). A growth in bank credit also followed. The econometric regressions show that the positive effect of bank credit expansion on the growth of industrial output is robust and statistically significant. At the same time, the relation is mutually reinforcing: financial development contributed to the growth of industry and it, in its turn, encouraged the extension of bank credit.

Regional growth profile

Economic growth takes place not in a virtual space of macroeconomic indicators, but on concrete geographical territories and in real communities where people live. It is important to know how economic growth is distributed geographically in order to know to what extent it is inclusive and equitable. This aspect of growth in the Republic of Moldova is problematic. According to Table 6, the economic activity in the Republic of Moldova was extremely polarised in 1997, and it became even more polarised during the period of economic growth.

Even though only 1/5 of the population of the country lives in the Chisinau municipality, in 2004-2005 the capital area has contributed to half of the industrial production, retail sales and capital investment. Enterprises registered in Chisinau contributed 94% to the net financial result per economy. The regional wage gap has not improved substantially, while in Gagausia it even worsened.

Evidently, it cannot be said that at the regional level there are no positive economic trends at all (see the annexes). The Balti municipality becomes an increasingly more important regional pole of economic growth. Certain positive tendencies are observed in several districts and in autonomous territorial unit Gagausia. Eliminating Chisinau and Balti municipalities from the calculations, it becomes obvious that there are significant differences in the socio-economic development even among administrative-territorial units (Map 2). According to the development rating of administrative-territorial units of the Republic of Moldova, conducted on the basis of a synthetic indicator of socio-economic development (ISED), on the top of the hierarchy are the territorial units from the North and the South of the country and the districts from the central part of the country are situated lower⁵⁰. According to this indicator, in the Republic of Moldova the administrative-territorial units can be classified into 3 types of zones: 1) zones with restructuring potential; 2) assisted zones and 3) depressed zones⁵¹. However, even in the zones with restructuring

⁵⁰ Roşcovan and Galer, 2006.

⁵¹ For more information on methodology and interpretation of the Index, see Roşcovan and Galer, 2006.

Table 6. Regional distribution of economic growth.

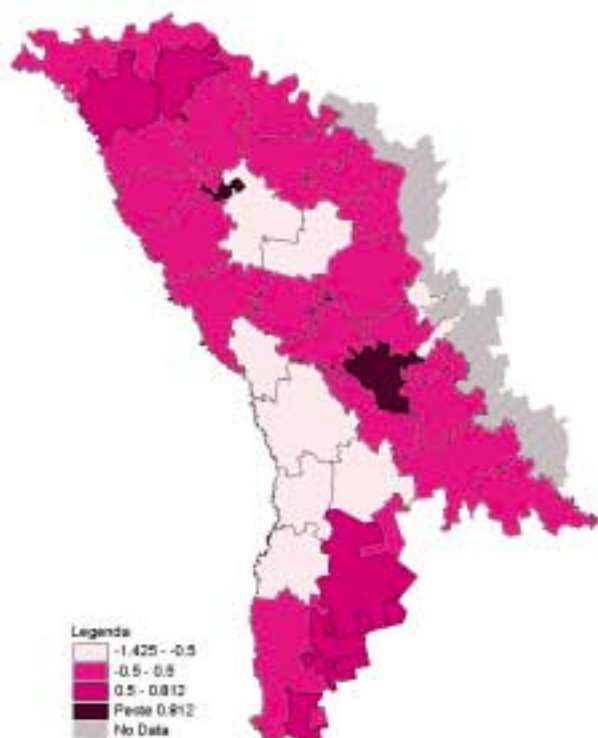
Share of administrative-territorial units, %, totally ...									
Administrative-territorial units	Population		Retail sales		Industrial production		Investment in fixed capital		Collected tax income
	1997	2005	1997	2004	1997	2004	1997	2005	2005
Mun. Chişinău	20,6	21,7	40,9	56,3	41,7	55,0	49,2	56,2	62,9
Mun. Bălţi	4,3	4,1	8,2	8,8	10,4	11,7	11,2	5,4	8,4
Districts	70,6	69,8	48,1	32,4	45,3	29,1	36,7	34,4	26,4
Autonomous Territorial Unit Gagauzia	4,5	4,4	2,8	2,7	2,6	4,3	2,9	4,0	2,3
Total	100	100	100	100	100	100	100	100	100

Sources: NBS, 1998, NBS, 2006 and information offered by NBS.

Map 2. Distribution of administrative-territorial units by Index of Socio-Economic Development (ISED).

Note: the darker the colour of the administrative-territorial unit, the higher the level of social-economic development

Source: Roșcovan and Galer, 2006.



potential, the good economic dynamics did not last too long (and in 2006 they reversed back in many cases) so that it could ensure a visible convergence of the income levels and standards of living in comparison with the two large cities.

The geographically unbalanced economic growth has an impact on many dimensions of human development. The much more acute economic recession of the early transition in the regions as compared to the capital, and the instability of relaunching during the recent period of economic growth, have amplified the gaps in per capita income between the centre

and the regions. Taking into account the fact that in the districts the share of the rural population is on average 80% and in villages the educational performance and longevity are much lower, the conclusion is that on the “periphery,” human development is considerably less advanced than in the “centre”.

Because of such an unbalanced distribution of economic activity which results in evident counter-performances as regards human development, it is obvious that the emigration of labour forces from other regions of Republic of Moldova to Chisinau and Balti municipalities is very intense, as shown by the data of the general demographic census of 2004⁵². Emigration takes place primarily among young people who graduate from educational institutions located in urban areas (frequently in Chisinau and Balti) and settle down in these cities. But despite strong economic growth, there are not many available jobs in Chisinau or in Balti and so many of these young people are finally forced to go abroad.

The economy of Trans-Dniester

Due to the military conflict of 1992 and the ensuing political and administrative conflict between the Government of the Republic of Moldova and the regime in the Tiraspol (the main city of the Trans-Dniester), the Trans-Dniester region is actually uncoupled from the rest of the national economic system. At the same time, the influence of the conflict itself and of the economy of the region on the economic growth in the Republic of Moldova is not to be ignored. Though the conflict between Chisinau and Tiraspol is grounded on geopolitical, cultural and historical factors, in time, its economic dimension has been consolidated.⁵³ Since there are no statistical data officially recognised by the Government of the Republic of Moldova on the economy in Trans-Dniester, the following analysis is mainly based on the statistical data published by the “central bank” of the Trans-Dniestrian region⁵⁴, by the local press and on the few economic investigations on Trans-Dniester.

On the right bank of the river Dniester, the transition towards market economy began

⁵² The informative note on internal migration is available at http://www.statistica.md/recensamint/Migratia_interna.xls, last accessed on 11/08/06.

⁵³ CSRR, 2005.

⁵⁴ Statistical data available on the site of the “central bank of Trans-Dniestr” www.cbprn.net.

shortly after gaining independence, while in Trans-Dniester there had never been any agenda of economic reforms. The current privatisation from the region has been dictated by political and corporate interests and by the difficult situation of the public finances rather than by the strategic objective of transition towards a market economy. It is interesting that, though the economic policies applied were radically different, the economic trajectory in both the Republic of Moldova and Trans-Dniester has been similar to a great extent since 1991. One of the factors that determines the similarity is the massive trade dependence on Eastern markets. Though less than the Republic of Moldova, the economy of Trans-Dniester is fuelled by income transferred from abroad by the emigrants (12.2% of GDP in 2004).

The production sold by the economy of the region during the last 15 years has been more volatile than in the rest of the country. The Russian financial crisis of 1998 had crucial and long-lasting effects on the Trans-Dniestrian economy. Unlike the territory from the right bank of the river Dniester, Trans-Dniester has not yet recovered completely. Compared to 1998, regional GDP was lower in 2005, while in the Republic of Moldova it was 37% higher (Chart 10). The instability of the economic growth in the region is explained by the fact, that despite the advantages inherited from

Soviet times, the economy of Trans-Dniester encountered more unfavourable conditions than the rest of the Republic of Moldova. These conditions have been determined by a range of factors:

- producers from the region operated in an uncertain political and security environment;
- structural reforms were delayed; the process of privatisation (lacking any transparency and not recognised by the Government of the Republic of Moldova) began only in 2001;
- the regional economy is totally dependent on the external world as regards foreign markets and supply of its industrial sector with raw materials;
- the economy is dominated by clans with very strong political and administrative connections that undermine the economic competition and the emergence of efficient small and medium producers;

During the Soviet times, in Trans-Dniester there had been a more diverse industrial complex than on the right bank of the River Dniester. The main industries are ferrous metallurgy (52% of the industrial production of 2005), power generation (16.5%), the textile industry (13.4%) and the food industry (8.2%).

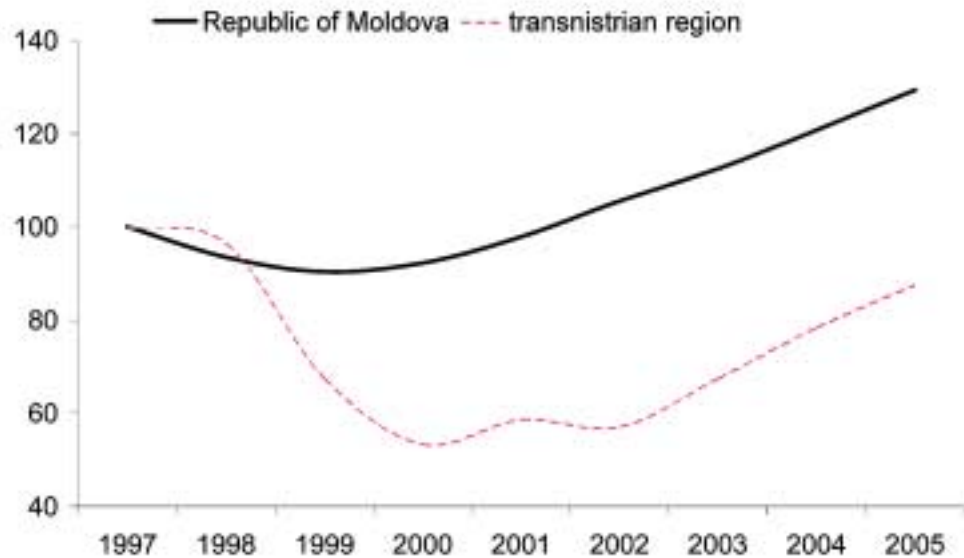
Table 7. Economic evolutions in Trans-Dniester.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Regional GDP, million USD	328	448	332	281	199	256	250	309	420	517
Real growth rate of regional GDP, %	-	-	-3,6	-30,1	-20,9	10,0	-2,7	18,1	16,2	11,8
Increase of industrial production, %	-10,7	-0,9	-6,3	-3,8	16,5	9,0	-18,7	21,4	5,2	0,6
Value of retail trade and services, %	-	-	-	-18,3	11,9	23,1	18,4	7,6	15,3	18,4
Investment in fixed capital, %	-	-	-	34,6	3,8	15,6	-32,7	-14,7	22,2	-2,5
Exports, million USD	306	387	339	258	328	378	243	433	535	580
Imports, million USD	222	301	587	417	489	541	450	530	758	856
Average wage, USD	41	53	58	68	32	44	50	64	84	-
Consumer Price Index	-	-	-	240,0	190,0	127,0	111,0	132,6	120,4	110,8
Population, thousands (estimates), 2004 regional census	679,1	670,8	665,7	658,0	651,8	633,6	630,1	621,8	555,0	-

Source: CISR, 2003 and „central bank of Trans-Dniester”.

Chart 10. Growth of the GDP in the Trans-Dniestrans region and in the Republic of Moldova, 1998=100%.

Source: NBM, 2006 b) and the "central bank of Trans-Dniester".



The development of the sector that, in fact, depends on several giant enterprises, was possible due to subsidised prices for energy resources imported from Russia and the investment made by Russian companies.

After 2000, the agricultural sector of the region became totally inefficient and generated losses. Services are developing, but the expansion of this sector is determined more by the segment of non-commercial services rendered by public authorities (health, education, defence, security, etc.), than by the segment of the market ones. The development of the private sector is held back by the total political-administrative control over the economy.

The disintegration of the economic system that followed the war of 1992 had negative economic effects on Trans-Dniester, as well as on the Republic of Moldova as a whole. That is the reason why, despite some positive economic trends, economic growth in Trans-Dniester, as well as in the Republic of Moldova

as a whole, was considerably below the potential growth. It impeded the positive human development on both banks of the river Dniester.

Conclusions and policy recommendations

The year 2000 marks the beginning of recovery of the Republic of Moldova from the acute economic crisis of the transformational collapse and the Russian financial crisis of 1998. In 2001-2005, the economy grew on average by 6.1%, the production surpassing the level of 1994 and being accompanied by a considerable increase of income. Important modifications in the structure of the economy have been made, mainly by the reduction of the share of agriculture in total production and in the labour force involved. However, this modernisation has caused high social costs, being achieved not through relocation of the labour force to more efficient sectors, but

through the elimination of the labour force from the country. Within the formal sphere of the economy, the number of jobs shrank. Not accidentally, during the period of economic growth, the majority of the population perceived that individual welfare and the welfare of the country did improve. The uneven progress in agriculture prevented a more considerable economic growth while industry and services marked rapid growth. However, the external vulnerabilities caused a prominent industrial recession in 2006. From the supply-side, services were the main source of the economic growth.

From the demand-side, the income from emigration was the engine of the growth of final consumption and of the economy as a whole. Nevertheless, the income derived from the increase of production and from the emigrants was not allocated efficiently. The final consumption prevailed, investment was under the optimal level and the growing trade deficit is generating severe economic imbalances. The banking sector contributed positively to economic growth, but its influence was primarily due to crediting of large enterprises. The specific economic structure, the difficult access to financial resources and to external markets caused a geographically unbalanced growth. The role of the capital of the country as a pole of economic growth increased, whereas the economic development in other regions has stagnated. In Trans-Dniester the far more unstable economic growth was determined by the political and security uncertainties, by the prevalence of politically connected clans in the economy and by the inefficient allocation of resources.

In the predictable future, the quality of the economic growth and the chances of reducing poverty will depend crucially on the evolution of the agricultural sector. In this respect, the policy of fast and forced consolidation of the agricultural areas could generate a massive rural unemployment and income reduction since in large areas, the capital-intensive, not the labour-intensive agricultural technologies are the efficient ones. Presently and in the near future, in the rural areas the labour force and not capital will abound. This is why the consolidation of agricultural plots should not constitute a goal in itself that is to be achieved by any means, nor should it be the central

objective of politics. Moreover, the “optimality” of agricultural areas is not an absolute notion. It depends on many factors. Intense agricultural work on large areas will cause a more prominent degradation of the soil. Looking forward 5-10 years, the competitive advantages of the Republic of Moldova could consist in cultivating some ecologically pure agricultural products on rather small areas. In this respect, it is recommended to encourage small agriculture that would produce an optimal combination of high-value agricultural crops. The agricultural policy should not be biased towards large agricultural households, but rather it should encourage farmers to cultivate species of high added value that would generate higher income. The objective of advancing the agricultural enterprises along the value chain will require that the Government and non-governmental organisations pay more attention to training farmers. The central objectives of the Government in agriculture should be to eliminate market distortions, to provide access to cheap financial resources, to advanced knowledge in technologies on a small scale and on external commodity markets.

The Moldovan industrial sector has a very good potential for further growth. However, in order to achieve this, it is necessary to eliminate the main barriers that impede its development: moral and technical wear out of the productive capacities, use of primitive systems of management and marketing and slow absorption of new technologies. Human capital in Moldovan industry was eroded considerably by the emigration of the labour force at the stage of early transition, as well as the stage of economic growth. That is why the formation of a technical human capital should be a priority for the Government, particularly through training a new cadre of engineers and technologists. As in the case of agriculture, in the near future, the prospects of industrial development will depend on free access to external commodity markets.

The changes that have taken place during the last years on the labour market have taken the wrong direction. The number of newly created workplaces was less than the number of liquidated ones, and unemployment remained at a relatively low level only due to emigration. In order to more efficiently use the labour force resources available in the country,

the focus in structural and industrial policies should be on the support of small business. The increase of companies in this sphere will absorb the labour force dismissed from large enterprises. At the same time, the sustainable development of the small businesses is simplified by their integration in the value-chains of the large enterprises. This should be taken into account in strategies of attracting foreign investment. The priority should be to attract, inclusively and through more decisive bilateral negotiations, some world-renowned companies that would generate not only new workplaces in the Republic of Moldova but would also encourage the proliferation of local small scale suppliers.

In the near future the “classical” commercial banks will remain rather little interested in providing credit for investment in agriculture and small business. The efficient openness of the sector towards external competitors could encourage cheaper banking services. A plausible alternative is the development of the micro financing sector capable of offering credit under more favourable conditions to smaller enterprises, as well as of attracting the “under the mattress” savings of the population. By assuring the legalisation of migration, the Government would be able not only to provide for more effective protection of its citizens abroad, but it would also legalise a larger part of the income remitted from abroad by the emigrants which could be directed to the micro financing sector.

In order to extend economic growth beyond the geographical limits of Chisinau and Balti municipalities, the Government has to encourage the emergence of new regional poles of economic growth centred on interregional towns: Soroca, Ungheni, Edinet, Orhei, Ocnita, Dubasari, Hancesti and Cahul. This may be possible by encouraging the creation of small and medium-sized enterprises, by encouraging the allocation of “green field” foreign investment in these zones and by fiscal and administrative decentralisation of the local public administration. The reintegration of Trans-Dniester into the Moldovan economic system would allow the re-establishment of the systemic integrity of the national economy. It would be favourable for the population from both banks of the river Dniester and would contribute to more harmonious development.

Both industry and agriculture suffer from underinvestment in production capacity and infrastructure. This considerably limits the quality and competitiveness of local products. The intensification of local and foreign investment in starting up new production capacities and in the modernisation of the existing ones is possible by improving the business framework in all its essential components directly dependent on the government: guarantee of property, regulatory framework and access to an impartial and politically independent judiciary. At the same time, taking into account the small economic size of our country, big foreign investors will more likely have interest in investment projects to export end products. That is the reason why the Moldovan diplomacy has to excel in gaining and ensuring access to external commodity markets.

The phenomenon of emigration cannot be stopped without negative social and economic consequences and it should not be the policy objective. The main objective should be the legalisation of the process and the adequate reintegration of emigrants who choose to return to their homeland. Legalisation of emigration and the reintegration of emigrants will lead to positive economic as well as social effects. During the last years, the economic growth in the Republic of Moldova has been favoured by the internal consumption financed by the income remitted to the country by the emigrants. Being macro economically very high, these remittances are made up of hundreds of thousands of rather small transactions and, taken separately, they cannot be regarded as serious sources of investment. However, as family savings increase, it is reasonable to expect a part of them to be invested in some micro-businesses. A separate role would be attributed to the organisations of the civil society that could elaborate programs of economic training and business consultations for emigrants; or to offer comprehensive services, from starting a business to market research and facilitation of receiving a bank credit (positive practices exist in this field in Pakistan and Philippines).

However, the re-training of an emigrant without any experience in business into a dynamic entrepreneur is rather difficult. Emigration does not stimulate the entrepreneurial initiatives of the emigrants or of the persons

that depend on him/her and, according to recent surveys, the participation of the families of Moldovan emigrants in business is very low. In the current circumstances, it is rather difficult to initiate a business that would assure sustainable income, at least at the same level the emigrants generated by working abroad. This is perhaps the most inhibiting factor for entrepreneurial initiatives.

However, a part of the resources remitted by the emigrants could be collected within the commercial banking sectors or micro financing system and transformed into qualitative investment resources. In this respect, the following tools are to be used: preferential bank treatment (higher interest for bank deposits, free issue of credit cards), reduction of costs for the transfer by official bank channels, issue of nominal currency treasure notes. Evidently, the most efficient tool of directing an important part of the income coming from emigration into productive investment is the creation of a stimulating and predictable economic climate.



Chapter II. The impact of economic growth on human development



Chapter II presents the indexes of human development, including gender-disaggregated indexes, in the Republic of Moldova. In this chapter there is an evaluation of the progress of the Republic of Moldova towards the Millennium Development Goals, that are entirely related to the concept of human development. In addition, this chapter sheds light on the phenomenon of monetary poverty. The report asserts that, in spite of a reduction in poverty, the vulnerability of income to potential external shocks is still very high. Subsequently, evolution in the areas of education and healthcare is presented, the latter representing two other dimensions of the Human Development Index. A general evaluation of the impact of economic growth on the environment is carried out. The material included in this chapter demonstrates that the process of human development in rural areas is evidently surpassed by that of urban areas. This part of the Report concludes with an analysis of the social implications of emigration.

UNDP approach of human development

An evaluation of monetary poverty is not sufficient to determine the real proportions of human poverty. An alternative for development evaluation is the quantification of several monetary and non-monetary dimensions of human poverty and their integration into a synthetic indicator.

UNDP has developed several composite indices in order to follow the progress of countries along the path of human development and to compare their performance across countries. The main indicator used is the Human Development Index, calculated based on certain indices that characterise three aspects of human development: longevity, education and income. In order to evaluate country performance from the viewpoint of human development, the UNDP reports are also using other composite indicators: Human Poverty Index-I for developing countries, Human Poverty Index-II for OECD countries, Gender-related Development Index (GDI) and Gender Empowerment Measure (GEM).

The Human Development Index (HDI) is the indicator for measuring overall of human development achievement. HDI calculation is based on three major outcomes of the development process: 1) *longevity*, measured as life expectancy at birth; 2) access to knowledge, measured as weighted average of a) rate of adult

literacy (weight 2/3) and b) gross rate of enrolment in primary, secondary and tertiary education (share of 1/3); and 3) *living standards*, measured as GDP per capita expressed in US dollars adjusted to the purchasing power parity of the national currency in order to reflect price differences between countries (see details and a calculation example in Technical Note 1).

HDI is non-dimensional and positive, the maximum value it can take being 1. In 2005, all the 177 countries for which there were the necessary statistical data, were classified into three categories⁵⁵:

- *57 countries with a high level of human development*, with the HDI higher than 0.800. The category is opened by Norway (HDI=0.963) and closed by Trinidad and Tobago (HDI=0.801). HDI average for this category is 0.895.
- *88 countries with a middle level of human development*, HDI being placed between 0.500 and 0.799. The list of these countries is headed by Libya (HDI=0.799), and the last position is held by Zimbabwe (HDI=0.505). HDI average for this group is 0.718.
- *32 countries with low human development*, with HDI lower than 0.500. The first position in this category is held by Madagascar (HDI=0.499), and the last – by Niger (HDI=0.281). HDI average for the countries with reduced human development is 0.486.

„Human poverty is when you have no food, no clothes, no money to take your child to school. It is when in winter instead of giving your child some good, warm boots, you give him what you have and he comes from school with wet feet.”

(Emilian, 40, land owner, seasonal worker in Russia, rural inhabitant.)



⁵⁵ UNDP, 2005, in which the 2003 statistical data have been used.

The global average for HDI is 0.741, and the average of the CIS and CEE region is – 0.802. As it is illustrated in Chart 11, in 1997-2003 the global and regional HDI followed a constantly upward path.

In spite of the advantages offered by the HDI (simplicity, accessibility of data for international comparison), it must be emphasised that this index also has certain limits. Having only three dimensions of development – income, education and longevity – the HDI does not measure other important dimensions of human development, especially non-material dimensions. Social cohesion and political freedom (level of democratisation) are, in our view, two very important dimensions that are not captured in the HDI.

It is obvious that a more egalitarian society is more advanced from the viewpoint of human development than a less egalitarian one with the same level of HDI. Very high inequality undermines the relevance of the average of national per capita income of the HDI formula. A wide range of countries are included in the category of those with a high level of human

development in spite of the fact that their Gini coefficients of income inequality are placed at the level of 0.5 or even higher! Such high levels of inequality signify that a considerable portion of the respective society has very low incomes, well below the national average.

Also, the HDI is of little relevance for the description of human development in non-democratic countries. Citizens in these countries do not have the effective freedom of choice, but are obliged to accept what the regime imposes. Human development does not mean only material aspects, but also people's freedom to pursue their own choices and ideals⁵⁶. How accurate is it to include countries with no political opposition, with controlled mass media, and where the elections do not comply with the minimal democratic standards into the category of the countries with a middle-superior level of human development? Unlike inequality, the incorporation of democratisation level into HDI seems to be more difficult and, to a great extent, subjective. The main challenge is the difficulty of expressing

⁵⁶ UNDP, 2005.

Box 5.

Suggestions for the inclusion of income inequality and political liberties into the HDI.

The reflection of income inequality in the HDI is not a complex issue since there are available statistical data on income inequality for every country or such data can be easily obtained. There may be several technical solutions to include inequality into the HDI. One way might be that the average per capita income entering the HDI calculation, before being logarithmic, should first be corrected by multiplying it with the sub-unitary coefficient $(1/[1+Gini])^\epsilon$. In this formula Gini is the coefficient of income inequality, and ϵ – a positive parameter that would characterise the level of aversion towards inequality and that must be higher or equal to 1. The non-dimensional nature of HDI will be kept, but in such a formulation the income average will decrease as inequality increases and will better reflect the range of differences of human development within a country.

Another solution might be for the HDI to be calculated as a simple arithmetic average of five, instead of the current three, composite indexes. The first three would be the traditional ones (indexes of longevity, education and incomes). The fourth – index of inequality – might be calculated according to the following formula: Index of Inequality = (maximum Gini – effective Gini)/(maximum Gini – minimum Gini). *Maximum Gini* would be the coefficient of inequality in the country with the highest inequality in the world, whereas *minimum Gini* – would be in the country with the lowest inequality.

The fifth index might be a variable featuring the level of democratisation. It might be calculated in the same way as the traditional indexes – Index of Democratisation = (real Democratisation – minimum Democratisation)/(maximum Democratisation – minimum Democratisation). The sources for the quantification of political liberties might be the ratings elaborated by the Freedom House, Bertelsmann Foundation, World Bank etc.

a qualitative phenomenon with quantitative indicators. At the same time, there are several international sources monitoring and quantifying political liberties around the world and that might be used to extend the definition of the HDI, at least, to a non-material aspect of human development. Certain suggestions for reviewing the HDI are offered in Box 5.

Human Development Index of the Republic of Moldova

According to the 2005 global Human Development Report, the Republic of Moldova falls in the category of medium human development. The Republic of Moldova ranks 115 with HDI=0.671, which is lower than the regional CIS-CEE average and the global average. The monitoring of the HDI over time is complicated due to major data changes for the Republic of Moldova in the global *Human Development Report*⁵⁷.

According to the official data of the National Bureau of Statistics of the Republic of Moldova, in 2003 the HDI of the country was 0.723. The difference between the officially-computed HDI from the 2005 global *Human Development Report* (0.671) and this figure is mainly explained

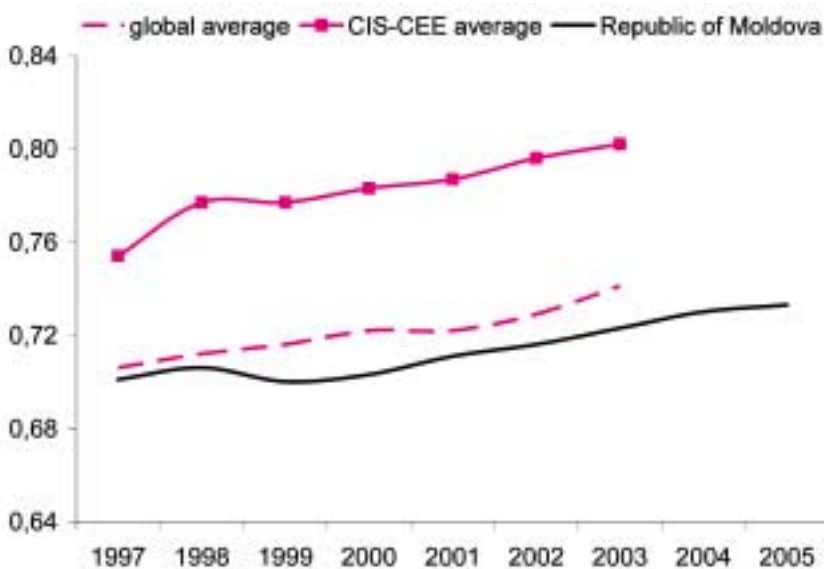
by different statistical data for GDP per capita that are utilised by the NBS and UNDP.

According to the NBS data on HDI, in 2003 the country recovered to the level of human development it had reached in 1993. This dynamic was due to the recovery of incomes per capita that had decreased by 50 in the period 1994-1999%. Thus, economic growth exerted a positive impact on the level of human development by improving living standards. At the same time it must be mentioned that the Republic of Moldova is still far from the level of human development it had in 1990. According to estimates for this report, the HDI of the Republic of Moldova in 1990 ranged between 0.763 and 0.783. The 1990 HDI also includes the achievements of Trans-Dniester in the three dimensions of human development. Although the exact statistical data are lacking, the stage of human development in Trans-Dniester today seems to be of the same magnitude as that achieved by the Republic of Moldova (Box 6).

⁵⁷ In the 2003 global *Human Development Report*, Moldova's HDI for 1990, 1995 and 2001 was 0,756, 0,704 and, respectively, 0,700. In the 2004 Report, the human development value for Moldova was 0.736 for 1990 and 0.684 for 1995. In the 2005 Report, Moldova had an HDI value of 0,739 for 1990, 0,682 for 1995 and 0,665 for 2000.

Chart 11. Evolution of the HDI of the Republic of Moldova in the regional and global context.

Sources: UNDP, 2004; UNDP, 2004; UNDP, 2005; courtesy of the NBS (see Annex 1).



Box 6.

Human Development in Trans-Dniester.

During the Soviet period, the level of human development in Trans-Dniester was a bit higher than on the right bank of Moldova. The region was more urbanised (68%) and more industrialised (1/2 of the regional GDP), public services were more developed, productivity in both industry and agriculture were higher, and incomes were a little higher than on the right bank⁵⁸. In 1991-2005, most of these advantages vanished. Keeping the region “afloat” was possible, to a great extent, due to the political, economic, technical and humanitarian support provided by Russia to the unconstitutional regime in the region, and to the large share of the shadow economy and the accumulation of a foreign debt that is currently exceeding almost three times the region’s GDP⁵⁹.

Like the rest of Moldova, Trans-Dniester faced demographic problems. The population declined from 718,000 in 1992 to 555,000 according to the census organised by Tiraspol in 2004. These dynamics was determined both by the negative growth of the population (-5.8‰ in 2005), and by emigration. The decrease of real incomes of the population, the degradation of the physical infrastructure and public services manifested practically on the same scale as on the right bank of the Dniester.

In 2005, GDP per capita in Trans-Dniester was \$844, similar to that of the right bank of the Dniester (\$811). Data on education and life expectancy were not available to evaluate the level of human development in Trans-Dniester; however, judging by the media accounts from the region, these levels are close to those reported in the Republic of Moldova.

Table 8. Scenario of the Republic of Moldova progressing to a high level of human development.

	Annual growth	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP per capita, USD, PPP	8,75%	3654	3974	4321	4700	5111	5558	6044	6573	7148	7774
Level of literacy, %	Constant	99.1	99.1	99.1	99.1	99.1	99.1	99.1	99.1	99.1	99.1
Gross rate of inclusion into all stages of education, %	0.8 percentage points	72.5	73.3	74.1	74.9	75.7	76.5	77.3	78.1	78.9	79.7
Life expectancy, years	0,25 years	68.1	68.3	68.6	68.8	69.1	69.3	69.6	69.8	70.1	70.3
Index of income		0.601	0.615	0.629	0.643	0.657	0.671	0.685	0.699	0.713	0.727
Index of education		0.902	0.905	0.908	0.910	0.913	0.916	0.918	0.921	0.924	0.926
Index of longevity		0.718	0.722	0.726	0.730	0.734	0.738	0.743	0.747	0.751	0.755
Human Development Index		0.740	0.747	0.754	0.761	0.768	0.775	0.782	0.789	0.796	0.803

Source: simulations performed by the authors.

⁵⁸ NBS, 1992, tables „Main socio-economic indicators for the towns and districts of the republic in 1992” and “Main socio-economic indicators for the cities of the republican subordination”.

⁵⁹ CSRR, 2003.

Taking into account the fact that life expectancy is a rather static indicator, and adult literacy in the Republic of Moldova is similar to the level of the developed countries, it is clear that a rapid ascension of our country to the group of countries with a higher level of human development is possible only by improving the enrolment in education and, especially, by increasing income per capita. The economic simulations (Table 8) show that for the Republic of Moldova to advance by 2015 to the group of countries with high human development, it must obtain an income of \$7,774 per capita (based on PPP terms), maintain the rate of adult literacy at the level of 99.1%, ensure a global rate of inclusion in education of 79.7% and a life expectancy of 70.3 years (obviously, on the condition that there will be no changes of maximum and minimum global values used to calculate HDI).

The authors have modelled several scenarios to reach an HDI of 0.800. Taking into account the fact that the Republic of Moldova has rather low performance in the areas of income and life expectancy, simulation exercises have stressed the increase of income and education indices. The base-line scenario illustrated in Table 8 shows that in order to make possible the progress of our country to the category of countries with an advanced level of human development, it is necessary to maintain income increases at an annual rate of 8.75% (this is the average rate of GDP per capita in 2000-2005), to constantly maintain a high level of adult literacy, to improve the inclusion in the education of all stages by 0.8 percentage points annually and to increase life expectancy by 0.25 years annually. If the rate of incomes decreases from 8.75% to 4% annually, in order to reach an HDI of 0.800 by 2015, it will be necessary to have an annual increase of life expectancy by 0.5 years, a very difficult goal.

Gender-disaggregated human development

The Human Development Index estimates average performance in the country, but does not refer to differences between genders which are occasionally very high. Although the HDI can manifest major disparities based on various groupings (geographic, ethnic etc.), the consideration of gender differences is particularly important because the gender criterion

separates any society in two equally big groups. To a greater or lesser extent, women are disadvantaged in relation to men in all countries. This has important implications, since an entire range of human development indicators, especially infant health or family nutrition, generally improve proportionally as a result of control by women over economic resources and their participation in social life.

In order to measure the differences of human development based on gender, two indexes are applied: the Gender-related Development Index (GDI) and the Gender Empowerment Measure (GEM). In the Republic of Moldova, the GEM is more known as the index of female participation in economic and political life. If the GDI simply adjusts HDI to gender differences, then the GEM reflects the opportunities (capabilities) of women to participate in social processes. The GEM is an index that reflects inequality from the viewpoint of opportunities in three key domains:

- political participation and decisional power;
- participation in economic life;
- control over economic resources.

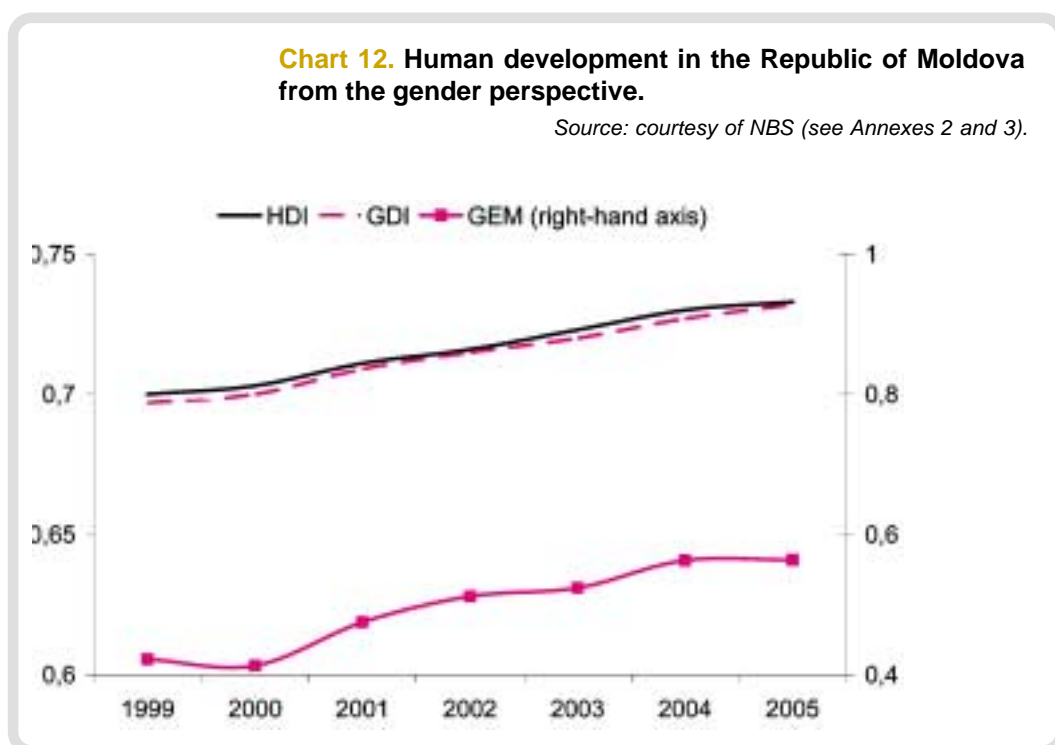
The closer the GEM is to 1, the more egalitarian is the society from the viewpoint of gender opportunities to participate in economic and political life (for more details on the calculation of these two indices see Technical Notes 2 and 3).

As it is shown in Chart 12, the Human Development Index has evolved similarly to the Gender-related Development Index. In the Republic of Moldova, the difference between these two indicators is insignificant: in 2005 the HDI value was 0.733, and the GDI - 0.732. In the case of the GDI, disadvantage of women regarding the level of literacy and income is compensated by their advantage regarding longevity and gross enrolment rate.

As a result of women participating in political life (increase of the number of seats in the parliament held by women) and of the control over economic resources (a somewhat more rapid increase of women's incomes than of men's), the GEM advanced from 0.422 in 1997 to 0.564 in 2005. However, a rather low value of GEM denotes that women from the Republic

Chart 12. Human development in the Republic of Moldova from the gender perspective.

Source: courtesy of NBS (see Annexes 2 and 3).



of Moldova are significantly at a disadvantage from the viewpoint of available opportunities for their participation in economic and political life.

Progress on the Millennium Development Goals

The Millennium Development Goals (MDGs) are intrinsically linked to the idea of human development. In 2000, the Republic of Moldova signed, together with other 191 states, "The UN Millennium Declaration"⁶⁰. Based on this document, eight MDGs to be reached by 2015 were defined (Table 9). The responsibility to reach the MDGs is shared between rich and poor countries. However, the obligations assumed by the latter are practically limited only to the goal number 8 and are markedly asymmetrical compared to the resources they have.

Concrete tasks and monitoring indicators have been established for each MDG. However, the objectives, tasks and indicators have to be adjusted from their universal formulation to the national context. In 2002-2003, within a participatory exercise supported by the UNDP Office in the Republic of Moldova, research has been undertaken about the situation of

the country in relation to each of the eight universal goals and relevant tasks and indicators for national issues and priorities have been formulated. In addition, intermediary (2006 and 2010) and final (2015) target levels have been set for monitoring the indicators.

The MDGs were included in the Economic Growth and Poverty Reduction Paper (EGPRSP) thus making a connection between medium-term development priorities with long-term development objectives. Preliminary evaluations summarised in the grids attached to this report demonstrate that in the period of economic growth, the Republic of Moldova achieved progress in relation to certain MDGs, but reported reversals or stagnated in respect to others. A summary of Moldova's progress to the MDG intermediary targets is presented in Table 9.

An objective and rigorous evaluation of the distance covered by the Republic of Moldova up to this moment is problematic due to the fact that intermediary and final targets have not been established for many indicators of monitoring progress, and some necessary indicators for monitoring progress are not calculated at all. These drawbacks could be

⁶⁰ UNDP, GRM, 2004.

Table 9. Progress of the Republic of Moldova towards the MDGs in 2000-2005.

MDG	Task	Relevant indicator	Level 2000	Level 2005	Target 2006
Eradicate extreme poverty and hunger.	Halve, between 1990 and 2015, the proportion of people whose income is less than 2.15 dollars a day	Proportion of population below \$2.15 per day (PPP-values)	45,0	11,4 (2004)	28,0
		Poverty gap ratio [incidence x depth of poverty]	14,5	2,4 (2004)	...
		Share of poorest quintile in national consumption	6,8	7,2 (2004)	...
	Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Proportion of population below minimum level of dietary energy consumption (2282 Kcal/day)	52,2	14,7 (2004)	...
		Prevalence of underweight children (under-five years of age).	72,5 (2003)	46,6	46,6
Achieve universal access to secondary education.	Ensure that, by 2015, children will be able to complete gymnasium education.	Net enrolment rate in gymnasium education	87,0	84,5	88,9
		Rate of literacy of population aged 15?-24 years	99,8	99,9	100
		Net preschool enrolment	38,5	67,2	...
Promote gender equality and empower women.	Advance women's participation in social and political life.	Share of women as members of Parliament	7,9	22,0	20,0
		Share of women as leaders and high officials in public administration, economic and social units	33,2	38,8	45,0
		Female wages as proportion of male wages in non-agricultural activities	70,0	68,5	...
Reduce child mortality.	Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.	Under-five mortality rate	23,3	15,7	15,0
		Infant mortality rate	18,4	12,4	12,1
		Proportion of 2 year old children immunised against measles	98,6	...	100
Improve maternal health.	Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.	Maternal mortality ratio	27,1	18,6	23,0
		Proportion of births attended by skilled health personnel	98	99 (2003)	100
Combat HIV/AIDS, malaria and other diseases.	Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.	Incidence of HIV/AIDS	4,1	13,3	3,23
		Incidence of HIV among population aged 15-24 years, including Trans-Dniester	12,2	23,7	...
	Have halted by 2015, and begun to reverse, the spread of tuberculosis and malaria.	New cases of active tuberculosis (per 100000 inhabitants)	69,9	130,5	57,9
		Tuberculosis-associated mortality rate (deaths per 100000 inhabitants)	16,9	18,9	12,00
		Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course)	6,5 (2001)	100	...
Ensure environmental sustainability.	Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	Proportion of land area covered by forest, %	10,5	12,6 (2004)	11,0
		Land area protected to maintain biological diversity	1,96	1,96 (2004)	2,1
		GDP per kg of conventional coal, Moldovan lei, current prices	6,05	10,5 (2004)	...
		Carbon dioxide emissions from stationary and mobile sources (kg per inhabitant)	20,0	29,1 (2004)	...

Table 9. Progress of Republic of Moldova to MDG in 2000-2005.

MDG	Task	Relevant indicator	Level 2000	Level 2005	Target 2006
Ensure environmental sustainability.	Halve, by 2015, the proportion of people without sustainable access to safe drinking water	Proportion of population with sustainable access to an improved water source, %	37,8	44,5 (2004)	47,7
	Halve, by 2015 the proportion of people without access to sanitation	Proportion of people with access to improved sanitation, %.	41,1	43,6 (2004)	56,0
Create a global partnership for development.	Develop further an open, rule-based, predictable, non-discriminatory trading and financial system by promoting exports and attracting investment	Imports of machines and equipment, mil. USD	95,6	313,0	
		Share of trade deficit in GDP	-22,8	-40,8	
		Stock of foreign direct investment, USD per capita.	123	332	
	Restructuring and comprehensive solution to the foreign debt problem	Public external debt, % of GDP	67,1	23,7	
		Servicing the external public debt, % of budgetary revenues	31,3	12,8	
	Develop and implement strategies for decent and productive work for youth.	Youth unemployment (aged 15-24)	15,8	18,7	
	In co-operation with the private sector, make available the benefits of new technologies, especially information and communications	Fixed and mobile telephone lines, per 100 inhabitants	16,6/3,3	27,3/32,2	
Personal computers, per 100 inhabitants		1,5	3,4 (2004)		
	Internet users, per 100 inhabitants	1,2	12,3 (2004)		

Source: NBS data.

overcome in the process of elaborating a new Economic Growth and Poverty Reduction Paper for 2008-2010.



Material poverty and human development

„In my opinion the situation is better today. I am not employed, but I see that my parents have stability, they are sure that when payday comes they will receive their wage and there are never delays.” (Grigore, 21, student, Balti.)

Causes of poverty

It is obvious that the level of human development and monetary poverty are in a negative correlation. In order to show how economic growth influences various dimensions of human development it is useful to differentiate two types of poverty: individual poverty and social poverty⁶¹. Individual poverty affects families or individuals who have inadequately low available incomes. Social poverty affects families or individuals who, regardless of available incomes, for different reasons, have no adequate access to public goods provided by the government (education, healthcare, infrastructure, social protection, personal

security etc.). This section gives priority to the analysis of individual poverty, and the social one will be analysed in the sections below. Compared with education and healthcare, level of incomes changes rapidly and influences the most the progress or setback of the country in the HDI rating. The Republic of Moldova started the transition period with certain poor segments of the population⁶², however, in time, poverty became the most serious problem. The causes of poverty in the Republic of Moldova have been elucidated in numerous studies⁶³. Summing up these studies, it has been found that the most important factors that led to the escalation of poverty are as follows:

- General economic collapse suffered during the transition, failure to reform the economy and consolidate competitive economic sectors.

⁶¹ Ranis and Stewart, 2000.

⁶² Weeks and others, 2005.

⁶³ Weeks and others, 2005; WB, 2005; MET, 2005.

- Errors in social protection policies (a considerable part of resources were allocated to relatively prosperous families, whereas the poorer ones did not have support).
- The unbalanced economic and socio-demographic structure of the economy (large share of agriculture in the GDP and on the labour market).
- Unfavourable geographical factors (lack of domestic energy resources, landlocked position).
- Foreign trade barriers (temporary or permanent elimination of certain products from the regimes of free exchange by Russia, Ukraine and Romania, protecting customs policy of the European Union and other economically developed states) and internal constraints (corruption, administrative barriers).

Due to the above-mentioned structural factors, the economy and citizens are still extremely vulnerable to economic, climatic and political factors. The 1998 financial crisis in Russia, periodic frosts and droughts, the rise in prices of imported energy resources, obstruction by Trans-Dniester of rail and road access to Eastern outlets, blocking by the Russian Federation of Moldovan imports of food, vegetable and animal produce – all these

events have caused shocks of greater or lesser magnitude that have curtailed economic growth and poverty reduction in a lasting manner.

Dynamics of poverty and inequality

It is obvious that the rate of poverty depends directly on the level at which the poverty line is set. In 2004, the absolute poverty line in the Republic of Moldova was set at 327 lei per month for an adult. Is it possible to survive with such an income? Probably it is rather difficult. However, the analysis below has been performed based on the official poverty line methodology.

The level of poverty extended from 1992 until 1999, the period when the Republic of Moldova was economically devastated. In 1999-2004, the incidence of absolute poverty⁶⁴ decreased substantially, from 73.9 % up to 26.5%. In the same time period, the incidence of food poverty (extreme poverty) decreased from 37.4% to 14.7%. Other indicators of poverty have improved, such as the gap and severity of the phenomenon. According to preliminary estimates, in 2005, the incidence of poverty at the national poverty line came back to the level of 2003 (29%). The cause of poverty is the unfavourable conditions in rural areas and small towns, where poverty incidence increased,



„On the contrary, I think that everything is stagnating, even if people speak about Europe and organizations that would come to help us. They speak a lot, but I have not seen any great changes from 2000 until 2006”

(Serghei, 28, telecommunications engineer, Chisinau.)

⁶⁴ Calculated at the national poverty line. For more details on the indicators of poverty and national methodology of estimating the absolute and food (extreme) poverty see MET, 2005.

Table 10. Poverty trends.

Indicators ^{1,2}	1998	1999	2000	2001	2002	2003	2004
Absolute poverty line (lei per month)	128.9	179.2	234.8	257.3	270.7	303.5	327.0
Rate of poverty, %	52.0	73.0	67.8	54.6	40.4	29.0	26.5
Depth of poverty, %	19.5	32.3	27.0	19.3	12.4	7.3	6.8
Severity of poverty	9.8	17.7	13.7	9.1	5.2	2.7	2.5
Extreme poverty line (lei per month)	101.0	140.4	183.9	201.5	212.0	235.5	258.1
Rate of extreme poverty, %	37.4	59.7	52.2	38.0	26.2	15.0	14.7
Depth of extreme poverty, %	12.4	22.7	17.6	11.6	6.6	3.1	3.2
Severity of extreme poverty, %	5.9	11.4	8.2	5.1	2.4	1.0	1.1
International poverty line of \$2.15 per person/day (lei per month, Purchasing Power Parity) ³	91.6	127.6	167.5	183.9	193.7	216.2	239.5
Rate of poverty, %	31.9	53.2	45.0	32.3	21.0	11.5	11.4
Depth of poverty	-	-	14,5	9,4	5,0	2,2	2,4

Note: 1. The figures are weighted and representative at the national level. 2. Poverty lines are calculated per equivalent adult per month, except for poverty at the international poverty line. 3. Adjusted to the Purchasing Power Parity, values calculated per person per month.

Sources: Cited from MEC, 2005; poverty depth at the international threshold is calculated by the authors.

respectively, from 37% in 2004 to 42.5% in 2005, and from 46% to 49%.

If we do not take into account the preliminary data for 2005, the data in table 10 correlate closely to the reported economic growth. Official reports state that the rates of poverty have decreased by 2/3 due to the economic growth in the country, and by 1/3 – due to the redistribution from the richest households to the poorest ones through social policies of the Government⁶⁵. In 2000-2004, the redistribution favoured the reduction of poverty especially, in the rural areas, and the economic growth played a more important role in small towns.

As is discussed previously, poverty reduction was largely a result of incomes remitted from abroad, which, simultaneously, also positively influenced economic growth. In 2005, the GDP continued to grow massively, while poverty also increased, which indicates a rather weak connection between economic growth and the poverty level. A quarter of the citizens participating in the NHDR survey stated that in the last five years they became poorer or much poorer. The way in which economic growth translates into poverty reduction depends on the nature of growth. Especially, this depends on the extent to which the GDP increase is based on the increase of the number of jobs and the increase of incomes in the rural area⁶⁶. If the economic growth is

labour-intensive and the incomes of rural inhabitants grow rapidly, the speed of poverty reduction is much higher and the incomes are much more equally distributed, than in the situation when the increase is concentrated in large urban zones and is capital-intensive, as occurred in the Republic of Moldova in 2000-2005.

During most of the period of economic growth, the income of the poorer quintiles tended to increase more rapidly than the incomes of richer quintiles (Table 11). This was reflected in the reduction of income inequality. The incomes remitted by the emigrants represent one of the factors partially explaining this positive tendency. However, emigration accounts for only a part of the change since most emigrants are probably not from the lowest quintiles. In 2002-2003, a range of social payments were increased (pensions, benefits for challenged children, monthly benefits for child rearing) which contributed to an increase in the income of the poorest social strata.

However, in 2004 the incomes of the poorest persons decreased again, while the incomes of the middle and highest quintiles continued



„Who are the richest persons here? Those who were chairpersons of collective farms, tobacco plantations or took hold of the shops or something else in the town. Those who managed to take the greatest share from the start and get their money from it are millionaires now. And now, try to squeeze through them” (Serghei, 28, telecommunications expert, Chisinau.)

⁶⁵ MET, 2005.

⁶⁶ Ranis and Stewart, 2000.

Chart 13. Evolution of inequality in the Republic of Moldova, 1997-2005.

Sources: NBS, 2006; MEC, 2005; and estimates of the authors.

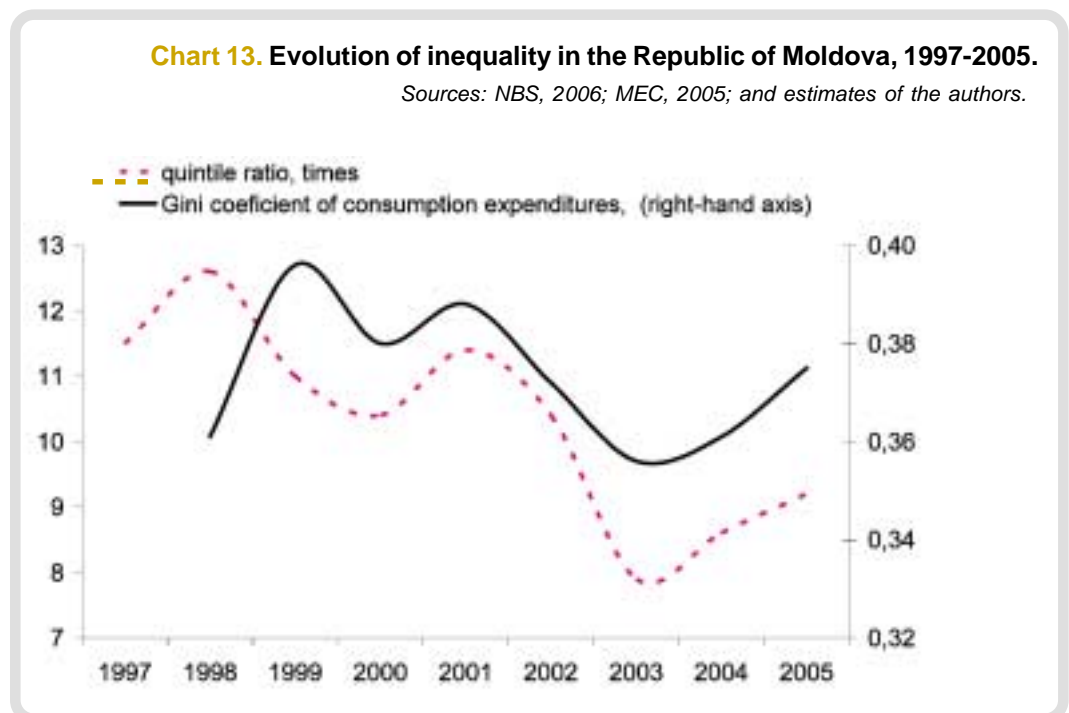


Table 11. Increase of real profits per quintiles, % (prices of 1998).

	1999	2000	2001	2002	2003	2004	2005
Annual growth							
Quintile 1	-5.35	9.67	8.49	31.81	52.31	-1.43	-3.3
Quintile 2	-16.26	11.61	16.62	23.72	30.46	-.90	6.7
Quintile 3	-20.31	8.54	16.63	23.35	25.47	2.97	7.0
Quintile 4	-20.75	5.53	16.65	22.46	22.27	3.49	4.3
Quintile 5	-18.69	3.16	21.19	21.44	14.35	5.84	1.9
Average	-18.65	5.57	18.44	22.64	21.16	3.71	4.5
Increase in relation to 1998							
Quintile 1	-5.35	3.80	12.60	48.43	126.07	122.84	118.8
Quintile 2	-16.26	-6.53	9.00	34.86	75.93	74.35	78.6
Quintile 3	-20.31	-13.50	.88	24.44	56.14	60.78	65.1
Quintile 4	-20.75	-16.36	-2.44	19.46	46.07	51.17	53.4
Quintile 5	-18.69	-16.12	1.65	23.43	41.15	49.39	50.3
Average	-18.65	-14.12	1.72	24.75	51.14	56.75	59.3

Source: Calculations of the authors based on the Household Budgets Surveys 1999-2004.

to grow in real terms. This has immediately reflected in the indicators of income inequality, showing that income vulnerability is still as great a problem as poverty itself. During the NHDR survey, citizens were asked how stable their incomes were. Almost 33% of respondents considered that they have unstable incomes, and just over 16% have very unstable incomes. These findings are to a great extent conditioned by more pessimistic answers of rural inhabitants. The evolution of poverty in 2005 shows that as long as incomes in agriculture continue to be volatile, income inequality and poverty will not be reduced in a lasting way.

Social profile of poverty

The picture of poverty in 2004-2005 does not differ essentially from that in 2000. Three-quarters of poor people live in rural areas, the general tendency in the last five years being the growth of their share among the poor. In rural areas poverty is more static than in the urban ones. Compared to 2002, the incidence of the extreme poverty in 2004 was almost 3 times lower in large towns, almost twice lower - in small towns and about 70% - in villages. In 2005, poverty continued to decrease in large towns. The dynamics of poverty are directly influenced by the speed of economic growth in different regions which demonstrates once more the risks of an excessive polarisation of the economy.

Official statistical data and analytical reports demonstrate that monetary poverty in the Republic of Moldova is to a great extent a rural phenomenon. (Table 12). In 2005, more than three-quarters of poor population were living in villages where the rate of poverty was of 36% comparing to 17.5% in urban areas.

The socio-economic groups that are facing the greatest risk of poverty are, in one way or another, related to agriculture: 35% of farmers and 37% of agricultural sector employees are poor. The poorer the household, the higher the share of agricultural incomes, mainly in kind. Possession of land assets does not automatically solve the problem of poverty, which is demonstrated by the fact that all poor people from rural areas hold plots of land as private property.

At the same time, the population living in small towns continues to face the greatest risk of poverty. The poor population lives in small localities characterised by an inadequate and weak industry, where job opportunities hold little attraction. The lack of geographical mobility prevents the unemployed from these localities from benefiting by the opportunities in larger towns.

Child poverty in the Republic of Moldova is, in our view, the most alarming facet of the phenomenon of poverty. Children living in rural

Table 12. Profile of poverty by residence.

Indicators	2000	2001	2002	2003	2004	2005
Incidence of absolute poverty	67,8	54,6	40,4	29,0	26,5	29,1
Rural	73,9	58,2	45,1	31,1	31,2	36,0
Small towns	80,7	73,1	46,8	42,4	34,9	17,5
Large towns	40,0	30,0	16,5	12,8	6,9	
Poverty gap	27,0	19,3	12,4	7,3	6,8	
Rural	29,1	20,2	14,1	7,8	8,3	
Small towns	37,2	30,4	17,1	11,6	8,3	
Large towns	12,8	8,5	4,2	2,8	1,3	
Structure of poverty	100	100	100	100	100	100
Rural	64,2	65,2	70,1	72,0	74,0	77,5
Urban	35,8	34,8	29,9	32,0	26,0	22,5

Source: MEC, 2005.

Table 13. Differential impact of poverty on men and women.

In your opinion, what is the situation of women in relation to men as concerns the following:	Better	Same	Worse	Ns/nr
Incomes	14,4	46,3	36,8	2,5
Food	9,0	70,0	19,2	1,8
Access to medical services	11,1	74,3	12,0	2,7
Access to educational services for You or Your children.	9,3	76,7	9,7	4,3
Living conditions	8,4	73,1	15,2	3,4
Personal security	7,5	48,2	39,8	4,5
Social marginalisation	5,9	61,1	23,8	9,3
Psycho-emotional stress	6,5	43,3	42,2	7,7
Possibility of participating in decision-making at community level	3,8	59,3	28,7	8,1
Possibility of participating in decision-making at national level	4,5	56,8	28,5	10,2

Source: NHDR survey.

areas are facing an extremely high risk of absolute and extreme poverty. Almost a third of them are living in = conditions of extreme poverty. The risk of poverty is extremely high in households with three or more children aged under 18. Thus it is not surprising, as the statistical surveys demonstrate, that the population of the Republic of Moldova is particularly afraid of poverty and uncertainties concerning the future of their children⁶⁷. Child exposure to dire poverty generates vicious inter-generational circles. Children born in poor families are, starting from birth, deprived of adequate access to education and healthcare services, and when they grow up they have a reduced human capital, exposing them to a very high risk of poverty in the families they

are creating. Inactivity of indicators of child poverty indicates that the economic growth in the last five years did not have a particularly positive impact on them. In spite of the devastating social and economic consequences of child poverty, this phenomenon is not properly approached in national development strategies.

Education was a strong decisive factor of poverty during the entire period of economic growth. In 2005, families headed by persons with higher education were facing a risk of poverty, which was seven times lower than in those headed by persons with a primary education. In urban areas, a more advanced

⁶⁷ IPP, 2006.

level of education allows a person to obtain a better paid job and ensures higher stability in the position held. Education is also useful in rural areas, however increases of the level of studies in rural areas generates not only a higher probability to find more advantageous economic opportunities, but also a higher probability of emigration.

According to the research, poverty does not vary significantly in terms of gender in the Republic of Moldova⁶⁸. At the same time, a significant number of those interviewed during the NHDR survey consider that, from the income viewpoint, women are in a more disadvantaged situation. In fact, Table 13 demonstrates that the situation of women is perceived as being worse in all dimensions.

Material poverty and human development

Human development improves when the available incomes of poor families are mainly allocated for nutrition, education and health. In the Republic of Moldova, the poorest families have a typical consumption structure where foodstuffs prevail (78%). The quota of consumption of services that in the long term would help young members of households to escape poverty and develop from the human viewpoint is very low (expenditures on education and health, Table 14). On the other hand, paradoxically, the poorer the family, the higher the share in its budget of expenditures on alcoholic drinks and tobacco!

As an absolute value, the expenses of the poor are incomparably small in all respects. On average, the citizens from the poorest quintile spend 100 times less (!) on education than citizens from the richest quintile; on clothes and footwear – 40 times less; on health – 24 times less; on housing and accommodations – 10 times less and on food products – 3 times less.

Poverty and high income inequality are not only a result of economic growth “without a human face”. When persisting, these phenomena reduce potential economic growth. It happens due to the fact that the poor quintiles do not contribute to the growth of aggregated demand and their human capital is worsening.

The data from Table 14 are extremely informative from other perspectives as well. The fact that the value of the consumption budget of quintile IV (second in the level of prosperity) is two times lower than of quintile V (the richest) proves the fact that the Moldovan society lacks a middle class. In other words, in the Republic of Moldova there are mainly very poor, non-poor and very rich citizens, and quite few are those who simply live a decent life.

Living a long and healthy life...

A long and healthy life represents one of the three dimensions of the Human Development Index. The results of some international

⁶⁸ MET, 2006.

Table 14. Structure of the consumption budgets of domestic household, by quintiles, 2004.

	Quintiles of expenses per equivalent					total
	Q I	Q II	Q III	Q IV	Q V	
TOTAL, inclusively:	100	100	100	100	100	100
- food products	77.80	73.06	68.69	62.59	41.87	56.92
- alcoholic drinks, tobacco	4.74	4.16	3.41	3.02	2.43	3.09
- clothes and footwear	1.63	2.74	4.79	6.68	12.17	7.93
- housing and accommodations	10.01	11.49	12.51	14.24	18.61	15.23
- health	1.22	2.25	2.93	3.47	5.21	3.83
- transport and communications	2.66	3.67	4.42	5.83	8.42	6.24
- education	.11	.17	.31	.32	1.99	1.01
- other goods and services	1.82	2.46	2.94	3.85	9.30	5.76
Average consumption expenses (per adult equivalent), MDL	222.35	347.22	465.00	629.56	1265.35	588.70

Source: MEC 2005.

surveys show that the improvement of nutrition and health contributes to economic growth by improving the performance of the labour force⁶⁹. Moreover, the health sector itself can contribute to economic growth by rendering more qualitative and more demand-driven services by the citizens from the formal sphere. However, there is an indirect positive connection too, the economic growth channelling higher public and private resources in the field of health protection.

Medical-demographic situation

During the period of economic growth, the achievements of the Republic of Moldova as regards health issues are mixed. The demographic processes in the country are characterised by fluctuating tendencies of the basic indicators. Mortality prevails over birth-rate (Chart 14), in 2005 constituting 12.4 per 1000 inhabitants (for other analyses see Box 7). This figure is one of the lowest among the CIS countries but higher than in the transition countries (10.4) and much higher than the average in the EU (8.0). In certain administrative-territorial units the increase of mortality in 2005 was alarming indeed: in the district Dubasari – 15.8‰ (as compared to 12.9‰ in 2004), in Nisporeni – 12.5‰ (10.5‰) and in Taraclia – 14.2‰ (12.1‰).

In the Republic of Moldova 28.7% of the total number of deaths are reported among those of working age. The high rate of death outside

hospitals is alarming (83.3% out of total). The issue is worsened by the fact that the population of the age capable of work from rural areas is little integrated in the system of health insurance. As in most European countries, the diseases of the circulatory system represent the main cause of death (in 2005, they represented 56.3% of the total). In second place in the structure of causes of death (with 16.6%) are malign tumours that are affecting more and more persons of working age. Mortality from cancer diseases constitutes a major problem of the public health, in 2001-2005 the incidence of malign tumours increased from 163.1 to 192.9 per 100 thousand inhabitants.

The natural increase of the population in 2005 constituted -1.9‰, as compared to -1.0‰ in 2004. In 2005 a positive indicator was recorded only in Chisinau municipality and in some districts. In the northern part of Republic of Moldova there are extremely problematic zones where the natural increase is under -5‰: Briceni (-7.2‰), Donduseni (-8.4‰), Drochia (-5.8‰), Edinet (-6.8‰), Ocnita (-7.8‰), Rascani (-6.4‰) and Soldanesti (-6.1‰).

Life expectancy in 2005 constituted 67.8 years, decreasing from 68.6 years in 2004 and is 10 years below the average from the countries of the European Union and three

⁶⁹ Ranis, 2004.

Chart 14. Absolute number of deaths and births.

Source: NSPCPM, 2005.

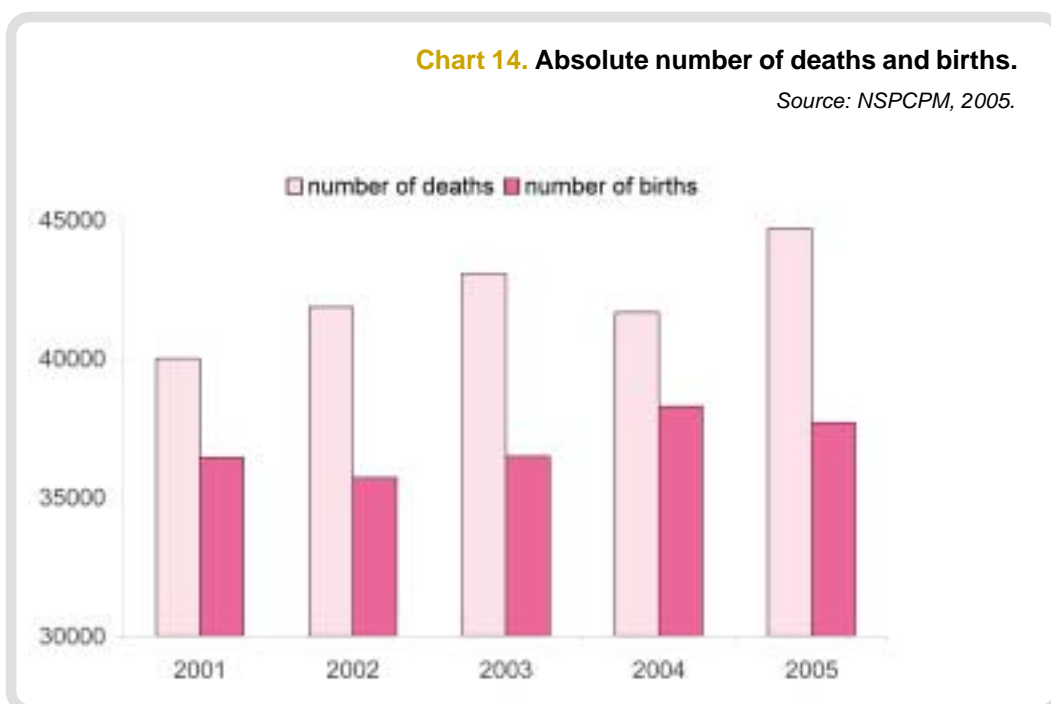
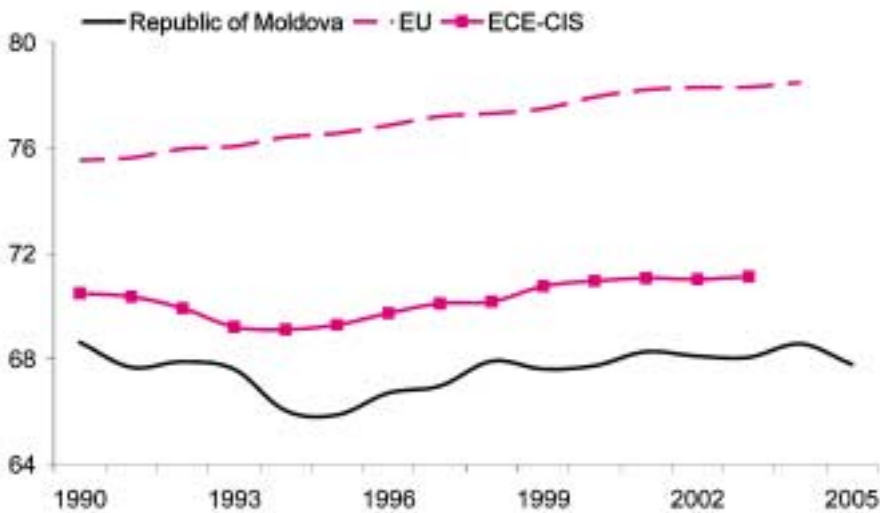


Chart 15. Life expectancy at birth, both genders.

Source: WHO, 2006, NBS, 1993 and courtesy of NBS (see annex 1).



Box 7.

Characteristics of the demographic crisis

The Republic of Moldova has experienced a demographic decline which, most likely, will not reverse in the near future and will reduce considerably the available labour resources. This decline is not influenced only by transition causes related to the disintegration of the Soviet system and by the slow implementation of economic and social reforms. The decline is caused by a series of fundamental factors specific to the new “demographic transition”⁷⁰. This transition is characterised by low fertility, increase of the number of out-of-wedlock children, increase of the rate of divorce and low birth-rate. In the Republic of Moldova, unlike other European countries, the low birth-rate correlates with a very high mortality.

Some of these tendencies began to crystallise in the 1980s. However, during the transition period they consolidated under the influence of economic and social factors that affected the traditional way of life. Mortality has increased substantially in 1990-1995 (from 9.7‰ to 12.2‰), decreasing then by 1998 (10.9‰). Though further positive tendencies have been observed, in 2005 the Republic of Moldova has not yet recovered to the pre-transition level.

In 2004 the number of current population recorded by annual statistical assessments was 1.6% lower than in 1997 (3.61 million). However, in accordance with the data of the general census of the population, the stable population of the Republic of Moldova was 3.38 million. The number of population is continuously decreasing due to the negative natural growth (with an average of -0.9‰ in 1997-2005) and the emigration of the labour force. There are some indicators that prove that in Republic of Moldova the family as basic social institution is facing a crisis: the rate of fertility has decreased from 2.46 in 1990 to 1.22 in 2005, the rate of divorce has increased from 32.2 to 59.3, and the share of out-of-wedlock children – from 11% to 24.5% (Chart 16). In addition, a prominent ageing of the population is observed, the ageing coefficient increasing from 12.8 in 1990 to 13.8 in 2004. Emigration has become another key-factor that will shape the demographic situation and the labour force market in long-run.

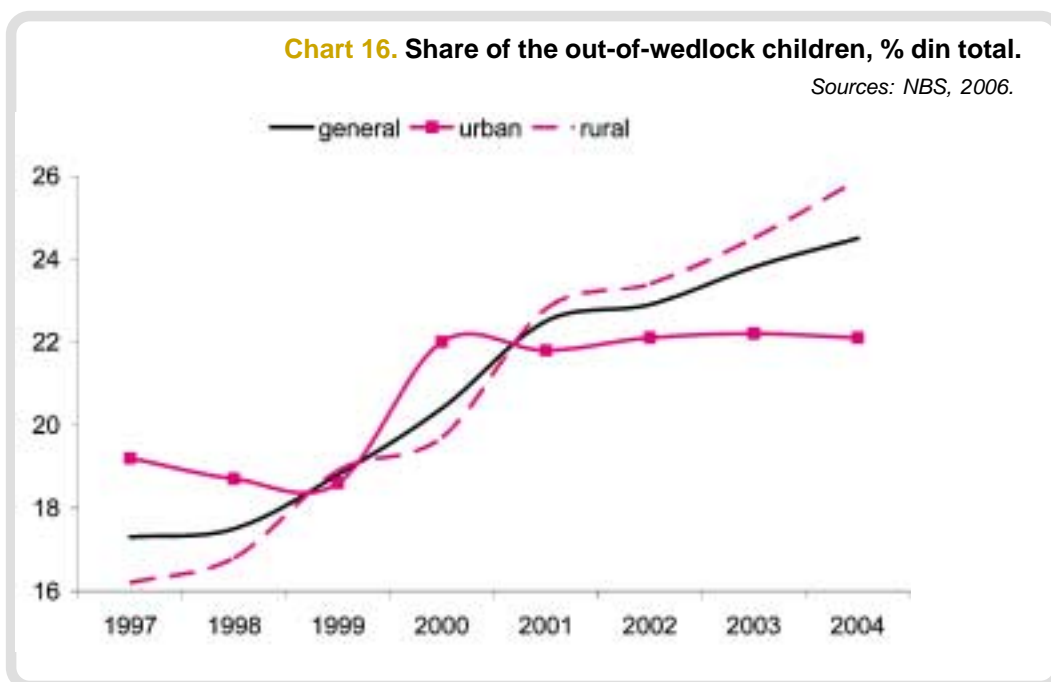
„Earlier everyone had 3 or more children and now they have one and then they have to consider if they will be able to support his living.” (Vadim, 28, student, rural inhabitant.)



⁷⁰ CDHE, 2005.

Chart 16. Share of the out-of-wedlock children, % din total.

Sources: NBS, 2006.



years less than the one in transition countries (Chart 15). Life expectancy among women is approximately eight years longer than among men. Area of residence, living and labour conditions are also important factors of longevity. In rural areas, where life conditions are worse and the greatest part of life is spent on exhaustive physical works, the life expectancy of men and women is by 3.0 and 2.7 years lower than in urban areas.

Maternal and children health

The indicators of maternal and children health belong to the most relevant indicators of human development in any society⁷¹. Disregarding economic growth or other achievements, the dynamics of infant mortality, mortality of children under age of 5 and maternal mortality remain the most suggestive indicators marking the achievements or failures towards higher standards of human development.

In 1990, the infant mortality rate in the Republic of Moldova was 19.2 cases per 1000 live births (hereinafter, ‰)⁷². This was almost two times higher than in the EU countries and a little lower than the average of the CIS and CEE countries. The lack of material resources and the high social costs during the period of early transition caused the increase of the gap with

the EU and the loss of advantages in relation to CIS and CEE countries. In 1994, infant mortality in the Republic of Moldova reached the highest rate of 23.9‰, while in the EU and CEE-CIS the indicators were of 7.3‰ and 21.4‰ respectively. By 2000, the gaps of the Republic of Moldova in relation to the EU and CEE-CIS countries were only increasing.

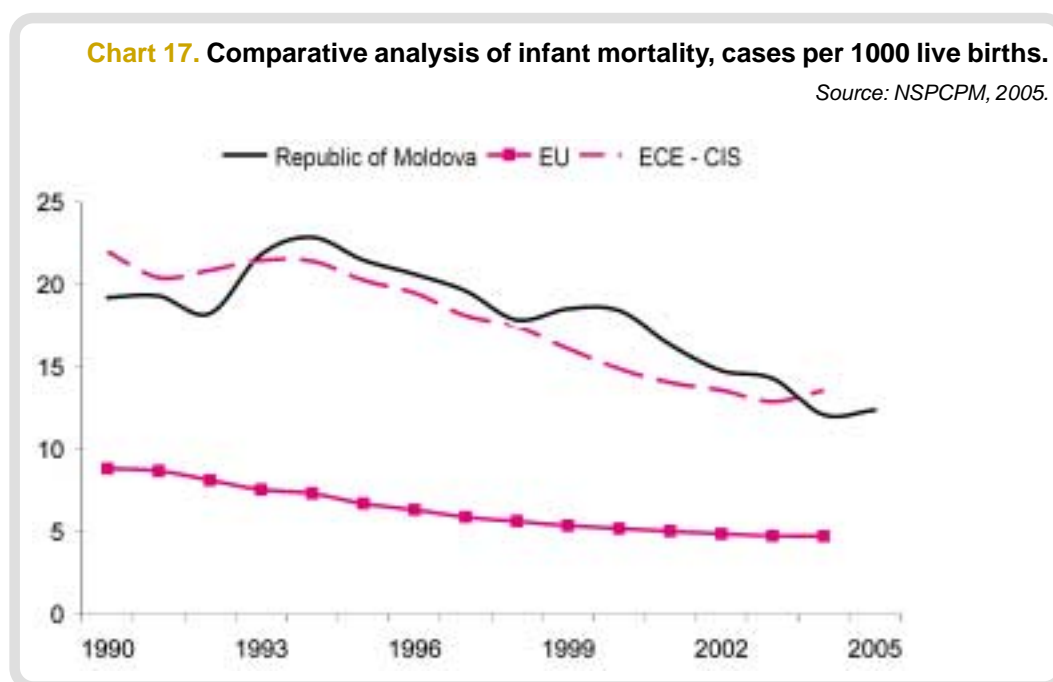
Since 2001, a convergence of the indicators towards the European average began. Children under five benefit through a programme of compulsory insurance and pregnant women are provided with iodine and folic acid. The accomplishment of the Programme “Promotion of Qualitative Prenatal Services” and of the Global Initiative “Pregnant Women without Risk” has led to a strengthening of the system of prenatal medical assistance, the development of qualitative services, training of medical staff, the institution of a system of prenatal supervision, elaboration of treatment protocols and training materials. Both programmes are supported by external donors as well as an important contribution from the Government of the Republic of Moldova. Consequently, infant mortality in 2001-2005 continuously decreased from 18.4‰ to 12.4‰, and the gaps with EU and CEE-CIS have decreased as well. In 2004-2005, infant mortality in the Republic of Moldova was even lower than the average in the CEE-CIS.

⁷¹ Ranis and Stewart, 2000.

⁷² UNICEF-IRC, 2005.

Chart 17. Comparative analysis of infant mortality, cases per 1000 live births.

Source: NSPCPM, 2005.



The current achievements are above those reported prior to transition. Though the rate of infant mortality still remains considerably high if compared to the average in the European countries, in the Republic of Moldova this indicator has decreased during the last five years faster than in the EU. In this respect, during the next 5-6 years it is possible to bridge completely the gaps with the European level (Chart 17). In order to accelerate the reduction of infant mortality as a whole in the country, it is necessary to pay special attention to some problematic zones where extremely high levels of infant mortality are reported: Soldanesti 25.0‰, Basarabeasca 20.4‰, Calarasi 20.3‰ and Nisporeni 17.5‰⁷³.

Major progress as compared with the period prior to transition has also been achieved in the reduction of mortality among children under 5 years of age and constituted 14.7 cases, as compared with 15.3 in 2004 and 20.3 cases per 1000 live births in 2001 (Chart 18). Moreover, it is to be mentioned that this level is still higher than the one in the CEE countries and the other three countries from the West of the CIS (11.8)⁷⁴.

In 2001-2005, maternal mortality was reduced considerably from 43.9 cases per 100,000 live births to 18.6. Unlike infant mortality and

under-five mortality, which after 1994 had a clear decreasing trend, the progress achieved in the reduction of maternal mortality has not been so even. Currently, the level of maternal mortality is three times higher than the European average (5.71 per 100,000 live births). Also, the indicator is much higher than in the CEE (11.5) and the western CIS (17.8). One fourth of the cases of maternal mortality happen at home since women and their relatives are not appropriately informed and do not know how to identify the problems that might endanger life and do not request medical assistance on time.

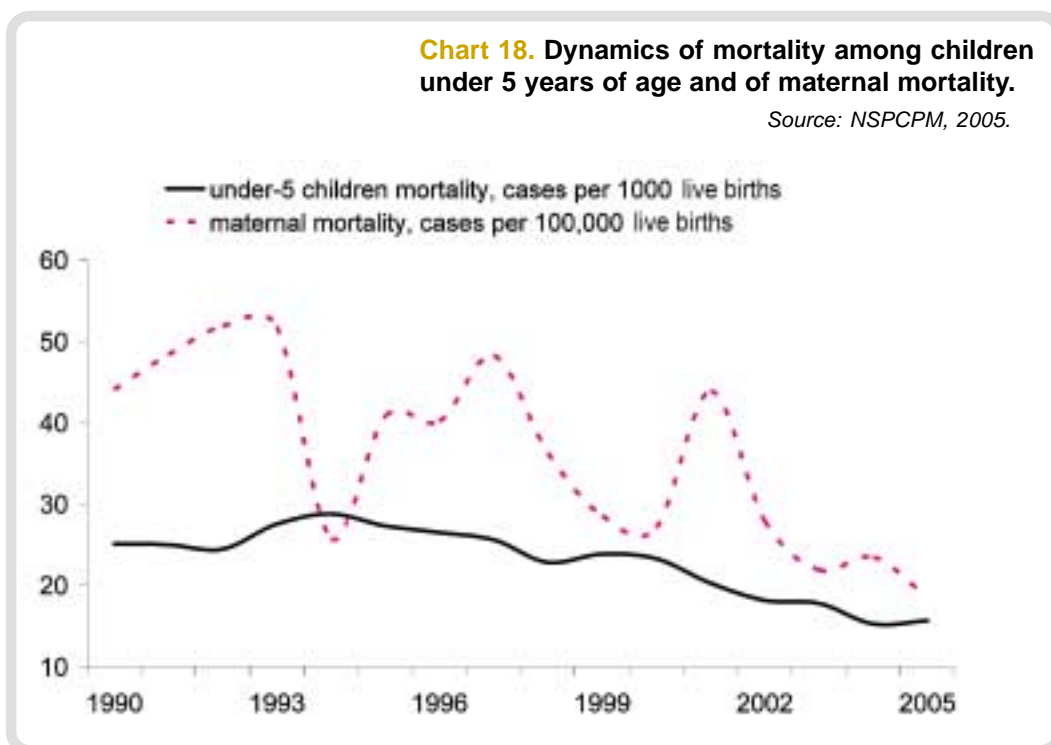
During the period of economic growth there has been an acceleration of the improvement of indicators of mother and child health. Growth has been invested through increasing private and public expenditure on health and nutrition. Expenses per capita in US dollars have increased from 12.6 in 2001 to 40.7 in 2005. Over 70% of all the health expenses are covered by the state budget. Thus, the Republic of Moldova has achieved undeniable progress in this aspect of development, advancing considerably as compared with the situation when it entered the transition period and reducing, in some cases, the gaps with other transition countries.

⁷³ NBS, 2006, d).

⁷⁴ Estimates of the authors based on UNICEF-ICR, 2005.

Chart 18. Dynamics of mortality among children under 5 years of age and of maternal mortality.

Source: NSPCPM, 2005.



Socially conditioned diseases

Tuberculosis, alcoholism, drug abuse and HIV/AIDS are diseases conditioned by social-economic factors and represent major risks for the Republic of Moldova.

The evolution of tuberculosis in Republic of Moldova has had an epidemic character in the 1990s due to the economic crisis, insufficient financing of the health system, lack of anti-tuberculosis medicines from 1997-2000, seasonal emigration of the population, as well as the spread of tuberculosis in prisons. In accordance with the national Programme for Tuberculosis Control for the years 2001-2005, activities to combat tuberculosis covered measures of elaboration of territorial programmes, centralised provision of patients with anti-tuberculosis medicines, organisation and adequate equipment of the microscopy centres in district hospitals⁷⁵. The implementation of the Programme has made it possible to reduce TB rates 30.2% in 2000 to 12.6% in 2004 and to prevent generalised tuberculosis among children through vaccines of 99% of the children during their first year of life⁷⁶.

Nevertheless, despite the positive tendencies, the accomplishment of this programme was officially recognised as being difficult and unsatisfactory⁷⁷, the epidemiological situation

of tuberculosis remaining very complicated. During the period 2001-2005 there have been reported tendencies of constant growth of the tuberculosis global incidence from 93.2 cases per 100,000 inhabitants to 130.5 cases per 100 thousand inhabitants (Chart 19). A higher TB incidence than the average for the country is reported in Calarasi, Criuleni, Ialoveni, Straseni and in Chisinau municipality. Though decreasing, the incidence of tuberculosis among children still remains at a rather high level (29.3 cases per 100,000 children).

The level of global incidence of tuberculosis in the Republic of Moldova is 10 times higher than in the EU and twice as high as in transition countries. Extremely alarming is the increase in the incidence of the destructive forms of tuberculosis; in 2005 there were reported 42.2 cases per 100,000 inhabitants.

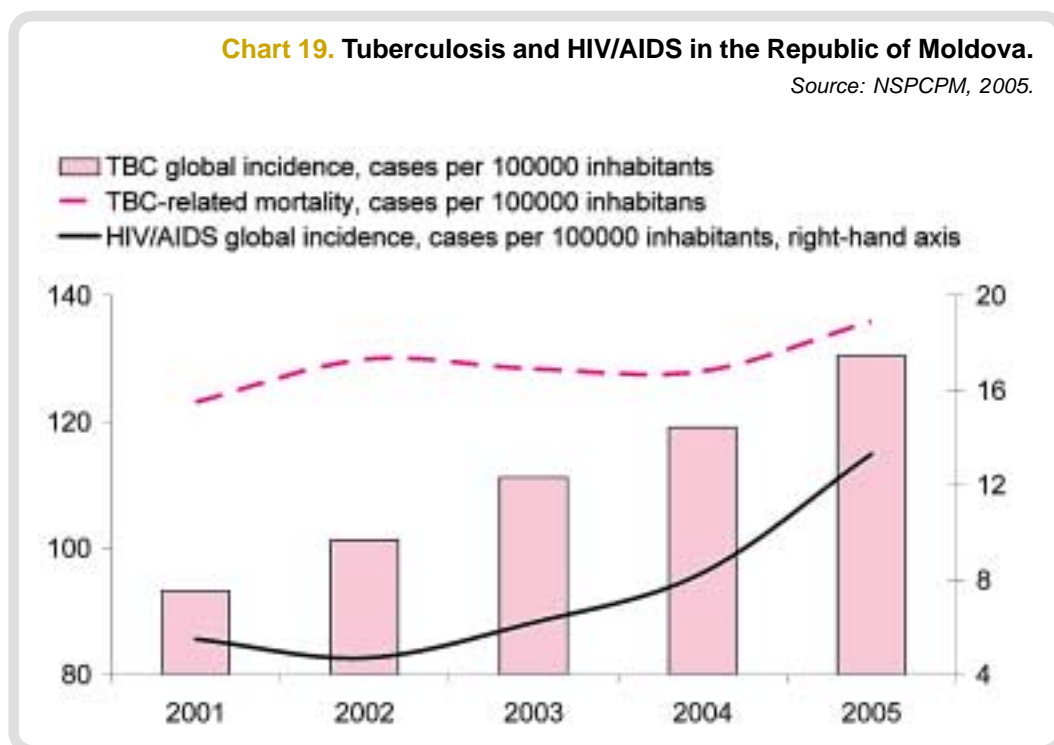
⁷⁵ Government of the Republic of Moldova, Decision on the approval of the national Programme of control and prevention of tuberculosis for the years 2001-2005, NR. 559 from 28/06/2001.

⁷⁶ Government of the Republic of Moldova, Decision on the approval of the national Programme of control and prevention of tuberculosis for the years 2006-2010 NR. 1409 from 30/12/2005.

⁷⁷ GRM, Decision on the epidemiological situation of tuberculosis and the measures undertaken for the accomplishment of the national Programme of control and prevention of tuberculosis for the years 2001-2005, NR. 185 from 20/02/2003.

Chart 19. Tuberculosis and HIV/AIDS in the Republic of Moldova.

Source: NSPCPM, 2005.



This fact marks a late recognition of the malady. The mortality from tuberculosis was extremely high during the period analysed and in the year 2005 it constituted 18.9 cases per 100,000 inhabitants compared with 15.5 cases in the year 2001 (Chart 19).

In order to redress the situation, in 2005 a new national programme of control and prevention of tuberculosis for 2006-2010 was approved⁷⁸. The programme establishes a set of clear quantitative objectives that are to be reached in order to stabilise the tuberculosis epidemic. The most important task is the reduction of global incidence of tuberculosis to 85.0 cases per 100,000 inhabitants by 2010. In the Middle-Term Expenditures Framework 2007-2009, combating tuberculosis is recognised as a priority in national health financing. This is a hopeful sign that the programme will benefit by a full-fledged financial support and that it will be implemented.

The abusive consumption of alcohol, drugs and other psychotropic substances and the negative consequences caused by them represents major problems of the public health system in the Republic of Moldova. On 1 January 2006, 46,553 persons suffering from alcoholism were reported as being under the medical supervision of public institutions. The incidence

of chronic alcoholism in the year 2005 constituted 112.8 cases per 100,000 inhabitants as compared to 81.8 in 2001, and the incidence of alcoholic psychoses constituted 19.6 cases per 100,000 inhabitants as compared to 5.9 in 2001. This situation is due, on the one hand, to the decrease of responsibility of the affected persons towards their personal health and, on the other hand, to deficiencies in the public health system. Though alcoholism has become an alarming issue that erodes the social capital in the first place, governmental or non-governmental programmes for combating this social plague have not yet been implemented in the Republic of Moldova.

In 2005 1,023 persons were reported to have drug abuse problems. The rate of drug abuse in 2005 was of almost 192 cases per 100,000 inhabitants. This index is much higher in Chisinau (535.5) and Balti (711.6) municipalities. Starting in 2000, the Government has approved three decisions on the measures of combating drug abuse and drug trafficking, including measures for drug use prevention. During recent years, mortality from drug abuse has been stabilising. However, it is obvious that

„I still believe it is the human character that matters, if you are a decent man, you will work and will earn a living. If you give up and start drinking, then you will become totally poor.” (Emilian, 40, land owner, seasonal worker in Russia, rural inhabitant.)



⁷⁸ GRM, Decision on the approval of the national Programme of control and prevention of tuberculosis for the years 2006-2010, NR. 1409 from 30/12/2005.

Table 15. Indicators on drug use and HIV/AIDS.

	2001	2002	2003	2004	2005
Share of drug use, cases per 100,000 inhabitants	122,1	140,3	167,8	175,9	191,8
New cases of drug addiction depicted annually	1250	1669	1223	813	1023
Total number of reported drug addicts	5639	6597	7632	7925	8320
Number of persons that died from overdose	123	132	131	109	53
Depicted with HIV/AIDS	234	209	258	196	310
Out of them, drug addicts	192	139	113	77	111

Source: NSPCPM, 2005;

the cumulative number of drug addicted persons is not going to decrease (Table 15), which means that the efficiency of prevention measures was minimal.

In 2005 drug overdoses dropped to 53 cases, down from 109 in 2004. The share of drug addicts who had the HIV/AIDS virus in recent years has significantly decreased, and in 2005 it was 35.8% (as compared with 82% in 2001).

The evolution over time of HIV/AIDS incidence per 100,000 inhabitants (reflected in Chart 19) represents an alarming trend. In 2005, according to preliminary data, the incidence of HIV reached the level of 13.3 cases per 100,000 inhabitants. As an absolute figure, there have been 538 new cases reported, 50% more than in 2004. Out of the total number of cases, 310 are attributed to the inhabitants from the right bank of the river Dniester and 228 to the inhabitants from the Trans-Dniester region. The significant increase is due to the larger volume of confirmations made for the blood tests collected in Trans-Dniester. The share of HIV positive women has increased from 25.2% in 2001 to 49.1% in 2004. The incidence of HIV positive persons young people aged between 15-24 (10.9 per 100 thousand in 2001 and 9.67 in 2004) has remained stable.

Beginning in 2004, the predominant way (over 50% of cases) of HIV transmission was from sex. If compared to neighbouring countries, death rates from HIV/AIDS in the Republic of Moldova is not very high but, starting in 2001, a sharp worsening of the indicator has been observed. In order to address the situation, in 2005 a new national Programme of prevention and control of HIV/AIDS infections and sexually transmitted diseases for 2006-2010⁷⁹ was approved. Among the objectives of the Programme are the reduction by 2010 of the

HIV/AIDS incidence to 3.5 cases per 100 thousand inhabitants and among the population aged between 15-24 - to 4.2.

The control of these problems can be accomplished only by joint efforts of the whole society and through total support from the international community. Though economic hardships play a role, the risks of getting ill of these maladies depends to the greatest extent upon the life style and personal attitude. The elaboration and the implementation of a national health policy to tackle these issues is an urgent imperative of the time we live in and implies a considerable social implication.

Access of the population to health services

The introduction in 2004 of compulsory medical insurance has created the conditions for more widespread health coverage. The volume and quality of medical assistance signals an improvement in access of the population to basic medical services. Public opinion on the reform varies. A rigorous assessment of the economic and social impact of the reform cannot be made so far. However, some surveys show that, generally, patients are satisfied with the primary medical services and over ¾ of persons interviewed would recommend their family doctor to their friends and acquaintances, which reflects a high level of appreciation of the medical services by the population⁸⁰.

There are aspects in which the medical insurance reform still needs to progress. As with the system of social protection, the

⁷⁹ GRM, Decision on measures of control and prevention of HIV/AIDS infection and sexually transmitted infections, NR. 948 from 05/09/2005.

⁸⁰ Survey „On the degree of patient satisfaction and accessibility of medical services in the pilot regions Orhei and Chisinau” conducted in the year 2005 within the project financed by the European Union „Reform of Public Health of Moldova”.

„It is a great plus that there is insured medicine since if you are employed, you are obliged to pay contributions. Besides, this is a great advantage for those people who have no money in their pockets. The seven days you can stay free in the hospital matter more, especially if you are in a financial crisis.”
(Tamara, 37, Moldtelecom employee.)



system of compulsory medical insurance is based upon the principle of social categories, with the state assuming the obligation to insure several social groups. A considerable part of the population of the country has reduced access to medical services, over 25% do not possess compulsory insurance policies of medical assistance. As for the poor, over 30% of them do not possess such policies⁸¹. There are marked inequalities as regards the access to medical services. An urban family which is not poor spends over 30 lei per month on medical services, while a poor family from the rural area – only 3 lei⁸². In 2004 the poor from the rural areas visited medical institutions even more seldom than in 2003. The limited access has serious implications on the population's health and prevents the reduction of poverty in rural areas. One of the analytical surveys on poverty in the Republic of Moldova issues the hypothesis that one of the causes of rural poverty growth in 2004-2005 could be the deterioration of health and the difficulty of working the land⁸³. Obviously, this has an immediate impact on the economic growth in rural areas as well.

Within the Unique Programme of compulsory insurance of medical assistance, insured persons benefit through urgent medical assistance at the pre-hospitalisation level, primary medical assistance, specialised ambulatory, dermatological, para-clinical services, inclusively of high quality, hospital assistance and medical domestic care. Children under five years, pregnant women and patients with arterial hypertension and a series of chronic maladies that can be treated under ambulatory conditions benefit from compensated medicines. The uninsured benefit from a guaranteed free minimum of medical services that include: pre-hospital assistance for major medical-surgery needs, counselling by the family doctor, vaccination stipulated by the National Programme of Immunisations and treatment in hospitalisation units of the socially conditioned diseases or diseases jeopardising public health (tuberculosis, infectious diseases, HIV/AIDS, sexually transmitted diseases, mental, ontological diseases, etc.).

The consolidation of primary medical assistance has constituted one of the strategic directions in the reform of the health system. In the period 2001-2005, 49 Centres of Family Doctors were established in the municipalities and district

centres and 378 Health Centres and 551 Offices of Family Doctors in rural areas. A programme of postgraduate training of family doctors has been launched within the State University of Medicine and Pharmaceutics "N. Testimiteanu". As a result, the number of medical doctors has increased from 438 in 1998 to 2066 in 2005.

Within the project "Health Investment Fund", financed by the World Bank, a programme of rehabilitation of primary medical institutions has been accomplished. 88 of such institutions received capital and in 12 units the work is still ongoing. From 2002 to 2005 the Health Investments Fund allocated 140 million lei for this work.

A serious problem of the health system is the quality of medical services. Due to the lack of adequate financial resources, the use of outmoded medical technologies and the absence of doctors in different localities, the quality of services remains unsatisfactory.

The number of beds in hospitals has been reduced from 22,850 in 2001 to 20,477 beds in 2005. Despite the reduction of the beds, the number of hospitalised patients and treated ambulatory patients tended to increase and constituted 554,950 in 2005 as compared with 502,525 in 2001. In 2005, the level of population hospitalisation constituted 15.4 per 100 of inhabitants. Among the insured persons the level of hospitalisation is higher and constitutes 18.2 per 100 inhabitants. The level of hospitalisation among persons from rural areas is lower (13.0 per 100 inhabitants) as compared to that from urban areas (16.6 per 100 inhabitants) and it marks perhaps not a better health condition but a lower access to health services.

From 2002-2005, the number of doctors reduced from 11,224 to 10,616. A significant number of highly qualified specialists emigrated abroad. The level of provision of the population with doctors decreased from 30.0 to 29.5 per 10 thousand inhabitants. However, a comparative analysis of the rate of provision of the population with doctors in the Republic of Moldova and in European countries indicates that the current level may be considered sufficient for satisfying access to primary and qualified health care. The positive tendencies that have been outlined

„Last year I had surgery and had insurance. I got to the republican hospital and they didn't even look at insurance and told me that it cost 1000 lei, and „accommodation” 100 lei per day.”
(Alexandru, 23, self-employed, rural inhabitant.)



⁸¹ GRM, 2006.

⁸² Idem.

⁸³ WB, 2006.

during the last years within the system of health protection, if accompanied by a substantial increase in salaries paid to medical staff, will be able to contribute to the prevention of the “brain drain” process from the health system.

There is great variation in the degree of provision of doctors within the districts of the country. The lowest coverage is in the districts of Cantemir (10.4 doctors per 10 thousand inhabitants), Cimislia (10.6 doctors per 10 thousand inhabitants), Hancesti (12.3 doctors per 10 thousand inhabitants), Rezina (13.2 doctors per 10 thousand inhabitants) and Leova (13.4 doctors per 10 thousand inhabitants).

Education as an element of human development

The role of education in promoting human development

The Republic of Moldova has inherited from the USSR a relatively high level of adult literacy. Literacy rate in 1993 was 97%, increasing up to 99% by the year 2005 (though, according to research for this report, the *functional* rate of literacy could be significantly lower than the rate of *formal* literacy, namely the elementary capacity to write and read). The net coverage rate at all levels of education is rather low as compared to the standards of countries with a high level of human development. The maximum level this indicator reached after 1993 was 73.4% (1998). According to official statistic data, the index of education as a component of the HDI decreased from 0.564 in 1993 to 0.503 in 1999, after which it has been continuously growing up to 0.587 in 2005.

High quality and accessible education is an indispensable element for the promotion of human development and economic growth of a nation by improving the innovation and adaptation capacity of the human capital and by increasing labour productivity. The qualitative and quantitative improvements in the education of a nation can radically change the endowment of the economy with production factors. By investing in education, an economy based upon natural resources and upon cheap labour forces can be transformed into a competitive economy based upon high added value created by an educated labour force⁸⁴. By making a more considerable contribution to economic growth, the more educated labour force is

better remunerated. Thus, in 2003 the salary of an employee with higher education was 51% higher than that of an employee with secondary vocational education, 70% higher than that of people with general education and almost three times higher than that of people with secondary compulsory education⁸⁵.

An educational system that can provide a good education is also necessary for combating poverty in a durable manner. Statistics show that the risk of poverty decreases vertiginously together with the increase of the level of education. In 2004, a Moldovan family led by a person with higher education faced a three times lower risk of poverty than the one led by a person without education or illiterate (Chart 20). Moreover, the persons with higher education have higher levels of consumption than those with lower education⁸⁶, particularly, the available income increases together with the level of education.

The progress of the Republic of Moldova in the field of education

During the period of economic growth the net enrolment rate in preschool improved substantially from 38.5% in 2000 to 68.6% in 2005⁸⁷, and the enrolment in kindergarten of children from the rural areas has increased twice as much. The Republic of Moldova is above the average of matriculation of the transition countries (50%⁸⁸). This index is better than in Ukraine but it has more progress to be made to reach the level of Romania (approximately 72%) and of the EU (70%). The achieved progress is, to a great extent, due to the increase of the population income as, even at the pre-school stage, the private expenses for education are high. An increase in budgetary income at the central and local level has allowed the reparation and reestablishment of a considerable number of kindergartens bringing the total from 1,128 in the year 2001 to 1,269 in the year 2004. Another factor that determined the growth of attendance is the improvement of nutrition in pre-school institutions. Progress achieved must be maintained since pre-school education is essential for achieving short-term improvements in starting school and long-term educational achievements as a whole.

„Do you know how much is currently needed for a child? At school they demand money for reparations, funds, curtains, copybooks, books. What if you have to send a child to the university in the town, to support his living, pay for the rent, for the tuition? And the prices are increasing.” (Emilian, 40, land owner, seasonal worker in Russia, rural inhabitant.)



⁸⁴ WB, 2005, b).

⁸⁵ Idem.

⁸⁶ MET, 2005.

⁸⁷ UNICEF-IRC, 2005.

⁸⁸ Estimated by the authors on the basis of UNICEF-IRC, 2005.

Chart 20. Evolution of poverty rate in relation to education level

Sources: PPMU, 2003; and MEC, 2005.

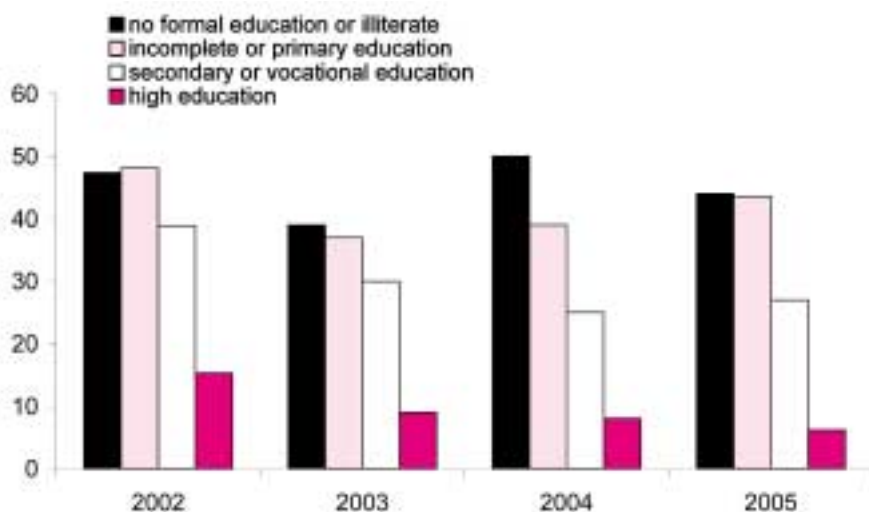
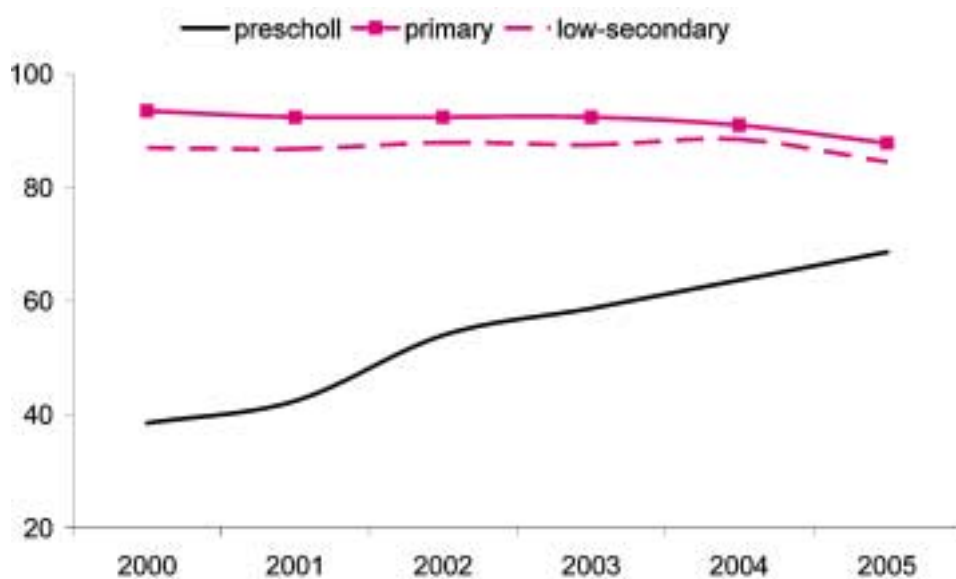


Chart 21. Evolution of the net rate of involvement by levels of education, %.

Source: MEC, 2005 and courtesy of NBS.



The net coverage rate for primary education has decreased from 93.5% (2000) to 87.8% (2005), primarily due to decreases in rural areas from 92.5% to 86.7%. Such a rapid and substantial decrease might be explained by a series of systemic causes: incapacity of some families to support primary education, poor attendance of school by the children that have been left without parental supervision and

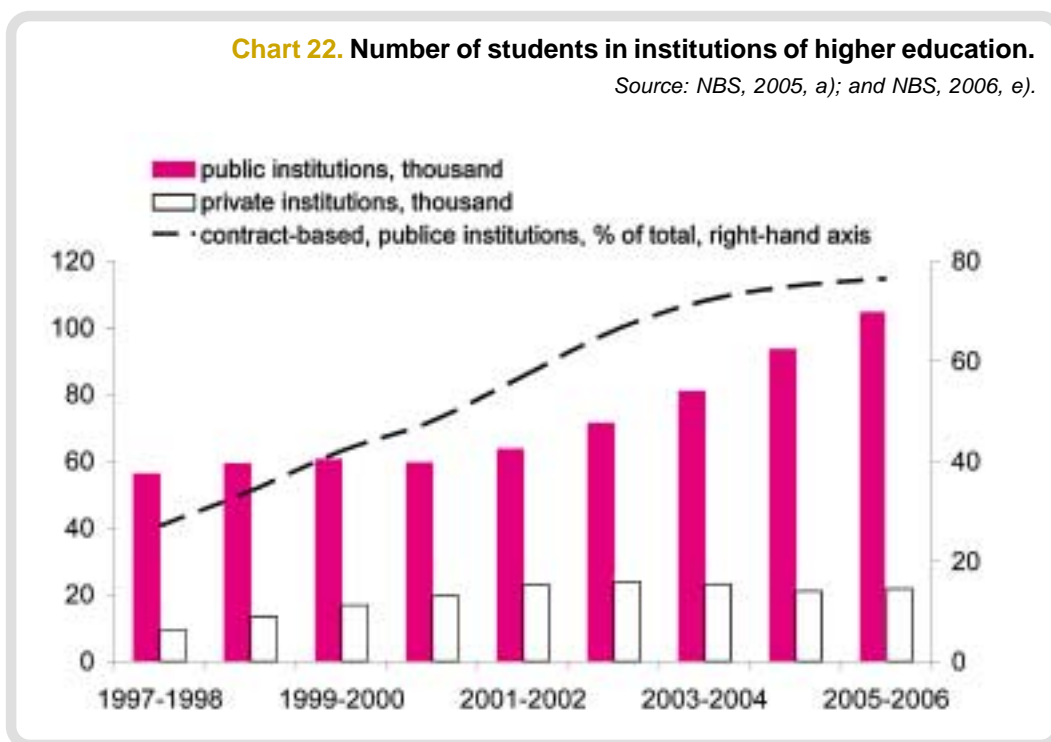
withdrawal from school of the children that go abroad with their parents⁸⁹.

The deepening of the social differentiation that has been produced during the transition has reduced the access of some groups to education. According to the results of the

⁸⁹ MET, 2005.

Chart 22. Number of students in institutions of higher education.

Source: NBS, 2005, a); and NBS, 2006, e).



„There are many hardships and the state does not support the young people. If the child goes to school, we have to pay the tuition. It is unfair that some enter on the tuition basis and know nothing and others have skills and cannot go to these schools. We do not know how the state is going to lead this generation.” (Maria,

54, seller, rural inhabitant.)



households budget survey, in 2004 the net rate of enrolment in the pre-school education for the children from the 1st quintile (the poorest one) was 36% as compared to 80% for the children of the 5th quintile (the richest one). Within the primary education this ratio was 87% to 94%, and within the compulsory secondary - 89% to 93%.

The net enrolment rate within the compulsory secondary education has improved from 87% in 2000 to 88.5% in 2004, paradoxically, due to the rural inhabitants. However, it is obvious that the decrease of matriculation within primary education in 2000-2004 implies a future reduction of matriculation at the second stage: in 2005 the enrolment rate in compulsory secondary education decreased to 84.5%. At the level of upper-secondary education (X-XII grades) the gross enrolment rate remains under 50%. This reflects the collapse of the vocational secondary education (outdated and unattractive for young people and their parents), the coverage rate being of only 15%.

The rate of participation of children from poor families in post-compulsory education – secondary, vocational secondary, high – is continuously decreasing. This is due to insufficient financing from the budget, lack in many locations of the given educational

institutions and high tuition fees. Approximately 12-15 thousand young people aged 15-16 leave the educational system annually after the first nine compulsory grades without any professional qualification.

The matriculation to higher education continues to increase even with the reduction of the number of graduates from general secondary education. Unfortunately, higher education has become more and more a zone of temporary occupation for young people related to a virtual labour market in the future. During the last eight years the total number of students has increased by 79%, including in private institutions by 1.5 times and the number of graduates has doubled. A consequence of the state withdrawal from the educational system is the absolute decrease of the number of students financed by the state budget. This marked commercialisation of the higher education (Figure 22) limits drastically the access of young people from poor families. Indeed, according to statistical data, the higher education is the strongest protection against poverty.

Access to education and inequalities

There are blatant inequities in the access to education. Based on gender, there is no discrimination towards women in the country.

On the contrary, the latter represent the absolute majority of the students in universities and colleges (in the vocational secondary education only 37%, but this reason is related not to access but to the fact that the majority of vocational training in the given institutions appeal mostly to men).

Children from poor families enter the educational system later and with considerable handicaps because they did not pass through pre-school education. Later, their relative achievements tend to worsen and they abandon the system earlier, passing only through primary education. If at the age of 7-15 the matriculation gaps, though existing, are relatively small, at the age of 16-18 the coverage rate in education of the children from the 1st quintile is already half the ones from the 5th quintile, and at the age of 19-24 it is almost eight times lower⁹⁰. The main reason of the reduction of matriculation is due to finances.

Due to low incomes, the population from the rural areas has a much more reduced access to different levels of education than the urban population. Thus, even the richest quintile from the rural areas has a more reduced access to pre-school education than the poorest quintile from the urban areas (32% towards 38%). In the rural areas, only 3% of the young people aged 19-25 from the first quintile have access to higher education as compared with 35% of the ones belonging to the richest quintile. The gaps between the education expenses of the households are very high: the poorest quintile from the rural areas allocates only 0.3% of the family budget on education in relation to 2.2% of the richest quintile from the urban areas.

Problems of the educational system

A country's economic achievements are fundamentally determined by the quality of their educational system. A higher educational profile is the key to success for increasing the income for the rest of one's life and for taking smarter decisions as regards one's life. In the new economy, the education becomes a priority branch of production, offering jobs and opportunities for favourable investment. This concept upon education will dominate the educational policy in most states of the world in the XXI century. Such a positive relation between education, individual and social prosperity that is being manifested in the Republic of Moldova is to be consolidated further as well.

One of the main issues of the educational system is the diminishing of human potential, especially at the level of compulsory and general secondary education. During the last years an unacceptable ageing of the teaching staff is observed. Over 7% of all teachers are over the pension age, 57% of teachers have worked for more than 18 years. On 1 October 2005, over 10% of the didactic staff were of pensioner age while the number of young specialists employed in schools is insignificant, the sector being unattractive for them. According to the information of the trade unions of this branch, since 2000 over 2,000-2,200 members of teachers annually abandon schools⁹¹. Consequently, teachers that remain in the schools are forced to teach an excessive number of hours. In many schools certain disciplines are not being taught due to the lack of respective teachers, thus blocking the access of children to basic studies and reducing their competitiveness in relation to the children that enjoyed a full range of studies. Due to low salaries, many employees from the educational system lack the necessary professional skills, they do not know the new educational technologies and all of these factors reflect negatively upon the quality of education. A discrepancy exists between the logistic supply and the offered financial solutions, between the modern curriculum requirements and the provision with competitive staff. The serious lack of competitive staff, of the equipment necessary for the endowment of laboratories and of high quality materials raises questions about the process of educational reform itself.

The technical-material basis of education continues to deteriorate and the annual capital investments of only 5% of the total amount of expenses on education are absolutely insufficient. The lack of financial resources, even for current repairs, causes the deterioration of school buildings, of the electrical and heating systems. During the winter, many schools have an acute lack of fuel, frequent blackouts and inadequate sanitary conditions. Inadequate nutrition is provided to children of pre-school age and to pupils from primary forms.

The development priorities and objectives of the educational system are stated in a number of governmental acts, among which the most



„In the field of education I would like to mention the following. I am a student and it happened so that I cannot pass an exam. I failed the first time, the second, and so on until the professor told me straight: “there is a fee.”
(Vadim, 28, student, rural inhabitant.)

⁹⁰ MET, 2005.

⁹¹ Borodache, 2004.

Educational policy within the context of human development

The analysis of the documents in the educational field allows the identification of some major policy targets by the year 2008:

- enrolment rate of 75% in early education programmes (age 3-5);
- enrolment rate of 100% in pre-school education programmes (age 6-7);
- enrolment rate of 100% in primary education;
- enrolment rate of 89% (according to MDG 2) in secondary level education by 2006;
- reduction of coverage gaps in pre-school education between poor and well-to-do populations and between the urban and rural areas to 5%;
- increase by 10% of the access of children in difficulty to early educational programmes;
- ensuring equitable access to primary and secondary education for all children;
- improvement in access to higher education for all children from socially vulnerable families;

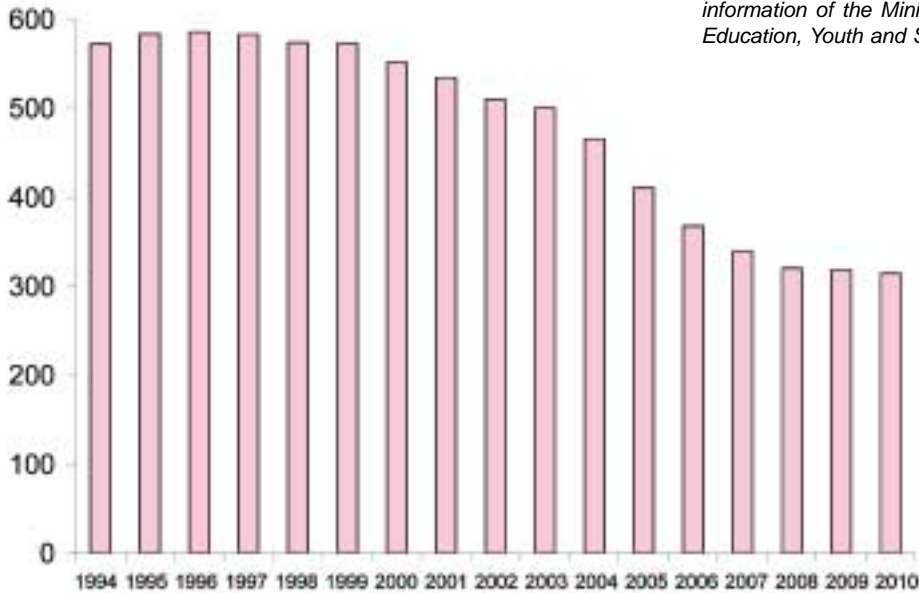
Other important fields are: informal education and the computerisation of the educational system. In the field of *informal education* the goals are: (1) increase of the access and participation in informal education, the focus being put on the socially vulnerably children / adults; (2) increase of the relevance of the informal education; (3) development of individual abilities of the pupils and formation of civic culture. The accomplishment of these objectives requires the consolidation and extension of institutional capacities, development of human potential and more active involvement of the population in schooling.

As regards the *computerisation of the educational system*, the Government of Moldova has set several ambitious objectives: (1) provision of access to all children from institutions of secondary education to modern means of education offered by informational and communicational technologies; (2) gradual reduction of "digital inequality" in access to informational and communications technologies between the urban-rural residence areas and the types of educational institutions; (3) computerisation of the educational management at all levels of the system; (4) implementation in several pilot-institutions of higher and secondary vocational education of distance teaching modules and electronic manuals; (5) provision of conditions to each graduate of vocational school, of college or of institutions of higher education for learning and applying informational and communications technologies.

The accomplishment of these objectives and targets will not be possible only by the mobilisation of internal resources since the allocations for education within MTEF 2006-2008 and MTEF 2007-2009 are not sufficient. It will be necessary to identify some external sources, to more clearly establish inter-sector priorities and to establish some clearer policies as regards such issues as management and finance at the level of educational unit, role of teachers and parents association and community associations in the monitoring of the educational system and modernisation of the financial relations between the central and local administration as regards education.

In setting the objectives of the educational policy it is also necessary to take into account the demographic perspectives. The projections show that by the year 2010 the number of pupils from I-IX forms will be reduced by over 40% in relation to the year 1996 (Figure 23). This change will offer the possibility of raising the expenses allocated to each pupil.

Chart 23. Evolution and forecast of the number of pupils in compulsory education (1-9 forms), thousand.



Source: According to the information of the Ministry of Education, Youth and Sports.

important are: the Economic Growth and Poverty Reduction Paper, the Programme of Education Modernisation, the Strategy and the National Plan of Actions “Education for all”, the presidential Programme of education computerisation “Salt” and the Plan of Actions “The Republic of Moldova – European Union”. Box 8 illustrates the goals of the reform according to the levels of the educational system.

Impact of economic growth upon the environment

High quality economic growth must exert minimal pressure upon the environment. Due to the economic collapse, which the Republic of Moldova encountered during the early transition, the impact of economic activity upon the environment has been rather limited. However, the ecological situation inherited from the 1980s was rather critical. Together with the intensification of the economic growth in 2000-2005, its negative impact upon environment has begun to manifest again⁹². The current state of the environment imposes certain restraints on economic growth and poverty reduction. The economic prosperity of a

country is to a great extent sensitive to the state of the environment. The negative impact of the unfavourable ecological situation upon the indicators of human development and poverty is rather significant although not perceivable at a superficial level.

In the Republic of Moldova, one very serious issue is related to the degradation of soils due to their intensive exploitation and the use of outdated agricultural technologies. According to specialised surveys, soil productivity is in decline due to its advanced erosion (over 34% of the total agricultural land)⁹³. The area of eroded land is increasing annually by 0.9% and the economic losses due to soil degradation are estimated at \$251 million annually (namely, one quarter of the value of the agricultural production)! Evidently, the erosion has an extremely bad impact upon poor families from the rural areas who practice subsistence agriculture and do not possess resources necessary to counteract this phenomenon⁹⁴.

Water pollution also has a direct relationship to economic growth. Due to the fact that no

⁹² MENT and NEI, 2005.

⁹³ CEE-CPM, 2005.

⁹⁴ Idem.

Table 16. Indicators of energy intensity, pollution and environment protection in the Republic of Moldova.

Indicator	1999	2000	2001	2002	2003	2004
Internal consumption of power, thousand of tons conventional fuel	3319	2647	2479	2701	2826	3065
GDP to 1 kg of consumed conventional fuel, lei, prices of 2000	-	6,05	7,23	7,52	7,61	7,27
Emissions in atmosphere from stationary sources, thousand of tons	20,4	15,2	14,5	17,0	16,0	17,5
Emissions in atmosphere from mobile sources, thousand of tons	110,0	118,8	122,9	130,9	139,3	-
Normatively purged waters, % of the total volume of the drains that require purging	95	95	91	86	62	67
Share of land covered by forests, %	10,5	10,5	11,4	12,4	12,6	-
Share of natural areas protected for the conservation of biological diversity, %	1,96	1,96	1,96	1,96	1,96	1,96

Sources: NBS, 2006 and the estimates of the authors.

investment was made in the re-establishment of the installations of biological sanitization of water and in the sewage systems, the domestic and industrial activities have become major sources of pollution. Currently, less than one fifth of those 580 purification stations built before 1990 function, and they purge only 67% of the drains that need purging.⁹⁵ (Table 16). The impact of this state of affairs upon human development is obvious: a direct negative impact upon the health of the population, especially in rural areas.

During the period of economic growth there has been a reduction of air pollution from the stationary sources, particularly due to massive substitution of solid fuel by natural gas in the energy sector and through the introduction of heating plants. Emissions from the stationary sources have been reduced by almost 25% from 1999 to 2004. However, as a result of the large number of imported cars, most of them in poor condition and more than 10 years old, emissions into the atmosphere from mobile sources have increased by more than 30%⁹⁶.

From 2000-2004, the economy energy intensity and industrial ecological efficiency have improved relatively but not essentially or uniformly. The GDP per 1 kg of consumed conventional fuel has increased from 6.05 in 2000 to 7.61 in 2003, after which it decreased to 7.27 in 2004. Such high relative consumption of energy is explained by the great energy losses from production and in the transport infrastructure.

It is difficult to estimate the total investment allocated in the country for environmental protection. The public expenditures on these purposes are rudimentary varying between 0.1-0.2% of GDP in 2003-2006. The existing

external financing for environmental projects are currently used to the maximum⁹⁷.

Human development in rural areas

The Republic of Moldova on the right bank of the River Dniester is a predominantly rural area. The share of the rural population increased from 56.4% in 1993 to 61.3% at the beginning of 2005 (according to the preliminary results of the general census of the population). The growing number of rural inhabitants undermines the prospects for social, economic and political modernisation of the country.

As has been stated earlier, indices of human development in the rural communities of the Republic of Moldova are currently more unfavourable than in the urban areas. The indicators on education, health and income level that confirm the discrepancies in human development are shown in Table 17.

The fact that monetary poverty in the villages increased from 2004-2005 suggests that the gaps in human development may have amplified in recent years. The great rural / urban divide of income, access to infrastructure and public services and of economic opportunities leads to the conclusion that development in Moldovan villages is far behind that in the cities.

In any country there are disparities in development between villages and cities. But in the Republic of Moldova, the gap is too large.

⁹⁵ Idem.

⁹⁶ Idem and MERN and NEI, 2005.

⁹⁷ Idem.

Important progress has been achieved in rural areas as well, such as the reduction of infant mortality and mortality of children under 5. However, the remaining differences remain much too prominent.

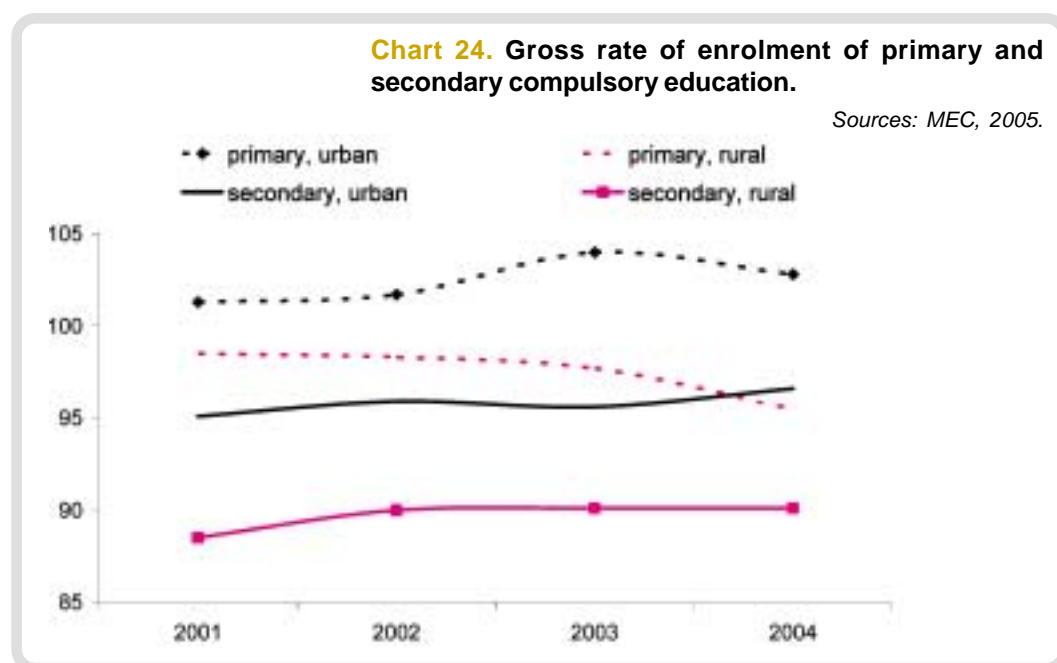
Figure 24 shows the dynamics of the first levels of education. At the other levels the disparities are even greater.

As was discussed in Chapter I, clear evidence of economic and social degradation can be observed in the country's rural areas. Large development differences are noticeable not only by the quantitative indicators, but also by public perception. According to the opinion poll made for this NHDR, over 60% of the citizens (20% of whom are urban inhabitants) consider that people from Moldovan villages are poorer than those from the towns. Numerous surveys and the practical results observed within some projects related to rural areas of

Moldova, allow us to make a synthesis of the main challenges, opportunities and risks of rural development as they are perceived by rural inhabitants⁹⁸.

The degradation of physical and social infrastructure and poverty are the two major interconnected issues Moldovan villages are currently encountering. These issues seem to have captured rural inhabitants in a poverty trap. Due to large individual and social poverty, the rural population is forced to use deteriorated roads, to refrain from the use of communications (water supply, main gas

⁹⁸ The analysis made in this section is based upon the results of the experience of elaboration of strategic plans of social and economic development in 41 rural communities of the Centre, South and East of the Republic of Moldova within the framework of the project "Development of social partnership" supported by FSIM and implemented by the „Pro Comunitate” Centre and on the results from Pistrinciu and Marin, 2005 and Ciofu 2005.



„ compared to the towns, life is very hard in the village. On the bank of the Prut, far from the town, we find it very difficult to realise our production. My wife has a salary of 500 lei, I am unemployed, we cannot earn enough to support a family of 3 children...” (Emilian, 40, land owner, seasonal worker in Russia, rural inhabitant.)

Table 17. Indicators of rural/urban human development in the Republic of Moldova.

Indicator	Year	Rural	Urban
Net coverage rate in primary education, %	2004	95,5	102,8
Net coverage rate in secondary compulsory education, %	2004	90,1	96,6
Life expectancy at birth, years	2005	66,5	70,0
Poverty incidence, %	2005	36,0	17,5
Income level, % of the national average	2005	85	128

Source: courtesy of NBS; for the income level - the estimates of the authors.

pipeline etc.) and to give up business projects that would be viable only with adequate infrastructure. Evidently, the lack or the poor quality of roads limits, in its turn, the connections of the community with the urban localities. Thus, for a considerable part of the rural population the urban localities represent the market for selling the surplus of agricultural production or the place where they can find a job.

The primary cause of rural underdevelopment is lack of employment in villages, low labour productivity and, as discussed earlier, a low rate of return of the economic activity in agriculture. The derisory income in agriculture discourages investment in the commodity market. The great majority of the people from the rural communities do not possess the internal development potential necessary for the diversification of economic activities and the investment in the social and physical infrastructure.



„In our town those who have nowhere to live and who beg are considered poor, and even those who live in flats but have nothing live like scavengers.”
(Serghei, 28, engineer in telecommunications, Chi_`in`u.)

Emigration abroad of rural inhabitants has become a quasi-cultural phenomenon. The active agents of local development (public administration, companies, NGO leaders, directors of educational institutions) perceive working abroad to be a development obstruction since those who frequently leave are mainly the youngest and the most educated citizens from a community. But for an ordinary citizen, unless he is very poor, work abroad usually represents the only viable option for survival. The extremely poor citizens do not possess the minimal resources necessary for emigration, and thus are captured in an ongoing poverty trap.

Development in urban areas

Not even before the transition period could the Republic of Moldova be considered a mainly urbanised country, though from 1970-1980 strong urbanisation tendencies were observed. After the effective separation of Trans-Dniester and the elimination of this region from official demographic statistics, the share of the urban population decreased from 46.2% in 1996 to 42.2% in 1997. According to the general census of 2004, the rate of urbanisation in Moldova on the right bank of the river Dniester is currently only 38.7%, being the lowest in Europe. The world average of urbanisation is 51% and 34% for the developing countries⁹⁹. If we take into account the fact that many pseudo-urban settlements and even the outskirts of big towns actually lack a genuine urban infrastructure, it is clear that the share of the population living in urban conditions is even lower. Despite these worrying tendencies of de-urbanisation, the development issues of the urban settlements are not treated adequately either by the national strategies¹⁰⁰ or by statistics.

Even though, as a whole, poverty in urban areas is lower than in rural areas, the situation of the population varies significantly from one urban location to another. Chisinau and Balti are genuine multifunctional cities experiencing buoyant economic growth, and the population

⁹⁹ CSRR, 2004.

¹⁰⁰ Particularly, in EGPRSP there is no a single paragraph dedicated to policies of urban development.

Table 18. Perceptions on the quality of urban infrastructure.

How did the quality of the following services changed recently (2005)?	Improved		Did not improve		Worsened		Do not use	
	Small towns	Chisinau, Balti	Small towns	Chisinau, Balti	Small towns	Chisinau, Balti	Small towns	Chisinau, Balti
Gas supply	45,6	29,6	44,1	53,8	7,4	14,4	2,9	1,9
Water supply	25,0	24	55,9	66,3	11,8	8,7	7,4	1,0
Electricity supply	35,3	29,8	60,3	60,6	4,4	8,7	0	1,0
Heat supply	30,9	36,5	39,7	39,4	11,8	22,1	17,6	1,9
Road maintenance	17,6	17,3	35,3	46,2	47,1	34,6	0	1,9
Street lightening	23,5	24,0	39,7	46,2	36,8	27,8	0	1,9
Location cleaning	26,5	9,6	33,8	51,0	39,7	37,5	0	1,9

Source: NHDR survey.

encounters the least poverty risks. A little more difficult than in Chisinau and Balti are the conditions in the former interregional towns – Soroca, Ungheni, Edinet, Hancesti, Orhei, Ocnita, Dubasari and Cahul. In some of these towns the currently complicated situation manifests redressing tendencies.

However, in a range of district centres and small towns, poverty risks are very high. This situation is explained by the fact that during the Soviet period many urban settlements evolved into mono industrial towns, some being completely deprived of land designated for agriculture. Currently, many of these production units do not function and a considerable part of the population is in long-term unemployment or has emigrated.

The degradation of the urban areas has been brought about by the lack of public investment in infrastructure, by the emigration of population and by the incapacity of the local authorities to formulate and implement policies of social development. The NHDR survey showed that in some cases positive attitudes on the improvement of the quality of public services prevail over the negative ones (Table 18). At the same time, a negative attitude is observed towards the quality of roads, street lighting and the cleanness of regions and they prevail significantly over the positive ones.

Social consequences of emigration

Emigration represents an adaptation strategy, which Moldovan citizens have applied under unfavourable economic conditions they encountered during the country's transition. The situation in the Republic of Moldova regarding emigration is due, to a great extent, to the process of evolution of the country caused by the factors inherited from the previous social-economic system and from the institutional uncertainties and instabilities of the transition period. By means of remittances, emigration has served as an important tool of economic survival of households. However, alongside the immediate economic benefits, emigration has generated unacceptably high social costs.

The microeconomic effects of emigration are ambivalent. The material welfare for every third

family in Moldova depends almost entirely upon the money earned abroad. The households that receive income from abroad reach higher living standards more rapidly than those who do not have such income. Though the immediate impact of the income remitted by the emigrant workers upon transition poverty is rather considerable, the long-term effects are also not to be underestimated, since transitional poverty is a serious obstruction for the development of human capital. Due to the income remitted by emigrants, their children can go to universities and pay the tuition. The population that depends upon emigrants is also able to cover the non-official expenses that are often required in the field of public services.

The process of emigration of labour force creates favourable conditions for the human trafficking either as sexual exploitation or forced labour. Though there are few statistical data, in South-eastern Europe, Moldova is considered the country that is most affected by human trafficking, whose main victims are women and children¹⁰¹.

Another painful consequence of emigration is the disintegration of families by formal or informal divorce when one of the spouses emigrates for a long time. As emigrants state, emigration has undermined the social and emotional relations within families¹⁰². The prolonged staying abroad of one of the spouses, especially under difficult conditions, alters the authority of the one who stayed behind and can cause tension, abuse, violence and divorce. The rate of divorce (defined in relation to the number of divorces per 100 marriages), correlating closely with the intensity of the annual waves of emigration, has increased from 37.9 in 1999 to 59.3 in 2004. Especially prominent is the degradation of the authority of the family institution in rural areas, which are stereotypically more conservative than the urban areas, at least as regards family values.

As a result of emigration, a large number of children from the Republic of Moldova live without one or both parents. According to official data, in February 2005, almost 28 thousand children of school age lived in families where both parents were missing and

„Many teenagers do not realise that education is an investment in the future. I worked as a school teacher and I know that half of the pupils' parents are abroad. The boy, being in the 12th form, receives monthly 100 euro from his mother or father. He has not studied at all for 2 years and he says “my father will find a workplace for me on constructions and, Professor, I will earn enough to buy a flat and you will remain here with your education”.

(Dumitru, 26, trade employee, urban inhabitant.)

¹⁰¹ IOM, 2005.

¹⁰² Ghencea and Gudumac, 2004.

over 68 thousand – in families where one parent was missing¹⁰³. The alternative estimations suggest that, in fact, over 40 thousand children aged newborn to 14 live without both parents and between 150 and 270 thousand – in families where one parent is missing¹⁰⁴. The socialisation of these children is much more complicated and painful than that of children from complete families, which can lead to a number of social problems. According to the official statements, 55-60% of the juvenile crimes are committed by young people left without parental supervision. Almost half of the teenagers whose parents went abroad have negative self-perceptions, a fact that prevents significantly their social integration¹⁰⁵. Each fourth of this category of children/young people manifests poor school/university results as a negative consequence of migration. According to some surveys, human development at the family level depends directly upon the economic resources the woman controls or manages. Consequently, the emigration of the mother abroad causes extremely high risks for the given family.

Emigration has generated a culture of dependency among children from families with emigrants. According to some surveys, their interest for education and integration into the local labour market is visibly decreasing¹⁰⁶. Though lacking statistical data, journalistic sources state that most young people that

emigrate already have at least one relative established abroad. The Moldovan Diaspora simplifies considerably the process of finding a place for living and reduces the risks related to emigration.

Over 70% of the Moldovan emigrants work illegally, without having any elementary wage and social rights in the host countries¹⁰⁷. Due to this reason, they have no protection from abuses of employers, police, public administration and criminal circles. Over 80% of the emigrants work more than eight hours a day, half of them under extremely hard conditions, risking ruining their health. They do not contribute to social insurance either in the Republic of Moldova or in the host country. This situation threatens the stability of the pension system in the Republic of Moldova in the future when some of the emigrants will return to their homeland.

Emigrants are considered a category vulnerable to HIV/AIDS and tuberculosis¹⁰⁸. Together with the increase of the number of emigrants, these maladies can possibly spread wider. The tendency of spreading HIV/AIDS through sex

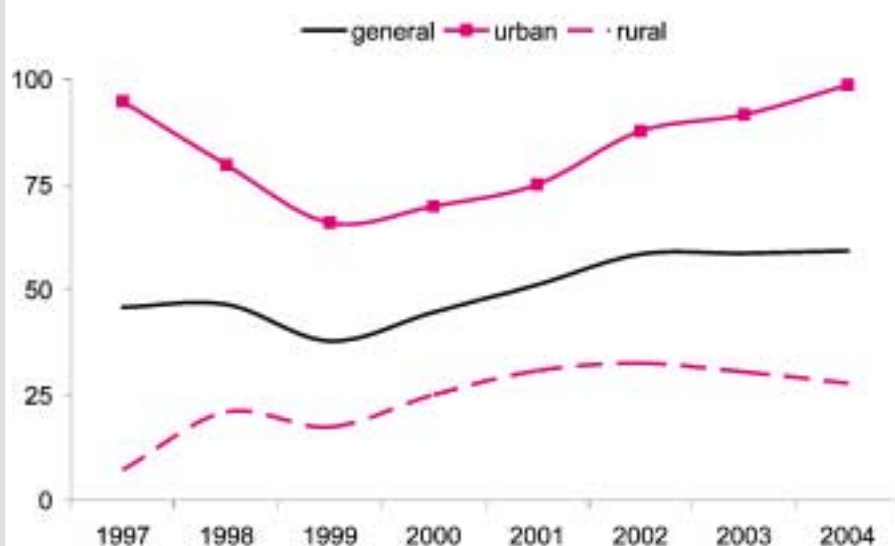
„I stay at home with 3 children, my husband works, in winter - at home and in summer – in Moscow. Sometimes he is doing well, sometimes he is cheated. Once they promised to send him 500\$ and they did not.” (Galina, 34, unemployed, rural inhabitant.)



¹⁰³ Courtesy of the National Migration Bureau, August, 2005.
¹⁰⁴ Prohniþchi, 2005.
¹⁰⁵ Gonþa, 2004.
¹⁰⁶ Prohniþchi, 2005.
¹⁰⁷ CBS-AXA, 2005.
¹⁰⁸ NSPCPM, 2006.

Chart 25. Evolution of divorce rate (number of divorces per 100 marriages).

Source: calculated by the authors on the basis of NBS, 2006.



has manifested clearly during the last years simultaneously with the intensification of emigration.

Conclusions and policy recommendations

According to the data of the National Bureau of Statistics, during the years 2000-2005, the Human Development Index of the Republic of Moldova has increased from 0.703 to 0.733. However, this index is lower than the global average index (0.741, situation for the year 2003, according to the global *Human Development Report*) and below the average mark of the countries from Central and Eastern Europe and the Commonwealth of Independent States (0.802). The most considerable contribution to the improvement of the HDI of the country has been made by the increase of the index of income per capita, thus suggesting the existence of a positive relation between the economic growth in the country and the level of human development. The Gender-related Development Index does not establish any significant differences between the level of human development of men and women. However, from the point of view of accessible opportunities of women to participate in social life, the latter are significantly disfavoured.

During the next decade, the composition of income will remain the key-factor for reaching the level HDI =0.800, a characteristic of countries with a high level of human development. In order to reach this threshold, by 2015 the Republic of Moldova has to ensure an average rate of increase of income per capita of 8.7% annually, to increase the coverage on all levels of education by 0.8 percentage points annually, to ensure an annual increase of life expectancy by 0.25 years and to maintain the high level of literacy among adult population (99.1). The negative tendencies from the previous years that could undermine this scenario are the increase of the cases of socially conditioned maladies, the reduction of coverage of primary and compulsory secondary education and the instability of economic growth and eradication of poverty in rural areas.

A sustainable and substantial growth of the level of income will record a reduction of incidence of individual poverty as well. At the end of the 90s, the high level of poverty was

due to a series of transitory factors. Nevertheless, its dynamics and structure during the period of 2000-2005 are rather explained by some structural factors. The increase of income resulting from emigration followed by economic growth contributed to the significant reduction of incidences of income poverty from 74% in 1999 to 26.5% in 2004. However, the indicators of poverty are much more static in the rural areas where most poor people are concentrated and where, since 2004, no reduction of poverty has been observed and the inequality of income has increased. In 2005, the incidence of poverty increased to the level of 2003 particularly due to rural poverty. It leads again to the conclusion that the policies of poverty eradication need to be rural-oriented. Policies for the eradication of social poverty are to be also focused upon the rural sector. The Government ought to ensure equitable access to public services essential for human development: health, education, transport infrastructure and personal security.

The poverty of children is the most vicious aspect of the phenomenon of poverty in the Republic of Moldova. Almost one third of the children that live in rural families live in food poverty. Their exposure to severe poverty causes intergenerational vicious circles with fundamental economic, political, and social implications. Despite economic growth, child poverty remains still a crucial issue that is not treated adequately in national development strategies. The sustainable settlement of the poverty issue of the children from villages will become possible only when their parents have decent jobs and when the policies of social protection will consider the child as a major priority.

A long and healthy life is an indispensable element of human development. In 2000s, the life expectancy in the Republic of Moldova increased slightly, and a range of primary indicators of infant and maternal health have improved essentially. Economic growth accompanied by an increase of individual and public income has contributed, to a certain degree, to the success of the health programmes that have allowed the reduction of infant and maternal mortality and the mortality of children below 5 years of age to levels lower than before the transition. However, external financial support was essential for these results. That is the reason why the fortification of the achieved result and the convergence towards

the European standards in the field of mother and child health will impose the institutional and financial consolidation of the health system.

This fact will not be possible without achieving a strong economic growth that, in its turn, would allow the allocation of higher budgetary resources in the development of the health system. At the same time, there is a necessity for structural reforms inside the sector. The priorities that, according to public opinion, should be fulfilled by the Government in the health sector generally coincide with the ones the Government adheres to officially. It is necessary to improve the access of the population, first and foremost the poor, to basic medical services by continuously developing the sector of primary medicine and by extending universal coverage with compulsory insurance (especially in the rural areas). In this respect, it is necessary to extend the list of compensated medicines, aimed at improving the access of the population, inclusively children, to treatment, especially under ambulatory conditions, with adequate, harmless and qualitative medicines. At the same time, it is essential funding is used more efficiently and financial autonomy is given to those who render primary services.

The development of the health sector cannot be successful without the development of the Primary Medical Assistant service, by attracting private, public and foreign investment, endowment with medical and informational equipment, sanitary transport, rehabilitation of the Health Centres and training of family doctors. This sector of medicine is essential for the quality of human capital. That is the reason why it is compulsory to create adequate living conditions and to motivate the young specialists so that they become involved in the professional activities from the sector of primary and emergency medicine from the rural areas. Increases salaries of medical workers, including by setting the pay rise for individual professional achievements and the quality of medical services rendered, are the main conditions for adequate motivation of health personnel and for preventing "brain drain".

Patients expect improvements in the quality of medical services by applying the standards of treatment and the modernisation of clinical protocols in the field of primary medical assistance, by increasing the qualification level of medical personnel, by implementing

monitoring mechanisms and by evaluating the medical services rendered to the population. This might impose a gradual increase of the contributions to the funds of obligatory insurance of medical assistance from 2% to 2.5 – 3%. It will allow the medical institutions to implement modern diagnostic and treatment technologies and to improve the quality of medical services rendered. At the same time, it is necessary to introduce elements that would improve the flexibility and social efficiency of the system of health insurance. In this respect, a practical solution would be the enactment of the possibility to transmit, after a period of insurance, one's personal rights to a close relative. This would improve significantly the degree of system coverage even without increasing substantially the budgetary expenses.

The reform of the educational system will remain a priority for the government. The positive relation between higher education and the reduction of poverty risks has been consolidated during the period of economic growth and has to be consolidated further. This fact is important not only as regards the pre-school and primary education, but also at the level of secondary and higher education that are at the moment the most efficient in ensuring protection against poverty. A larger access to higher education will imply reorientation of the policies of scholarships, grants and credits from the gifted children to disfavoured children. It is necessary to change the priorities within the budget allocated in education in order to ensure increased salaries for didactic staff and purchasing of the necessary teaching materials.

Reforms of the education system in the Republic of Moldova need to take into account the global challenges, as well as the national ones. These include the uncertainties of economic growth in general and the limited economic growth in rural areas in particular, which do not allow for the provision of adequate financing at all levels and stages; the demographic decline of the population that leads implicitly to the reduction of the number of pupils, with a direct and immediate impact upon the system. This phenomenon can be actually used to increase the access and quality but, simultaneously, it is necessary to achieve a judicious optimisation of the use of human, material and financial resources.

The inevitable reduction of the number of pupils and classes will cause the reduction of the number of teaching staff and optimisation of resources. It will be necessary to revise the policy of initial training and employment of teachers so that, if they have fewer classes to teach, staff will not be motivated to render qualitative didactic services. It is also necessary to change the mechanism and formula of labour remuneration in order to attract young teachers into the education system. By the year 2010 half of the school capacities will remain unused. This will imply the rationalisation of the network and of school transport. Moreover, it will be necessary to decentralise the educational system so that the administrators of educational institutions can administrate independently their budgets. Decentralisation should be undertaken simultaneously with the creation of a new system of institutional accreditation, of control of the quality including from the side of the parents.

The Republic of Moldova has only several genuine urban settlements. In most urban-pretending locations human development is undermined by high unemployment and the underdeveloped infrastructure that impede the mobility of the labour force. The short-term economic solution for most small towns from the Republic of Moldova is to encourage the formation of small enterprises oriented towards processing and exporting of agricultural production coming from the adjacent villages and towards rendering services to agricultural households.

In rural areas development is hindered by the almost total dependence of the population upon agricultural activities. Even a considerable part of the population with intellectual

occupations (doctors, professors) could not subsist if they did not spend some time on agricultural occupations. The lower indicators of population health as a whole and of the education of children in rural areas are, to a great extent, determined by the exhausting agricultural work. The development priorities in most Moldovan villages are represented by the growth of local economies (by starting up more enterprises that render services as well as shopping centres, bakeries, entertainment centres, etc.), rehabilitation and development of social institutions (school, community centre, kindergarten, medical centre), environment protection and rational use of natural resources, adaptation of social services to the concrete needs of the communities and infrastructural development (water supply, canalisation and transport systems and storage of agricultural production).

Intense emigration of the labour force has caused unfavourable social effects: trafficking in human beings, family disintegration, exposure of illegal emigrants to major risks and the increase of the number of children that live in families where one or both parents are missing. Though different in their form of manifestation, all these problems have a common final or partial solution – legalisation of emigration flows. The Government ought to intensify its bilateral and multilateral (EU) negotiations in order to achieve the simplification of the visa and working regimes for Moldovan emigrants. Moreover, at the level of communication, it is necessary to intensify the activity of non-governmental organisations in order to identify and integrate socially the victims of human trafficking, as well as those orphaned due to emigration.



Chapter III. Good governance as a prerequisite for economic growth and human development



This chapter attempts to emphasize the influences exerted by governance on economic growth and human development. The factors which have determined the quality of governance and its dynamics during recent years are analysed. The chapter sheds light on favourable political circumstances which might boost the progress of governance. The impact of economic growth on government expenditure in key areas of human development is evaluated. Also, the authors assess the primary policy actions for improving the quality of governance and the importance of such strategies as the Economic Growth and Poverty Reduction Strategy and the European Union-Republic of Moldova Action Plan. The developments in a number of core areas which could strengthen the positive links between economic growth and human development are examined: social assistance policies, regulatory framework, justice, public administration reform, the situation of local public administration and corruption fighting.

What does good governance mean?

Governance, per se, means traditions and institutions through which power is exercised in a state, including: (1) the process of electing, monitoring and changing those who govern; (2) the capacity of authorities to formulate and implement effective policies; (3) the respect of citizens and state towards the institutions governing their economic and social interactions¹⁰⁹. This definition shows that governance represents a rather complex phenomenon with important implications for human and economic development.

Thus, good governance ensures respect for political, civil and human rights of citizens by guaranteeing equal chances for fulfilment of their political, economic and social choices. In addition, good governance ensures the equality of all citizens before the law and protects citizens from administrative excesses or from repressive actions of the authorities (components 1 and 3 of the governance definition). Moreover, good governance means the existence of a competent bureaucracy, able to develop and implement qualitative public policies and ensure an efficient provision of public services (2nd component).

Providing basic economic security (jobs, access to health and education etc.) does not necessarily mean good governance. Citizens unable to exercise their political, economic and human rights vote often their governments "with their feet" (that is, they do not go to the election). However, the chance to go to vote can be just a futile exercise in the case when economic destitution or the lack of access to impartial justice deprive citizens from the chance to implement their legal rights. So, good governance is a *sine qua non* condition for a genuine human and economic development.

The quality of governance in the Republic of Moldova

Governance is a hard phenomenon to measure, but efforts at quantitative assessment of governance have been undertaken during the last decade. A group of World Bank researchers developed a set of indicators for measuring the quality of governance and have been monitoring the dynamics of these indicators since 1996¹¹⁰. These indicators include six major dimensions of governance:

1. Respect of basic political and civil liberties and rights;
2. Provision of political stability and avoidance of violent conflicts;
3. Efficient governance as expressed by competent bureaucracy and qualitative public services;

„ [Good governance is when] every citizen can solve his/her problems or can succeed as he/she wants, when he/she can live not in luxury, but decently, always with something on the table, hope for a better future, so that their children can grow up and be well brought up and educated.

(Tamara, 37 years, Moldtelecom employee, Chisinau suburbs)



¹⁰⁹ Kaufman et al, 2005.

¹¹⁰ Ibidem. Knack, 2002.

4. Provision of an enabling business environment;
5. Establishment of a functional rule of law;
6. Fighting corruption.



„I had to do some paperwork at the Cadastre Office. I did not know what to begin with and I've spent 3 days there. After that, I contacted my acquaintances, put the acts and money in an envelope and in 2 days everything was solved.” (Eugenia, 26, secretary, Chi_`in`u)

Based on the quoted survey's data, it is possible to observe the changes of the Republic of Moldova regarding the quality of governance. Table 19 shows the evolution of the group of governance indicators during the period 1996-2004 (ratings range between -2.5 and +2.5, where 2.5 means the best result). The pathway has fluctuated, with certain successes turning frequently into setbacks. In 2004 the situation worsened in almost all major dimensions of governance, except a minor improvement in fighting corruption

Table 20 displays the quality of governance in a comparative perspective. The governance indicators in the Republic of Moldova are at approximately the same level as those in Ukraine and Georgia and are considerably outranked by those of Romania, Latvia and Slovenia. This comparison indicates the long way that the Republic of Moldova has to go in order to improve its governance at least up to the level of EU candidate countries or countries which joined European Union in 2004.

This pallid image is determined by serious governance deficiencies in some major areas:

- As regards the respect for political and social rights and the provision of political stability the most important deficiencies are: lack of control over the whole territory of the country; excessive concentration of political power, including through the control exercised over the Central Electoral Commission and the Audiovisual Coordination Council; insufficient cooperation with the civil society; problems with press freedom and of the public television;
- The efficiency of governance is systematically undermined by the reduced administrative capacity; the unreformed system of public services; bureaucratized regulatory framework, emigration and moral hazard of the governance;
- The consolidation of rule of law is hindered by the judicial system, which is obedient to those in power, the biased character of justice is also expressed by the exponential increase of the number of appeals by Moldovan citizens

Table 19. Evolution of governance quality indicators in Republic of Moldova, 1996-2004.

	1996	1998	2000	2002	2004
Liberties and public accountability	-0,21	-0,03	-0,01	-0,32	-0,47
Political stability	-0,14	0,12	-0,09	-0,06	-0,62
Governance efficiency	-0,48	-0,49	-1,04	-0,6	-0,73
Regulatory framework quality	0,07	-0,39	-1,11	-0,16	-0,49
Rule of law	-0,2	-0,13	-0,55	-0,53	-0,65
Corruption fighting	-0,21	-0,51	-0,84	-0,9	-0,86

Source: Kaufman et al, 2005.

Table 20. Quality of governance in comparative perspective, year 2004.

	Ukraine	Georgia	Romania	Latvia	Slovenia	Moldova
Liberties and public accountability	-0,62	-0,34	0,36	0,96	1,12	-0,47
Political stability	-0,27	-1,26	0,22	0,95	0,99	-0,62
Governance efficiency	-0,67	-0,8	-0,15	0,6	1,02	-0,73
Regulatory framework quality	-0,48	-0,64	-0,06	1,02	0,89	-0,49
Rule of law	-0,83	-0,87	-0,18	0,48	0,93	-0,65
Corruption fighting	-0,89	-0,91	-0,25	0,23	0,97	-0,86

Source: Kaufman et al 2005.

to the European Court for Human Rights; corruption continues to be omnipresent and rampant.

Political instability, constant legal and institutional changes accompanied by deficient law enforcement, lack of political will in implementing adopted policies, low administrative capacity at both the central and local levels, corruption and deficiencies of public services have resulted in weak performance in economic growth and human development. In the future, good governance in the Republic of Moldova should ensure a high level of political stability and continuity of policies, a universal and rigorous law enforcement, legislative

predictability and investment to develop an educated and healthy human capital¹¹¹.

In this context, the few attempts to improve the quality of governance in the Republic of Moldova undertaken in the last few years should be mentioned. These attempts are, to a large extent, encouraged by the endorsement and implementation of two strategic documents of national development – the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) and the European Union – Republic of Moldova Action Plan (see Box 9).

¹¹¹ WB, 2005.

Box 9.

EGPRSP and the European Union – Republic of Moldova Action Plan: Strategic Pillars for National Development

The EGPRSP (approved by the Government of Republic of Moldova in 2004) and the Action Plan (signed by the Republic of Moldova and the European Union in February 2005) are two strategic documents of major importance outlining the directions for the country's development in the medium-term. These documents are setting priorities: all sectoral development strategies have to correspond to the general framework defined by these two documents.

The EGPRSP provides a policy framework primarily focused on „*improving citizens' standards of life and the social protection of the poorest persons; creation of new jobs, especially for the poor; providing access to qualitative medical services; and developing qualitative human capital through scientific and educational development*”. Also, the EGPRSP is a part of the global efforts for eradicating poverty, described in the Millennium Declaration („The United Nations Millennium Guidelines: Human Development – Objective of Prime Importance”) signed by the Republic of Moldova in 2000.

The Action Plan, in diplomatic parlance, represents an invitation for constituting a more intense dialogue with the European Union regarding political, economic, cultural relations and security. The document does not explicitly speak about the Republic of Moldova joining the European Union, however it does not exclude such a perspective either. As the Plan of Actions mentions: „...the ambition of future relationship will depend on the degree of Republic of Moldova commitment to common values as well as on its capacity to implement the jointly agreed priorities”. Therefore, the progress of the Action Plan's implementation will directly influence the perspectives of the Republic of Moldova in the process of European integration.

In many aspects these two documents are complementary and often even overlap. However, while the EGPRSP is mainly focused on social-economic development (sustainable and inclusive economic growth, poverty and inequality reduction, increased participation of poor people in sharing the benefits of economic growth, human resources development), the Action Plan emphasizes dialogue and political reforms, justice and internal affairs in the context of EU – Republic of Moldova cooperation. Settlement of the Trans-Dniester conflict represents a vital priority for both documents.

(Continuare pagina 90).

Box 6. EGPRSP and the European Union – Republic of Moldova Action Plan: Strategic Pillars for National Development(continuare).

Issues referring to good governance have an important place in both the EGPRSP and the Action Plan. A set of priority actions are stipulated for strengthening democratic institutions, ensuring independence and impartiality of justice, fighting corruption, reforming the public services (social assistance, education and health sectors), reforming the business regulatory framework, reducing the public debt and public finance management. In this context, it makes sense to coordinate the national efforts and international assistance in implementing priorities regarding good governance.

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The implementation of these strategic documents could be facilitated by forging a “national consensus” among the main political forces in the Parliament. This coalition could be based on the unanimous Statement on the „Political Partnership for implementation of the European integration objectives”. It was followed by the approval of the Government’s Activity Program for the four years term of office, entitled “Modernization of the country – welfare of the people” (see Box 10), which defines the main reference points for the activity of central public authorities. The consensual Statement of the Parliament lays the foundation for the political stability and has been developed by concluding an agreement on a set of political priorities (which was not validated in a written form) between the Head of State, the ruling party and the parliamentary opposition parties, formulated by opposition and totally accepted by the Head of State.

These priorities are:

1. to ensure freedom of the mass-media;
2. to ensure the independence of the judicial system;
3. to ensure respect for local autonomy,
4. to increase the efficiency of public finance management;
5. to amend the electoral legislation with the purpose of changing the method of assembling the Central Electoral Commission and its nominal composition, to ensure the

independence of this institution from any political or administrative misuse;

6. to amend the legislation on secret services, which would ensure the national security, respect for fundamental human rights and freedoms and would provide an efficient control over these services by the Parliament on behalf of the society.

7. to establish a special Commission for amending the Constitution, which will focus on consolidation of fundamental state institutions through the improvement of procedures for electing the Head of State, forming the Government, formation and functioning of the judicial power, electing the General Prosecutor and the statute of the Prosecutor’s Office.¹¹²

The above requirements have been politically motivated and on their responsible and transparent implementation depends the mutual trust between the ruling party and opposition and, finally, the ensurance of political stability. In order to provide transparency and increase the accountability of legislative body in the process of implementation of the above-mentioned plans and laws, the leadership of the Parliament has developed and approved the Concept on cooperation between the Parliament of the Republic of Moldova and the civil society.

Taking into account these premises for the implementation of reforms, supported also by international development agencies, an examination of the governance progress which could strengthen the quality of economic growth and ensure a positive connection to human development is required.

¹¹² Botan, 2005.

Box 10.

Governmental Programme's Priorities

Through endorsement of the programme "Modernization of the country – welfare of the people" the Government committed itself to promote democracy and European values for economic development and an increase in citizens' welfare; to modernize the economy and social sphere; to reduce poverty; to strengthen the rule of law and democracy; to ensure the respect for individual freedoms, to increase the safety of citizens and to guarantee equal opportunities.

These priorities have to be achieved by: implementation of the Strategy for Economic Growth and Poverty Reduction; implementation in optimal terms of the European Union – Moldova Action Plan; consistent fulfilment of the National Program „The Moldovan Village”; adequate application of the budget planning principles and extension of the Med-Term Expenditures Framework to the regional and local levels; development and implementation of a program of active and large scale liberalization of the economy, based on de-bureaucratization and regulatory reform.

In order to implement these commitments the Government suggests developing the „Dialogue between the executive, local public administration authorities and the civil society” by:

- legalization of mechanisms consulting local public administration authorities and/or of their associations as Government or other specialized central agencies develop normative acts affecting local interests;
- providing transparency in the activity of the Government and local public administration authorities;
- stimulating active involvement of citizens in public life and their participation in decision-making process at the local level;
- institutionalization of the dialogue between the Government and the associations of local public administration authorities;
- facilitating civil society control over the activity of local public administration;

ensuring the access of the non-governmental associations, mass-media institutions and citizens to information regarding the activity of local public administration authorities.

Economic growth and economic policy

For sustainable economic growth, the monetary policy and especially, its anti-inflationist component, is of great importance. The uncertainties related to a too fast growth of prices could erode the consumers' and business circles confidence in the perspectives of the economy and could compromise the plans of households, business and investments procurement.

As Chart 26 shows, the Republic of Moldova faced higher levels of inflation during the period of transition than during the period of economic growth (annual average 11.4%). The National Bank of Moldova undertook substantial measures to reduce the inflation from 30% in 2000 to 10% in 2005.

However, inflation is still high and continuously stimulated by increasing population revenues. The subjective inflation is even higher than the official inflation. Three quarters of the population consider that in 2001-2005 their revenues grew slower than prices. These perceptions could be explained by two factors:

- the prices for foodstuffs which constitute the biggest part of consumption budgets in 2000-2005 have increased more rapidly than other prices;
- the real weight of expenditures for food stuffs in households budgets (56.9%), especially in poor households budgets

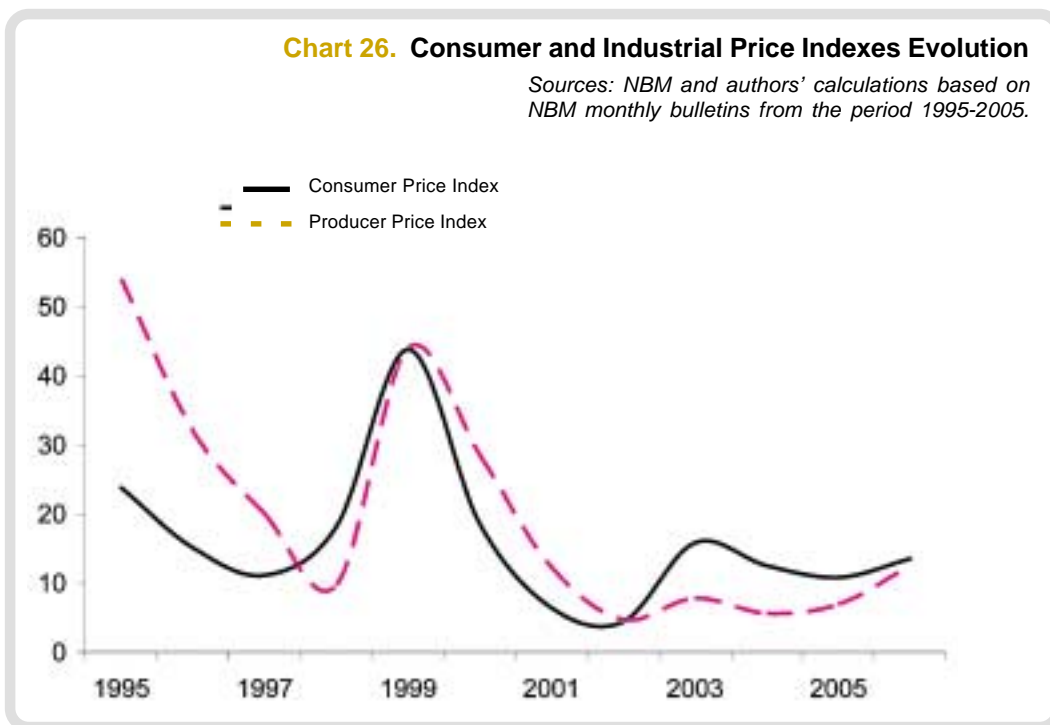


„Life used to be easier, but now everything has become more expensive”

(Natalia, 19 years, unemployed, rural inhabitant)

Chart 26. Consumer and Industrial Price Indexes Evolution

Sources: NBM and authors' calculations based on NBM monthly bulletins from the period 1995-2005.



(77.8%) is much greater than the weight used in the official methodology of measuring inflation (44.5%).



„Our budget increases on account of VAT and imports. But all these are sold because somebody receives money from abroad. In our country the growth is based on selling more, not producing more. I don't think that this means that the economy is growing.”
(Dumitru, 26 years, trade employee, urban inhabitant)

The current inflationary risks are of a great concern and they can trigger an uncontrolled boost of prices. That is why the NBM interventions to maintain the stability of prices or, at least, a predictable inflation are beneficial. This policy has certain costs, in particular, high interest rates. High interest rates represent one of the factors (but not the only one) reducing the inclination to investments and restraining the access of enterprises to credit. At the end this has a negative effect on population prosperity.

However, if the NBM would have focused on providing external competitiveness for Moldovan products by the real depreciation of the national currency, the risks would probably have been even higher than in the case of inflation control. Thus, the currency depreciation would have generated new inflationist spirals, increase of salaries pegged to the dollar or Euro, and would make imports, on which the economic growth of Moldova critically depends, even more expensive. This would affect the enterprises' balance sheets, putting them in an extremely difficult financial situation. The restructuring of enterprises would require jobs liquidation and would engender a new

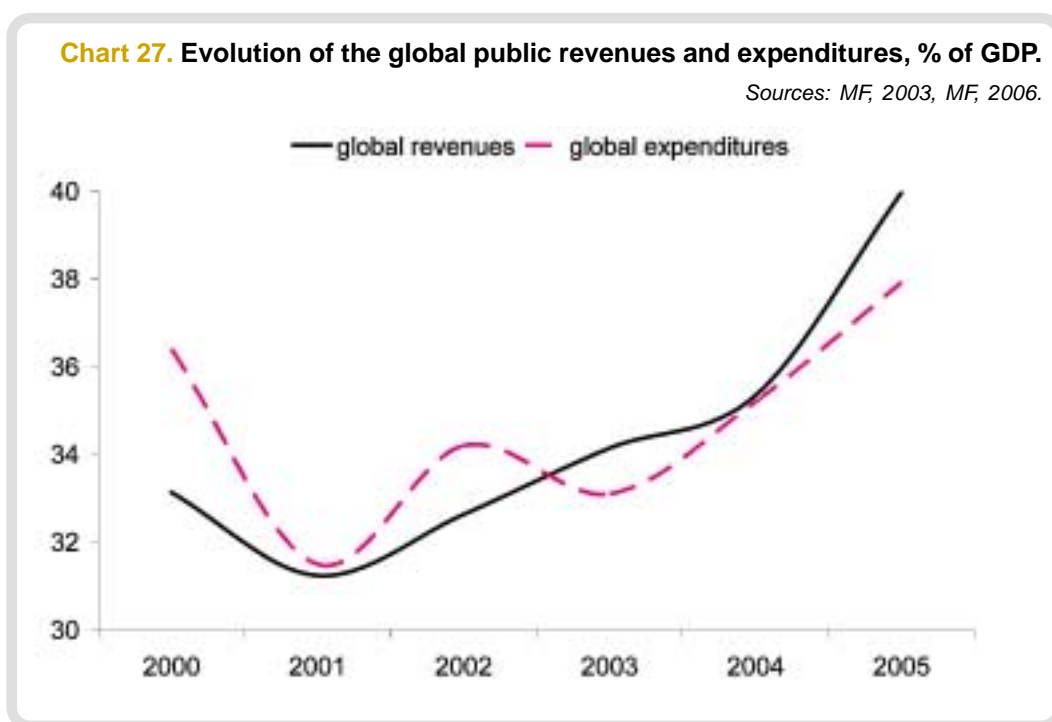
wave of emigrants. Taking into account these risks, the conservative policy of the NBM characterized by inflation control and gradual reduction of interest rates seems optimal.

The economic growth could influence the households' welfare not only through wages, but also through government expenses. There are three indicators characteristic for the governance impact on the welfare: the rate of government expenses (expressed as % of GDP), the rate of expenses allocated for human development (expenses for education, health and social protection expressed as % of GDP or as % of total public expenses) and the rate of expenses for the human development priorities. The latter rate is more arbitrary, because the concrete priorities identified by the government can vary from one country to another. However, there are some "universal" priorities which can be found in the development programs of the major part of countries. These are: maternal and infant health, insurance of an adequate nutrition, promotion of women participation in social life.

The economic growth in Republic of Moldova favoured a positive dynamics of revenues in the National Public Budget, which grew from 33.1% of GDP in 2000 to 40.0% in 2005 (Figure 27). The main resources which supply the increase of public revenues are: value

Chart 27. Evolution of the global public revenues and expenditures, % of GDP.

Sources: MF, 2003, MF, 2006.



added tax, revenues to the State Social Insurance Budget and income tax.

The economic growth enabled the accumulation of necessary budgetary revenues for servicing the external debt, which decreased from 60.4% of GDP in 2000¹¹³ to 23% in 2005¹¹⁴. The payments for servicing the external debt were considerable, on average 2.5% of GDP and they have obviously imposed giving up some current development programs. Nevertheless, the reduction of the public debt burden is an important achievement, because in the future it will allow allocating more resources for such development programs.

The increase of budget revenues enabled an expansion of the National Public Budget from 31.5% of GDP in 2001¹¹⁵ to 38% in 2005¹¹⁶. Simultaneously, social expenses grew from 19.3% of GDP to 24%. In particular, education expenditures increased from 5.5% of GDP to 7.3%, health expenditures – from 3.2% to 4.3%, and for social assistance – from 10% to 11.5%¹¹⁷. Increasing the expenditures was possible not only because of increasing revenues, but also thanks to some sectoral reforms and better selection of general priorities. Therefore one can state that economic growth has created favourable preconditions for improving human development via public expenditures. As shown in other sections,

some of these preconditions have resulted in higher achievements in some areas of human development.

At the same time, as the Government itself recognises, for the time being the connection between the development priorities in the economic area (as identified in the EGPRSP) and the public expenditures framework is rather weak¹¹⁸. Particularly the Government does not spend enough as public investment in economic objectives and in infrastructure: roads, telecommunications and energy.

Poor infrastructure has a negative influence on the growth of foreign direct investment and the domestic productive sector. The infrastructure in the Republic of Moldova simply does not resist any regional comparison. While the density of roads is approximately the same as the regional average, the density of paved roads is below this level¹¹⁹. Railroad transportation, which plays a very important role in Moldova's exports is worn out and costly. Generally the infrastructure lacks not only development investment but also

¹¹³ MF, 2005.

¹¹⁴ MF, 2006.

¹¹⁵ MF, 2005.

¹¹⁶ MF, 2006.

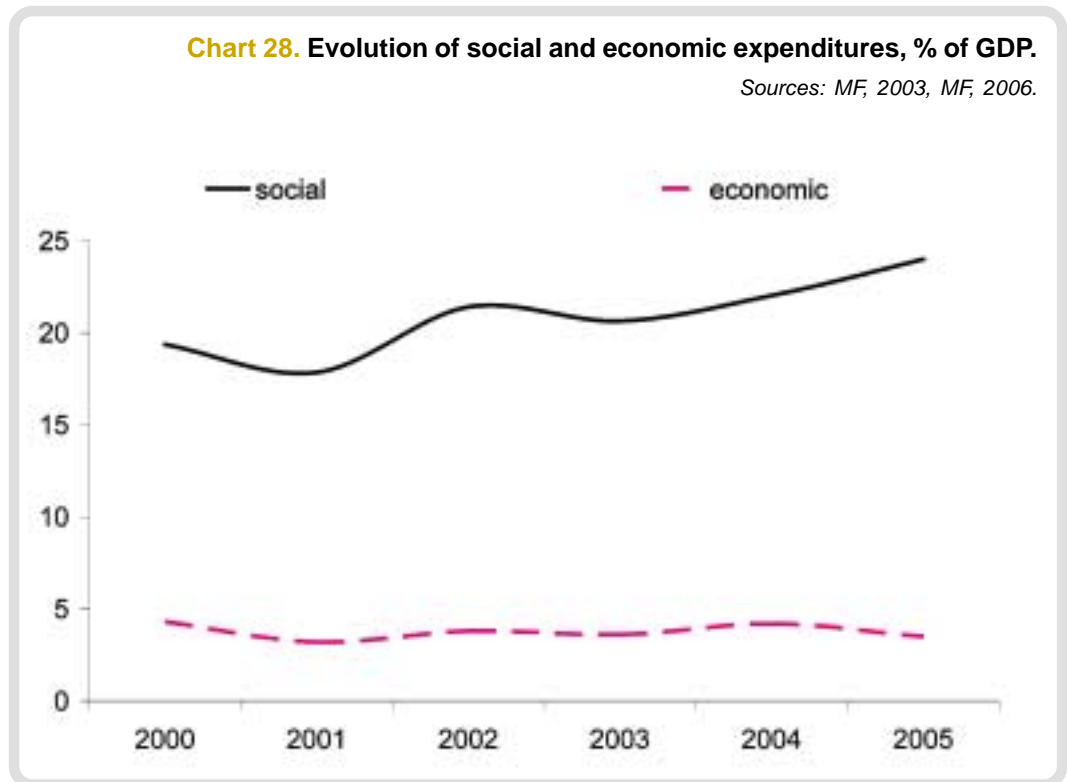
¹¹⁷ Idem.

¹¹⁸ GRM, 2006.

¹¹⁹ WB, 2004.

Chart 28. Evolution of social and economic expenditures, % of GDP.

Sources: MF, 2003, MF, 2006.



maintenance investment. In South-Eastern Europe investment in infrastructure is as high as 8-10% of the GDP. In the Republic of Moldova these investments are not even 3%¹²⁰. Without public investment in infrastructure, economic growth will not be sustainable and consequently neither budgetary revenues nor achievements in human development will be sustainable.

The connection between economic growth and human development is also to a large extent influenced by the fiscal policy of the government. The Government adopted fiscal measures which spurred economic growth. The most important measures concerned tax cuts for corporate profit from 28% in 2000 to 15% in 2006 and reducing the social insurance contribution paid by the employer from 31% to 26%. Personal tax rates were also cut. The highest tax rate went down from 28% in 2000 to 20% in 2005-2006, the intermediary rate – from 15% to 13%, and the lowest – from 10% to 8%. It is obvious that as a matter of fiscal gains, the richest citizens benefited relatively more than citizens with a lower income. To a certain extent the citizens with small incomes were compensated by the fact that the grid of

taxable income was changed and personal deductions and deductions for dependant persons were increased.

The influence of social protection policies on human development

Regardless of economic performance, in every society there are citizens who, due to different reasons, are not able to take part in creation of value-added and do not benefit directly from economic growth. The ideal of social solidarity and the need to ensure social peace are the rationale behind governmental social protection systems. Their final purpose is to enhance the human development of disadvantaged segments of the population, so that economic growth brings in positive results for the largest number of citizens possible.

Unlike health and education which have bigger “autonomous” development reserves, social protection depends almost totally on the Government’s policies.

In the Republic of Moldova, social protection policies split into two categories: social insurance and social assistance. Policies of social insurance are based on contributions

„Everything begins in the family. Many people are leaving to go abroad and the parent does not have the opportunity to stay with the child and give him the appropriate education. That’s why it is necessary to help young families, with a place in a hostel, a room, so that they can manage to break through the situation.” (Serghei, 28, telecommunications engineer, Chi_’in_’u)



¹²⁰ WB, 2005, a).

made by insured persons during their economically active life. Policies of social assistance are developed taking into account the government's preferences and resources and take the form of either social payments or directly delivered social services.

Social protection represents a priority for the government of the Republic of Moldova. This is seen in the rise of expenditures for assistance and social support of the population from 27.6% in 2000 to 30.4% in 2005 of total public budget expenditures¹²¹. Total public expenditures for social protection purposes rose from 10% of GDP in 200 to 11.7% in 2006.¹²² The payments of social insurance have increased several times during the period of economic growth and in 2003 a mechanism of annual indexation of these payments was introduced.

The main and the most expensive component of social insurance system is the pensions system. In 2000-2006 the real value of pensions increased and currently the average pension has a purchasing power 2.6 times higher (Chart 29). The ratio of monthly average pension to the average wage per economy increased too from 21% in 2000 to 31.2 in 2006. As a result of pensions, the social insurance system has quite important effects on poverty, reducing the risk of poverty for pensions beneficiaries by 10%. However the

system has significant inequalities. One of the most visible refers to the pensions in agriculture. The employees of this sector currently contribute only 6% to the revenues of the social insurance budget while benefiting of more than half of the total budget's expenditures. Reform of the pension system in agriculture has to be implemented carefully taking into account the large number of employees of the sector and the high incidence of rural poverty.

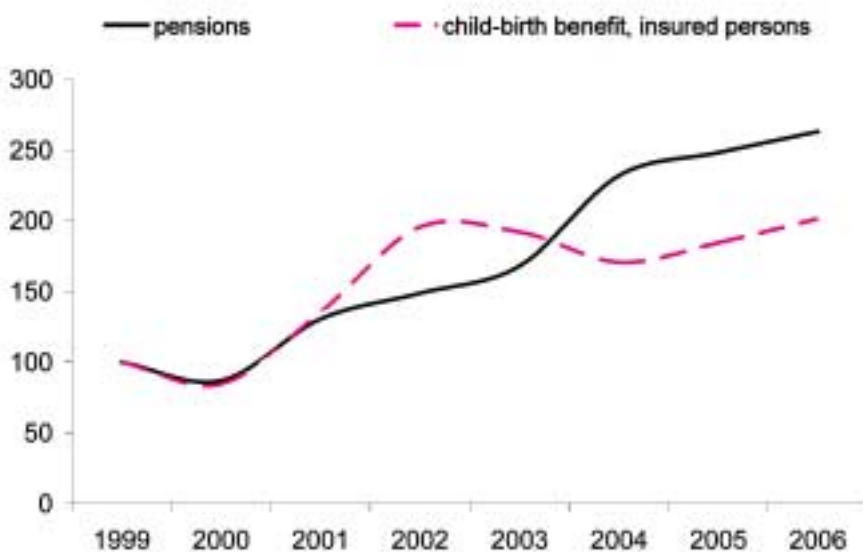
In the Republic of Moldova the unequal distribution of the benefits of economic growth, together with the inadequate coverage of social assistance, has led to a high number of disfavoured people, exposed to the risk of social marginalisation. Many of these people are not insured against economic and social risks and have to be protected by central and local authorities. Currently the social assistance system displays a number of deficiencies which are not permitting adequate compensation of the people unable to participate in the economic process and to benefit from the economic growth.

- Social assistance in the Republic of Moldova covers social categories, not

¹²¹ GRM, 2006.
¹²² MF, 2006.

Chart 29. Real growth of some social payments, 1999=100%.

Source: calculated by authors based on GRM, 2006.



concrete disfavoured people. As result, the resources are not used in a socially just manner and contribute very insignificantly to poverty reduction. A significant proportion of the payments go to beneficiaries which are not actually disfavoured. In 2004, 30% of total payments made under social assistance programmes went to families situated in the upper quintile, whereas the poorest quintile received only 15% of total resources.

- The social assistance system is very complex (with 15 types of money payments and a number of social services regulated by as many as 20 regulatory and legislative acts), fragmented (the policy is formulated and implemented by several institutions) and lacking financial transparency. Because of this, a person can benefit from many types of payments. In some families there are two or more beneficiaries, whereas many truly poor families have no social support at all.
- Another weakness of the system is providing services fragmented among different institutions and lack of monitoring in the use of the money that frequently may not even reach the final beneficiary (for instance, child benefit payments can be spent by alcoholic-dependent parents).
- A concentration of social assistance services in urban areas creates exclusion as regards rural communities.
- Community and family-based services are still underdeveloped. 90% of the expenditures for social assistance are covered by the state budget and only 10% by local budgets.

Due to these deficiencies, the social assistance system does not primarily help poor individuals, it does not contribute essentially to the reduction of poverty and to human development of the lower-income quintiles. Not only a significant part of the beneficiaries belong to more prosperous social strata, but also the largest part of the social assistance payments go to them. From another side, those who actually deserve to be protected, do not receive help under the social assistance system. For

instance, only 16% of poor citizens benefit from payments under the so-called nominative compensations programme. The risk of poverty among the beneficiaries of social assistance payments diminishes slightly, by less than 1 percentage point, after receiving the payments. Child benefits are better targeted as compared to other payments, but their impact on poverty reduction is minor because of their small amount. After 2000, the highest growth registered the one-time benefit for first child birth but this growth was smaller than in the case of pensions. The monthly benefits for child-rearing grew much slower, are very small and are allocated universally (not targeted). In 2005 these benefits were as large as 7% of the minimum subsistence budget for children. The universal benefits paid for the birth of the first child in 2005 were as large as 500 lei (circa 70% of the minimum subsistence budget for children), but these benefits are one-off payments and are insufficient to compensate for the lack of income in very poor families, especially in rural families with many children. And these benefits cannot be seen as efficient tools of a demographic policy oriented towards improving the rate of birth. All these notes show that in Republic of Moldova children are not yet the primary priority of social policy.

Economic growth and the reform of regulatory framework

One of the preconditions for high-quality economic growth is the creation of a business environment which enables the development of small and large companies, the setting up of new companies and the creation of more jobs. This business environment has to stimulate and compensate efficient companies and penalise the inefficient ones.

When such an environment is missing, companies are forced to make use of methods and procedures which do not correspond either to national legislation or modern business culture (corruption, fiscal evasions, traffic of influence for limiting the honest competition) in order to survive. These practices have detrimental consequences for the human development, because in an oppressive business environment the social responsibility is the last matter the companies care about, and their involvement in community or national development projects is minimal or formal.

„Everything depends on the Government. In our country before launching a business, one has to go through a lot of agencies, with documents, fees. The difficulties come from the very start. First, one should be allowed to get on one's own feet, and after that to impose all the taxes” (Emilian, 40, land owner, season worker in Russia, rural).



According to most of the international estimates, the administrative and regulatory framework in the Republic of Moldova is quite difficult. But in 2002-2005 some successes have been attained.¹²³ The last BEEPS report (conducted jointly by the World Bank and the European Bank for Reconstruction and Development) shows a visible reduction of the number of companies meeting regulatory and administrative problems as estimated by: the time spent dealing with problems with or without contacting with public officials; uncertainties as regards the regulatory policy; complexity in getting licences and permits. The improvement in regulatory and administrative domain are linked to the reforms initiated recently by Moldovan authorities in order to reduce the administrative burden, the costs related to getting licences and permits and the tariffs for services rendered by various supervising and controlling state bodies¹²⁴. At the same time, these reforms need some time in order to materialise fully. But the indicators revealing the constant or even increasing level of unofficial payments reminds us that the best reform intentions may be easily undermined by pervasive corruption and unreformed public service. The Republic of Moldova still lags behind the countries of Central and Eastern Europe as regards the reform results and it is too early to celebrate a real success.

Concomitantly, the frequency of unofficial payments for obtaining licences remained practically unchanged, while the frequency of unofficial payments for some services of state inspection has even increased.¹²⁵ The positive changes or regulatory reforms were biased against large companies, whereas small companies, dominating in terms of numbers and employed persons, benefited less. In many instances the provisions of various legal and normative acts are contradictory, legislation is frequently changed, and the registration and reporting procedures are a real burden¹²⁶.

As proven by international comparisons, in respect to quality of business environment the Republic of Moldova lags behind all regional

countries which are its main competitors as regards exports and attracting foreign direct investment. International evaluation agencies rate the country quite low in the hierarchy of economic freedom. The disadvantages of the Republic of Moldova are explained by three major problems: regulatory risks, market distortions and high production and transaction costs¹²⁷.

The reform of the legal framework which regulates the business activity is a priority of the Economic Growth and Poverty Reduction Strategy as well as of the EU-Moldova Action Plan. This is a priority measure for the development of the private sector, meant to ensure transparency and a predictable business environment. Implementation of this reform has begun by putting into application the famous "Guillotine Law"¹²⁸. The goal envisaged by the Law was "the revision of the existent normative framework, with the aim of eliminating the regulations, which do not correspond to legislation and which present barriers for business environment development"¹²⁹. The effects of the normative "guillotine" are not fully clear yet. A range of normative acts contradicting the principles of the Law have been repealed (the acts were not transparent, were doubling the provisions of other acts as well as other deficiencies) and a foundation for a more sincere dialogue between the government and business community was laid down.

However, the expectations of the local and international business community towards the regulatory reform in Republic of Moldova have not been achieved yet. They are expecting that in the future, the regulatory reform will advance along with the revision of the legal acts which regulate business activity, so that a streamlining of the administrative procedures for companies is effectively ensured. One of the reasons which hinder the effective reform is the resistance towards the reform by some bureaucratic circles and groups of interests. The business environment would advance faster by effective implementation of the

¹²³ EBRD, WB, 2005; BM, 2005.

¹²⁴ Some examples could be the following: introduction of the one-window shop for getting the business registered; the Law on licensing some types of activities and the Law on revision and optimization of the business regulatory framework (the „guillotine law”).

¹²⁵ EBRD, WB, 2005.

¹²⁶ A professional analysis of the entrepreneurial framework see in FIA, 2005.

¹²⁷ MEC; 2006 a).

¹²⁸ Law of Republic of Moldova no. 424- XV of December 16, 2004 on revision and optimisation of the business regulatory framework, Official Monitor, no. 1-4 of 07/01/2005..

¹²⁹ MEC, 2006.

Strategy of reforming the regulatory environment of the entrepreneurship in Republic of Moldova; the draft of this Strategy was approved in 2006.

The establishment of independent and efficient regulatory agencies is also a part of the regulatory reform. From this point of view, a major governance failure is the constant delay in establishment of the National Agency for Protection of Competition and administrative pressures put on existing regulatory agencies.

In 2005, the Government tried to ensure consultation and provide information to the economic agents regarding regulatory measures (principle of transparency) and granting sufficient time for adapting to the new regulations (principle of predictability). Presently the drafts of the most important regulatory and legislative acts are placed on web sites of various governmental agencies. In 2005-2006 several round-tables focused on debates on the business environment in Moldova have been organized. Entrepreneurs have been offered the occasion to formulate their exact suggestions as for the measures that have to be adopted by the government in order to improve the business environment. The results of these initiatives are rather disheartening: the participation of business community in debates related to legislative and regulatory proposals is quite limited, frequently their proposals lack professional content and are not rooted in reality. As for the reaction of the Government to these suggestions, it is often inadequate.

Justice: the litmus test of good governance

An efficient and unbiased justice system is an element of good governance and a basic precondition for guaranteeing non material aspects of human development (human rights, political freedom, personal security). Justice is an inherent part of the image of any country and is an important factor affecting decisions of international investors. As for economic growth, an impartial and independent justice is essential for guaranteeing the property rights and for the solution of economic conflicts.

In the Republic of Moldova the justice system has constantly been a matter of discord between the opposition and the governing party. In 2005, after the parliamentary elections,

a number of legislative amendments were passed regarding the functioning of justice in order to reduce the political dependency of the courts and to increase the role of the High Council of Magistrates. The effects of these adjustments are far from clear, and the judicial system is experiencing a protracted crisis which is proven by a number of circumstances¹³⁰:

- There are a high number of unexecuted court decisions, a situation which is explained by the quality of these decisions and the deficient manner of examining the cases.
- The number of appeals to the European Court of Human Rights is increasing (more than 150 appeals have already been admitted to be examined), which is an evidence of the fact that plaintiffs trust international justice more than domestic courts.
- The Supreme Court of Justice in Republic of Moldova cancels a lot of judgements of the courts of appeal and last appeal because the courts fail to clarify all aspects invoked in the legal complaint or last appeal.
- Judges are frequently involved in political causes, while the representatives of the High Council of Magistrates and of judicial courts do not respond to accusations of the press, not even after the cases are completed.
- The judges are poorly paid: judges of the first court are paid about 1500–1800 lei (88-105 Euros) monthly; the judges of the Court of Appeal are paid about 2000-2500 lei; the judges of the Supreme Court of Justice – about 2700-3200 lei, while additional social guarantees (apartments, land for building houses, credits), have almost disappeared.
- While the number of plaintiffs is increasing, the number of judges is constant, and appointment proposals go through a very lengthy process of examination.

Successes or failures in reforming the national justice will be crucially important for attracting large foreign investors and the eradication of

¹³⁰ ADEPT and EXPERT-GRUP, February, 2006.

corruption and stimulating more businesses going from unofficial to the official economy. For the Republic of Moldova, achieving these objectives is important in order to consolidate the growth of its private sector.

Fighting Corruption

Recent research has shown the close relationship between the level of economic development of a given country and the level of corruption¹³¹. As a rule, more pervasive corruption correlates with smaller disposable revenues and lower access to public services. Evidently, this only further consolidates the vicious circle of corruption, economic growth and human development. It is important to break this circle as soon as possible because corruption has a capacity of propagating and rooting in all social fabrics.

The Republic of Moldova is perceived both as one of the poorest and most corrupt countries in Europe. The pervasiveness of corruption is suggested by the Corruption Perception Index (CPI) estimated by the non-governmental organisation Transparency International on a scale from 1 to 10, where 1 signals total corruption, and 10 – a totally clean country¹³². With a CPI of 2.9 in 2005, the Republic of Moldova ranked 95 out of 159 countries

entering the top. That is, comparing to 2004 when it was rated with a CPI of 2.3, the Republic of Moldova has achieved minor progress. Generally speaking, there is no clear long-term positive trend regarding perceptions of corruption in the Republic of Moldova (Chart 30). Compared to CIS countries (with an average mark of CPI=2.4), the Republic of Moldova fares a bit better, but for the image of the country it is important to pass beyond CPI=3.0, because this threshold signifies ubiquitous corruption. The average CPI of the EU countries in 2005 was 6.7.

Corruption is an institutional element seriously undermining the Moldovan economy, because this phenomenon generates a range of macroeconomic and structural distortions, reduces economic efficiency in using factors of production and allocating resources and worsens social inequalities¹³³. As a number of authors prove, a higher level of corruption is always associated with a larger hidden economy¹³⁴. The existence of this vicious link between corruption, the hidden economy and the poor quality of public services is acknowledged in the EGPRSP.

¹³¹ Prohnişchi, 2003.

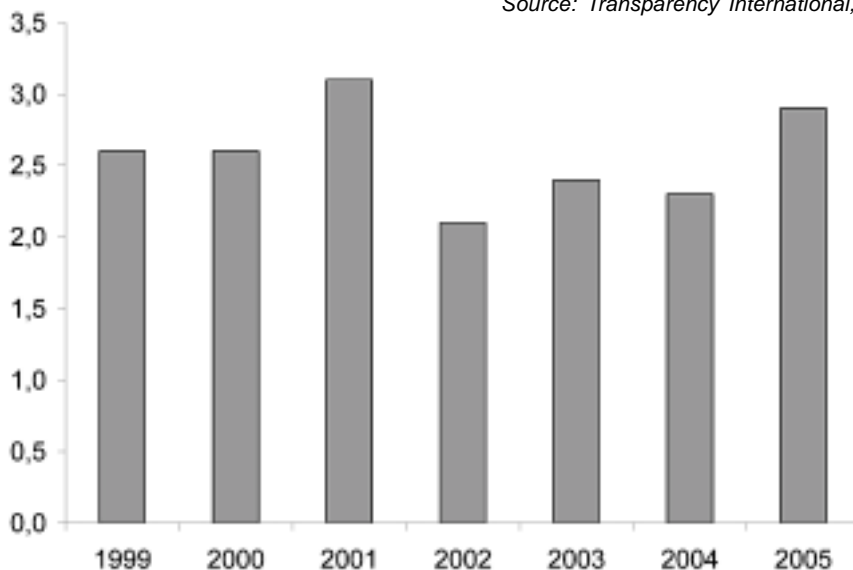
¹³² For details on methodology CPI see the Transparency International Moldova site, link http://www.transparency.md/Docs/2005/indicele_perceperii_cor.pdf.

¹³³ Idem.

¹³⁴ Piculescu, 2002.

Chart 30. Evolution of the Corruption Perception Index of the Republic of Moldova.

Source: Transparency International, various years.



Low wages in the public sector are only one of the factors contributing to high corruption incidence. In the Republic of Moldova corruption is generated also by other causes, the most important being the following¹³⁵:

- The high concentration of administrative resources as a means of state control over private economic entities.
- A lack of clarity by public officials when developing, applying and interpreting formal rules (laws, government decisions, other normative acts).
- Low public accountability of public officials and a lack social responsibility from the part of companies.

Corruption affects particularly poor people and small entrepreneurs who lack the money for making unofficial payments. Because of this, poor citizens do not have proper access to public services and small entrepreneurs are disadvantaged compared to large companies. The economic costs of corruption and associated economic phenomena are quite high. In 2002 economic entities spent about 16 million USD for making unofficial payments (about 1% of the GDP). Here one has to add the bribes that students pay to university professors, the patients pay to doctors, the parents pay to school teachers, the drivers pay to road police, and others. Some estimates on the total value of bribes paid annually in the Republic of Moldova rise as high as 5-6% of the GDP¹³⁶.

In order to fight corruption, the Government has proposed, and the Parliament of Republic of Moldova has adopted the National Strategy for Preventing and Fighting corruption¹³⁷. The current activities focus on preventing corruption, identifying and eliminating corruption in public administration and criminal arrangements prejudicing public budget and undermining the good functioning of the public institutions¹³⁸. More attention than in the past is currently given to analytic tools, as a means for identifying corruption-prone areas. Also, more efforts are allocated to public campaigns.

The results of these activities have been influenced also by the partnership with the non-governmental sector, including the Anti corruption Alliance, created in January, 2006. In evaluating strategies to fight corruption, the Government concluded that „it is necessary to intensify further the measures necessary to implement timely all the actions scheduled in the Plan of actions for Strategy implementation, as well as to increase the responsibility of public administration institutions and the transparency of their activity, including in their relations with mass media”.

Public administration reform

An efficient and citizen-oriented public administration is a precondition for implementing any strategy of economic growth and human development. This is acknowledged by the Government of the Republic of Moldova, that has set the important objective of „building a modern and efficient public administration reform, which will consolidate democratic processes and strengthen market economy, will be impartial and depoliticised, and its functioning will base on the most advanced European practices”¹³⁹.

Except for the local public administration that in the last 15 years experienced a “constant revolution”, the public administration reform was not a priority for the Government of Republic of Moldova. Most of the reform initiatives were limited to reduction of the number of ministries, departments and personnel without even a basic functional analysis of the affected institutions. Because of this, the public administration system is currently not adapted to solving the problems that good governance has to deal with.

Public service remains opaque, bureaucratized and of little prestige for young professionals. Wages that public officials are paid are well below the wage paid for similar intellectual and administrative efforts in the private sector. Taking into account the efforts and nature of assignments in the public sector, this report recommends that in order to make the public

¹³⁵ IDSI Viitorul, 2005.

¹³⁶ IDSI Viitorul, 2005.

¹³⁷ The Decision of the Parliament of the Republic of Moldova on approval of the National Strategy for fighting and preventing corruption and of the Plan of actions for implementation of the National Strategy for fighting and preventing corruption, no. 421 adopted on 16.12.2004, Official Monitor, no. 013 of 21.01.2005.

¹³⁸ The Decision of the Government of the Republic of Moldova on implementation of the National Strategy for fighting and preventing corruption in first half of 2006, no. 812 of 11.07.2006, Official Monitor, no. 106 of 14.07.2006.

¹³⁹ GRM, 2004.

service attractive for young professionals, the wages should be at least 2-2.5 times higher than the average wage per economy. In the long run, the wages paid to public officials should converge with wages paid in the banking or telecommunications sectors.

The advancement along the career path in the public sector is most frequently based on such criteria as political loyalty rather than professional expertise and merits. As a result, the system is lacking human resources while a bureaucratic elite – in the good sense of the word – in the Republic of Moldova has yet to emerge. This is the basic factor impeding proper implementation of the two strategic documents: Economic Growth and Poverty Eradication Strategy and European Union – Republic of Moldova Plan of Actions.

Local administration and human development

The efficiency of human development strategies increases proportionally with the degree of administrative decentralisation. Local public authorities frequently pay more attention to human development issues than the central government. This is particularly why a decentralised public administration improves the rate of public expenditures for human development priorities¹⁴⁰. However in order for the positive effect of the decentralisation to materialise it is necessary that local authorities have the capacity and responsibility to collect local taxes and the freedom of deciding on public expenditures priorities. In the Republic of Moldova, the deprivation of local authorities of the right to collect value added tax in local budgets and the mechanism of inter-budgetary transfers has reduced the role and the interest of the local authorities in stimulating local economic activity and has shrunk the local capacity of funding investment from local resources.

The importance of the “inferior layer” of public administration is most frequently overlooked by the Government in developing national policies. Even the EGPRS, the main national development strategy, does not adequately address the issue of local administration¹⁴¹. National legislation nominates only the authorities of public administration as subject of local autonomy, avoiding the use of the notion of local community. In consequence, the normative framework and the policies of welfare provision are focused on the territory and administration, less on inhabitants united into territorial communes.

Regrettably, the participatory development of local communities is hindered by the general weakness of local public administration. The dissatisfaction of the population regarding the quality of their life has resulted in their passivity to participate in solving local problems and their reduced trust in local administration. In a survey undertaken in April 2006, 42% of citizens supported the idea that they trust the Mayors Office, this being the smallest percentage registered by the surveys undertaken in the last five years¹⁴².

The European norms underline the principle of fiscal capacities of local communes’ consolidation, as a major condition for effective functioning of local autonomy, which would generate prosperity for communities. At present, the fiscal base of communities is insignificant. As a ratio of GDP, public revenues and expenditures financed from the budgets of the administrative-territorial units have decreased continuously in 2000-2005, while the revenues of the state budget have increased (Table 21). As it is planned in MTEF 2006-2008, local budgets will continue to shrink in the medium term too¹⁴³.

¹⁴⁰ Ranis and Stewart, 2000.

¹⁴¹ IDSI Viitorul, 2006.

¹⁴² IPP, 2006.

¹⁴³ MF, 2005.



„Do you really believe that our word counts for the central level? Let’s be realistic. Our power of influence is reduced to minimum, one votes once in 4 years and no referendums have ever taken place. Have you ever heard a referendum take place in the Republic of Moldova?” (Mihai, 24, professor, Bălci)

Table 21. Budgetary revenues and expenditures, as % of GDP.

	2002	2003	2004	2005	2006p	2007p	2008p
State budgetary revenues	18,1	19,5	20,4	21,7	21,5	20,3	19,3
Local budgetary revenues	7,6	7,5	6,2	5,4	5,1	5,0	4,8
State budgetary expenditures	15,5	15,1	14,5	15,9	16,0	15,4	13,9
Local budgetary expenditures	10,2	10,1	9,0	8,0	7,1	6,5	6,0

Sources: MF, 2003 and MF, 2005.

In 2004 only 41 mayoral districts, out of the total of 898 in the Republic of Moldova, could make use of revenues sources which allowed them to integrally cover their budget expenditures. In over 1/3 of the mayoralties only one fourth of expenditures has been covered by their own revenues¹⁴⁴. Thus, 95.5% of all mayoralties are dependent, to a bigger or smaller extent, on state budget transfers. This state of affairs reveals the low level of local public administration autonomy in Republic of Moldova, as well as the reduced ability to respond to citizens' needs at the local level.



„The taxes the farmer pays to the local budget should not be transferred to Chi_înu or another district but should remain in the village because that is where problems are solved. But how are things happening here? Money goes to another district and then it comes back for salaries, but less of it, because district administrators keep some of the money. Look, that is what happens with our money. (Maria, 54 years, sales clerk in a rural area)

„We, as citizens, feel strangers in our own state” (Mihai, 24 years, professor, Bîlcîi).

In the Republic of Moldova the practice through which the central government determines the priorities for investments in infrastructure, education and health has taken root. Though the funds are budgeted for local communities' needs, the local public administration remains a passive observer of this process.

From the perspective of local economic growth and human development, local public administration meets a range of problems. The lack of clear delimitation of the responsibilities of the two levels of local public administration generates conflicts of competence and hinders efficient delivery of quality public services. Another problem generating confusion regarding the distribution of competencies between local administrations and the central one, is the statute of the local public property, with disputes arising systematically with respect to administration of goods. Due to this, these assets often cannot be efficiently attracted into the operation of local economies.

Division of the country's territory into quite small districts is also harmful for local public administration. This reduces considerably the quality of forecast, planning and especially implementation of development strategies. The small districts lacking sufficient revenues for exercising regional financial autonomy with the aim of local social-economic development complicates the establishment of economic territorial complexes and of regional markets. This also does not contribute to integration of infrastructure between adjacent territories. Within larger administrative-territorial units, the funds designated for development have a stronger synergy and there exist more human resources for adequate administration of regional programs and strategies.

Finally, the subsidiary system applied to territorial collectivities hinders the achievement

of development objectives. The normative rates on which volume of inter-governmental transfers is defined sometimes are not related to reality, and in some cases they do not cover the salaries of public employees and do not include into calculation other costs related to the educational process or to public buildings' maintenance. The system of estimating budget expenditures based on the normative rates that depend on the number of population or beneficiaries (for example, the number of pupils, in the case of education institutions) is too rigid. In this system small rural localities are the most disadvantaged.

In conclusion, local public authorities still have a limited capacity to develop and implement their own policies and to implement national policies at local level, while from the point of view of mobilization of resources achievements in performance are very modest. In 2005, the reforms in the area of local and financial autonomy have stagnated, this issue being emphasized by the representatives of the Council of Europe¹⁴⁵..

Public perceptions regarding governance

Public perceptions on governance are important in order to see to what extent citizens are satisfied with the reforms implemented by the Government and whether they are aware of these reforms. As the NHDR survey shows, the majority of citizens (47.2%) did not see any changes in the activity of state institutions during the last year, 21% considered that the activity of state institutions improved, and 19.6 % considered that it worsened. Citizens felt excluded from the governance process and considered that their opinion in developing policies does not count (Table 22). Decision makers in Moldova mostly rely on the opinion of external actors, and less on domestic actors.

The data of Table 23 confirm that in public perception all social processes in the Republic of Moldova are influenced to a large extent by donors and IFIs, being outranked only by local politicians. Only 2% of those interviewed declared that their ideas, values and points of view were to a large extent reflected in the

¹⁴⁴ Porumbescu, 2006.

¹⁴⁵ Expert-Grup and ADEPT, April 2006.

Table 22. Public perceptions regarding the influence of development policies stakeholders.

<i>Do you think that the authorities take into account the opinion of ?</i>	Yes	Sometimes	No	Don't know
Simple citizens	9,5	31,4	53,5	5,6
Political opposition	19,4	42,4	23,7	14,4
NGOs	14,0	38,6	19,2	28,2
Press	17,4	35,7	30,7	16,3
Trade unions	20,6	38,2	17,9	23,3
IMF	31,7	28,5	12,0	27,8
WB	33,0	30,2	11,1	25,6
ECHR	27,4	34,6	6,8	31,2

Source: NHDR Survey.



„Today is better than a few years ago, because Romania has practically joined the EU. I think that if Ukraine will join the EU we will join automatically and our leadership understands this. Integration into the EU will also change a bit and living standards.”

(Alexandru, 23, self-employed, rural).

Table 23. Public perceptions regarding the influence of development stakeholder on social processes in Republic of Moldova.

<i>In your perception, which are the most important three groups from the point of view of their influence over the social processes in the Republic of Moldova?" (3 answers)</i>	First choice	Second choice	Third choice
politicians;	48,3	14,4	8,6
donors and IFIs ;	15,6	19,2	11,3
public officials of first level (ex. ministers);	13,5	21,9	17,8
civil servants of inferior level;	2,3	4,7	6,1
businessmen / high level managers;	4,5	8,8	12,9
employees / trade unions	2,7	3,6	4,7
peasants;	1,8	2,0	1,4
retired people;	1,4	1,6	1,6
army;	,2	,7	1,4
church;	,5	2,9	3,4
intellectuals;	2,5	2,9	5,4
journalists;	,2	3,2	3,2
NGOs;	1,8	4,7	7,4
criminal groups;	3,6	5,4	7,2

Source: NHDR Survey.

governance plans and approximately 17% - that they were reflected to a certain extent. On the other hand, 30% of citizens declared that their ideas and values were reflected to a small extent in the government policies, and 40 % considered that their opinions were not reflected at all.

Certainly, we cannot infer categorical conclusions about the quality of governance on the basis of subjective opinions. More than that, the effects of the initiated reforms are frequently felt only in the middle- and long-term and

cannot be immediately apparent to the citizens. But we certainly can affirm that the process of governance in Republic of Moldova is disconnected from the life of citizens, who are supposed to be the ultimate beneficiaries of this governance and its policies. Alienation or indifference that citizens express suggest three really important thoughts: (1) governance in the Republic of Moldova still has many deficiencies to overcome; (2) reforms are felt by citizens as being developed mostly for „export” rather than for “domestic consumption”; (3) such a situation feeds distrust of citizens

Table 24. Information of the public about development initiatives and strategies.

<i>Have you heard about such initiatives and strategies as ...</i>	Yes	No
Economic Growth and Poverty Reduction Strategy	49,4	50,6
Moldovan Village	48,5	51,5
Wine City	41,8	58,2
Modernization of the country – welfare of the people	30,0	70,0
Plan of Actions RM-EU	47,2	52,8
National Plan for Corruption Control	58,7	41,3
Millennium Development Goals	19,9	80,1

Source: NHDR Survey.

towards governance, their future and their own country. That is why one of the priority tasks that the Government faces is the re-establishment of the connection between citizens and authorities. Good governance is inconceivable without such a connection, which would integrate all actors of the society into the development processes still to be undergone by the country.

Conclusions and policy recommendations

This chapter has shed light on the importance of good governance for economic growth and human development in the Republic of Moldova. The advancement of these processes is hardly imaginable in a country with deficient governance, where basic human rights are not respected, where the business community is intimidated by omnipresent bureaucracy and access to impartial justice is limited. At the end of the day, bad governance means an alienated and unhappy citizen. In order to prevent such a bad scenario, the Government of the Republic of Moldova has to follow the objectives that it has formulated in the Economic Growth and Poverty Reduction Strategy and European Union – the Republic of Moldova Plan of Actions. These two documents can guide the Moldovan authorities in the consolidation of good governance. In the policy arena, it is important to have dialogue not only with international institutions, but also with domestic opposition and with civil society. In the last resort, the quality of governance will correlate with the degree of confidence that citizens have with respect to their own country.

The quality of governance in the Republic of Moldova has followed an uneven evolution and, as shown by international research, is substantially outranked by EU candidate or new-member countries. The low image of governance can be explained by a number of serious dysfunctions: excessive concentration of political power, problems with freedom of the press and television, weak administrative capacity, unreformed public services, over-regulated business climate, politically dependent judicial system and pervasive and rampant corruption.

The economic growth period enabled the Government to accumulate more revenues for meeting the development priorities of the country. This growth benefited from the optimal combination of monetary policy tools. Increasing the ratio of general government expenditures and increasing the ratio of social government expenditures bear witness of the real preoccupation of the Government for human development. At the same time, there is also enough room to leverage a higher impact of government expenditures on human development by better selection of spending priorities. Social expenditures should remain the same, but economic expenditures have to increase substantially. This is not the issue of Government getting involved in economic activities, which is not the best solution for spurring economic growth, but rather of investing in the modernisation of the existing infrastructure which is of primary importance for consolidation of economic growth, particularly in the sectors of transport, energy and telecommunications. This will help the Republic of Moldova to escape its “geographic trap” and reduce its energy vulnerability.

The impact of government expenditures can increase as reform of social assistance advances. Currently the anti-poverty efficiency of these policies is considerably undermined by high inclusion and exclusion errors. As regards the social categories, children from poor families should be the absolute priority of social assistance.

Constant growth of government revenues and expenditures and sustainable funding of the national development programmes is not possible unless the private and public sector of the economy grow robustly. The timid reform of simplifying the regulatory environment has to continue with a radical revision of this environment and with advancing reforms in the legislative area. As for the state-owned enterprises, for their financial sustainability and consolidation of economic performance in the long-run, it is necessary to impose harsher budget constraints and to give up the extravagant practices of “fiscal isolation” of these enterprises. Exposing them to the rules of market economy may be painful for these enterprises at first, but this will be beneficial for the economy in general. For the regulatory reform to advance, the technocrats able and willing to implement reforms have to be backed by sufficient political support.

An efficient public administration composed of competent and open-minded bureaucrats is an essential precondition for practical implementation of any strategy of economic growth and human development. For now the capacities of this system are quite limited. Cutting the number of personnel has to be based on proper feasibility and functional studies, it has to be accompanied by increasing salaries for competent officials and good technical endowment. Getting the public service younger is essential, but in order to achieve this it is necessary to put in place a transparent framework of staff recruiting and

promoting and to provide for a technical, depoliticised public administration.

Contrary to the trends that prevailed in the last six years, a more decentralised public administration will emerge as an obvious solution for translating national development strategies into real deeds at the local level. Local public administrations know better local needs and are able to improve the allocation of resources according to the real priorities. But their capacities are seriously undermined by lack of know-how, narrow fiscal base and deficiencies of inter-governmental fiscal transfers. Local authorities have a great potential to contribute to human development but materialising this potential requires higher competences in mobilising and managing local fiscal and human resources.

Corruption remains a social malady undermining the good functioning of public institutions and economic growth in the formal sector. This leads to inefficient allocation of resources in our society and distorts fair competition. Payments associated with corruption are a “dead cost” for companies and citizens. Corruption acts as an additional tax on foreign direct investment, increasing the risks and diminishing the rate of return on investment. As a matter of fact, corruption is more discouraging to investors than high taxes. It is thus no surprise that foreign investors often are looking for more transparent and safer destinations for their investment than the Republic of Moldova. Reducing the regulatory burden, providing for an unbiased and independent justice, increasing wages of public officers, increasing transparency and public accountability in management of public finance and public tenders, reducing the discretion in interpreting the normative acts, – these are the basic ingredients of a successful strategy in fighting and preventing corruption.



Chapter IV. Economic growth, human development and international competitiveness



In this chapter the authors try to analyse the mutual influences between international competitiveness, on one hand, and economic growth and human development, on the other hand. The chapter also provides an account of factors which directly influence international competitiveness. It analyses the major trends and main issues in the Republic of Moldova's foreign trade, the latter serving in this analytical framework as a „litmus test“ of competitiveness. The report discusses the potential for international competitiveness of a range of industrial branches and identifies the main obstacles in their development. Further the authors have focused on the role of foreign investment in increasing international competitiveness and strengthening economic growth, as well as on factors that determine the volume, quality and capacity of absorption of foreign investments. The chapter ends with an analysis on evolutions in the research-development-innovation domain to ensure a qualitative bounce of the national competitiveness.

Economic growth, human development and competitiveness

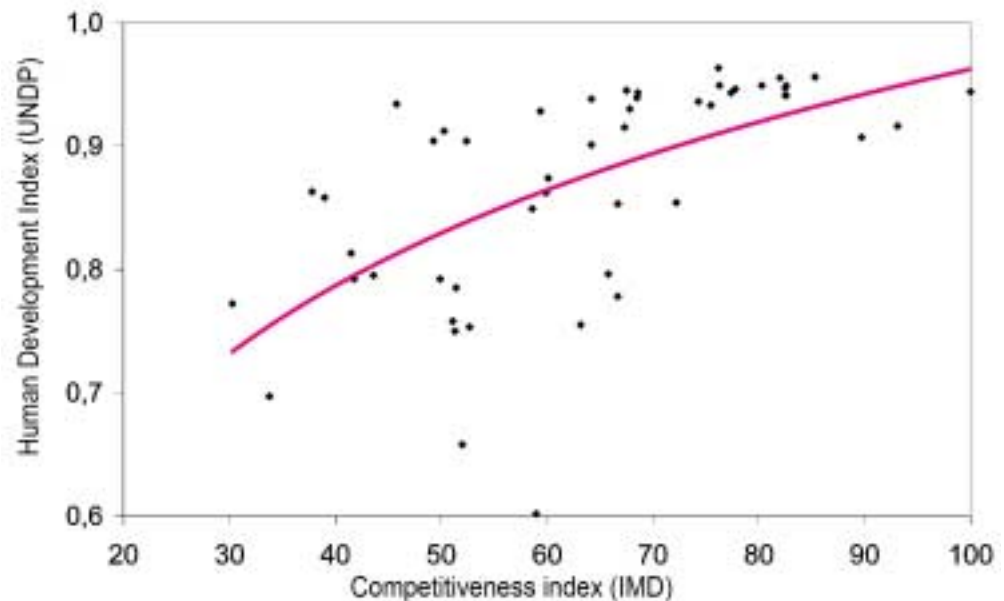
The fact that we are focused in this Report on the relationship between international competitiveness, on one hand, and economic growth and human development, on another, is not at all incidental. For small and poor countries, economic growth and human development in a large measure depend on their capacity to attract financial resources, technologies and innovations from outside and to sell goods on the global market. Human development and economic growth have a mutual relationship with international competitiveness. Acceleration of human development and quality economic growth open new opportunities to amplify the international competitiveness. The influence is coming through the creation of modern economic institutions and a healthy and well-trained human capital ready to respond to the global economy's challenges. The economies that do not dispose of such human capital and are "frozen" in traditional economic and social structures, become uncompetitive on the international markets. They are on the outskirts of the world economic processes risking perpetual economic decline and a fall in the human development level.

Conversely, the increase of international competitiveness brings important benefits for economic and human development. Not by coincidence, countries with the highest international competitiveness tend to be the countries from the middle and high categories of human development. As Chart 31 shows on the basis of a set of statistical data for 60 countries, there is a close correlation between the level of international competitiveness of a country and its level of human development.

As for economic growth, even if it does not necessarily accelerate as the country becomes more competitive, still this growth tends to become more robust and sustainable. International competitiveness is considered the key to success for developing countries. Not by accident, the economic successes of the "Asian Tigers" are based on the identification of competitiveness niches on the international markets and on the development of export-oriented sectors. For small, poor and open economies such as the Republic of Moldova, international competitiveness represents the most important prerequisite for economic growth resulting in benefits for improving the quality of life. Thus, human development, economic

Chart 31. Correlation international competitiveness – human development.

Sources: IMD, 2005 and UNDP, 2005.



Note. The global competitiveness index of the International Management and Development Institute (Switzerland) is used as an indicator of international competitiveness, and the Human Development Index – as indicator of human development.

growth and international competitiveness represent a triad whose elements are indissolubly linked and mutually reinforcing.



„And here [in Moldova] there is much wealth as well. We are not so much wretched, but the organization of things is very poor. We have transit, railways, roads, we can make something, but there is no owner.”

(Sergey, 28, telecommunications engineer, Chisinau)

What is international competitiveness?

International competitiveness is the ability of a nation to advantageously participate in international competition and to support improvements in real production and its welfare. Improved competitiveness means occupying more advanced niches on the global markets and assimilating a bigger part of global income through selling goods and national products. International competitiveness does not have a universal method of estimation. In the present Report, the evaluation factors mostly follow those suggested by the Management and Development Institute of Switzerland¹⁴⁶:

- **Economic performance:** domestic economy, international trade, foreign investments, unemployment rate and prices;
- **Governance efficiency:** public finance, fiscal policy, institutional framework, business legislation;
- **Business efficiency:** productivity, labour market, finance, managerial practices, business culture, labour attitudes;
- **Infrastructure:** basic infrastructure, technological infrastructure, scientific infrastructure, health and environment, education.
- Foreign trade, whose structure and dynamics is evidence of the capacity of international competitiveness of the country;

Obviously, these factors include a range of sub factors. A part of these sub factors has been examined in the previous chapters or are less important in the context of this analysis. In the present chapter we focus on the following elements which are extremely important for improving the international competitiveness, economic growth and human development of the Republic of Moldova:

¹⁴⁶ IMD, 2006.

- Foreign direct investments as an essential factor in recovering and modernizing economic capacities and enhancing international competitiveness;
- Niches of competitiveness, which are an important prerequisite for economic activity to become more robust and transform into economic development and increased competitiveness.
- Managerial performance determines the competitiveness at the company level and contributes to the accumulation of increased competitiveness at the level of the economic system.
- Research-development-innovation, as a chief element of the fourth economic sector¹⁴⁷. This contributes to the formation and strengthening of the competitiveness of a particular nation at a much higher level.

These sub factors are intrinsically intertwined. Foreign trade should become the basis for a sustainable economic growth in a small and open country. Diversification and improvement of foreign trade is feasible only with the support by FDIs, which in their turn bring know-how, innovations and new management practices. Moreover, foreign investors often bring with them access to external markets. The correct identification of niches of highest competitiveness assures more constant currency inflows and

is a precondition for advancing the country along the value-added chain. Investment in research, development and innovation adds more value to national products, making them more competitive in quality and exclusivity as well as price. At the same time, in order to have the capacity to absorb investments and to generate high-value products and ideas, our economy needs a favourable business environment, an educated labour force and researchers and innovators with advanced education.

Foreign trade as a reflection of competitiveness

Foreign trade is one of the most important indicators of international competitiveness of a nation. It shows the main domains in which the products of an economy are competitive. Foreign trade also implicitly indicates whether a national economy is taking advantage of the opportunities opening on external markets or is just suffering from imminent shocks. Analysed in this context, external trade can serve as a diagnosis tool of the reduced

„The local market is invaded with products from abroad and because of that the economy stagnates.”

(Roman, 22, student, Chisinau)



¹⁴⁷ According to traditional classification, the agriculture and mining represent the primary sector of the economy, the manufactory is the secondary sector, and the services and constructions is the third one. The fourth one or quaternary sector of modern economies is composed of financial, techno-scientific and educational integration of the capital.

Table 25. Structure of export by large geographic areas and countries, % of total.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006, half-year
Export – total	100	100	100	100	100	100	100	100	100	100
CIS	69,6	67,9	54,7	58,6	60,9	54,5	53,6	51,0	50,5	45,0
Russia	58,2	53,3	41,3	44,5	43,7	37,1	39,0	35,9	31,8	23,1
Ukraine	5,7	7,7	7,0	7,5	10,1	9,5	7,1	6,6	9,2	11,7
Belarus	4,1	5,0	4,7	4,6	5,3	6,1	5,2	5,9	6,5	6,8
EU	13,4	15,7	28,1	26,3	24,9	26,6	26,7	30,1	29,7	31,5
Germany	3,7	3,8	7,2	7,7	7,1	7,2	7,1	7,2	4,3	4,2
Italy	2,7	3,5	5,5	7,7	8,0	8,8	10,4	13,9	12,2	11,3
ECE	8,0	10,2	10,2	8,8	7,5	9,6	12,4	10,7	11,1	15,5
Romania	6,7	9,6	8,9	8,0	6,7	8,8	11,4	10,0	10,2	14,0
Rest of the world	9,1	6,2	7,0	6,3	6,7	9,3	7,3	8,2	8,7	8,0

Sources: according to the publications on foreign trade of the Republic of Moldova available on NBS site, www.statistica.md.

Table 26. Structure of exports by sections and groups of goods, %, if not otherwise stated.

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Exports, total USD millions	874,1	631,8	463,4	471,5	565,5	643,8	789,9	985,2	1091,3
Including, %									
Foodstuff, drinks, tobacco	54,8	55,4	42,6	42,1	44,5	41,5	39,8	35,1	36,3
Textile materials and articles	6,7	9,8	13,9	17,7	18,4	16,7	16,4	17,3	17,8
Vegetable products	8,6	11,3	14,7	14,0	13,9	16,5	11,6	12,2	6,1
Hides, leather, furs	1,4	1,7	2,8	2,8	2,0	3,6	5,7	7,9	6,6
Fats and animal or vegetable oils	1,0	0,6	0,5	0,8	1,5	2,6	3,7	4,2	3,5
Machinery and devices, electric equipment	5,2	6,5	5,9	5,1	5,4	3,9	3,8	4,0	4,2
Mineral products	0,4	0,4	0,4	0,6	1,1	1,8	2,6	3,1	1,2
Common metals and articles made of them	1,0	1,5	3,5	2,5	0,5	1,1	2,5	3,0	4,5
Other	21,0	12,8	15,7	14,5	12,6	12,3	14,0	13,3	19,8
Total	0,361	0,373	0,301	0,328	0,354	0,348	0,348	0,331	0,333
Herfindahl concentration index	0.36	0.37	0.3	0.33	0.35	0.35	0.35	0.33	0.33

Note: The Herfindahl exports concentration index is calculated based on formula $H = \sqrt{\sum_i \left(\frac{x_i}{X}\right)^2}$, where x_i - exports of i -th good, X – total exports. Analysis is made at the level of 3-digit sections of the Goods Classificatory of Republic of Moldova. The Herfindahl index takes values between 0 and 1, with high values indicating a higher concentration of exports around a small number of items.

Sources: according to the publications on foreign trade of the Republic of Moldova available on NBS site, www.statistica.md and authors calculations.

international competitiveness of the Republic of Moldova, of barriers and disadvantages which hinder its improvement.

Up to the present, the Republic of Moldova, unlike other countries in Central and Eastern Europe, has been very slow in diversifying foreign trade (Table 25). Despite all internal and external economic shocks which have required restructuring and diversification of the economy and exports, the country has remained excessively dependent on the CIS markets and on traditional low value-added products. In 2005, over half of Moldovan exports were directed to Eastern markets and 66% of the total exports consisted of alcoholic drinks, textiles and vegetable products. The shock suffered by Moldovan exports in 1998 as a result of the Russian financial crisis caused a pronounced rebalancing of the destination of exports to the EU, but that was mainly determined by textiles expansion. The banning by Russia in March 2006 of imports of alcohol

products from Republic of Moldova caused another trade shock resulting in a collapse in output in the wine-making sector and exports of alcoholic products.

The concentration indexes of exports show the high dependency of the Moldovan economy on a relatively narrow range of low-value added goods (Table 26). In 2005 Moldovan exports were made of mainly of foodstuff, alcoholic drinks (36.3%) and textiles (17.6%)¹⁴⁸. Alcoholic beverages and foodstuff are exported mainly to the Russian market (75% of total), while exports are directed mainly to the European market.

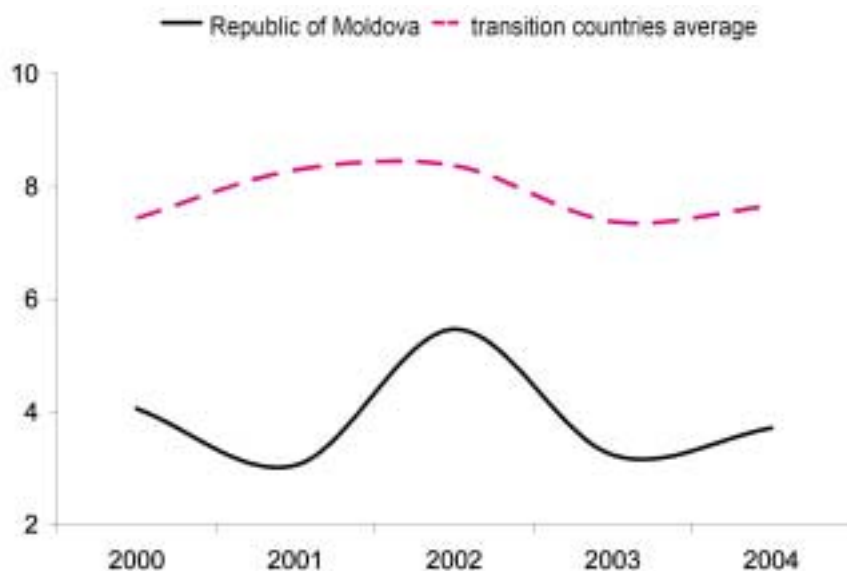
The technological and capital intensity of exported goods is reduced, instead that of labour force prevails. (paradoxically, in spite of high labour intensity of Moldovan exports, local labour force continues to be poorly remunerated). The weight of high-tech exports pales even by regional comparison (Chart 32). The low share of technologically advanced exports is to a great extent explained by weaknesses of the research-development-innovation sector (RDI) and this constraints

¹⁴⁸ BNS, „Foreign Trade of the Republic of Moldova. Years 2004-2005” accessible at <http://www.statistica.md/dates.php?lang=ro&ct=33>, accessed July 2006.

Chart 32. Technologically advanced exports, % of total exports.

Note: The transition countries average is calculated based on available data for the following countries: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Georgia, Kazakhstan, Latvia, Lithuania, Macedonia, Republic of Moldova, Mongolia, Poland, Romania, Russian Federation, Slovakia, Slovenia.

Source: WB, 2006.



significantly the growth of national revenue. Obviously, this impact in a negative was the results achieved in the human development areas.

Excessive concentration of Moldovan exports on the unstable markets of the CIS and on a limited number of categories of products jeopardizes the perspectives of economic growth based on the expansion of exports and makes Moldova vulnerable in face of external shocks. The example of trade barriers introduced in 2005-2006 by Russia for Moldovan goods proves that these shocks can have a political nuance, not only an economic one. But for the Republic of Moldova to increase the level of integration with international markets, it has to lower domestic barriers to trade too.

A free trade regime is an essential condition of sustainable growth for a small economy. At the same time, active participation in international trade helps to attract foreign direct investments. But in spite of significant accomplishments registered by the Republic of Moldova in

liberalizing its trade regime, the benefits are slow to materialize. Partially, it is happening because of certain domestic barriers imposed in the foreign trade which undermine the international competitiveness of the Republic of Moldova.

Alongside the internal openness to foreign trade, it is essential that external partners grant the small country free access to their domestic markets. From this point of view the Republic of Moldova suffers, because the EU and other partners do not offer free access to their markets for the most competitive Moldovan products.

The Republic of Moldova is formally considered to be the one of the most open economies in the world¹⁴⁹. But in order to benefit fully from the free trade regime it is necessary to develop its transport and logistic systems, to put in place simple and stable customs procedures¹⁵⁰, and to provide for the conformity of the national system of metrology and the quality certification to the international norms. The Republic of Moldova still has to overcome a number of failures in this domain. Until that time the benefits brought by the liberalized commercial regime will be limited.

„Our country has wines, orchards and fertile soil. With such a soil and people, we can produce grapes, apple juices, and other valuable products. We can make good quality wine and export it to Europe.” (Emilian, 40, land owner, season worker in Russia, rural).

¹⁴⁹ WB, 2004; EBRD, 2005

¹⁵⁰ For example, in the Republic of Moldova the customs services and police are considered to be the most corrupted sectors, see Transparency International Moldova, 2005.



Niches of competitive advantage

Since the times of the first industrial revolution, the countries of the world compete for identifying and occupying commercial niches on international markets. After obtaining independence, the Republic of Moldova joined this competition as well. Regretfully, during the 15 years of independence a feasible strategy for identifying and developing competitiveness niches was not proposed. Even if we take into account its most "competitive" export – its labour force - we see that the Republic of Moldova remains mainly specialized in exportation of products which fill lower niches on the market. The development of potentially competitive industries took place under an amalgam of influences on behalf of "the invisible hand" of the market and of the so far "adverse hand" of the state in transition. Overall, it is considered that the international competitiveness of Republic of Moldova depends on three main factors¹⁵¹:

- availability of a cheap and qualified labour force;
- the soil's fertility and climate;
- its geographic position as a connecting bridge between East and West.

At the same time, these factors have limited importance. Thus, the cheap and qualified labour force might soon be unavailable because of the flight of labour, the loss of labour qualification because of the decline of the system of vocational education inherited from the Soviet Union and because of lack of jobs in the respective sectors. And, let us recognize, after such a long time of underinvestment in developing the human capital in the Republic of Moldova, in other countries of the region the ratio qualification / cost of labour force has become more attractive for international investors. Soil fertility and climate have major importance just for the agriculture sector, which in spite of its actual weight, is not very probable to be the main engine of the economic development of the Republic of Moldova in the XXI century. As for geographic position, it can be fructified only if there is in place a modern and developed transport and communication infrastructure and an advanced international openness (for the flows of people, capital, goods and services) , requirement not fully observed now in the Republic of Moldova. If we add the disadvantages from other sectors,

like the business climate and the level of corruption, the value of Moldova's assets decreases even further.

Nevertheless, certain Moldovan companies, to some extent, manage to withstand international competition pressure. Which are these competitive sectors and what are their perspectives?

I. Wine making industry.

This industry underwent several adverse influences during the transition period. From abroad, the sector has suffered a lot because of the Russian crisis of 1998 and the steady advancement of producers from the New World on the Russian market. Penetration of new competitors has been accompanied by a significant decrease of the quota hold by Moldovan wines on the Russian market. At home, during the 1990s, the wine making sector has suffered from degradation of grapes plantations and outdated technological equipment¹⁵². In order to re-establish the sustainable growth in this sector it is important to re-brand the wines and modernize the technological process, plant premium varieties of grapes, improve access to financial sources, simplify administrative procedures, adopt international standards, embark on aggressive marketing strategies and promote more expensive premium-quality wines¹⁵³. The expansion of the sector is important because on its evolutions depend the welfare of 150,000 people involved in wine making, viticulture and in related domains. *But the traditionalism, the rigid character of the market and the fact that Moldova will follow the powerful producers of the New World will impose certain limits over the competition capacity and the expansion of Moldovan wines.*

II. Other Agricultural Products

In agriculture the comparative advantage of Moldova consists in growing up the high added value products, like tomatoes, apples, grapes¹⁵⁴. But exports of these products greatly suffer because of non-appliance with international standards that limit them, for the time being, to the less demanding and less profitable markets of the CIS. Adaptation to international standards, alongside with the



„Do you know how much the oil of roses costs? It has the same weight as gold. Wouldn't it be better to grow roses?" (Dumitru, 26, trade employee, urban)

¹⁵¹ DAI, 2004.

¹⁵² IDIS, 2004. DAI, Idem.

¹⁵³ Ibidem.

¹⁵⁴ BM, 2005.

decreases in domestic and external barriers in trading these products, will substantially increase the export capacity and profitability of this domain of agriculture. Another important step would be the implementation of new technologies (for example, storage in air controlled regimes) and procurement of new equipment. This would reduce the dependence of Moldovan producers from price fluctuations based on seasonal character and would allow for trading the products during the non-seasonal period¹⁵⁵. This would contribute to substantial increase of revenues for rural population. *Nonetheless, we should mention that these extremely important actions will also suffer from the same limitations as the wine industry.*

Another agricultural product which lately has acquired an important quota of the Moldovan agricultural exports are walnuts. Walnuts export increase is favoured by very good climate conditions for this crop and by the free access on the European Union market within the Generalized System of Preferences. It is important that Moldova exploits to the maximum this favourable configuration by diversifying products from the exported nuts. *Alongside with other agricultural products, the walnuts and products thereof can become an indispensable element of the combination of productive domains which would ensure international competitiveness of the country.*

III. Textiles and Apparel

In the Republic of Moldova the process of industrial modernization and implementation of international standards is the most advanced in this sector. Light industry benefits from high interest on behalf of European companies, which wish to extend the production of textiles and apparel products in the Republic of Moldova. This interest was determined by the cheap and qualified labour force for activity in this sector and by the proximity with the sales markets of the EU. But these factors are undermined by considerable logistics costs¹⁵⁶. At the same time, clothes of the more expensive lines are more dependent on the whims of fashion that is why the proximity and the speed of supply has an important role in advancing towards more expensive segments of the market. Certain Moldovan firms have already begun to advance along the value chain, switching from activities of cutting out - sewing delivered to foreign firms to introduction of their own design or even to launching of

their own brands¹⁵⁷. *Lowering of logistical or administrative barriers will be proved a fillip for increasing international competitiveness of this sector.*

IV. Electronic Equipment Assembling.

This activity is not yet developed in Republic of Moldova, though certain countries of Central and Eastern Europe (Hungary, Estonia, Latvia, and Romania) have become important destinations of foreign direct investments in the electronics domain. Due to the proximity to the EU market and availability of cheap labour force Republic of Moldova could have good chances in attracting investments in the assembling lines of electronic equipment¹⁵⁸. Taking into account that the majority of components are transported from South-Eastern Asia and that safety and speed of transportation have the main role, *improvement of infrastructure, logistics and dismantlement of administrative barriers could give Republic of Moldova a competitive edge in investments' attraction and in diversification of its exports.*

V. Information Technologies Sector: enter the new E-economy...

Probably, it is not yet possible to say that this sector exists in the Republic of Moldova in the full sense of the word. A range of companies – either as units of former research institutions, or as newly created enterprises – have managed to establish themselves on the market and represent an increasing share of the national economy. But at the same time, there are no cooperation links between the companies that operate in the domain, and many of the activities are developed “in shadow”¹⁵⁹. Some companies are working mostly for the local market, offering services to enterprises from other sectors, other work for foreign firms outsourcing work to Moldovan companies. It is worthwhile to mention, that the firms which work for local producers also increase international competitiveness of Republic of Moldova, because it is hard to imagine a competitive company which would not make use of new technologies.

Taking into account the limits imposed by the small local market, the insufficient protection of intellectual property and the existence of

¹⁵⁵ DAI, Idem. WB, 2004.

¹⁵⁶ WB, 2004.

¹⁵⁷ DAI, Idem.

¹⁵⁸ WB, 2004.

¹⁵⁹ DAI, Idem.

such giants as India (with cheap and qualified labour force, infrastructure and education systems in dynamic development in the IT sector), it is not highly probable that Moldova will become a major exporter of IT services. This does not mean that a positive dynamics in exports of these services will not be observed. Also, these companies will play a significant role in modernizing traditional sectors of Moldova and public services (e-governance, etc.)

In conclusion, we can say that international competitiveness of Moldova in the short term perspective will be determined by the combination of few sectors: agriculture, wine industry, light industry and the information technology. It is also probable that new directions of activity will appear (assembling of electronic equipment). However, it would be wrong to rely on appearance of certain "world champions" of global size in the nearest future. Though this conclusion might sound too pessimistic, presently Moldova is facing the risks of international competitiveness degradation, rather than opportunity of becoming a global player. For developing the existent sectors and emergence of new sectors it is necessary to modernize and improve the infrastructure, education system, business climate and the way state institutions work.

Foreign direct investment – national economy: a two-way street

The benign nature of foreign direct investments (FDI) is practically not contested by anybody. As an essential source of compensating shortages of domestic resources, FDI is an extremely important factor for economic development and for increasing the competitiveness of certain emerging economies. More than that, the intensity of fluxes of FDI in an economy is considered the best indicator of the success of policies and economic prospects of the host country, thus being able to encourage other investors to come with new resources to the respective economy. So, after a certain threshold of lack of trust is overcome, the FDI becomes an important driving force for robust economic development¹⁶⁰. FDI are important not only as sources of capital, they also appear as a very potent combination of capital, experience and knowledge, management practices, marketing innovations and technological know-how. This combination is the very essence of the globalization process and it is not by chance that many countries are in a harsh competition among each other in attracting foreign investments.

¹⁶⁰ The Economist, „The Cutting Edge”, February 22, 2001.

Chart 33. Net flows of FDI, % of GDP.

Source: Calculated by authors based on EBRD, 2005.

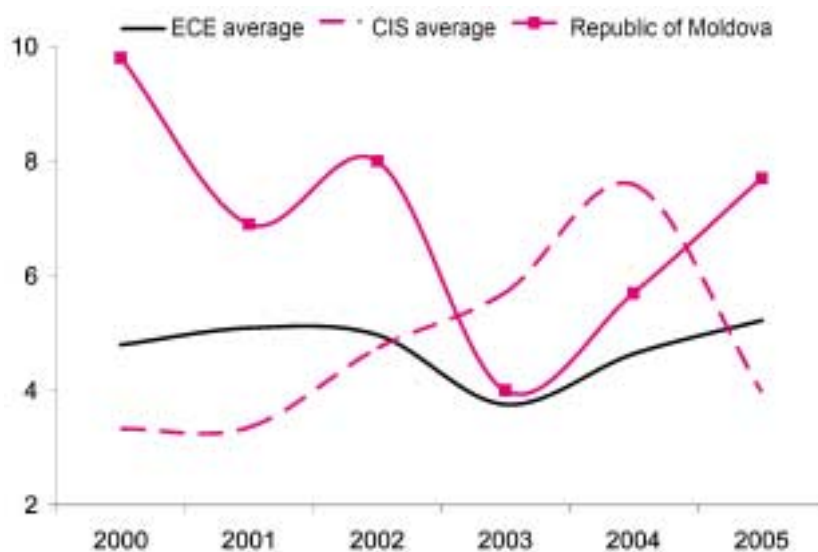
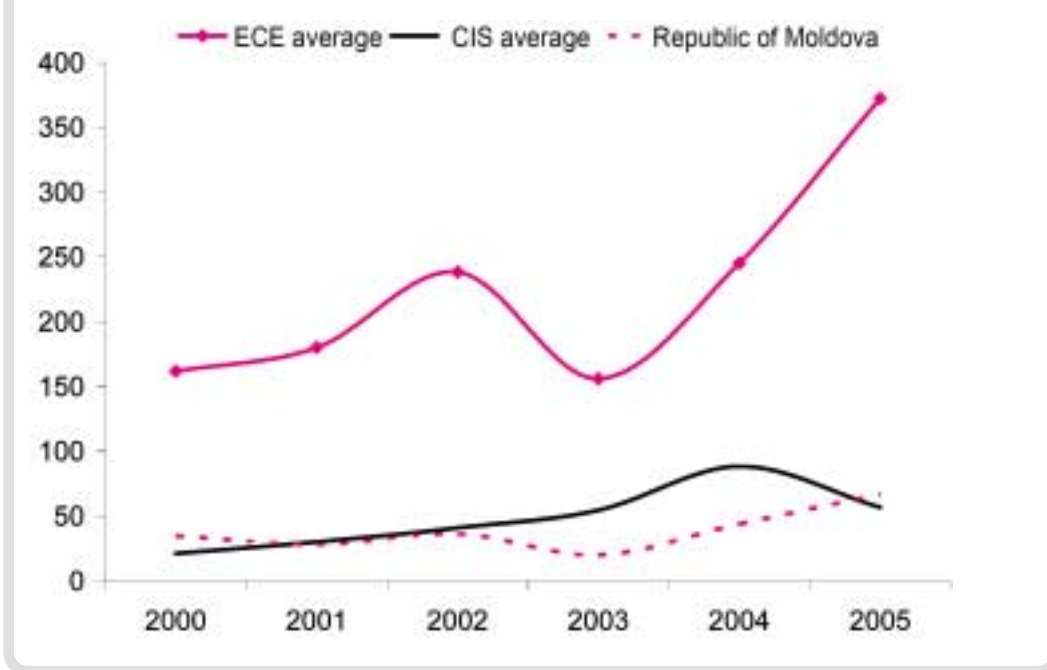


Chart 34. Net flow of FDI, USD per capita.

Source: Calculated by authors based on EBRD, 2005.



On a regional scale, the accomplishments of Republic of Moldova are quite ambiguous in this competition. On one side, the FDI as a share of the Moldovan GDP is quite impressive, it is even higher than in ECE as average (Chart 33). Though its performances have continuously decreased till 2003, in 2004-2005 the net flow of FDI has increased to 5.5% and 7.0%, respectively. But, as in most of the CIS countries, the relatively high share of FDI in Moldova's GDP is explained mainly by the small denominator (GDP), than by the big numerator (FDI). As shown in Chart 34, FDI per capita in Republic of Moldova is very small comparing to ECE countries, but similar to the average in CIS countries.

The weak performances of Republic of Moldova in attracting FDI have significantly reduced the room for expansion of the economy. A study conducted by the World Bank shows that foreign capital enterprises (at least 25% of the capital of the enterprise) have in general better economic performances in terms of sales per employee (an approximation for productivity) and profit per employee. Companies with foreign capital represent only 3% of the total of enterprises and 5% of the total of employees,

but post 15% of total sales and 23% of the investment activity¹⁶¹.

Taking into account the incontestable advantages that the FDI bring about, it is reasonable to ask ourselves why the Republic of Moldova is so shy in attracting foreign investors. A range of reasons can be identified. In general, the volume of FDI received is determined by the size of the host-country, its geographic location and natural resources. But, such institutional factors like the policy framework, business climate, the quality of governance and level of corruption are very important too. Obviously, the Republic of Moldova, has a small economy with very limited natural resources, and can successfully compete for attracting FDI mostly via institutional factors: the policy framework that ensures high level of openness and economy liberalization (trade, capital circulation, openness of the financial sector), non-discriminatory regulatory framework towards foreign companies, the favourable business climate for developing existent companies and market entry of new companies,

¹⁶¹ WB, 2004.

the reduced level of corruption, developed physical and social infrastructure and a good human capital (first of all, education). This virtuous combination of factors determines not only the investment attractiveness of a country, but also, *the capacity of the economy to absorb capital*¹⁶².

In the new era of knowledge economy, education has become a very valuable individual and national asset. Education can play an extremely important role in modernizing the Moldovan economy, offering citizens other opportunities apart from emigration. More than that, a high-quality and accessible education system could favourably modify the supply of national economy with production factors, substituting growth opportunities in the sectors which require qualified labour force. Global experience shows that countries which supply to citizens an additional year of education have the chance to increase work productivity and the economic growth rate by 3-6 %¹⁶³.

For the time being there are few signs that the Moldovan education system would play an important role in increasing the competitiveness of labour force in the country. Besides the not very favourable demographic situation, there are some other factors that hinder strengthening of the role the education could play in economic growth¹⁶⁴. As was mentioned in the chapters above a major problem is the access to the education. The rate of education's coverage, excepting the basic education, is lower even than in countries from the Western part of the CIS. The most precarious situation is registered in medium specialized and professional education.

According to the TIMSS&PIRLS International Study Enter data (years 1999, 2003)¹⁶⁵ Moldovan participants (VIII grade) have evolved a little bit lower than the international average and considerably lower than the majority of participants from the EU countries. As for the 4th grade form the results have been better, participants from Moldova being placed a little bit higher than the international average. However, because of the temporary reduced comparison basis, it is too early to conclude that reforms in the education system have begun to have a positive impact over educational competitiveness of our citizens. Obviously, the educational system is that one which forges the necessary specialists to consolidate the researching-developing-innovating system and

set up the framework for the country's advancing in science and technique applications for the economic growth and human development.

Managerial performances

The competitiveness of any nation and its sustainable economic growth is in a large measure the result of the competence of the managers of the private and public companies. At the early phase of the transition the managerial performances in the Republic of Moldova fared quite low. Many of private enterprises have emerged after the reorganization and state enterprises privatizations, and have inherited the elements of business culture specific to the Soviet period. The slow advancing of structural reforms is the factor which at the end of the day explains the reduced managerial performances resulting in low profitability and productivity.

A range of indicators denotes the improvement of managerial performances after the 2000. The share of banking credits offered for middle and long-term have essentially grown, from 19% in 2000 to 43% in 2005 thus hinting to a improvement of business plans proposed by the companies. The number of companies "alive" (that is, not only formally registered) reporting net profits grew by 40% in 2000-2004. The number of profitable entities grew faster than those which are in "red": 73% against 38%. The cumulated financial result of reporting enterprises has essentially improved. The losses of -0.9 billions lei admitted in 2001 have gradually evolved in a total profit of 2.4 billions in 2004. In 2000-2004 the return on sells rose from 13.8% to 15.5% and the return on assets from -1.9% to 4.1%.

A range of factors contributed to improving managerial performances, including the better training of managers and the accumulation of managerial practice. The historical experience of a number of countries which have been in shortage of natural resources and capital and have put more emphasis on human resource development shows that their competitive capacities improved. The most widely known

¹⁶² Narula and Portelli 2004; The Economist, A Survey of Global Finance, May 1, 2003; BM, 2005.

¹⁶³ Schleicher, 2006.

¹⁶⁴ WB, 2005, b).

¹⁶⁵ Dedicated to comparative studies in the domain of education (mathematics, science, reading).

examples are that of Japan after II World War, of the Western Europe and of the East-Asian Newly Industrialized countries which reanimated their economies and developed competitive exports by means of more competent managerial elite.

Beginning in 1993 to 1994 the Republic of Moldova launched a series of programmes to raise managers' qualifications. The analysis of the indicators of performance of the companies led by managers trained in such programmes shows an essential improvement of activities both in comparison with own previous results and with outcomes of similar companies which did not participate in managerial training programmes.

Yet, the trainings programmes are limited to big enterprises and non-agricultural sectors. This limits their impact on the economic system. At the systemic level, the managerial performances will improve at par with more young managers entering the economically active category and with improving cooperation between high education institutions providing economic training and the productive sector.

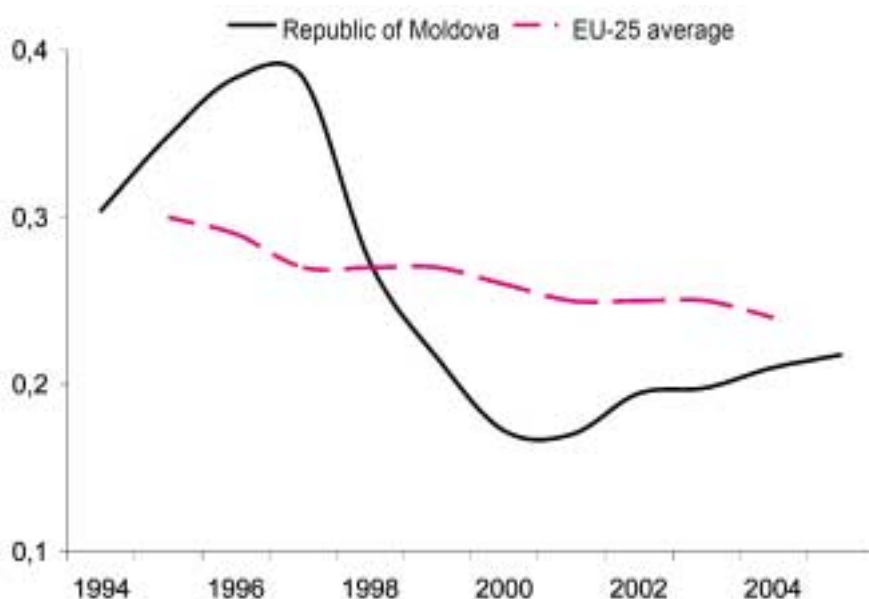
Research-Development-Innovation: the precondition for a quality economic leap

In the last decades advanced economies intensified the activities of generating, disseminating and applying knowledge in economy. The factors of production are getting more "intellectual". The achieved economic progress is thanks to the economic capitalization of scientific and technological accomplishments, the implementation of fundamentally new forms of organizing and funding science and innovation, the rapid transfer of new technologies in production, and creation of favourable conditions for research, technological development, innovation and education.

Since 1990 the opposite trends to those examined above prevailed in the Republic of Moldova. The difficulties of transition and economic crisis determined a drop of demand for RDI. While indispensable for progress of any nation, during the early transition the RDI was sacrificed in Republic of Moldova. In developed countries RDI represent the main factors of the social progress and economic

Chart 35. Governmental expenditure for RDI, % of GDP.

Sources: Eurostat and calculations of the authors based on NBS, 1997 and NBS 2006.



growth, but in our country they continued to be treated as a non productive sector. The investment in RDI was ignored both by the private companies and universities (which did not have any tradition of investing in RDI on their own account) and, especially, by the Government, which was the only one able to protect this sector from the bad influences of transition. The government expenditures for science shrank from 0.38% in 1997 to 0.17% in 2001.

As is appears from the Chart 35, the level of RDI financed from the government resources is only slightly below the average of the EU countries in the Republic of Moldova. However in the EU, the private sector and educational sector bring about an important contribution to RDI and together with governments they raise the total RDI expenditures to 1.86% of the GDP. As for the Republic of Moldova, the Government is practically the only entity financing the RDI.

The acute lack of funding for RDI sector and the very rapid decrease in purchasing power of salaries in the Republic of Moldova contributed to a gradual loss of human resources with very high level of qualification employed before in this sector. The number of specialists with high qualification involved in RDI activities has

considerably diminished, from 7400 persons in 1994 to 3600 in 2001 and 2700 in 2004¹⁶⁶. This was also caused by the incapacity of the science sector to functionally adapt itself to the new conditions and to attract foreign funding for its development. Also, the interest of the private sector for investing in RDI activities was minimal, including because the national system of RDI offered relatively few economically attractive and applicable products and results. An essential shortcoming is the fact that scientific research is very little integrated with the education system and productive sectors.

The period of economic growth was featured by a relative revitalization of RDI. The budgetary financing has grown essentially from 0.17% of GDP in 2001 to 0.21% in 2005. The Government has set the target to achieve a level of RDI financing of 1% of GDP by 2009 (in the EU, the target is 3% of GDP by 2010). In spite of transitional problems which affected science, innovation and inventive activities, the Republic of Moldova still has a relative high potential in RDI domain. The Moldovan inventors annually are awarded prizes at prestigious international contests. The activity in this

¹⁶⁶ NBS, 1997; NBS, 2003; NBS, 2006.

Table 27. Protection of industrial property in Republic of Moldova.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>Applications for the protection of industrial property objects</i>											
Inventions	299	424	347	271	271	246	446	258	299	303	401
Utility models	6	9	5	6	12	14	13	19	32	21	32
Industrial designs	308	405	455	546	505	563	671	623	560	609	464
Primary trademarks	2654	3384	4125	3682	3238	3626	3986	4050	4809	5089	5825
Total	3267	4222	4932	4505	4026	4449	5116	4950	5700	6022	6722
<i>Granted titles of protection</i>											
Patents for invention	227	235	234	204	231	234	226	230	241	256	269
Certificates for utility models registration	6	4	4	5	4	8	12	11	17	20	16
Certificates for industrial designs registration	3931	2067	2963	2302	2086	2502	2703	2224	1972	1499	
Certificates for trademarks registration	1951	1969	1136	745	907	702	785	750	868	1624	1467
Total	2184	6139	3441	3917	3444	3030	3525	3694	3350	3872	3251

Sources: AGEPI, 2006; information of AGEPI on protection of industrial property objectives available at <http://www.moldovanpatentoffice.org/russian/statistics.html> and calculations of authors.

Table 28. Applications for granting patents of invention, per 1 million inhabitants.

	2000	2001	2002	2003	2004
<i>CIS countries</i>					
Belarus	119.7	114.7	113.9	127.5	147.3
Russian Federation	221.0	233.6	229.2	241.1	209.9
Republic of Moldova	68.6	124.9	74.2	81.8	84.8
Ukraine	146.9	181.1		264.0	121.8
<i>ECE countries</i>					
Bulgaria	197.9	230.3	222.1	207.6	51.0
Lithuania	36.3	35.3	37.8	11.0	33.2
Poland	189.0	170.7	172.8	163.4	202.7
Romania	57.5	63.5	84.4	54.0	50.7
Slovakia	378.6	361.0	345.4	306.2	84.2
<i>Economically advanced countries</i>					
Denmark	350.2	362.9	369.2	357.3	372.8
Germany	742.4	716.2	689.7	781.6	717.8
Japan	3306.9	3462.7	3310.9	3238.1	3311.4
USA	1048.4	1144.2	1159.8	1177.5	1215.5

Sources: calculations of the authors based on the World Intellectual Property Organization data available at <http://www.wipo.int/ipstats/en/statistics/patents/>.

sphere is growing, as shown by the data on the protection of industrial propriety in Republic of Moldova.

However, while the intensity of RDI activities in Republic of Moldova is similar to other countries in transition then the disparities as compared with developed countries are very big (Table 28). The advantages which the developed states have in their forth economic sectors are the results of integrating financial, scientific and education capital. In Western European countries the Government is only one of stakeholders financing the RDI, its contributions being of 40-45% from the total investment. The authors estimate that the Moldovan Government covers about 85% of expenditures and a significant increasing in short period is not possible.

Therefore, for technologic advance of the Republic of Moldova it is necessary to encourage the private sector and universities' investment in RDI, as well as to attract foreign capital in some areas which have been set as priorities for 2006-2010¹⁶⁷:

- biomedicine, pharmaceuticals, medical research;

- agricultural biotechnologies, soil's fertility and food security;
- nanotechnologies, industrial engineering, new process and materials;
- energy.

The Agency for Innovation and Technologic Transfer (AITT) was created in the Republic of Moldova in order to ensure the technology transfer. Its activities are directed to create a favourable medium for the spreading and absorbing innovations. The wage of scientific researchers increased about 1.5-2 times. To attract the talented youth in the process of researching there was a raise in the stipend for post-graduated education, and there are stipends for excellence provided to PhD students of 2nd and 3rd academic year. Getting the RDI staff younger is necessary today because 60% of the persons with scientific title are over 50 years old. Simultaneously, it is necessary to integrate the fundamental

¹⁶⁷ The Decision of the Parliament of the Republic of Moldova regarding the approbation of Strategic Directions in science and innovation sphere for 2006-2010, Nr 160 from 21/07/2005, published in Official Monitor, Nr104 from 05/08/2005.

research with teaching in higher level educational institutions and with the real processes in productive sector. The synthesis of RDI with productive sector and academic education in the Western economies forged the so-called quaternary economic sectors, contributing essentially to the formation and consolidation of their competitiveness at a much higher qualitative level.

Conclusions and policy recommendations

The improvement of the international competitiveness of a nation brings important benefits for economic growth and human development. The countries with the highest international competitiveness are the most advanced in human development. The competitiveness contributes to the transformation of the economic growth into a robust long standing phenomenon.

The structure and the dynamics of Moldovan exports denote that our country is just beginning to make the first timid steps towards the integration in global markets. Its exports remain excessively geographic concentrated and at the level of products with low added value. For the moment the Moldovan economy does not represent a preferred geographic destination for the foreign investors. Its niches of competitiveness still have to be adequately fructified by means of common efforts of government and private companies. The managerial performances that have improved during the last years have to be strengthened further and spread wider, including in the agricultural sector. The RDI activities that intensified in the last 6 years are still rarely followed by concrete application of results in economic practice. The time makes no exception for Republic of Moldova, and if our country wants to integrate into the global economy, policy efforts should be consistent, judicious and rapid. Competitiveness is a kind of race against the clock

Below we are emphasizing some priorities in order to consolidate the international competitiveness of the Republic of Moldova. Integration into the global economy requires a range of conditions, of which the formal liberalization of the trade regime or of the capital is just the beginning.

The Government has the necessary tools to facilitate the exploration of new markets by national producers and to stimulate exports of high value added goods and those derived from technologically advanced branches. Future economic policies will be in a large extent defined by the fact that Moldova is a small and open economy. Its economic development largely depends on its successes of selling internationally competitive goods. Unfortunately, our foreign trade has unevenly evolved during the period of economic growth: very positive in 2001-2003 and ever worsening in 2005-2006. Geographical and assortments disequilibria of exports have not been removed yet, and trade deficit has been aggravated.

Elimination of these disequilibria and increasing access on external markets will require a series of efforts, abroad and at home as well. Abroad, the efforts of the authorities will be necessary in negotiating the preferential treatment by trade partners, like, for example, the inclusion of Moldovan "sensitive" goods into the European system of preferences (GSP+). Simultaneously, GSP+ should be more extensively mediated, because a big part of producers does not know about the existing opportunities. Also, a more persevering implication of authorities in promoting national brands abroad is necessary. At the same time, solving the problems of transiting goods for Russia, countries from Middle Asia and Caucasus through Ukraine and sustainable settlement of trade crisis with Russia are required.

On the other hand, many obstacles of the trade have an internal character. There are required the revision of consumers tariffs, the increasing of finite products' quota, and the initial material and capital goods reducing of the quota, the simplification and making more transparent the costumers procedures, the implementation of international standards system and of the quality which will contribute to the magnification of the exports volume towards the EU. The compulsory procedure of incomes repatriation from the activities of export is an important barrier in these affairs. The procedure of VAT reimbursement for local resources and those imported at the finite products export provoke bewilderment among experts. The reimbursement period often outruns the terms scheduled by the Ministry of Finances which affects the economic activity. The delay in adopting modern systems of standardization and certification

of goods limits the capacity of export on the Western markets. The business groups perceive these procedures as being very complicated, without any transparency, subject to frequent changes and long checking of transported goods.

The EU enlargement creates new advantages for Republic of Moldova, too. In particular it is possible that Western companies will relocate their activities from the new EU member-countries and move them further to the East. Assimilating these investments will require from the Republic of Moldova a simple, transparent, and foreseeable business framework, the annihilation of massive corruption, the consolidation of educational system, and especially, professional and vocational one. Simultaneously, the fruitful participation in global economic processes and attraction of foreign investments requires the presence of well developed infrastructure (physical and digital). The decrease of the public investments rate in infrastructure seems to cut the “branch” beneath the actual economic growth of Moldova. These investments have to be considerably increased. In certain cases, private-public partnerships and attraction of international assistance for rehabilitation and construction of new infrastructure assets would be recommendable.

The international competitive capacities of the Republic of Moldova can grow only together with the performances improvement of the Moldovan companies. This implies intensifying of training programs for managers. These trainings should be the main basis of any governmental strategies of developing small business and with a special emphasis on agricultural and agro-alimentary sectors.

In 2002-2006 many countries excluded some Moldovan products from the bilateral trade regimes. This denotes that our goods are not any more competitive as low price. It is necessary to improve the quality and the exclusive character of goods. Augmenting the share of value-added and of technologically advanced components in the structure of production is possible only by applying more positive results from RDI to the economic sector.

Hence, in the next years the economic growth and human development in the Republic of Moldova will largely depend on the progresses in consolidating international competitiveness. At the same time the sustainable character of economic growth and human development can be guaranteed only through strategies for development based on export of goods and services, not on the export of local human resources.



Concluding remarks



High quality economic growth assures constant human development progress and consolidates the society, exerts a minimal impact on the environment, is economically sustainable and contributes to structural modernisation of the economy and society. Clearly economic growth can be judged as being of high quality if perceptions of the citizens regarding their own welfare and national prosperity improve. From this perspective, the quality of economic growth in the Republic of Moldova is questionable. A majority of the public perceives that over the last six years, neither individual nor societal welfare have increased.

The economic growth of 2000-2005 translated into improvement in the Human Development Index via increasing per capita revenues. However, one should dissociate the impact of the growing national economy from the impact of the income remitted by migrants. Actually, emigration contributed decisively both to economic growth and to the increasing disposable income among a number of social strata.

It is obvious that the impact of economic growth on human development depends on the social and geographic structure of this growth. Taking into account the structural features of the Republic of Moldova that will not change in the short-run (high dependency on agriculture, high share of rural population, geographic concentration of industry), these positive links should go through opening of decent jobs and generation of higher revenues in rural area. Regrettably, over the recent period of economic growth the opposite trends have prevailed. The number of jobs has decreased, while rural revenues have been very volatile. It is little surprise, then, that after a couple of years of improving rural poverty indicators, in 2004-2005 negative trends re-emerged.

The mutual relationship between economic growth and human development suggests that countries, most frequently, are in a "vicious circle" in which poor economic growth is coupled with insignificant progress on the Human Development Index or in a "virtuous circle" when the strong economic growth and gains in human development reciprocally amplify. There are also situations when economic growth is accompanied by stagnating human development or vice versa. In the last five years, the Republic of Moldova was in the positive quadrant of economic growth and progress in human development. But the main factor leading to the advancement in HDI was the increase of the level of revenues, while other dimensions of human development did not advance so significantly. Consequently, the progress in human development may be easily reversed if economic growth does not continue. Are there any risks such a reversal might take place?

The present study shows that there are serious doubts regarding the sustainability of economic growth because: (1) growth is stimulated by an expansion of internal consumption fuelled by currency transfers from Moldovan migrants; the growth has been strongly unbalanced among sectors and regions; expansion of the economy was disconnected from the labour force market, where the number of available jobs has continuously diminished; (2) the rate of investment in fixed capital during the period of growth was suboptimal, only in 2005 approaching the optimal level; (3) efforts aimed at structural reforms have been timid, group of interests often prevailing over pro-reformatory political will; (4) the governance process remains deficient, the regulatory framework and corruption being the major impediments in the way of foreign investors; (5) international competitiveness of exports is continuously very reduced, trade deficit reaching levels hard to finance.

Thus, the main tasks of the Government and the private sector are to ensure the quality and sustainability of growth and to consolidate the virtuous link between economic growth and human development. In order to improve the quality and sustainability of growth, structural changes of aggregate demand by intensification of investments is required. The policies should not increase aggregate demand as such, because the major economic problem is the incapacity of domestic supply to meet existing demand.

Investing in human capital would provide for acceleration and a better sustainability of economic growth. Providing for an average growth rate of 5% for the next 20 years would guarantee a 2.6 times increase in revenues, and a rate of 7 % would lead to a 3.8-fold increase of revenues, which would bring the Republic of Moldova to the category of countries with average revenues. The prerequisite for long-term robust growth of production and revenues is the continuous increase in labour productivity and capital supply along with the implementation of structural reforms which would decrease dependence on agriculture (without down-sizing the sector in absolute value) and the intensification of the role of processing industries of agricultural products and the role of services. Structural modernization along with improvement of the human capital will make the Republic of Moldova a more attractive destination for investments in the spheres which would ensure higher revenues for employees (electronics, highly performing food industry, equipment assembly and construction). Economic history proves that such performance is possible. In the period 1950-1992 certain countries of Eastern Asia have grown on average by 6 %, and labour productivity in Korea, Singapore, Thailand and Taiwan between 1960 and 1994 has increased on average by 5 %. Such countries as Indonesia, Singapore, Malaysia and Thailand have doubled their revenues per capita in the period 1980-1995. We have to hope that a "Moldovan economic miracle" is still possible.



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Glossary of relevant human development definitions



Adult literacy rate – The proportion of people aged 15 and above who attended or graduated school or can write and read not having graduated school, as a percentage of the total population of 15 and more years of age.

Conjectural rate of fertility – the average number of children that a woman would give birth to in her fertile period of life if the current pattern of fertility would persist.

Consumption expenditures – corresponds to money and in-kind expenditures for household consumption expenditures: foodstuff, non-food products and services.

Demographic dependency ratio - the ratio between the population determined as dependent (under 15 and over 65 years of age) and population of working age (between 15 and 64 years).

Disposable revenue of household - includes all pecuniary and in-kind revenue derived from different types of activity.

Dwelling is a construction unit formed of one or more rooms meant for living, usually, with dependences or other areas, independent from the functional point of view, with a separate entrance and used, normally, by a sole household.

Economic dependency ratio – the inactive and unemployed population per 1,000 persons actively employed.

Economically active population - persons able to work that compose the labour force available for the production of goods and services in the national economy (during the respective period). It consists of the active employed population and the unemployed.

Economically inactive population – persons who, regardless of their age, do not undertake a social or economic activity and are found in one of the following situations: are students, pensioners, housekeepers, supported by the state or maintain themselves due to the revenue other than those from work (lease, rent, etc.).

Employed population - is composed of persons above age 15 that undertake an economic or social activity of goods or services production, for at least an hour during the reporting period, with the goal of receiving revenue in the form of wage, remuneration in kind or other benefits.

GDP per capita calculated at the purchasing power parity - utilization of official exchange rates of conversion of national currency into US dollars cannot capture the relative internal purchasing power of currencies. Thus, the United Nations Project of International Measurements proposed a methodology of calculating the real GDP on an internationally comparable scale at the international level, using as a factor of comparison called purchasing power parity.

Gross domestic product (GDP) - the main synthetic indicator of the National Account System that reflects the final results of activity undertaken by resident units producing goods and services.

Gross enrolment - the total number of children/pupils/students enrolled at an educational level, regardless of whether they belong or not to the age group officially corresponding to the respective level: i.e. level 0 - preschool education (official age 3-6 years), level 1 – primary education (official age 7-10 years), level 2 - secondary education (official age 11-15 years).

Gross enrolment rate (levels 1-5) – total number of pupils//students at educational levels 1-5 as percent of the total population of the age specific to these educational levels (7-22 years).

High education- corresponds to level 5 of the MoldCED, prepares professionals of high qualification.

Household – a group of two or more persons living together, with kinship relations and which are running the households jointly. Persons living and running the household alone compose one-person household.

Infant mortality rate - the number of children who die under 1 year per 1,000 live births.

Labour force renewal rate - the population under 15 years as percent of one third of population between 15 and 59 years of age.

Leaders and high public officials in public administration and social and economic organisations – jobs and occupations corresponding to the high group I of the Classificatory of Occupation of Republic of Moldova (harmonised with ISCO-88) and contains: representatives of public authorities of all levels, leaders and senior officials in political and social-economic units.

Life expectancy at birth - the number of years a newborn could live if current mortality rate persists.

Maternal mortality rate - the number of women who die while giving birth per 100,000 newborns.

Natural increase - the number of live births minus the number of deceases.

Participation in labour force rate of the population of working age (15-64 years) - the ratio between the active population of working age and the total population of working age.

Preschool education – initial stage of organised education, corresponding to level 0 of the Educational Programmes Classification of Republic of Moldova (MoldCED) based on ISCED 1997.

Primary education - corresponds to the level one of the MoldCED, whose main function is to provide elements of basic education.

Professional education – corresponds to the level 4 of the MoldCED, assures training of specialists with intermediary level of qualification and with lyceum studies.

Scientific and intellectual occupations – jobs and occupations corresponding to the high group II Classificatory of Occupation of Republic of Moldova (harmonised with ISCO-88).

Secondary education of the first stage (gymnasium) – corresponds to the level 2 of the MoldCED, whose function is to assure the continuation of the basic program.

Secondary education of the second stage – corresponds to the level 3 of the MoldCED, whose function is to assure fundamental theoretical education and professional training.

Underemployed population - composed of employed persons, who have worked independently of their will less than a usual working term and are looking for a full-time activity or a supplementary activity or are available to start such an activity.

Unemployed, the ILO classification (ILO) - persons over 15 years of age, who during the reporting period meet the following conditions: do not have a job and do not undertake any for-profit activity; are in search of a job, having used for the last 4 weeks different methods of finding it; and are able to begin work in the next 15 days, if they could immediately find a job.

Unemployment rate - the ratio between number of unemployed and active population (the unemployed plus population employed).

Technical note 1. HUMAN DEVELOPMENT INDEX (HDI)

HDI is a synthesis of the human development based on three major goals of development:

- Longevity – as expressed by life expectancy at birth.
- Education – computed as weighted arithmetic average of the adult literacy rate (with a share of two thirds) and of global gross enrolment rate (one third).
- Living standards – estimated as GDP per capita expressed in US dollars at Purchasing Power Parity.

Based on minimum and maximum values (goalposts) established by UNDP for each indicator, the specific index for each of the three dimensions is computed as follows:

$$I_s = \frac{V_{real} - V_{min}}{V_{max} - V_{min}}$$

where:

I_s – specific index;

V_{real} – actual value of indicator;

V_{min} – minimal value;

V_{max} – maximal value.

The GDP index is calculated as difference between logarithmic values.

The extreme goalposts and the actual values for Republic of Moldova used for calculating the HDI are the following:

Indicator	Maximum value	Minimum values	Actual value
Life expectancy at birth, years	85	25	67,8
Adult literacy rate (%)	100	0	99,1
Global gross enrolment rate (%)	100	0	71,7
GDP per capita at PPP, US dollars	40000	100	3360

HDI is calculated as arithmetic average of the specific indexes: $HDI = \frac{I_{LE} + I_E + I_{GDP}}{3}$

Below there is an illustration of the calculation of the HDI for Republic of Moldova in 2005.

a. Life expectancy index (I_{LE})

$$I_{LE} = \frac{67.8 - 25}{85 - 25} = 0.713$$

b. Education index (I_E)

b.1. Alphabetisation index (I_A) $I_A = \frac{99.1 - 0.0}{100.0 - 0.0} = 0.991$

b.2. Index of the global gross enrolment index (I_{GER})

$$I_{GER} = \frac{71.7 - 0.0}{100.0 - 0.0} = 0.717$$

By combining the two education indexes with the corresponding weights one gets:

$$I_E = \frac{2I_A + I_{GER}}{3} = 0.900$$

c. The GDP index (I_{GDP})

$$I_{GDP} = \frac{\log 3360 - \log 100}{\log 40000 - \log 100} = 0.587$$

As result, the Human Development Index

$$HDI = \frac{0.713 + 0.900 + 0.587}{3} = 0.733$$

Technical note 2. GENDER-RELATED DEVELOPMENT INDEX (GDI)

GDI adjusts the level of human development to the gender differences in the three major areas of human development. The calculation of the GDI involves three stapes:

a. Calculation of the gender disaggregated specific indexes (I_F, I_M), according to the general formula:

$$I_{F/M} = \frac{V_{real} - V_{min}}{V_{max} - V_{min}}$$

where:

$I_{F/M}$ – specific index for women / men;

V_{real} – actual value of indicator;

V_{min} – minimal value;

V_{max} – maximal value.

b. The female and male indexes are combined in a way that the differences between achievements in each dimension are perceived as negative factors and penalised. The resulting index, referred to as Equally Distributed Index (I_{EDI}), is calculated according to the following general formula:

$$I_{EDI} = (P_F * I_F^{1-\varepsilon} + P_M * I_M^{1-\varepsilon})^{\frac{1}{1-\varepsilon}}$$

where:

I_{EDI} – equally distributed index;

P_F and P_M – shares of females / males in total population;

ε – a measure of aversion to inequality. For GDI the UNDP has established the $\varepsilon=2$ for which the general formula transforms in a simple harmonic average of the indexes calculated for men and women:

$$I_{EDI} = \frac{1}{\frac{P_F}{I_F} + \frac{P_M}{I_M}}$$

c. GDI is calculated as simple arithmetic average of the equally distributed specific indexes:

$$GDI = \frac{I_{LEEDI} + I_{EEDI} + I_{GDPEDI}}{3}$$

where:

I_{LEEDI} – equally distributed life expectancy index;

I_{EEDI} – equally distributed education index;

I_{GDPEDI} – equally distributed income index.

d. Calculation of the equally distributed income index is rather complex. For its calculation the following data are necessary:

Total number of population;

GDP per capita, US dollars at PPP;

W_f/W_m – ratio of the female wage to male wage in non-agricultural activities;

E_f – share of women in economically active population;

E_m - share of men in economically active population;

S_f – contribution of women to total income;

Y – total GDP calculated in US dollars at PPP;

N_f – total number of women;

N_m – total number of men;

Y_f – estimated income received by women (US dollars at PPP);

Y_m - estimated income received by men (US dollars at PPP);

The extreme and actual values of the Republic of Moldova (except GDP which is computed below) used for GDI are included in the table below:

Indicator	Maximum value	Minimum values	Actual value
Women life expectancy at birth, years	87,5	27,5	71,7
Men life expectancy at birth, years	82,5	22,5	63,8
Women alphabetisation rate (%)	100	0	98,6
Men alphabetisation rate (%)	100	0	99,7
Global gross enrolment rate of women (%)	100	0	74,8
Global gross enrolment rate of men (%)	100	0	68,7
GDP per women, US dollars, PPP	40000	100	
GDP per men, US dollars, PPP	40000	100	

Other indicators used for calculation are:

- GDP per capita at PPP: 3360 US dollars
- Total population: 3595.2 thousand
 - Women: 1873.1 thousand
 - Men: 1722.1 thousand
- Share in total population of (%):
 - Women: 52.1
 - Men: 47.9
- Share in economically active population of (%):
 - Women: 51.5
 - Men: 48.5
- Ratio of women wage to men wage in non-agricultural activities (%): 0.685.

Based on the data above the following specific indexes are calculated:

a. Equally distributed life expectancy index (I_{LEEDI})

a.1. Gender disaggregated life expectancy indexes:

$$\text{women: } I_{LEF} = \frac{71.7 - 27.5}{87.5 - 27.5} = 0.737$$

$$\text{men: } I_{LEM} = \frac{63.8 - 22.5}{82.5 - 22.5} = 0.688$$

a.2. Equally distributed life expectancy index:
$$I_{LEEDI} = \frac{1}{\frac{0.521}{0.737} + \frac{0.479}{0.688}} = 0.713$$

b. . Equally distributed education index (I_{EEDI})

b.1. Gender disaggregated alphabetisation indexes:

$$\text{women } I_{AF} = \frac{98.6 - 0.0}{100.0 - 0.0} = 0.986$$

$$\text{men } I_{AM} = \frac{99.7 - 0.0}{100.0 - 0.0} = 0.997$$

b.2. Gender disaggregated enrolment indexes:

$$\text{women } I_{GERF} = \frac{74.8 - 0.0}{100.0 - 0.0} = 0.748$$

$$\text{men } I_{GERM} = \frac{68.7 - 0.0}{100.0 - 0.0} = 0.687$$

b.3. Gender disaggregated education indexes:

$$\text{women } I_{EF} = \frac{2I_{AF} + I_{GERF}}{3} = \frac{2 * 0.986 + 0.748}{3} = 0.907$$

$$\text{men } I_{EM} = \frac{2I_{AM} + I_{GERM}}{3} = \frac{2 * 0.997 + 0.687}{3} = 0.894$$

Equally distributed education index:
$$I_{EEDI} = \frac{1}{\frac{0.521}{0.907} + \frac{0.479}{0.894}} = 0.901$$

c. Equally distributed income index (I_{GDPEDI})

c.1. Index of females contribution to total income (S_f)

c.2. Gender disaggregated income:

$$\text{GDP per women: } Y_f = \frac{S_f * Y}{N_f} = \frac{0.421 * 12079872}{1873.1} = 2715 \text{ US dollars}$$

$$\text{GDP per men: } Y_m = \frac{Y - S_f * Y}{N_f} = \frac{12079872 - 0.421 * 12079872}{1873.1} = 4061 \text{ US dollars}$$

c.3. Gender disaggregated income indexes:

$$\text{women } I_{GDPF} = \frac{\log 2715 - \log 100}{\log 40000 - \log 100} = 0.551$$

$$\text{men: } I_{GDPM} = \frac{\log 4061 - \log 100}{\log 40000 - \log 100} = 0.618$$

Equally distributed income index:

$$I_{GDPEDI} = \frac{1}{\frac{0.521}{0.551} + \frac{0.479}{0.618}} = 0.581$$

Applying the simple arithmetic average, the Gender-related Development Index is:

$$GDI = \frac{0.713 + 0.901 + 0.581}{3} = 0.732$$

Technical note 3. GENDER EMPOWERMENT MEASURE (GEM)

The Gender Empowerment Measure is calculated based on explicitly defined variables measuring the opportunities (capabilities) the women have for participating to political and economic decisions and for controlling the economic resources:

1. The distribution of seats in Parliament by gender is used as an estimate for degree of participation in political decisions;
2. For illustrating the women's participation to economic life the following share are used:
 - Share of women in total managers and senior officials in public administration and social-economic units;
 - Share of women in total professionals employed in intellectual and scientific occupations.
3. The women's control over economic resources is estimated based on gender disaggregated GDP per capita (unadjusted).

For every of the three dimensions an equally distributed equivalent percentage is calculated (EDEP), using the following formula:

$$I_{EDEP} = (P_F * \%I_F^{1-\varepsilon} + P_M * \%I_M^{1-\varepsilon})^{\frac{1}{1-\varepsilon}}$$

where:

P_F and P_M – the shares of females/males in total population;

$\%I_F$ and $\%I_M$ – the gender indexes for every of the three dimensions.

For adjusting the respective dimension of development to gender disparities, as in case of the GDI, a weighed formula is used with the aversion index $\varepsilon = 2$.

For the first two dimensions the EDEP is indexed by dividing them by 50. The indexation bases on the hypothesis that in an ideal society the women's participation to decision making is equal to that of the men.

Besides the data used for calculating the GDI, other indicators used for calculating the GEM are:

- Share in Parliament (%):
 - Women : 22.0
 - Men : 78.0
- Managers and senior officials in public administration and socio-economic units (%):
 - Women: 38.8
 - Men : 61.2
- Professions employed in intellectual and scientific occupations (%)
 - Women : 62.9
 - Men : 37.1

Calculation of the GEM involves three steps:

a. The EDEP for participation in political decision making is calculated based on female and male shares in total population and in Parliament seats (IDP):

$$EDEP = \frac{1}{\frac{P_F}{\%M_F} + \frac{P_M}{\%M_M}} = \frac{1}{\frac{0.521}{22.0} + \frac{0.479}{78.0}} = 33.53$$

where $\%M_F$ and $\%M_M$ is share of women and, respectively, men share in Parliament seats

IDP = Indexed EDEP for parliamentary representation = $EDEP : 50 = 0.671$

b. The index for participation in economic decision making and economic life is calculated as follows:

b.1. for manager and senior officials in public administration and socio-economic units (IC):

$$EDEP = \frac{1}{\frac{P_F}{\%C_F} + \frac{P_M}{\%C_M}} = \frac{1}{\frac{0.521}{38.8} + \frac{0.479}{61.2}} = 47.05$$

where $\%C_F$ and $\%C_M$ are expressions of the female and male shares in this group of occupations

IC = Indexed EDEP for positions as managers and senior officials = $EDEP : 50 = 0.941$

b.2. for professionals with intellectual and scientific occupation (IS):

$$EDEP = \frac{1}{\frac{P_F}{\%S_F} + \frac{P_M}{\%S_M}} = \frac{1}{\frac{0.521}{62.9} + \frac{0.479}{37.1}} = 47.18$$

where $\%S_F$ and $\%S_M$ are the shares of women and men in this group of occupations

IS = Indexed EDEP for intellectuals and scientists = $EDEP : 50 = 0.944$.

The average of the indexes referring to these two groups of occupations represents the degree of participation of women in economic decision making and economic life (I_{DE})

$$I_{DE} = \frac{I_C + I_S}{2} = 0.943$$

c. The equally distributed income (I_{GDPEd}).

The gender disaggregated equally distributed income indexes (I_{GDPF} and I_{GDPM}) are calculated based on unadjusted GDP per women and per men (no logarithmic values).

$$\text{Women: } I_{GDPF} = \frac{2715 - 100}{40000 - 100} = 0.066$$

$$\text{Men: } I_{GDPM} = \frac{4061 - 100}{40000 - 100} = 0.099$$

I_{GDPEd} is calculated according to the same algorithm as the GDI.

$$I_{GDPEd} = \frac{1}{\frac{P_F}{I_{GDPF}} + \frac{P_M}{I_{GDPM}}} = \frac{1}{\frac{0.521}{0.066} + \frac{0.479}{0.099}} = 0.079$$

The GEM is calculated as simple arithmetic average of the three equally distributed indexes:

$$GEM = \frac{I_{DP} + I_{DE} + I_{GDPEd}}{3} = \frac{0.671 + 0.943 + 0.079}{3} = 0.564.$$



Annexes: Selective human development indicators

Information was provided by National Bureau of Statistics of Republic of Moldova. Data do not cover the Trans-Dniester region and the Bender municipality, except for the mentioned cases when calculations are made for the entire country.

Annex 1. Human Development Index (HDI).

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>GDP per capita:</i>													
- Moldovan lei, current prices	505	1313	1798	2167	2441	2498	3379	4402	5247	6227	7646	8890	10225
- US dollars at Purchasing Power Parity *	2935	2975	2105	2128	2207	2087	2033	2112	2300	2533	2785	3046	3360
Adult literacy rate (%)	97.0	97.2	97.4	97.5	97.7	97.9	98.0	98.2	98.3	98.5	98.7	98.9	99.1
Gross global enrolment ratio (%)	71.7	70.2	71.1	71.8	72.9	73.4	71.2	70.3	70.4	70.7	71.0	70.9	71.7
Life expectancy at birth (years)	67.5	66.1	65.8	66.7	66.6	67.8	67.4	67.6	68.2	68.1	68.1	68.4	67.8
<i>Indexes:</i>													
- GDP	0.564	0.566	0.509	0.510	0.516	0.507	0.503	0.509	0.523	0.539	0.555	0.570	0.587
- Education	0.886	0.882	0.886	0.889	0.894	0.897	0.891	0.889	0.890	0.892	0.895	0.896	0.900
- Longevity	0.708	0.685	0.680	0.695	0.693	0.713	0.707	0.710	0.720	0.718	0.718	0.723	0.713
Human Development Index (HDI)	0.719	0.711	0.692	0.698	0.701	0.706	0.700	0.703	0.711	0.716	0.723	0.730	0.733

* Estimated based on results European Comparison Program of 1996.

Annex 2. Gender-related Development Index (GDI).

	1999	2000	2001	2002	2003	2004	2005
Life expectancy	67,4	67,6	68,2	68,1	68,1	68,4	67,8
- Women	71,0	71,2	71,7	71,7	71,6	72,2	71,7
- Men	63,7	63,9	64,5	64,4	64,5	64,5	63,8
Adult literacy rate (%)	98,0	98,2	98,3	98,5	98,7	98,9	99,1
- Women	96,9	97,1	97,4	97,6	97,9	98,3	98,6
- Men	99,3	99,3	99,4	99,5	99,5	99,6	99,7
Gross global enrolment rate (%)	71,2	70,3	70,4	70,7	71,0	70,9	71,7
- Women	72,4	71,9	72,3	72,8	73,5	74,0	74,8
- Men	70,1	68,7	68,5	68,7	68,5	67,9	68,7
GDP per capita USD at PPP	2033	2112	2300	2533	2785	3046	3360
- Women	1579	1665	1823	2042	2165	2397	2715
- Men	2527	2598	2819	3067	3459	3751	4061
Gender-related Development Index (GDI)	0,697	0,700	0,709	0,715	0,720	0,727	0,732

Annex 3. Gender Empowerment Measure (GEM).

	1999	2000	2001	2002	2003	2004	2005
Parliamentary participation (%)	7,9	7,9	12,9	15,8	17,5	22,0	22,0
Managers and high officials in public administration and social and economic units (%)	36,6	33,2	37,5	40,2	39,4	39,0	38,8
Women with intellectual and scientific occupation	61,3	63,1	62,4	60,3	62,9	62,2	62,9
Percent of women in total population	52,1	52,1	52,1	52,1	52,1	52,1	52,1
Percent of men in total population	49,3	49,96	50,1	50,8	50,4	51,0	51,5
GDP per capita USD at PPP	2033	2112	2300	2533	2785	3046	3360
- Women	1579	1665	1823	2042	2165	2397	2715
- Men	2527	2598	2819	3067	3459	3751	4061
Gender Empowerment Measure (GEM)	0,422	0,413	0,475	0,512	0,524	0,563	0,564

Annex 4. Demographic profile.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Population, entire country, January 1 (thousand people)	4347,9	4334,4	4320,0	4304,7	4293,0	4281,5	4264,3	4247,7	4228,9	4208,5	...
Population, Trans-Dniester and Bender municipality not included (thousand people)	3678,4	3671,8	3663,7	3655,0	3649,3	3643,5	3634,5	3627,2	3617,7	3606,8	3599,8
Annual rate of population increase (%)	-0,2	-0,2	-0,2	-0,2	-0,2	-0,2	-0,2	-0,2	-0,3	-0,2	-0,3
Birth rate (per 1000 inhabitants)	13,0	12,0	12,5	11,3	10,6	10,2	10,0	9,9	10,1	10,6	10,5
Mortality rate (per 1000 inhabitants)	12,2	11,5	11,8	10,9	11,3	11,3	11,0	11,6	11,9	11,6	12,4
Rate of natural increase (per 1000 inhabitants)	0,8	0,5	0,7	0,4	-0,7	-1,1	-1,0	-1,7	-1,8	-1,0	-1,9
Life expectancy at birth (years)	65,8	66,7	66,6	67,8	67,4	67,6	68,2	68,1	68,1	68,4	67,8
Marriage rate (per 1000 inhabitants)	7,5	6,0	6,1	6,0	6,5	6,0	5,8	6,0	6,9	7,0	7,6
Likelihood of not surviving the age of 60 years (%)	...	...	...	...	...	...	12,2	13,0	13,0	13,4	13,6
Rate of divorce (per 1000 inhabitants)	3,4	3,1	2,8	2,8	2,4	2,7	3,0	3,5	4,1	4,1	4,0
Conjectural rate of fertility	1,76	1,60	1,66	1,49	1,37	1,29	1,25	1,21	1,22	1,26	1,22
Share of population aged 0 - 15 years (%)	28,6	28,1	27,6	27,4	26,7	25,7	24,8	23,8	22,7	21,8	20,8
Share of population above 65 years of age (%)	9,0	9,0	9,1	9,3	9,4	9,4	9,5	9,6	9,8	9,9	9,9
Demographic dependency ratio * (%)	60,1	59,1	57,9	58,0	56,3	54,1	47,6	45,6	43,9	42,1	40,6

*The population of work age in 1993–2000 was of 16-64 years; in 2001-2005 – of 15-64 years.

Annex 5. Health.

	1995	1996	1997	1998	1999	2000	2001*	2002	2003	2004	2005
Mortality rate (per 100000 inhabitants) by causes:											
- Circulatory system deceases	568.62	576.56	612.43	575.63	623.41	631.99	618.14	654.78	679.58	653.71	700.14
- Tumours	131.81	134.0	130.9	131.89	127.36	126.55	129.94	134.72	138.53	141.54	145.75
- Respiratory deceases	78.3	70.37	72.91	65.93	71.17	69.44	64.61	74.34	79.01	69.30	79.15
Infant mortality rate (per 1000 newborns alive)	21.2	20.2	19.8	17.5	18.2	18.3	16.3	14.7	14.4	12.2	12.4
Mortality rate of the children aged 0-4 years (per 1000 newborns alive)	27.4	26.2	25.9	22.9	23.9	23.3	20.3	18.2	17.8	15.3	15.7
Maternal mortality rate (per 100000 newborns)	40.8	40.2	48.3	36.3	28.6	27.1	43.9	28.0	21.9	23.5	18.6
Share of underweighted newborns (%)	6.1	6.1	6.3	6.4	7.2	4.3	4.7	4.4	4.7	4.6	4.8
New cases of active tuberculosis (per 100000 inhabitants)	54.5	58.8	58.9	67.9	61.8	59.9	83.1	83.6	87.5	91.5	105.7
AIDS incidence (per 100000 inhabitants)	0.05	0.02	0.2	0.1	0.1	0.1	0.2	0.5	1.0	1.0	2.0
Number of population per medical doctor	252	250	261	263	273	281	282	283	286	287	286
Number of population per medical assistant	96	100	102	105	119	124	131	132	135	129	139
Hospitals beds (per 1000 inhabitants)	12.2	12.1	11.6	11.2	8.2	7.6	6.9	6.8	6.7	6.4	6.4
Public expenditures for health and social assistance, % of GDP	6.4	7.4	11.1	8.3	6.7	6.8	5.5	6.4	6.1	14.4	15.8
Persons in hospitals:											
- total, thousand	939	858	831	786	647	585	533	586	610	588	593
- per 100 inhabitants	21.6	19.8	19.3	18.3	15.1	13.7	14.7	16.2	16.9	16.3	16.5
Visits to medical doctors:											
- total, thousand	35	36	36	36	25	23	23	25	23	20	22
- per inhabitant	8.2	8.3	8.4	8.3	5.9	5.3	6.2	6.8	6.4	5.6	6.1
Number of private sanitary units:											
- ambulatory or policlinic units providing medical assistance to the population	30	13	11	10	216	310	326	338	341	372	379
- hospitals	-	-	1	4	5	8	10	15	9	12	13
- medical offices	1	4	7	12	9	16	14	18	25	13	16
- pharmacies	18	344	371	431	423	553	941	1058	978	1053	1088

* Starting 2001, data are not including Trans-Dniester and Bender municipality.

Annex 6. Education.

	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
Institutions, total	1674	1696	1706	1737	1746	1760	1780	1778	1766	1749	1722
School population, thousand	766,5	778,0	786,5	788,1	770,9	753,0	746,7	738,0	726,0	709,4	697,2
Teaching personnel, thousand	57,1	55,3	55,2	54,0	53,1	51,9	52,2	51,1	52,4	51,2	51,6
Schools, gymnasiums, lyceums											
Day schools, gymnasiums, lyceums	1515	1530	1536	1549	1558	1566	1577	1580	1576	1570	1551
Pupils, thousand	642,8	649,5	652,7	650,7	643,1	629,3	618,4	603,4	578,7	546,6	517,0
Teaching personnel, thousand	46,5	44,8	45,0	44,8	43,2	42,3	42,5	41,6	42,6	41,0	40,9
Evening schools	11	10	9	7	7	7	7	7	7	7	7

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Annex 6. Education.

	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
Pupils, thousand	3,1	2,9	2,7	2,5	2,1	1,9	1,9	1,8	1,8	1,9	2,0
Teaching personnel, thousand	0,2	0,2	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Institutions of secondary vocational education											
Number of educational institutions	78	81	80	87	81	80	82	83	83	81	78
Students, thousand	34,8	34,0	32,7	32,5	23,0	22,8	23,0	22,6	22,8	22,7	25,0
Teaching personnel, thousand	3,5	3,4	3,2	2,0	2,5	2,3	2,3	2,2	2,2	2,3	2,4
Colleges											
Number of colleges	50	51	53	56	57	60	67	63	60	56	51
Students, thousand	31,0	33,3	32,8	29,7	25,4	19,9	17,0	15,2	18,7	23,6	27,1
Teaching personnel, thousand	2,6	2,5	2,3	2,4	2,2	1,9	2,0	1,7	1,8	1,9	2,0
High education institutions											
Number of institutions	20	24	28	38	43	47	47	45	40	35	35
Students, thousand	54,8	58,3	65,6	72,7	77,3	79,1	86,4	95,0	104,0	114,6	126,1
Teaching personnel, thousand	4,3	4,4	4,6	4,7	5,1	5,3	5,3	5,5	5,7	5,9	6,2
Per 10000 inhabitants											
School pupils	1794	1813	1796	1790	1770	1737	1710	1671	1607	1522	1438
Students in vocational institutions	97	94	89	89	63	63	63	63	63	63	70
Students in colleges	86	93	90	81	70	55	47	42	52	65	75
Students in universities	152	162	180	199	212	217	238	262	288	318	351
Gross enrolment rate (%) in:											
- preschool education (3 – 6 years)	...	...	50,5	49,4	44,1	44,1	47,6	57,0	61,1	66,1	69,7
- primary education	98	99	98,8	100,0	100,1	99,4	99,5	99,5	99,8	97,9	93,7
- lower secondary education	94	93	88,8	88,3	90,7	90,2	91,1	92,3	92,2	92,5	90,5
Public expenditures, as % of :											
- GDP	8,9	10,3	9,9	7,0	4,7	4,5	4,9	5,5	5,4	6,8	7,3
- Consolidated public budget	24,2	28,3	24,7	21,2	16,4	16,8	21,4	23,9	24,3	19,3	19,4

Annex 7. Labour force.

	1999	2000	2001	2002	2003	2004	2005
Employed population (above 15 years of age), thousand people	1495	1515	1499	1505	1356	1316	1319
- women	755	767	762	774	696	685	689
Rate of employment (%)	54,5	54,8	53,7	53,3	47,5	45,7	45,4
- women	51,8	52,2	51,4	51,7	46,0	44,9	44,8
Rate of employment of population aged 15-64 years (%)	59,4	59,6	58,5	57,7	52,3	50,2	49,7
- women	57,5	57,8	57,3	57,2	51,8	50,5	50,4
Youth employment rate (aged 15-24 years) (%)	32,8	30,6	27,9	26,8	20,1	18,1	17,7
- women	30,9	28,3	26,4	26,4	18,6	17,3	16,8
Share of population employed in private sector (%)	66,8	69,9	71,1	71,6	68,8	68,1	67,9
Distribution of employed population by sectors (%):							
- agriculture, total,	49,8	50,9	51,0	49,6	43,0	40,5	40,7
Including in private sector	90,7	93,2	96,2	98,4	98,5	98,2	98,0

(continuarea pagina 142).

Annex 7. Labour force. (continue).

	1999	2000	2001	2002	2003	2004	2005
– manufacture, total,	10,7	10,6	11,0	11,4	12,1	12,3	12,1
Including in private sector	49,8	50,0	53,7	55,6	62,6	60,2	61,0
– constructions, total,	2,9	2,9	2,9	3,1	3,9	4,0	3,9
Including in private sector	55,7	64,8	69,1	75,8	81,5	84,4	85,2
– services, total,	37,6	35,2	35,1	35,9	41,0	43,3	43,3
Including in private sector	33,8	38,7	40,1	41,4	43,4	43,7	43,9
Share of population employed in public sectors (%) de:							
– health	5,4	4,9	4,7	4,5	4,7	4,8	4,7
– education	9,2	6,7	6,7	8,2	9,1	9,4	9,4
– public administration	3,3	4,2	4,4	4,0	4,3	4,4	4,4
Number of wage-employed, thousand	932	951	899	892	868	841	831
Share of wage-employed in total employed population (%)	62,3	62,8	60,0	59,3	64,0	63,9	63,0
Share of wage-employed of private sector in total population employed in this sector (%)	48,7	45,6	43,7	43,4	49,2	48,0	46,8
Share of women in total wage-employed (%)	49,8	49,9	50,0	51,2	52,1	52,6	53,2
Share of population employed in informal sector (% of total employed)	...	...	...	...	...	12,7	12,1

Source: Labour Force Survey, statistical surveys of enterprises.

* Private sector— according to the official Classificatory of propriety.

Annex 8. Labour participation.

	1999	2000	2001	2002	2003	2004	2005
Share of economically active population aged 15 years and above in total population of this age (%)	61,3	59,9	57,9	57,2	51,6	49,7	49,0
- women	56,9	56,3	54,6	54,7	49,1	47,9	47,7
Rate of participation of population of age 15-64 years (%)	67,2	65,4	63,3	61,1	57,0	54,8	53,8
- women	63,4	62,6	61,0	60,8	55,5	54,1	53,7
Rate of participation of youth (aged 15-24 years) (%)	42,2	36,4	33,3	31,6	24,6	22,6	21,8
- women	37,8	33,2	30,7	30,2	22,4	21,0	20,5
Rate of labour participation of population above 50 years of age (%)	41,7	45,0	45,6	47,5	42,3	42,4	43,8
- women	34,4	38,4	38,3	40,2	35,5	36,6	38,2
Structure of active population by professional status* (%)							
- total,	100,0	100,0	100,0	100	100	100	100
of which:							
- wage-employed	66,8	63,2	60,2	59,2	63,1	62,6	61,5
- employers	0,5	0,5	0,5	0,7	0,6	0,6	0,6
- self-employed	22,6	27,1	29,1	30,5	31,1	32,5	33,5
- other categories	7,0	6,9	7,9	7,2	2,4	1,0	1,0
Economic dependency ratio (‰)	1443	1408	1428	1413	1671	1745	1733
Labour replacement rate (%)	120,0	113,8	107,5	101,2	95,2	89,3	84,5
Labour resources, thousand people	2101	2083	2088	2043	1971	1961	1959
Rate of employment of labour resources (%)	71,1	72,7	71,8	73,7	68,8	67,1	67,3

* Classification of unemployed was made based on their professional status at the last job.

There were not included the unemployed that never worked or stopped working 8 years ago.

Source: Labour Force Survey.

Annex 9. Registered unemployment *.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of unemployed (persons)	24543	23426	27973	32021	34918	28873	27646	24019	19666	21018	21717
Out of which, women	16077	15872	17728	19012	21569	16955	14041	12262	9393	9310	10421
Unemployment rate (%)	1,4	1,5	1,5	1,9	2,1	2,1	2,0	1,9	2,0	1,8	2,0
Share of those receiving unemployment benefits in total registered unemployed (%)	32,5	29,8	26,7	25,2	32,6	23,0	19,7	14,6	9,5	5,1	6,7
Ratio of average unemployment benefit and average wage per economy (%)	37,9	34,2	37,3	31,7	33,2	29,4	24,6	24,6	19,2	23,1	38,9
Number of unemployed in retraining programmes	2139	3356	3506	4244	2640	3532	1482	3470	2008	5269	2142

* Sources: National Agency for Labour Force Employment, end of year.

Annex 10. Unemployment *.

	1999	2000	2001	2002	2003	2004	2005
Number of unemployed, thousand persons	187	140	118	110	117	116	104
Unemployment rate (%):							
- total	11,1	8,5	7,3	6,8	7,9	8,1	7,3
- men	13,3	9,7	8,7	8,1	9,6	10,0	8,7
- women	8,9	7,2	5,9	5,5	6,4	6,3	6,0
Young unemployment rate (%) (15-24 years)	22,3	15,8	16,3	15,2	18,1	19,7	18,7
Share of young unemployed (15-24 years) in total unemployed (%)	31,8	26,4	30,2	29,2	26,0	26,5	27,5
Share of young unemployed (15-24 years) in total young population (%)	9,4	5,8	5,4	4,8	4,5	4,4	4,1
Incidence of long-term unemployment (share in total unemployed) (%):							
6 months and more	92,0	91,8	73,7	71,2	61,7	60,5	62,6
- men	92,1	92,7	72,8	70,7	62,4	61,0	60,4
- women	91,8	90,5	75,1	72,0	60,7	59,8	65,6
12 month and more	74,2	77,8	58,0	59,6	48,3	44,8	48,9
- men	74,8	80,7	57,9	59,5	49,5	44,9	48,5
- women	73,2	74,0	58,2	59,8	46,6	44,7	49,4
24 months and more	41,1	48,2	38,8	39,9	34,4	29,8	30,3
- men	41,9	51,2	40,5	41,2	35,0	29,2	30,1
- women	39,9	44,1	36,4	38,0	33,4	30,7	30,7
Incidence of youth long-term unemployment (share in total young unemployment) (%)							
6 months and more	62,4	61,4	58,1	59,3	45,3	48,0	50,6
- men	63,9	67,6	60,1	59,2	47,7	48,8	50,2
- women	59,9	53,0	55,0	59,4	42,0	46,8	51,2
Share of underemployed population in total active population (%)	0,4	5,5	5,5	5,4	3,8	3,3	3,7
- women	0,5	5,1	5,2	5,0	3,5	3,2	3,5
Share of discouraged population in total active population (%)	5,0	5,5	5,9	4,8	5,1	5,7	5,0
- women	4,7	5,2	6,1	4,7	5,2	5,5	4,7

* - According to the International Labour Organisation definition.

Source: Labour Force Survey.

Annex 11. Women human potential.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Life expectancy at birth (years),	69,7	70,4	70,3	71,4	71,0	71,2	71,7	71,7	71,6	72,2	71,7
Year 1994 = 100%	99,9	100,9	100,7	102,3	101,7	102,0	102,7	102,7	102,6	103,4	102,7
Conjectural rate of fertility	1,76	1,60	1,66	1,49	1,37	1,29	1,25	1,21	1,22	1,26	1,22
Year 1994 = 100%	90,3	82,1	85,1	76,4	70,3	66,2	64,1	62,1	62,6	64,6	62,6
Maternal mortality rate (la 100000 newborns alive)	40,8	40,2	48,3	36,3	28,6	27,1	43,9	28,0	21,9	23,5	18,6
Gross enrolment ratio (%):											
- Primary	97,0	98,9	98,0	99,8	99,6	99,4	99,2	99,3	99,6	97,2	96,1
- Lower secondary	93,8	92,2	88,9	88,0	91,0	90,7	91,7	93,0	92,9	92,5	93,4
Evolution of the gross rate of enrolment (1994=100%):											
- Primary	100	102	101	103	103	102	102	102	103	100	99
- Lower secondary	101	99	96	95	98	98	99	100	100	99	100
Students per 100000 inhabitants (women) :											
- Number	1595	1702	1897	2102	2280	2349	2619	2859	3196	3638	3903
- 1994 = 100%	111	118	132	146	158	163	182	199	222	253	271
Adult women illiterate rate, %	4,1	3,9	3,6	3,4	3,1	2,9	2,6	2,4	2,1	1,7	1,4

* High education.

Annex 12. Disparities between men and women.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Life expectancy at birth (years)	65,8	66,7	66,6	67,8	67,4	67,6	68,2	68,1	68,1	68,4	67,8
- Women	69,7	70,4	70,3	71,4	71,0	71,2	71,7	71,7	71,6	72,2	71,7
- Men	61,8	62,9	62,9	64,0	63,7	63,9	64,5	64,4	64,5	64,5	63,8
Gross rate of enrolment in lower secondary education (gymnasium) (%):											
- Women	93,8	92,2	88,9	88,0	91,0	90,7	91,7	93,0	92,9	92,5	93,4
- Men	92,6	92,8	88,6	88,5	90,5	89,7	90,5	91,6	91,5	92,5	92,5
Unemployment rate (%):											
- Women	...	...	...	...	13,3	9,7	8,7	8,1	9,6	10,0	8,7
- Men	...	...	...	...	8,9	7,2	5,9	5,5	6,4	6,3	6,0
Average wage in non-agricultural activities, September (Moldovan lei)											
- Women	...	...	...	...	...	...	...	679	833	998	1191
- Men	...	...	...	...	...	...	...	969	1245	1495	1739

Annex 13. Structure of disposable income by categories of households.

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income from wage									
Total households	36,4	34,7	35,4	37,3	37,8	37,0	37,3	40,5	43,7
Households with:									
Employed	48,5	47,0	48,6	54,0	56,1	58,5	59,3	62,9	67,0
Farmers	11,3	10,0	10,5	10,3	14,8	8,6	8,8	11,2	12,2
Pensioners	9,9	7,7	6,3	5,7	6,9	5,7	6,5	8,3	9,5
Others	22,6	12,5	8,8	7,0	11,4	8,9	6,9	3,3	7,5
Income from individual agricultural activity									
Total households	35,6	39,4	38,5	34,5	31,9	29,9	28,9	23,1	20,2
Households with:									
Employed	30,2	32,6	30,7	25,5	22,4	19,3	16,3	12,5	10,4
Farmers	75,2	76,5	76,5	72,5	65,2	70,1	70,8	63,0	62,0
Pensioners	42,0	49,5	50,0	44,3	38,6	34,0	34,2	26,9	23,3
Others	15,9	24,4	14,5	8,7	7,1	4,6	4,0	2,6	2,0
Income from individual non-agricultural activity									
Total households	4,6	3,7	3,7	3,2	3,0	2,7	4,5	4,2	3,2
Households with:									
Employed	5,2	4,6	4,9	4,5	4,3	4,3	6,8	6,0	5,1
Farmers	3,7	2,1	1,2	0,7	1,6	1,1	0,9	0,8	0,1
Pensioners	2,5	1,6	0,8	1,1	0,7	0,8	1,4	1,8	0,7
Others	14,7	1,9	5,1	0,3	1,0	0,5	3,0	4,7	1,7
Social transfers									
Total households	10,4	10,1	8,3	9,6	10,9	14,1	14,0	15,2	18,0
Households with:									
Employed	3,5	4,1	3,2	2,7	3,5	4,3	4,8	4,8	4,8
Farmers	3,1	5,5	3,9	3,9	4,8	6,0	5,2	7,5	7,7
Pensioners	31,5	29,2	25,7	29,9	33,9	38,9	43,0	47,3	55,0
Others	4,1	6,7	2,7	1,8	2,4	2,2	2,4	2,6	3,5
Other income									
Total households	13,0	12,2	14,2	15,3	15,9	16,3	15,3	17,1	14,8
Households with:									
Employed	12,5	11,7	12,6	13,3	13,8	13,7	12,9	13,9	12,7
Farmers	6,8	5,9	7,8	12,6	13,6	14,2	14,3	17,4	18,0
Pensioners	14,1	12,0	17,1	19,0	20,0	20,6	15,0	15,7	11,5
Others	42,8	54,5	68,9	82,2	78,0	87,1	83,8	86,7	85,4

Annex 14. Structure of consumption expenditure by categories of households.

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Food and alcoholic beverages									
Total households	67.9	69.7	68.9	67.5	64.2	62.0	60.0	59.5	56.9
<i>Households with:</i>									
Employed	65.2	67.2	66.0	62.9	59.8	57.3	54.1	54.1	51.7
Farmers	77.4	75.6	79.4	76.0	70.8	69.8	69.8	69.3	67.4
Pensioners	73.3	75.3	76.5	77.2	72.0	69.4	68.8	67.5	64.4
Others	59.5	68.3	49.7	59.5	53.1	47.1	39.4	43.0	35.4
Clothes and footwear									
Total households	9.3	7.1	6.6	7.3	7.6	8.2	8.4	8.1	7.9
<i>Households with:</i>									
Employed	10.9	8.5	8.3	8.8	9.0	9.9	10.5	9.8	10.0
Farmers	7.2	8.7	5.0	7.6	7.8	8.0	7.1	7.5	6.8
Pensioners	5.1	2.9	2.6	2.5	3.9	4.3	3.9	4.0	4.2
Others	14.3	4.9	4.6	9.1	10.3	8.1	16.1	11.0	7.7
Housing and house maintaining									
Total households	11.4	9.9	11.8	12.1	13.5	14.8	15.3	15.4	17.2
<i>Households with:</i>									
Employed	11.7	10.3	12.2	12.8	14.0	15.0	16.5	16.0	17.6
Farmers	8.4	7.5	6.9	8.4	11.8	12.6	12.5	12.7	14.3
Pensioners	11.7	9.6	11.3	12.2	12.8	15.2	15.2	15.6	18.8
Others	9.3	9.9	20.7	10.8	18.0	19.3	11.6	17.8	15.1
Medical care and health									
Total households	3.0	3.3	3.7	3.3	3.9	4.0	4.4	3.9	3.6
<i>Households with:</i>									
Employed	2.6	2.9	3.1	3.2	3.6	3.6	3.7	3.5	3.4
Farmers	0.9	2.0	3.0	1.9	2.7	3.3	2.8	2.3	2.4
Pensioners	4.4	4.9	5.0	4.3	5.4	6.0	7.0	5.6	5.4
Others	3.0	4.9	9.7	3.0	4.2	3.0	4.8	5.3	2.3
Transport and telecommunications									
Total households	4.4	5.1	4.4	5.0	5.2	4.9	5.3	6.3	7.2
<i>Households with:</i>									
Employed	4.8	5.5	5.1	6.3	6.1	6.3	6.8	7.6	8.0
Farmers	3.7	2.7	2.7	3.1	3.7	3.4	3.3	5.3	5.7
Pensioners	3.3	4.6	2.1	2.2	3.4	2.5	2.9	3.6	3.5
Others	7.8	5.9	8.7	8.5	7.9	8.7	10.2	9.5	24.2
Agreement and education									
Total households	1.8	2.1	1.9	2.4	3.1	2.6	3.3	3.5	3.2
<i>Households with:</i>									
Employed	2.4	2.5	2.3	3.1	3.9	3.4	4.1	4.9	4.0
Farmers	1.6	1.9	1.7	1.2	1.4	1.5	2.9	1.1	1.7
Pensioners	0.6	1.0	0.6	0.4	1.1	0.9	0.7	1.9	1.2
Others	1.8	2.4	2.7	5.2	2.2	6.8	12.3	6.8	9.3
Diverse									
Total households	2.2	2.7	2.7	2.7	2.4	3.5	3.3	3.3	4.0
<i>Households with:</i>									
Employed	2.5	3.1	3.1	2.9	3.5	4.7	4.3	4.2	5.3
Farmers	0.9	1.8	1.4	1.9	1.9	1.5	1.6	1.7	1.7
Pensioners	1.5	1.7	1.8	1.2	1.5	1.8	1.6	1.9	2.7
Others	4.4	3.6	4.0	4.0	4.3	7.0	5.5	6.7	6.0

Annex 15. Structure of disposable income by quintiles and residence.

Income from wage	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total population									
Quintile I	27.6	20.2	22.0	29.5	30.4	27.1	35.9	40.0	36.0
Quintile V	42.5	43.1	43.5	46.8	47.1	44.5	41.5	46.1	50.8
Urban area									
Quintile I	49.0	52.3	46.4	52.9	54.4	59.3	57.7	68.9	70.9
Quintile V	60.5	58.9	59.0	62.4	63.6	60.6	55.8	56.9	63.1
Rural area									
Quintile I	20.9	12.2	14.4	15.1	18.9	16.0	26.0	28.7	23.2
Quintile V	18.9	20.2	15.1	21.0	24.7	20.8	22.1	25.1	24.0
Income from individual agricultural activity									
Total population									
Quintile I	50.3	59.8	59.5	42.1	40.3	42.0	35.2	32.7	31.4
Quintile V	25.4	26.3	23.9	22.1	21.1	20.3	20.1	11.9	11.2
Urban area									
Quintile I	9.0	14.4	19.8	16.0	8.8	7.3	5.5	4.5	4.1
Quintile V	4.2	4.4	3.2	2.5	1.9	1.5	1.5	1.2	1.0
Rural area									
Quintile I	63.1	71.2	71.8	58.2	55.3	54.0	48.6	43.8	41.4
Quintile V	53.1	57.8	61.5	54.7	47.0	48.0	45.3	32.8	33.6
Income from individual non-agricultural activity									
Total population									
Quintile I	2.1	0.9	1.3	0.9	1.0	1.2	0.9	1.0	0.6
Quintile V	6.0	5.6	5.9	5.5	3.7	3.7	6.7	7.2	4.6
Urban area									
Quintile I	5.7	2.4	3.7	2.1	1.7	3.1	2.0	3.2	2.7
Quintile V	7.5	7.9	7.5	7.1	4.2	4.6	9.7	7.5	4.7
Rural area									
Quintile I	1.0	0.6	0.6	0.1	0.7	0.5	0.4	0.2	0.0
Quintile V	4.2	2.2	2.9	2.8	2.9	2.2	2.5	6.4	4.3
Social transfers									
Total population									
Quintile I	11.7	9.6	7.4	12.9	18.7	18.4	20.3	20.9	26.3
Quintile V	8.5	9.7	7.9	6.0	6.0	7.8	8.2	8.0	9.8
Urban area									
Quintile I	21.6	14.4	15.1	15.9	22.6	21.1	23.3	17.0	17.0
Quintile V	7.2	8.3	7.7	4.6	5.0	7.3	6.8	7.0	8.3
Rural area									
Quintile I	8.6	8.4	5.0	11.0	16.8	17.4	18.9	22.4	29.6
Quintile V	10.2	11.8	8.1	8.3	7.3	8.6	10.1	10.0	13.0
Other income									
Total population									
Quintile I	8.4	9.5	9.8	14.6	9.7	11.3	7.8	5.4	5.8
Quintile V	17.6	15.4	18.9	19.7	22.2	23.7	23.5	26.9	23.6
Urban area									
Quintile I	14.7	16.6	15.0	13.1	12.6	9.2	11.6	6.4	5.4
Quintile V	20.6	20.5	22.5	23.5	25.3	26.1	26.2	27.5	22.9
Rural area									
Quintile I	6.4	7.7	8.2	15.6	8.4	12.1	6.1	5.0	6.0
Quintile V	13.6	8.0	12.4	13.3	18.1	20.3	19.9	25.7	25.1

Annex 16. Structure of consumption expenditures by quintiles and residence.

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Food and alcoholic beverages									
Total population									
Quintile I	88.1	90.7	89.7	87.7	85.1	81.9	80.4	81.7	80.7
Quintile V	56.3	56.4	54.8	53.1	49.3	48.5	44.8	44.9	41.9
Urban area									
Quintile I	85.0	86.9	86.8	83.9	83.2	76.1	73.7	75.1	71.8
Quintile V	49.7	51.0	49.1	46.8	44.5	43.3	40.9	41.7	40.5
Rural area									
Quintile I	89.0	91.7	90.6	89.7	86.0	83.8	83.0	83.9	83.1
Quintile V	65.0	63.9	65.6	63.8	55.1	55.5	49.4	50.0	44.7
Clothes and footwear									
Total population									
Quintile I	2.9	1.9	1.5	1.5	1.8	2.5	2.1	1.8	1.8
Quintile V	12.3	10.5	9.9	11.4	11.1	12.0	12.6	11.8	11.2
Urban area									
Quintile I	2.8	1.7	1.0	1.7	1.6	2.2	1.9	1.6	1.5
Quintile V	14.8	12.3	10.2	12.6	11.8	12.2	13.2	12.3	12.7
Rural area									
Quintile I	2.9	1.9	1.7	1.5	1.9	2.6	2.1	1.9	1.9
Quintile V	9.0	8.1	9.3	9.4	10.3	11.8	11.9	11.0	8.4
Housing and house maintenance									
Total population									
Quintile I	5.1	3.9	5.5	6.7	8.4	9.7	10.4	10.1	10.7
Quintile V	15.5	13.1	16.5	15.8	17.3	18.2	19.5	19.0	21.1
Urban area									
Quintile I	5.8	5.1	7.0	8.6	9.6	13.2	14.5	14.2	16.8
Quintile V	15.3	15.4	18.6	15.5	17.6	18.1	19.0	18.2	17.3
Rural area									
Quintile I	4.9	3.6	5.0	5.8	7.8	8.6	8.7	8.7	9.1
Quintile V	15.7	9.9	12.3	16.2	16.8	18.3	20.0	20.4	28.1
Medical care and health									
Total population									
Quintile I	1.4	1.0	1.0	1.1	1.5	1.6	2.0	1.1	1.4
Quintile V	3.9	4.4	5.4	4.6	5.8	5.2	5.9	5.0	4.6
Urban area									
Quintile I	1.9	1.9	1.5	1.8	1.4	1.5	2.2	1.1	2.3
Quintile V	4.5	4.6	5.7	5.1	5.1	5.0	5.5	5.0	3.9
Rural area									
Quintile I	1.2	0.7	0.8	0.8	1.6	1.7	1.9	1.1	1.2
Quintile V	3.1	4.2	4.7	3.6	6.6	5.6	6.5	5.0	5.9
Transport and telecommunications									
Total population									
Quintile I	1.1	1.3	1.0	1.5	1.5	1.9	2.6	3.1	3.1
Quintile V	6.2	8.0	6.4	7.5	7.6	6.5	7.0	8.3	9.7
Urban area									
Quintile I	2.0	2.1	1.4	2.2	2.2	3.8	3.8	4.6	3.7
Quintile V	8.0	6.9	7.9	9.5	8.0	8.0	8.2	9.3	10.9
Rural area									
Quintile I	0.8	1.1	0.9	1.1	1.2	1.3	2.1	2.6	3.0
Quintile V	3.7	9.5	3.7	4.2	7.0	4.5	5.5	6.6	7.3

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Agreement and education										
Total population										
Quintile I	0.5	0.4	0.4	0.5	0.6	0.8	1.2	0.8	0.7	
Quintile V	2.8	3.6	3.2	4.1	4.8	4.2	5.6	6.3	5.4	
Urban area										
Quintile I	0.9	0.9	0.7	0.6	0.8	1.0	1.8	1.5	1.2	
Quintile V	3.2	4.5	3.7	5.9	7.1	6.0	6.6	7.1	6.3	
Rural area										
Quintile I	0.3	0.2	0.3	0.5	0.6	0.7	0.9	0.6	0.5	
Quintile V	2.3	2.3	2.1	0.9	2.0	1.8	4.5	5.1	3.6	
Diverse										
Total population										
Quintile I	1.0	0.9	1.0	0.9	1.0	1.6	1.5	1.5	1.6	
Quintile V	3.1	4.0	3.9	3.7	4.2	5.4	4.6	4.8	6.2	
Urban area										
Quintile I	1.6	1.4	1.6	1.4	1.3	2.3	2.1	2.0	2.6	
Quintile V	4.4	5.3	4.8	4.7	5.9	7.4	6.7	6.5	8.4	
Rural area										
Quintile I	0.8	0.7	0.7	0.7	0.9	1.4	1.2	1.3	1.3	
Quintile V	1.3	2.1	2.3	2.0	2.2	2.6	2.2	1.9	2.0	

Annex 17. GDP by production and use.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP (million Moldovan lei, current prices)	6480	7798	8917	9122	12322	16020	19052	22556	27619	32032	36755
Share in GDP of the added value derived in (%):											
agriculture	29.3	27.5	26.0	25.8	24.9	25.4	22.4	21.0	18.3	17.6	14.3
manufacture and constructions	28.5	26.9	25.0	19.9	20.3	19.0	21.8	20.2	20.5	20.5	20.5
services	33.1	37.9	38.7	43.7	49.7	45.5	46.1	48.1	48.7	50.1	50.8
Share in GDP of:											
final consumption, total	82.9	94.3	97.4	100.9	90.0	103.1	101.1	103.3	110.2	103.9	108.4
households	55.8	67.2	67.5	75.4	74.2	87.6	86.0	82.0	89.5	87.8	91.6
public administration	25.9	26.0	28.8	24.7	15.3	14.7	14.4	20.3	19.6	14.9	15.5
private administration	1.2	1.1	1.1	0.8	0.5	0.8	0.7	1.0	1.1	1.2	1.3
gross fixed capital formation	16.0	19.8	19.9	22.1	18.4	15.4	16.7	16.3	18.6	21.2	24.4
exports	60.1	55.3	53.2	45.0	52.3	49.6	50.1	52.5	53.3	51.2	53.1
imports	67.9	73.9	74.4	71.8	65.2	76.6	74.4	77.4	86.8	81.5	91.3
Gross savings, million Moldovan lei	1206	1031	930	513	2385	2106	3224	3617	4624	7612	...

Annex 18. Social revenues, consumption and expenditures.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Share in GDP of the households disposable income (%)	69	70	69	65	67	74	77	83	90	92	...
Average nominal monthly wage, Moldovan lei:	143.2	187.1	219.8	250.4	304.6	407.9	543.7	691.5	890.8	1103.1	1318.7
- public propriety	150.3	203.0	234.4	263.9	297.6	380.3	506.2	663.8	856.6	1048.7	1256.4
- private propriety	122.4	151.0	174.3	194.4	256.6	374.1	467.0	585.3	740.3	949.6	1141.0
- mixed propriety (public and private)	207.8	280.9	354.8	432.7	525.1	692.0	817.6	993.8	1360.8	1699.8	1855.5
- mixed propriety (with foreign capital)	238.2	342.7	361.3	572.7	763.4	864.8	1061.6	1295.4	1599.2	1863.6	2190.8
Index of real wage (%):											
- 1994=100%	101.7	107.6	113.0	119.4	104.3	106.4	129.5	156.5	180.7	199.0	212.6
- Previous year=100%	101.7	105.6	105.0	105.6	87.8	102.3	121.2	120.9	115.4	110.1	106.8
Minimal wage (Moldovan lei)	18	18	18	18	18	18	100	100	100	100	200
Share of public expenditures for law enforcement, as % of:											
- GDP	3.6	4.8	5.5	4.7	4.3	4.1	4.0	4.7	4.4	5.1	5.4
- Consolidated budget	9.8	13.2	13.6	14.2	15.0	15.5	17.6	20.3	19.5	14.5'	14.1'
Share of public expenditures for education, as % of:											
- GDP	8.9	10.3	9.9	7.0	4.7	4.5	4.9	5.5	5.4	6.8	7.3
- Consolidated budget	24.2	28.3	24.7	21.2	16.4	16.8	21.4	23.9	24.3	19.3'	19.4'
Share of public expenditures for health care and social assistance, as % of:											
- GDP	6.4	7.4	11.1	8.3	6.7	6.8	5.5	6.4	6.1	14.4	15.8
- Consolidated budget	17.6	20.3	27.5	24.9	23.6	25.4	24.2	27.7	27.2	41.0'	41.7'
Annual average consumption per inhabitant, (kg):											
- Food and products thereof	23.0	25.3	25.0	26.7	24.5	23.6	24.0	26.6	26.5	31.6	...
- Milk and dairy	165.2	161.4	154.5	155.4	145.0	152.8	154.6	167.3	164.4	166.2	...
- Eggs, items.	107	116	121	122	132	133	139	158	158	162	...
- Bakery	135.0	126.9	134.9	133.9	133.1	133.9	139.4	140.6	132.8	145.5	...
- Potatoes	67.8	71.0	68.8	65.1	61.5	53.4	65.4	67.7	69.2	62.9	...
- Vegetables	86.3	64.8	69.0	112.5	109.0	83.1	103.5	99.4	106.6	88.1	...
- Fruits	59.7	59.3	77.5	47.7	27.2	31.8	33.0	38.0	43.0	38.4	...

* Starting 2004 the public expenditures are reported to national public budget.

Annex 19. Evolution of economic results.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Annual GDP growth rate (%)	98.6	94.1	101.6	93.5	96.6	102.1	106.1	107.8	106.6	107.4	107.1
Annual GDP per capita growth rate (%)	98.8	94.2	100.1	93.5	96.8	102.3	106.4	108.1	106.9	107.6	107.3
Annual average inflation rate (%)	30	24	12	8	39	31	10	5	12	12.4	11.9
Exports, % of GDP	60.1	55.3	53.2	45.0	52.3	49.6	50.1	52.5	53.3	51.2	53.1
Public budget revenues, % of GDP	30.9	26.6	33.0	29.8	25.2	25.6	22.7	22.5	24.0	35.2*	38.7*
Consolidated budget balance, % of GDP	-5.8	-9.7	-7.5	-3.4	-3.2	-1.0	-0.0	-0.5	+1.6	+0.5*	+2.1*

* Calculations made based on national public budget.

Annex 20. Revenues and expenditures of the consolidated budget*.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenues, total, million Moldovan lei	2002.0	2074.2	2941.7	2721.9	3100.3	4102.4	4324.8	5084.4	6619.9	7521.5	11372.4
Share in total revenues, %:	100	100	100	100	100	100	100	100	100	100	100
- Corporate profit tax rate	19.9	17.3	8.3	6.6	7.5	6.7	8.1	8.4	8.7	10.4	7.1
- Physical persons income tax rate	10.1	10.6	9.6	8.2	7.1	6.4	8.0	9.2	9.4	10.6	7.7
- Land tax	4.6	5.6	4.3	3.1	4.5	3.9	3.8	3.7	2.5	2.5	1.7
- Real estate tax	0.6	0.7	1.0	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.4
- VAT	28.8	29.6	32.3	41.3	30.3	32.7	34.6	40.0	42.2	45.6	40.8
- Excises	9.5	9.5	13.6	13.8	14.3	16.0	15.7	12.9	13.4	12.1	10.3
- External economic activity revenues	2.6	4.6	4.3	4.0	7.4	5.6	5.4	6.5	7.2	6.6	6.0
- Other	23.9	22.1	26.6	22.2	28.1	28.0	23.8	18.6	16.1	11.8	25.9
Share of total revenues in GDP, %	30.9	26.6	33.0	29.8	25.2	25.6	22.7	22.5	24.0	23.5	30.8
Expenditures, total, million Moldovan lei	2376.0	2827.0	3608.4	3027.1	3495.3	4268.8	4325.8	5194.1	6177.5	7390.1	10786.6
Share in total expenditures, %:	100	100	100	100	100	100	100	100	100	100	100
- Economic expenditures	6.8	8.7	8.1	9.3	8.8	8.6	7.4	8.0	8.6	10.0	22.1
- External economic activities expenditures	4.7	...	1.1	1.2	1.6	1.6	1.8	1.9	2.0	2.0	2.3
- Social expenditures, total,	47.6	54.9	55.4	48.8	42.5	44.2	47.7	54.2	54.3	50.3	52.6
Including:											
Education	24.2	28.3	24.7	21.2	16.4	16.8	21.3	23.9	24.3	23.4	25.5
Health care	15.8	18.4	14.9	13.0	10.2	11.1	12.5	15.3	15.1	11.7	12.2
Social assistance	1.8	1.9	12.6	11.9	13.3	14.4	11.7	12.4	12.0	12.3	12.0
- Expenditures for law enforcement bodies and public administration	9.6	12.4	13.6	14.2	15.0	15.5	17.6	20.3	19.5	18.1	18.3
- Other expenditures	25.4	18.7	15.3	19.7	28.9	25.8	20.7	15.5	15.6	19.5	4.6
Share of total expenditures in GDP, %	36.7	36.2	40.5	33.2	28.6	26.6	22.7	23.0	22.4	23.1	29.2
Surplus (+), deficit (-) (million Moldovan lei)	-374.0	-752.8	-666.7	-305.2	-395.0	-166.4	-1.0	-109.7	442.4	131.4	585.8
- As % of GDP	-5.8	-9.6	-7.5	-3.3	-3.2	-1.0	-0.0	-0.5	1.6	0.4	1.6

* State budget plus budgets of administrative-territorial units.

Annex 21. Rural / urban disparities.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Share of rural population, %, entire country	53.6	53.8	53.8	53.8	54.0	54.0	54.6	54.7	54.7	54.8	...
Share of rural population, %, Trans-Dniester and Bender municipality not included	...	...	57.8	57.9	58.0	58.0	58.7	58.6	58.6	58.6	58.6
Life expectancy at birth (years):											
Total	65.8	66.7	66.6	67.8	67.4	67.6	68.2	68.1	68.1	68.4	67.8
Rural	64.6	66.0	65.9	67.3	66.8	66.8	67.3	67.1	67.1	67.4	66.5
Urban	67.3	67.5	67.6	68.4	68.4	68.8	69.6	69.7	69.8	70.4	70.0
Share of population aged 0-15 years (%):											
Rural	30.5	30.1	29.6	29.4	28.6	27.8	26.7	25.8	24.7	23.8	22.9
Urban	26.3	25.7	25.1	24.7	23.9	22.9	22.0	21.0	19.9	18.9	18.0
Share of population aged 65 years and more (%):											
Rural	10.7	10.7	10.8	10.9	11.0	11.0	11.1	11.1	11.1	11.0	10.9
Urban	7.0	7.0	7.1	7.0	7.1	7.1	7.6	7.6	7.9	8.1	8.4
Demographic dependency ratio (%):											
Rural	70.1	69.1	68.0	67.6	65.6	63.3	60.5	58.3	55.8	53.4	51.0
Urban	49.9	48.7	47.4	46.4	44.8	42.9	41.4	39.9	38.4	37.1	35.7
Birth rate (‰):											
Total	13.0	12.0	12.5	11.3	10.6	10.2	10.0	9.9	10.1	10.6	10.5
Rural	14.9	13.8	14.2	12.8	11.9	11.4	11.2	10.8	11.2	11.5	11.5
Urban	10.8	9.8	10.1	9.3	8.7	8.4	8.4	8.5	8.6	9.4	9.1
Fertility rate (‰):											
Total	1.8	1.6	1.7	1.5	1.4	1.3	1.2	1.2	1.2	1.3	1.2
Rural	2.2	2.0	2.1	1.8	1.6	1.5	1.4	1.3	1.4	1.4	1.3
Urban	1.3	1.2	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.1	1.1
Infant mortality rate (‰):											
Total	21.2	20.2	19.8	17.5	18.2	18.3	16.3	14.7	14.4	12.2	12.4
Rural	22.3	21.1	21.3	16.0	16.9	17.8	16.0	14.4	14.6	12.3	12.1
Urban	19.5	18.7	16.8	20.5	20.7	19.3	16.9	15.1	13.4	12.0	13.0
Average housing surface per inhabitant (m ²):											
Total	19.9	20.1	20.0	20.4	20.7	20.8	20.9	21.0	21.3	21.3	21.4
Urban	16.9	17.0	17.3	17.7	18.2	18.8	18.9	19.0	19.1	19.0	19.2
Rural	22.2	22.4	22.0	22.4	22.4	22.3	22.3	22.5	22.9	22.9	23.0
Unemployment rate:											
Total	...	...	...	...	11.1	8.5	7.3	6.8	7.9	8.1	7.3
Urban	...	...	...	...	19.1	15.7	13.8	12.1	12.2	11.9	11.2
Rural	...	...	...	...	5.4	3.4	2.7	3.0	4.5	5.0	4.0

Annex 22. Demographic indicators in local profile.

	Population la 01.01.2006 (thousand persons)	Average annual population growth rate (%) 2003–2005	Birth rate (per 1000 inhabitants), 2005	Mortality rate (per 1000 inhabitants), 2005	Infant mortality rate (per 1000 newborns alive), 2005	Proportion of populations aged 0–14 years (%)	Proportion of population aged 65 years and more (%)	Dependency rate
Republic of Moldova	3589.3	-0.25	10.5	12.4	12.4	19.1	10.4	41.8
Mun. Chisinau	778.9	-0.05	9.2	8.7	9.7	14.8	7.4	28.5
Mun. Balti	148.1	-0.55	9.2	10.3	14.4	16.1	9.3	34.1
Anenii Noi	83.2	-0.28	11.2	12.9	7.8	19.6	8.9	39.8
Basarabesca	29.6	-0.22	9.9	13.0	20.4	20.3	9.2	41.8
Briceni	77.0	-0.68	9.7	16.9	13.3	17.7	17.2	53.8
Cahul	125.7	-0.13	11.0	10.8	13.9	20.8	9.1	42.7
Cantemir	64.4	-0.10	12.7	10.7	12.4	23.9	8.6	48.3
Calarasi	80.4	-0.49	11.3	15.3	20.3	20.4	10.9	45.4
Causeni	93.4	-0.07	11.3	13.5	6.5	21.1	9.7	44.5
Cimislia	64.6	-0.31	9.9	12.9	15.6	21.8	9.1	44.8
Criuleni	72.9	+0.05	12.1	13.7	14.8	21.3	8.3	42.0
Donduseni	46.6	-0.90	8.9	17.3	12.0	16.9	18.9	55.7
Drochia	93.3	-0.63	9.1	14.9	14.0	18.6	16.3	53.5
Dubasari	35.4	-0.46	10.0	15.8	8.5	20.0	9.5	42.0
Edinet	84.8	-0.77	9.3	16.2	13.8	17.8	16.8	52.8
Falesti	94.4	-0.42	11.2	13.8	18.8	20.9	13.1	51.5
Floresti	92.4	-0.64	9.5	16.4	8.9	19.8	13.4	49.8
Glodeni	63.6	-0.52	9.2	14.0	15.1	20.1	14.0	51.8
Hancesti	125.3	-0.45	11.5	12.3	15.6	21.9	9.3	45.2
Ialoveni	96.5	+0.56	12.8	11.6	11.5	21.0	7.4	39.7
Leova	54.5	-0.42	11.9	12.4	15.8	21.1	9.5	44.1
Nisporeni	68.5	0.00	11.6	12.5	17.5	22.7	9.3	47.1
Ocnita	56.1	-0.06	8.6	16.4	16.7	16.3	15.5	46.8
Orhei	129.5	-0.38	10.3	13.4	12.7	19.8	10.0	42.3
Rezina	53.4	-0.49	10.5	14.6	8.8	20.9	11.2	47.4
Rascani	71.5	-0.55	9.9	16.3	14.1	18.8	16.4	54.1
Sangerei	95.3	-0.38	11.2	11.6	14.0	22.9	11.3	52.0
Soroca	101.7	-0.42	9.1	14.5	7.5	18.4	13.0	45.8
Straseni	91.5	-0.11	11.9	13.1	11.9	20.3	8.7	40.9
Soldanesti	44.6	-0.59	10.7	16.8	25.0	22.0	12.6	52.8
Stefan Voda	73.4	-0.23	12.0	13.2	12.6	22.1	9.9	47.1
Taraclia	44.9	-0.51	10.6	14.2	8.4	19.3	11.0	43.6
Telenesti	75.6	-0.26	11.5	12.5	12.6	23.8	10.0	50.9
Ungheni	119.3	-0.14	11.5	13.0	14.4	21.8	10.3	47.3
ATU Gagausia	159.0	+0.02	12.1	12.1	6.3	20.2	9.4	42.0

Annex 23. Health indicators in local profile, 2005.

	Infant mortality rate (per 1000 newborns alive)	Mortality rate of children under 5 years of age (per 1000 newborns alive)	Maternal mortality rate (per 100000 newborns alive)	Rate of mortality because of medical causes (per 100000 inhabitants)	
				Circulatory system deceases	Tumours
Republic of Moldova	12,4	15,7	18,6	700,14	145,75
Mun. Chisinau	9,7	11,0	-	449,13	141,24
Mun. Balti	14,4	17,6	-	565,66	162,29
Anenii Noi	7,8	9,7	-	697,06	152,37
Basarabasca	20,4	23,8	-	688,03	134,91
Briceni	13,3	15,9	-	1077,62	153,95
Cahul	13,9	15,2	-	615,51	122,47
Cantemir	12,4	13,4	-	548,14	113,35
Calarasi	20,3	19,8	-	870,97	150,12
Causeni	6,5	9,4	-	708,02	166,84
Cimisia	15,6	25,0	-	629,06	174,65
Criuleni	14,8	18,2	-	807,40	148,05
Donduseni	12,0	14,4	-	1224,36	147,44
Drochia	14,0	17,6	-	785,26	201,92
Dubasari	8,5	11,3	-	926,76	132,39
Edinet	13,8	16,4	251,9	1043,48	162,16
Falesti	18,8	26,3	93,9	805,89	135,72
Floresti	8,9	11,3	-	1053,37	177,90
Glodeni	15,1	18,8	170,6	752,94	149,02
Hancesti	15,6	20,0	-	610,80	124,70
Ialoveni	11,5	13,0	-	675,35	126,11
Leova	15,8	18,5	-	722,27	115,49
Nisporeni	17,5	21,4	-	615,61	124,00
Ocnita	16,7	18,9	-	956,91	141,83
Orhei	12,7	17,2	-	683,11	144,18
Rezina	8,8	19,6	-	923,36	95,33
Rascani	14,1	23,9	-	1042,51	164,46
Sangerei	14,0	16,8	-	784,48	120,61
Soroca	7,5	9,7	107,9	900,98	173,53
Straseni	11,9	19,3	-	693,23	149,56
Soldanesti	25,0	31,4	-	909,50	183,24
Stefan Voda	12,6	14,7	-	825,05	133,42
Taraclia	8,4	14,6	-	804,44	175,56
Telenesti	12,6	17,2	-	639,79	140,12
Ungheni	14,4	19,7	72,9	683,42	127,30
U.T.A. Gagausia	6,3	8,8	52,1	673,58	149,06

Annex 24. Day schools, gymnasiums and lyceums.

	Număr de instituții			Număr de elevi		
	2003/2004	2004/2005	2005/2006	2003/2004	2004/2005	2005/2006
Republic of Moldova	1576	1570	1551	578705	546615	517029
Mun. Chisinau	194	188	178	118174	109401	101796
Mun. Balti	30	31	30	20087	19099	17984
Anenii Noi	38	38	37	1360	12918	12291
Basarabasca	11	11	11	5073	4741	4418
Bender (including institutions located on the left bank of the Dniester river)	6	6	6	3916	3611	3145
Briceni	34	34	34	11297	10861	10458
Cahul	62	62	62	21185	20095	19225
Cantemir	41	40	40	11437	10681	10084
Calarasi	42	42	42	13227	12289	11467
Causeni	39	39	38	15897	15085	14230
Cimislia	34	34	34	11449	10784	10271
Criuleni	34	34	34	12723	12108	11603
Donduseni	27	27	27	6097	5779	5454
Drochia	42	41	41	13953	13156	12571
Dubasari	13	13	13	5672	5381	5172
Edinet	44	44	44	11713	11166	10777
Falesti	51	51	51	15390	14688	14045
Floresti	56	56	56	14930	14113	13513
Glodeni	28	28	28	9876	9537	9187
Hancesti	57	57	56	22125	20949	19546
Ialoveni	38	38	38	16802	16022	15313
Leova	35	34	34	9328	8821	8530
Nisporeni	38	38	37	11671	11061	10570
Ocnita	30	30	30	6916	6510	6193
Orhei	65	65	65	20156	18701	17298
Rezina	40	40	40	9030	8609	8196
Rascani	41	41	41	10612	10029	9612
Sangerei	54	54	52	15550	14876	14414
Soroca	64	65	63	15033	14435	13630
Straseni	41	42	42	15213	14511	13749
Soldanesti	32	32	32	7591	7147	6843
Stefan Voda	30	30	30	12694	12211	11711
Taraclia	21	21	21	7096	6633	6320
Telenesti	43	43	43	13777	13138	12423
Ungheni	65	66	66	20121	19829	18711
ATU Gagausia	56	55	55	29214	27640	26279

Annex 25. Colleges.

	Number of institutions			Number of students		
	2003/04	2004/05	2005/06	2003/04	2004/05	2005/06
Republic of Moldova	60	56	51	18727	23618	27060
mun. Chisinau	31	28	25	11197	14643	16744
mun. Balti	6	6	6	2340	2704	3054
Briceni	2	2	1	276	301	327
Cahul	3	2	2	745	923	1106
Calarasi	1	1	1	257	274	351
Donduseni	1	1	1	245	330	381
Edinet	2	1	1	179	149	174
Hancesti	1	1	1	250	340	418
Ocnita	1	1	1	153	167	177
Orhei	2	2	2	748	1016	1241
Rezina	1	-	-	43	-	-
Rascani	1	1	1	299	363	427
Soroca	3	5	4	872	1101	1172
Taraclia	1	1	1	217	161	124
Ungheni	2	2	2	372	503	683
ATU Gagausia	2	2	2	534	643	681

Annex 26. High education institutions.

	Number of institutions			Number of students		
	2003/04	2004/05	2005/06	2003/04	2004/05	2005/06
Republic of Moldova	40	35	35	104029	114552	126132
mun. Chisinau	34	28	28	90194	99110	109274
mun. Balti	3	3	3	8254	9613	10898
Cahul	2	2	2	3329	3374	3250
Taraclia	1	1		94	201	
ATU Gagausia	1	1	1	2252	2361	2509

Annex 27. Unemployed registered at territorial agencies of labour employment.

	Number of unemployed registered over the year, total persons			Including, women			Unemployed placed in jobs over the course of the year, total persons			Including, women		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Republic of Moldova	62273	59581	59894	25190	25070	25456	26300	24668	24639	13310	12161	12556
Mun. Chisinau	7403	7616	7744	3796	4239	4161	3135	3094	3216	1651	1643	1679
Mun. Balti	4407	4483	4002	2632	2460	2272	2356	2601	2117	1407	1504	1175
Anenii Noi	904	945	918	494	498	443	503	504	456	314	282	245
Basarabesca	777	734	810	256	329	305	355	320	404	53	104	112
Briceni	969	595	572	250	179	175	510	494	521	144	180	136
Cahul	3212	3086	3133	1263	1251	1333	1660	1690	1840	827	808	936
Cantemir	1242	1144	1043	462	458	374	610	587	490	295	291	234
Calarasi	1578	1514	1637	529	515	624	906	883	909	376	351	363
Causeni	1529	1420	1619	606	396	495	856	860	874	381	307	314
Cimislia	807	769	1001	344	345	396	425	413	436	222	213	234
Criuleni	894	772	660	214	221	218	329	204	256	136	105	111
Donduseni	887	701	727	228	205	172	351	350	356	138	131	95
Drochia	1411	1482	1570	606	670	616	512	541	553	258	346	283
Dubasari	494	591	865	247	315	419	171	171	179	96	87	102
Edinet	1817	1890	2099	737	787	949	777	665	546	449	373	305
Falesti	1275	1395	1807	623	679	799	798	725	894	404	380	505
Floresti	1928	2234	2525	429	544	734	546	760	597	208	268	349
Glodeni	1170	1110	1245	495	434	670	571	503	650	304	215	454
Hancesti	2060	1899	2047	318	507	809	320	327	355	152	149	220
Ialoveni	1544	1996	1606	441	668	508	543	581	596	346	293	281
Leova	627	567	553	262	247	263	282	291	301	145	166	143
Nisporeni	1784	1128	756	437	336	176	373	345	180	168	146	76
Ocnita	662	699	841	198	271	318	376	302	364	104	109	142
Orhei	3093	2873	2747	802	812	688	1213	1150	1063	519	541	454
Rezina	1236	1024	939	536	460	405	768	541	488	329	231	202
Rascani	850	868	1043	248	209	342	297	283	376	144	145	232
Sangerei	984	851	877	270	267	299	276	287	310	151	139	171
Soroca	2784	2463	2639	1246	1123	1370	1008	950	972	541	514	601
Straseni	2666	1942	1321	779	543	396	1120	756	600	498	295	240
Soldanesti	1065	1057	1292	254	281	400	362	219	146	106	59	89
Stefan Voda	1503	1814	1317	814	995	730	610	616	623	299	294	324
Taraclia	873	857	1024	472	515	548	462	449	474	201	226	223
Telenesti	1287	1604	1370	433	453	292	399	187	220	282	80	97
Ungheni	2866	2758	2704	1375	1272	1097	1083	1026	1018	651	571	530
ATU Gagausia	3685	2700	2841	2094	1586	1660	1437	993	1259	1011	615	899

Annex 28. Indicators of economic growth in local profile.

	Industrial output growth rate, previous year= 100%			2005 industrial output, 2002=100%	Net number of employed in the course of the year, % average number of employed		Fixed capital investment growth rate, previous year= 100%		Wage growth rate, previous year= 100%	
	2003	2004	2005		2003	2004	2004	2005	2004	2005
Total	115.9	108.3	106.3	133.4	-1.2	1.8	108.0	109.0	110.2	106.8
Mun. Chisinau	117.9	108.7	104.6	134.1	2.9	4.1	113.7	94.0	108.2	105.5
Mun. Balti	126.7	107.9	101.5	138.8	0.3	0.2	131.1	81.0	106.4	102.9
Anenii Noi	125.4	140.3	106.0	186.5	-4.0	-0.4	177.2	146.0	116.2	118.7
Basarabeasca	100.0	104.4	106.8	111.5	2.5	4.8	32.5	75.0	102.8	102.9
Briceni	169.9	54.2	124.1	114.3	-2.3	-2.5	155.6	145.0	116.8	111.3
Cahul	106.8	99.8	95.9	102.2	-5.0	-0.9	81.2	95.0	108.8	99.6
Cantemir	107.1	97.3	101.7	106.0	-2.8	-1.8	103.3	88.0	107.5	109.3
Calarasi	70.1	87.0	107.8	65.7	5.4	3.0	160.1	132.0	113.2	110.5
Causeni	139.1	80.3	110.9	123.9	-7.8	6.4	197.6	130.0	103.5	110.2
Cimisia	117.9	109.3	107.7	138.8	-3.9	1.1	195.1	131.0	113.5	104.9
Criuleni	157.1	89.3	88.2	123.7	-6.6	-1.1	188.7	93.0	121.2	104.7
Donduseni	101.8	94.0	111.3	106.5	3.9	-2.6	154.4	74.0	111.2	107.0
Drochia	73.2	136.1	109.4	109.0	2.1	5.4	56.1	124.0	111.6	113.7
Dubasari	204.6	82.9	144.5	245.1	-4.6	1.9	124.7	34.0	106.0	116.3
Edinet	108.1	108.2	135.0	157.9	-14.0	-2.3	103.3	68.0	105.6	107.7
Falesti	89.7	146.6	113.5	149.3	-4.5	-2.5	73.3	167.0	113.7	105.8
Floresti	77.2	76.0	98.9	58.0	-4.2	10.5	44.4	56.0	111.8	109.7
Glodeni	76.1	120.6	118.6	108.8	-6.7	-3.4	96.2	176.0	114.5	109.8
Hancesti	134.8	79.4	145.5	155.7	-10.7	5.7	139.7	68.0	107.9	104.3
Ialoveni	125.3	98.3	102.9	126.7	-3.2	0.1	145.7	87.0	112.4	109.0
Leova	65.9	93.1	82.8	50.8	-1.0	-2.6	490.7	36.0	115.9	103.7
Nisporeni	79.9	88.6	235.9	167.0	-6.8	-1.9	246.2	16.0	107.6	110.6
Ocnita	117.6	118.9	118.7	166.0	1.1	-10.0	82.0	101.0	110.4	108.3
Orhei	135.6	103.5	132.1	185.4	-5.9	2.1	72.9	78.0	108.6	109.5
Rezina	101.6	139.8	145.8	207.1	12.2	8.0	85.5	55.0	116.4	113.3
Rascani	83.3	110.6	131.0	120.7	-4.6	-8.9	102.6	70.0	110.8	108.2
Sangerei	79.1	137.4	159.2	173.0	-1.4	-5.4	114.0	97.0	110.7	107.0
Soroca	90.7	91.9	103.0	85.9	-3.1	0.5	66.1	153.0	109.0	109.8
Straseni	140.2	143.8	98.1	197.8	-0.6	0.9	87.4	77.0	111.2	107.4
Soldanesti	104.7	84.5	108.1	95.6	13.5	7.1	106.1	66.0	112.1	96.0
Stefan Voda	128.9	138.8	107.6	192.5	-11.6	-4.1	140.0	86.0	102.5	109.4
Taraclia	125.6	156.6	86.9	170.9	-12.6	-3.4	109.1	71.0	118.1	103.2
Telenesti	142.9	186.0	52.9	140.6	-0.6	-2.0	107.6	84.0	115.2	106.1
Ungheni	131.7	97.0	123.3	157.5	-1.2	0.0	66.5	116.0	111.8	110.5
ATU Gagausia	132.7	117.5	100.9	157.3	-5.7	2.6	84.7	77.0	115.1	107.3



Progress of Republic of Moldova towards Millennium Development Goals



National Human Development Report
2006

Goal 1. Eradicate extreme poverty and hunger.

National tasks	National indicators for monitoring the progress	Evolution of indicators						Source	Target		Progress	Monitoring capacity
		2000	2001	2002	2003	2004	2005		2006	2015		
Halve, between 1990 and 2015, the proportion of people whose income is less than 2.15 dollars a day	Proportion of population below \$2.15 per day (PPP-values)	45.0	32.3	21.0	11.5	11.4	n.a.	PPMU	28.0	18.0	Significant progress, but situation is fragile	Good capacities
	Poverty gap ratio [incidence x depth of poverty]	14.5	9.4	5.0	2.2	2.4	n.a.	EG	...	...	Significant progress, but situation is fragile	Good capacities
	Share of poorest quintile in national consumption	6.8	6.5	6.8	7.5	7.2	n.a.	PPMU	...	...	Significant progress, but situation is fragile	Good capacities
Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Prevalence of underweight children (under-five years of age). <i>The indicator is not calculated. The data refers to underweighted children below the age of 1 year (per 1000 children of this age).</i>	n.a.	n.a.	72.5	61.3	51.9	46.6	NBS	46.6	...	Progress, but in case of children under 5 years of age the situation is not known	Lack of progress
	Proportion of population below minimum level of dietary energy consumption (2282 Kcal/day)	52.2	38.0	26.2	15.0	14.7	n.a.	PPMU	...	...	Significant progress	Good capacities

Note: In this table and the tables below „n.a.” stands for lack of information for the corresponding year; „...” – no target is set for the respective year

Goal 2. Achieve universal access to secondary education.

National tasks	National indicators for monitoring the progress	Evolution of indicators						Source	Target		Progress	Monitoring capacity
		2000	2001	2002	2003	2004	2005		2006	2015		
Ensure that, by 2015, children will be able to complete gymnasium education	Net enrolment rate in gymnasium education	87.0	86.8	87.9	87.5	88.5	84.5	NBS	88.9	100	Progress by 2004, afterwards significant regress	Fair capacities
	Proportion of children who starting grade 1 graduate the gymnasium	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		...	...	Lack of information	Lack of information
	Rate of literacy of population aged 15-24 years	99.8	99.9	99.9	99.9	99.9	99.9	NBS	100	100	Lack of progress	Good capacities
	Net preschool enrolment (children aged 3-years)	38.5	42.4	54.0	58.7	63.7	67.2	NBS			Lack of information	Lack of information

Goal 3. Promote gender equality and empower women.

National tasks	National indicators for monitoring the progress	Evolution of indicators						Source	Target		Progress	Monitoring capacity
		2000	2001	2002	2003	2004	2005		2006	2015		
Advance women participation in social and political life	Share of women as members of Parliament	7.9	12.9	15.8	17.5	22.0	22.0	NBS	20.0	30	In progress	Good capacities
	Share of women as leaders and high officials in public administration, economic and social units	33.2	37.5	40.2	39.7	39.0	38.8	NBS	45.0	50	Regress since 2002	Fair capacities
	Women wage as proportion of the men wage in non-agricultural activities	70.0	70.0	70.0	66.9	66.8	68.5	NBS	...	...	Moderate regress	Fair capacities

Goal 4. Reduce child mortality.

National tasks	National indicators for monitoring the progress	Evolution of indicators						Source	Target		Progress	Monitoring capacity
		2000	2001	2002	2003	2004	2005		2006	2015		
Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	Under-five mortality rate	23.3	20.3	18.2	17.8	15.3	15.7	NBS	15.0	8.4	Significant progress	Good capacities
	Infant mortality rate	18.4	16.3	14.7	14.4	12.2	12.4	NBS	12.1	6.3	Significant progress	Good capacities
	Proportion of 2 year old children immunised against measles	98.6	99.4	99.1	n.a.	n.a.	n.a.	NBS	100	100	Progress, but information is lacking for 2003-2004	Fair capacities

Goal 5. Improve maternal health.

National tasks	National indicators for monitoring the progress	Evolution of indicators						Source	Target		Progress	Monitoring capacity
		2000	2001	2002	2003	2004	2005		2006	2015		
Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	Maternal mortality ratio	27.1	43.9	28.0	21.9	23.5	18.6	MHSP	23.0	13.3	In progress	Good capacities
	Proportion of births attended by skilled health personnel	98	99	99	99	n.a.	n.a.	MHSP	100	100	Lack of progress	Good capacities

Goal 6. Combat HIV/AIDS, malaria and other diseases.

National tasks	National indicators for monitoring the progress	Evolution of indicators						Source	Target		Progress	Monitoring capacity
		2000	2001	2002	2003	2004	2005		2006	2015		
Have halted by 2015, and begun to reverse, the spread of HIV/AIDS	Incidence of HIV/AIDS	4.1	5.5	4.7	4.8	6.2	13.3	MHSP	3.23	0.00	Very significant regress	Good capacities
	Incidence of HIV among population aged 15-24 years, including Trans-Dniester	12.2	11.9	10.0	11.3	15.8	23.7	MHSP	...	...	Very significant regress	Good capacities
	Contraceptive prevalence rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		...	...	Lack of information	Lack of information
Have halted by 2015, and begun to reverse, the spread of tuberculosis and malaria	Incidence and malaria-associated mortality rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		...	...	Lack of information	Lack of information
	Proportion of population in malaria risk areas using effective malaria prevention and treatment measures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		...	...	Lack of information	Lack of information
	New cases of active tuberculosis (per 100000 inhabitants)	69.9	93.2	101.3	111.2	119.1	130.5	MHSP	57.9	0.0	Very significant regress	Good capacities
	Tuberculosis-associated mortality rate (deaths per 100000 inhabitants)	16.9	15.5	17.3	16.9	16.8	18.9	MHSP	12.00	...	Very significant regress	Good capacities
	Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course)	n.a.	6.5	22.85	92.90	100	100	MHSP	...	...	Very significant progress	Good capacities

Goal 7. Ensure environmental sustainability.

National tasks	National indicators for monitoring the progress	Evolution of indicators						Source	Target		Progress	Monitoring capacity
		2000	2001	2002	2003	2004	2005		2006	2015		
Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	Proportion of land area covered by forest, %	10.5	10.5	11.4	12.4.	12.6	n.a.	NBS	11.0	13.2	Progress, intermediary target met	Good capacities
	Land area protected to maintain biological diversity	1.96	1.96	1.96	1.96	1.96	n.a.	NBS	2.1	2.4	Stagnation	Good capacities
	GDP per kg of conventional coal, Moldovan lei, current prices	6.05	7.69	8.35	9.77	10.5	n.a.	NBS	...	...	Moderate progress	Good capacities
	Carbon dioxide emissions from stationary and mobile sources (kg per inhabitant)	20.0	21.0	25.7	n.a.	29.1	n.a.	NBS	...	...	Regress	Fair capacities
Halve, by 2015, the proportion of people without sustainable access to safe drinking water	Proportion of population with sustainable access to an improved water source, %	37.8	38.1	38.5	39.7	44.5	n.a.	GRM. 2004	47.7	68.5	Moderate progress	Fair capacities
Halve, by 2015 the proportion of people without access to sanitation	Proportion of people with access to improved sanitation, %.	41.1	40.0	41.7	41.7	43.6	n.a.	GRM. 2004	56.0	90.0	Moderate progress	Fair capacities

Goal 8. Develop a Global Partnership for Development.

National tasks	National indicators for monitoring the progress	Evolution of indicators						Source	Target		Progress	Monitoring capacity
		2000	2001	2002	2003	2004	2005		2006	2015		
Develop further an open, rule-based, predictable, non-discriminatory trading and financial system by promoting exports and attracting investment	High value added exports, million USD	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Weak capacities
	Imports of machines and equipment, mil. USD	95.6	123.9	146.3	214.0	239.7	313.0	...	...	...	Progress	Good capacities
	Proportion of international trade based on free trade agreements, in total trade	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Fair capacities
	Share of trade deficit in GDP	-22.8	-21.3	-22.7	-31.5	-29.0	-40.8	NBS	...	...	Regress	Good capacities
	Proportion of foreign-owned enterprises in total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Fair capacities
	Stock of foreign direct investment, USD per capita	123	150	187	209	270	332	NBS	...	...	Progress	Good capacities
	Total sales by the starting up enterprises with foreign capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Weak capacities
	Proportion of Official Development Assistance to basic social services (basic education, primary health care, nutrition, safe water and sanitation)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Fair capacities
Overcome the problem of landlocked geographic situation by modernizing transport and customs infrastructure	Traffic capacity of international roads	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Lack of information
	Investment in transport sector, % of total investment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Lack of information
	Investment in development of naval and air transport, % of total investment in transport	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Lack of information
	Traffic capacity of the customs check points	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Lack of information
	Proportion of ODA for transport sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Lack of information
Restructuring and comprehensive solution of the foreign debt problem	Public external debt, % of GDP	67.1	55.6	51.2	41.5	29.3	23.7	MF	...	...	Significant progress	Good capacities
	Servicing the external public debt, % of budgetary revenues	31.3	34.7	25.1	18.0	21.4	12.8	EGPRSP	...	...	Significant progress	Good capacities
Develop and implement strategies for decent and productive work for youth.	Youth unemployment (aged 15-24)	15.8	16.3	15.2	18.1	19.7	18.7	NBS	...	...	Regress	Fair capacities
Provide access to essential drugs.	Proportion of population with access to affordable essential drugs on a sustainable basis, %	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	...	...	...	Lack of information	Lack of information
In co-operation with the private sector, make available the benefits of new technologies, especially information and communications	Fixed and mobile telephone lines, per 100 inhabitants	16.6/3.3	17.3/6.6	19.9/10.0	21.9/23.2	25.1/23.2	27.3/32.2	MID	...	...	Significant progress	Good capacities
	Personal computers per 100 inhabitants	1.5	n.a.	1.8	2.9	3.4	n.a.	MID	4.0	13.9	Significant progress	Good capacities
	Internet user per 100 inhabitants	1.2	n.a.	3.3	8.0	12.3	n.a.	MID	12.2	42.8	Significant progress	Good capacities

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