



## CHAPTER 4.

## INDIVIDUAL RESPONSIBILITY AND THE WIDENING OF HUMAN OPTIONS

### 4.1. Decentralization as a Premise for the Enhancement of Individual Responsibility

The social costs of reform during the transition period have turned out to be inadmissibly high, and apparently any possibility for their further increase at the expense of the population has been exhausted. At the same time, due to the economic crisis governmental resources for social needs have decreased considerably.

Under these circumstances, private enterprise and self-employment have become for the people in countries in transition a *new factor of economic security*, a means of “self-defence” people can apply in difficult times.

Under the new conditions, the status of humans as subjects of economic activity has changed drastically. Before, under an economic system in which all distribution was ordered centrally, people were “taken care of” by the state (employment, housing, prices, etc.). The transition to a civil society and a market economy is fraught with a widening of the choice range, liberalization of demand and supply, creation of a labour market.

A market economy and the development of a private sector create conditions for establishing a civil society. Along with the emergence of private sector and the development of medium- and small-sized business, the country is acquiring a *middle social class*—a new social basis for stability and further the development of reform.

The decentralization and emancipation of people’s lives have a number of sides to them: legal side, social one, economic, and political. In order to realize all of them, in the countries in transition, including Moldova, a legal basis is being created, an ownership reform is being conducted, variously structured enterprises are being established.

The social-psychological side also has an important role: personal freedom, human dignity, the feeling of being one’s own lord and housekeeper. It is of symbolic importance that J.M.Keynes, in his main work *General Theory of Employment, Interest and Money* called social psychology the main market mechanism.

Beginning in the early 1990s, work relationships in Moldova have changed dramatically. Thousands of people who used to work for state enterprises (150 thousand in 1998) lost their jobs and changed their occupations; a private sector appeared, people started moving from urban to rural areas, employment started to grow in other countries.

A new phenomenon settled in—*self-employment*. Very quickly, in the course of 5 to 7 years a new social layer of people sprang up in Moldova, comprising those who created their own work environment and new work places. Representative examples are: small production and service

*“Economic activities, through which individuals express their initiative and creativity, and which enhance the wealth of communities, are a fundamental basis for social progress.”*

Program of Action of  
the World Summit for  
Social Development  
Copenhagen, 1995

*“Necessity is the mother of invention.”*

Anonymous Latin

Table 4.1.1.

#### Structure of the Population’s Income, by Geographic Area

	1997			1998		
	Total	Urban	Rural	Total	Urban	Rural
Disposable income	100,0	100,0	100,0	100,0	100,0	100,0
From employment	36,4	57,8	19,8	34,7	56,9	16,8
<b>From non-salaried activity</b>	<b>39,8</b>	<b>12,6</b>	<b>60,8</b>	<b>42,6</b>	<b>12,2</b>	<b>67,3</b>
• agriculture production	35,3	5,6	58,2	39,1	6,5	65,4
• non-agriculture production	1,5	2,6	0,6	1,0	1,6	0,5
• trade	2,5	3,8	1,5	2,0	3,3	1,0
From property	0,4	0,6	0,3	0,4	0,9	0,2
<b>Benefits from social-security system</b>	<b>10,4</b>	<b>11,1</b>	<b>9,9</b>	<b>10,1</b>	<b>11,2</b>	<b>8,8</b>
• of which pensions	10,0	10,6	9,5	9,6	10,7	8,8
• of which unemployment benefits	0,0	0,0	0,0	0,1	0,1	0,0
Other current benefits	0,4	0,8	0,1	0,4	0,6	0,3
Other current transfers	12,6	17,1	9,1	11,8	18,2	6,6

Source: HBS, 1998

businesses, self-employment in the social sphere (medicine, education), security services, etc.; however, the most massively developed domain is private trade.

Results from opinion polls and surveys of household budgets have shown (see Box 4.1.1) that over 40%, as a whole in the country, and over 60%, for rural areas separately, of people's incomes come from self-employment, secondary employment, etc. In many cases these are unofficial, shadow-economy incomes. In 1998 wages received from employers, or indemnities received from the government (pensions, student stipends, etc.) constituted as a whole for Moldova about 40% of the population's income. The other part was made up of income from people's own businesses, occupation or profession.

Self-employment is the main reason for low indicators in registered unemployment. In 1998 the total number in the unemployed workforce (defined according to ILO criteria) was about 167 thousand people, while the number of officially registered unemployed was 28 thousand as of January 1, 1998, and 32 thousand people as of January 1, 1999, which is 2% of the economically active population.

Society in Moldova is become increasingly differentiated. There is a relentless

increase in the number of people who have access to a variety of occupations, in the economic sphere as well, which grants people a considerably wider free choice. The market orientation triggers in the economy two types of driving forces: (i) a personal interest on the part of the subject of the activity in the results of his work, and (ii) his desire to achieve a high mark on the income scale in circumstances in which people become increasingly differentiated by the level of their income.

"Newly rich" and "newly poor" appeared in the country. Moreover, while the rich social group is relatively homogeneous, the poor are divided into "weak" and "strong."

"The weak" are the people with few skills and who are unable to work (disabled, ill, elderly people; physically and psychologically unstable ones, as well as those in the active work force who are overloaded with work). In order to solve or alleviate poverty within this layer of society, the government would have to grant primarily direct help, make additional currency disbursements or distribute in-kind benefits.

The poverty of "the strong" obtained under the extreme circumstances of the crisis, when fully capable, and sometimes even outstanding workers, who would usually be able to earn an income sufficient for a decent living, found themselves trapped in a situation in which they failed to do so. The pauperization affected the engineering departments in enterprises; employees of research and engineering institutions; educational, healthcare and cultural institutions.

From a creative and intellectual point of view, this is the strongest layer of the Moldovan society. In a developed country this layer constitutes the core of the middle class. In the transitional circumstances of Moldova, it is this layer that spurs on self-employment and adaptation to the new conditions.

Nevertheless, this part of society also needs the attention of the government. A transition economy suddenly sets the risks that people face at a very high level, and

Table 4.1.2

**Changes in Distribution of Employed Population by Forms Ownership**

Indices	1995		1998	
	Thou pers.	in % of the total	Thou pers.	in % of the total
<b>Employed in economy-total</b>	<b>1673</b>	<b>100</b>	<b>1625</b>	<b>100</b>
Out of them:				
Public ownership	567	33,6	424	26
Private ownership	997	60	1069	66
Mixed ownership without foreign participation	102	6	114	7
Joint ownership with foreign participation	7	0,4	18	1

*Source: Republic of Moldova in figures, DSAS, Chişinău, 1999, p.47.*

they are linked to both the difficulty of taking rational decisions by virtue of the unique character of many problems, as well as to the fact that the economic productivity of society during transition decreases sharply, while the chaotic and destructive processes develop extremely actively. The continuing political instability and ethnic tensions deepen the feeling of uncertainty people have for the future.

The danger lies in the fact that the prevailing tendency of this layer of society, which is the most skilled one, is to solve short-term problems (“survival complex”), while governmental bodies, both at the central and local levels, have the “temporariness complex” (short-term behaviour), which is of course not suitable if one wants to achieve sustainable human development in this country.

However, decentralization—which is the most important instrument in the democratization of society and the economy—should not, by virtue of this fact alone, conflict with the regulatory function of the government at the national level.

Managing the labor market in an unstable economy is one of the most important functions of governments in countries in transition. It is necessary to set up programs for retraining the unemployed, training young people, professional counselling, and social work. It is such programs that will permit the preservation of human capital.

At the same time, it is necessary to support from a legal and organizational point of view the development of a small-business infrastructure—credit and financing, service, information, consulting and other bodies comprising professionals from various areas. All this activity carried out by the government will encourage private enterprise, widen the range of occupations, and cushion the negative consequences of the transition period.

## 4.2. Private Initiative, Entrepreneurship: Forms, Dynamics, and Social Implications

In countries in the process of transition entrepreneurship is a new driving force both for the national economy and for the population. It is small business enterprise that accounts for the major portion of new jobs, household income, state and local budgets.

Enterprise activity is an independent activity, undertaken at one’s own risk and aimed at making sustainable profit on the use and sale of goods, works performed or services rendered. Under the legislation of Moldova, the enterprise activity can take different forms: individual proprietorship, patent-based entrepreneurship activity, collective enterprises, joint stock companies, joint ventures.

In the social and economic development of Moldova, the new phenomenon of enterprise activity has existed for 10 years. It has become firmly established after setting up a large number of small businesses, both at one’s own initiative, and based on the reorganization of large enterprises. The layer of private owners represented by small entrepreneurs is the greatest in number and forms the core of the average class of private owners providing a basis for social and political stability of the country.

As of January 1, 1999, there were 193.9 thousand economic entities registered, including 145.4 thousand enterprises with the status of physical person (75%), of which 90 thousand (46.5%) were farming enterprises and 55 thousand (28.4%) were companies owned by a sole proprietor.

*“The one who’s not applying new remedies, should expect new problems.”*

**Francis Bacon**

### Box 4.1.1.

“Social progress will not be realized simply through the free interaction of market forces. Public policies are necessary to correct market failures, to complement

market mechanisms, to maintain social stability and to create a national and international economic environment that promotes sustainable growth.”

*Source: Program of Action of the World Summit for Social Development, Copenhagen, 1995*

The record of enterprise incorporation gives an indication of the entrepreneurship potential in Moldova. In 1998, the total number of incorporated businesses increased by 20.4 thousand, or by 12%. This growth was mainly accounted for by small and micro-sole proprietorships, including farming enterprises. Small enterprises, which file the information with the Statistical and Economic Analysis Department, make up 83% of all enterprises. They account for about 30% of the country sale turnover, and employ 12% of the labour force.

While relying somewhat on centralized sources of funding, small business (SB) is *the sector of survival* which involves in the process of reforms people who lost their jobs, retired militaries, young and old families, being a sector of self establishment and the single one which helps social lay-

ers (marginal, under transformation) become more wealthy.

Small and medium entrepreneurs are increasingly less reliant on the state and extending the scope of their activity reduces to some extent the problem of unemployment.

It is widely accepted that in the process of implementing economic reform in Moldova, the development of a strong and dynamic private sector of small and micro-enterprises is a priority, which derives from the flexibility and adjustability of this segment of enterprises to a rapidly changing economic and social environment.

During the economic transition, the most important function of the small business is to help the largest layers of the population survive, through self-employment, under circumstances of acute economic crisis, offering a chance to earn additional living money.

Rapid growth in the number of small enterprises occurred simultaneously with the beginning of mass privatization in 1993, being an indication of a rapid development of trade and mediation business. Liberalization of foreign trade and legalization of private trade within the country have favoured the development of commercial activity. The recent years have marked the start of a qualitatively new stage in the dynamics and structure of entrepreneurship, coupled with a reduction in the number of enterprises. The disruption of the excessive growth in the number of small enterprises was mainly caused by the sharp reduction of highly profitable areas, by their failure in competition, the lack of management, marketing and accounting expertise.

In setting up a new business as well as in carrying out business activities, the entrepreneurs encounter various problems. These are mainly of structural, technical, administrative and financial nature. The extent of financial support and lending to entrepreneurs is extremely low. The

Table 4.2.1.

**Economic Entities Incorporated in the Republic of Moldova, by Legal and Organizational Structure, 1998**

Legal and Organisational Structure	As of 1.01.1998, Units	As of 1.01.1999 Units	% 1998 in Relation to 1997
Total	173020	193882	112,7
Din care:			
I. Having status of physical person	128511	145435	113
Out of which:			
Individual enterprises	48878	55081	113
Farming households	79443	90148	113
II. Having status of legal entity	34997	38167	109
Out of which:			
Joint stock companies	6510	6569	101
Ltd.	22943	25790	112
State enterprises	1615	1590	98
Municipal enterprises	112	145	129
III. Non-commercial enterprises and organisations	9512	10280	108

Source: DSAS

main reasons for the lack of access to the sources of funding are: high interest rate, the banks' reluctance to extend long-term loans, inadequate security, imperfection of the mortgage mechanism, insufficient number of qualified staff, the low quality of business plans, the lack of market conditions analysis, low project efficiency, etc.

A problem of highest importance in encouraging entrepreneurial activity is the strengthening and intensifying of the competition within the banking sector as a main source of funding. The development of such new funding instruments as the system of credit guarantees and credit lines requires a well-developed banking sector.

There is an increasing need to commit all the efforts to funding entrepreneurship at the local level. The lack of funding makes itself felt even more in rural areas, since most of bank branches cover cash needs at a local level rather than being empowered to make loans. To make access to credits easier, there is a need for local finance projects, for example, by securing loans. These, as well, may help local banks change their perception of entrepreneurs and adjust the potential so as to meet appropriate needs. The policy in this area must be consistent with the local factors and reflect the circumstances of entrepreneurial activity.

The difficulties in accessing external sources of funding caused most of the entrepreneurs to conduct their activity in areas that require low capital investments, trade and provision of services prevailing. Normally, the entrepreneurship activity is mainly concentrated in trade and the provision of services, and it is, to a lesser degree, in production and implementation of advanced technologies.

In Moldova an attempt was made to provide financial support to entrepreneurs in rural areas (mainly farmers) on the basis of self-finance. There is a Law on Savings and Credit Associations, no.1505-XIII adopted on 18.02.1998, whereby as-

Table 4.2.2.

**Number of Small Business Enterprises**

Years	Small Business Enterprises of Which			Other Enterprises
	Total	Inclusiv Small	Micro-enterprises	
1994	8534	7549	985	6054
1995	14834	12729	2105	2256
1996	16205	14254	1951	3124
1997	15621	13595	2026	2050

*Source: DSAS*

sociations are being set up to operate, the members of which provide each other with financial support. The World Bank has encouraged the setting up and consolidation of such associations by opening special credit lines through the Rural Finance Corporation.

In 1998 there were 54 savings and credit associations of citizens operating to ensure access of the new entrepreneurs, mainly, farmers, to funding sources. A considerable assistance in creating lending sources for these associations has been provided by the World Bank, which allocated for this purpose 5 mil USD. Local commercial banks such as Moldova-

Tabelul 4.2.3.

**Lending to Farmers through Savings and Credit Associations, 1998**

Name of financial and credit institution	Number of savings and credit associations	Credits Extended		% of the Total
		Thousand lei	Thousand USD	
Total	54	5449,81	1159,53	100,0
Of which:				
Rural Finance Corporation	29	2764,46	588,18	50,7
Moldova-Agroindbank	7	1820,90	387,43	33,4
Fincombank	18	864,45	183,93	15,9

*Source: MER*

Agroindbank and Fincombank have become involved in lending to these associations. In 1998, savings and credit associations of citizens extended concessionaire loans to farmers totalling 5449.5 thousand lei. It has been estimated that already in the first half of 1999 the number of such association will reach 150, hence, the amounts lent will increase accordingly.

The Rural Finance Corporation extends credits to associations funded by the World Bank, which opened a credit line of 3.7 million SDRs, while commercial banks — Moldova-Agroindbank and Fincombank — lend to associations on their own account.

Savings and credit associations, in their turn, extend credits to their members. In 1998 about 3200 farmers received credits from associations. Even though currently credits are extended by savings and credit associations mainly out of borrowed funds, they are much cheaper than those extended by commercial banks.

An important event in the development of entrepreneurial activity was the adoption of Law on Entrepreneurship Patent, no.93-XIV dated 15.07.1998. This Law provides for entrepreneurial activity carried out by individual entrepreneurs without being registered by the state, and also subject to simplified taxation.

By the end of 1999 there will have been 1288 patents issued, 1376 applications for a patent being under consideration. About 98% of all patents obtained and applied for are accounted for by the retail trading and public catering.

Although the existing environment does not favour the development of entrepreneurship, the small business is gradually extending the scope of its activity and exhibits an advanced economic efficiency in relation to large enterprises. The number of employees engaged in the small business area and paid relatively high salaries is increasing, so does the amount of goods sold, works performed and servic-

Table 4.2.4.

**The Issuance of Entrepreneur Patents as of the Beginning of 1999**

Types of Activity	Patents Issued, total	Budget Cash Receipts, thousand lei	Applications Filed for Consideration
Total patents issued	1288	256,4	1376
Including for such types of activity as			
Retail trading and public catering	1250	233,5	1335
Services	20	17,3	23
Other types	18	6,6	18

Source: MER

Table 4.2.5.

**The Performance of Small Business Entities and Other Enterprises Estimated per 1 Employee**

Years	Labour remuneration costs, lei		Total amount, thousand lei		Net profit booked (+), losses (-), lei	
	SB entities	Others	SB entities	Others	SB entities	Others
1995	1393	1309	27,8	10,1	x	x
1996	1948	1451	42,9	11,9	+1040	+31
1997	2422	1323	61,0	11,4	+1125	-95

Source: MER

es rendered. Small business enterprises as a whole are profitable, while the operating enterprises are characterized by a low labour productivity and inadequate performance.

Unfortunately, the above data were estimated based on annual statistical reports on the evolution of small enterprises in the Republic of Moldova covering only enterprises with a status of legal entity which keep accounting books, prepare balance sheets for submission to statistical authorities. For the time being, statistical agencies do not monitor, collect and submit the performance figures for the entire multitude of enterprising individuals (about 170 thousand of economic agents), as well as for the patent holders. Allowing for the entrepreneurial activity not covered in statistical reports, the share of the small business in the national economy is, in fact, much higher, compared to what this analysis shows.

Yet, the analysis of available information helps conclude that, still in the country, the evolution of small business shows a positive trend.

During the recent years the nature of services offered for doing business significantly changed. The existing and potential entrepreneurs, heads of small enterprises are offered a wide range of service in order to facilitate the setting up, extension or improvement of activity.

It should be mentioned, however, that entrepreneurs do not have an adequate access to important sources of information and production (primarily, to sources of funding and technologies). It is due to the small size of business entities, their relative isolation and limited manufacturing experience. The system of services offered to entrepreneurs is inadequately developed. An investigation of the status of entrepreneurship in the Republic of Moldova supports the need to encourage the offering of various services to train entrepreneurs. As a whole, 78% of the entrepreneurs questioned stated that there is a need to train entrepreneurs; over 50%

#### Box 4.2.1

##### The Major Problems Currently Encountered by Entrepreneurs Are:

- High taxation level
- Difficult access to an external market, export, the state does not encourage export at all, particularly, by small entrepreneurs;
- Reduction of domestic market, in particular, a considerable decrease of the market for local products, resulting from a tough competition among foreign producers and inadequate protection of domestic market;
- High rent, difficulty in getting premises for operation; as well in accessing existing brand-new equipment
- Effects of a recurrent increase in prices
- Major difficulties in own funds management due to frequent changes in the regulations on taxes, duties, credits, foreign currency and in their application;
- Lack of guarantee funds for small entrepreneurs which makes it difficult for them to obtain credits from commercial banks;
- Inadequate transparency in terms of the use of financial resources provided by the state through the Enterprise Support and Small Business Development Fund;
- Excessive and expensive bureaucracy, associated corruption
- Lack of managerial experience and economic standards inherent in a market economy.

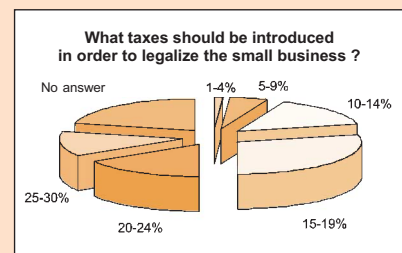
Source: CISR

#### Box 4.2.2

##### What Taxes Should Small Business Be Subjected To?

According to an opinion pool report carried out as part of the TACIS project, the heads of small enterprises were asked what were the main weaknesses in the taxation system of small business. The priorities were spread as follows:

- The instability of the tax system - 73% of the respondents
- High taxes - 70%; Too complex a taxation system - 50%
- Limited access to legislative documents -36%



It is important to note the fact that legislative instability is viewed as a factor that is even more important than high taxes.

To the question, "What is the maximum tax burden which should be imposed for an enterprise to be able to fully legalize its activity and pay all taxes?" respondents chose a tax burden of less than 30% in 79% of the answers.

Source: CSP

**“Industrial society was men’s creation while the new informational and humanitarian will be mainly women’s.”**

**J. Waibit,  
P. Aburdene**

of them stressed the need to have new ideas and knowledge about the access to new technologies and their practical use; 46% of entrepreneurs showed their willingness to study marketing. There is a great deficit of qualified entrepreneurs and business managers; as well as of institutions which would ensure their access to production and information sources.

On the verge of the 21<sup>st</sup> century a jump in the development of entrepreneurial activity will inevitably occur. It will not only have such micro-effects as expansion, modernization and increase in productivity and in the consumption of goods and services, but also raise people’s wealth, increase the number of jobs offered, and create enterprise standards.

### **4.3. Women Under New Social Conditions: First Experience in Entrepreneurship**

In the early ’90s the level of women’s activity in Moldova was nearly at the level of labour activity of men, and was high-

er when compared with the developed countries of the world. In the transitional economy women have fully suffered all the negative aspects of the crisis. Women occupy a considerable numerical share of the employed, 52%, as well as in the number of officially registered unemployed, 68%. It seems paradoxical, but since the advent of democracy there has been a reduction in women’s participation in governmental bodies, including the Parliament: down from 35% in 1995 to 9% in 1998.

Not long ago business activity belonged to men. During the last decade, however, women, distinct personalities with energy and a spirit of initiative, have more and more become active as business people. Despite low levels of participation in business and among managers of enterprises — 5%, the number is steadily increasing. Approximately 2% of women managers run big enterprises, 10% are in mid-sized enterprises, 40% in small enterprises and the other 48% are in micro-enterprises.

The rise of women’s participation in business represents a specific alternative to unpaid family work and unemployment, and is at the same time an efficient utilization of labour resources.

In Moldova the category of women-managers consists largely of women from the old system of administration. However, at the same time there is a new generation of women in business activity and some are successful in their own businesses. Some skills and characteristics often associated with women, socially interactive skills and attentiveness to the interests and needs of others, combined with skills of judgment and styles of decision making, may be used to good advantage by business women.

Despite the difference in areas of business activity among men and women, both face the same difficulties in operating businesses: insufficient financial resources, high taxes and a great number of them, difficulty in obtaining credit, and

#### **Box 4.2.3**

In an effort to provide support to small business in the Republic of Moldova there has been set up a series of centers such as Small Business Centre of Moldova, Small Business Support and ProBizNet Environment Centre, Moldovan-American Centre for Private Initiative with a wide network of branches throughout the Republic of Moldova,. These centers offer advisory, training and informational services in order to meet the market demands in the process of transition.

*Advisory services include:* business-plan development, feasibility study of investment projects, the restructuring of enterprises, preparation of documents in applying for a credit, market research.

*Training services include:* seminars for managers, entrepreneurs, work with computer, setting up of database on small business and creation of a video library.

*Informational assistance:* locating addresses, companies, potential investors, Internet services (marketing, promotion, e-mail), know-how, information of the legal framework in Moldova and trade partners, mediation activities, commercial transactions.

*Other services* — the development of contracts, agreements, legal documents, and the legal backing of investment projects.

*Source: CISR*

problems of both personal security and property protection.

There are some psychological obstacles faced by women in business. As 20 years ago there were prejudices toward female drivers, today women in business are exposed to similar prejudice and required to prove that they are as capable as men.

Women were more disadvantaged in the small business sector from the beginning of opportunities there. Men gained more as a result of the program of privatization by bonds due to the length of service factor. Women have fewer savings. The number of bank accounts held by women is 2 times less than of men. Women make up only 20% of entrepreneurs who have received a credit. Even at present the number of women in the total number of entrepreneurs is less than 10%.

With the same level of training as men, women compose three-quarters of the unpaid labour force and, when paid, are paid at 70-80% of men's salary levels. Among negative aspects of hiring is the unequal position accorded men and women from a professional and qualifications point of view: an average evaluation of women is 1.5 to 2 categories lower than that of men; the number of women found among workers in categories 1 and 2 is 60-70% of those workers, but among those in categories 5 and 6 women register 10-15% of those workers.

Approximately three-quarters of workers who don't have a professional category are women. In agriculture, the percentage of women with a category is 3 times lower than that of men. As a result, women's salaries are an average 70-80% of men's salaries.

An additional obstacle faced by women is that of the "double occupation": the performance of maternal obligations and involvement in children's education while coping with the unfixed working hours required to manage one's own business, and deal with business risk as well. Thus, professional difficulties tend to

**Box 4.3.1**

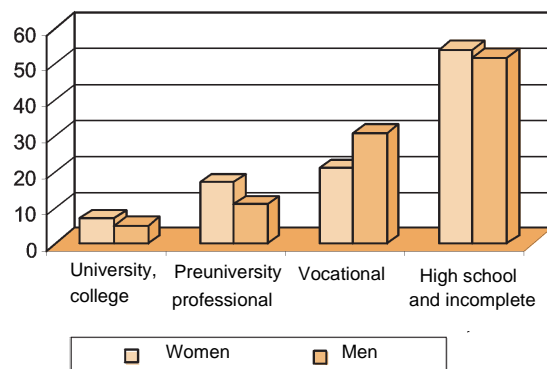
According to data provided at the conference "Small Business — A Way to Progress" (May, 1999) organized by the Parliament of the Republic of Moldova, one in five firms run by men survives, but three of five run by women continue to operate after establishment. It is very interesting as well that firms in which the second person involved is a woman are also more likely to survive, in comparison with others. This phenomenon was explained by an inborn intuitive capability, knowledge of the domestic market, risk aversiveness, productive managerial styles, and a higher level of education (38% of women at the age of 20-40 years have higher education or special studies as opposed to 30% of men of the same age). On the average, Moldovan women invest approximately 4 times more time perfecting a level of proficiency.

*Source: DSAS*

overload women at work and at home and complicate women's involvement in professional and business activity. The

**Fig. 4.3.1**

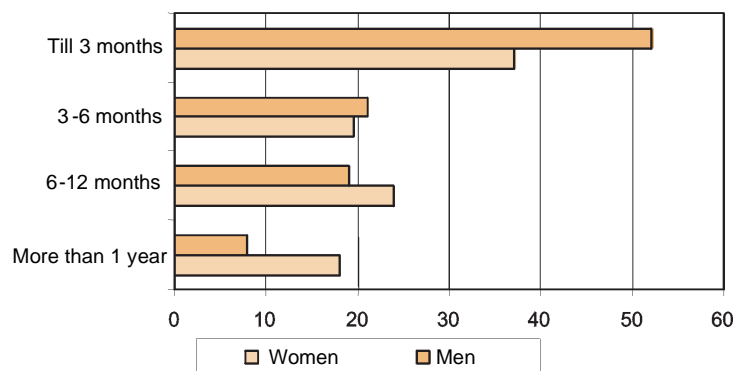
**Education level of unemployed (% of total)**



*Source: DSAS of the Republic of Moldova*

**Fig. 4.3.2**

**Structure of unemployment by duration (%)**



*Source: DSAS of the Republic of Moldova*

Table 4.3.1.

**Monthly Incomes of Women and Men Related To Educational Level (lei)**

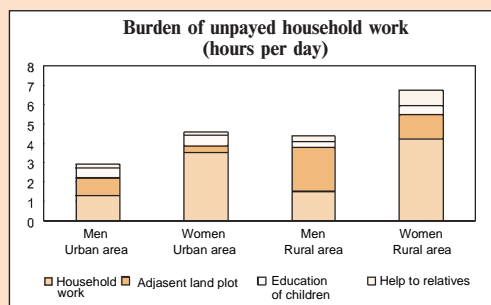
	Women	Men
Higher Education	327,43	374,59
Uncompleted Higher Education	276,23	287,9
Secondary Specialty	221,62	291,64
Secondary	171,67	232,89

Source: HBS, 1998

Caseta 4.3.2

**Unpaid Work**

A survey on time usage conducted by the Department of Statistics and Sociological Analysis shows that the burden of unpaid labor in housekeeping chores falls considerably differently between men and women.



Women spend daily 12 minutes less on paid work, while for unpaid work the home women spend 1.64 times more time than men in urban areas (4 hours 26 minutes) and 1.44 times in rural areas (5 hours 55 minutes). The members of rural households have less free time as compared with those of urban households. The men have at their disposal 170 minutes per day; women have 111 minutes. Women engaged in rural housekeeping have at their disposal 28% less time than engaged in urban housekeeping and 34.8% less time than men involved in rural housekeeping.

Source: DSAS

Box 4.3.3

**Who is the Head of the Family?**

Why do women work? As a matter of fact, a man is traditionally recognized as head of the family. The causes are different: men contribute more monetary income to the family, they are more relied in case of stress, including a rapid reduction in family income. There are also national prejudices, a fear of recognizing a wife as head of the family. The situation is different in the case of incomplete families. The burden of social, alimentary, financial, and educational support falls on one parent.

	Head of the family by gender	
	Men (%)	Women (%)
Single	21.3	78.7
Families without children	89.6	10.4
Families having children 18 years old or less	88.1	11.9
Single parent having children	6.4	93.6
Other members of families with children	66.5	33.5
Other families without children	56.9	43.1

The 1998 survey shows that for one single man who brings up children alone, there are nearly 15 women in the same situation.

Source: HBS

family situation and the necessity of combining roles has a considerable influence upon the professional status of women, and limits choices of activities, complicates promotion, and can create difficulties in work.

Approximately one-third of women respondents complained of great nervous efforts, 14% of women-workers and 19% of women-employees mentioned the tiredness caused by housekeeping and the care of sick children.

In the transitional economy, a woman is in many cases the support and the head of the family (see box 4.3.3). It's important to recognize the necessity women face in combining diverse social roles, not only as a participant in the process of work and social life, but also as a housekeeper and mother. Women choose diverse variants of combinations of these roles, although the majority considers these roles equally important. The concrete choice depends on personal traits, preferences, tastes, and life circumstances, but the possibility of such a choice on the whole depends upon the economic and moral encouragement which provided by the state and society.

To help address some of the foregoing problems, in 1998 the Republican Social Movement "Women in Business", an NGO was founded. Among the principal goals of the Movement are the realization and protection of civil, economic, the social rights and legal freedoms of women, and assistance in realizing entrepreneurial activities by women.

The platform of actions adopted in Beijing in 1995 assumes the necessity of concrete measures and the development and adoption of measures at the national level, to help radically change the situation and effect the observance of women's rights not only in word but in fact. Not only a tolerant attitude to opposite sex, but also mutual aid is necessary to reconfigure roles that sustain self-respect. Thus male managers should support their female collaborators as they try to revise

situations, which are themselves discriminating to both.

In January 1998 The Government of the Republic of Moldova an action plan concerned with the improvement of women's situation and increasing women's role in society. The plan proposes a number of concrete measures for the current situation. However, without the investment of the necessary resources for the realization of this program remains only a good intention.

A strategy of the social and economic development can't be realized without the creation of a viable system of social protection for women. To accomplish this, it is necessary to:

- improve the statistical base so that it reflects paid and unpaid labour; health and education by gender and by age; women's participation in administrative bodies at all levels;
- modify the organisation of work, taking into consideration diverse functions performed by women, the realization of programs of education and training, the assurance of women's participation in reforming the social system;
- undertake a complex investigation of gender issues by field of endeavor (sociologists, economists, lawyers, demographic specialists, doctors in medicine).

The problems of the human development which characterize the period of transition can be resolved in a more constructive manner with women's participation as active partners, ensuring social fairness to persons of both genders. Taking into consideration the fact that if women's working capability is regulated by market laws (supply, demand, competition), then the family activity (motherhood and children's education) is the function of both the family and society. This assumes the support and improvement of the state system for maternity and childhood protection.

#### 4.4. The Impact of the Shadow Economy

Human security is a wide concept, which also involves the economic, public, political and ecological security of individuals and of the society as a whole. At the end of the second millennium, phenomena inherent both in countries under transition and in developed ones — an informal economy, the emergence of a large-scale underground economy and corruption — undermine human security and hamper human development.

There are many factors which serve as an indication of *the existence of such phenomena* in the Republic of Moldova and of their social consequences:

- A reduction in the purchasing power of the average salary and a manifold increase in the number of luxury goods and motor cars purchased, an increase in the amount of individual construction;
- A higher pace of GDP reduction than that of electricity consumption. An increase in the proportion of electricity losses in the total consumption from 10% in 1999 to over 30% in 1997 and a rapid rise in prices for energy resources did not cause a diminution in the energy intensity of GDP (on the contrary, over the last three years alone this index increased by 21%) may serve as an indication of an extensive occurrence of embezzlement and informal production;
- A decrease in the proportion of salary in the total household income from 71.6% in 1992 to 34.7% in 1998;
- Significant differences with regard to the information on export and import operations with major partners. An analysis conducted by matching Moldovan and Ukrainian information on Moldova's exports to Ukraine showed that the Ukrainian statistical reports indicate almost a double figure, which cannot be only accounted for by the portion of Transnistria's

*“Nothing is more dangerous for the conscience of the community than the sight of corruption, rewarded nullity, and lack of merit being put in value.”*

Mihai Eminescu

exports. The case for the information on export-import operations with Russia is similar.

- The interest rate on credits (30%-40%) significantly exceeds the average profitability in the official economy (less than 10%); this partially indicates that the actual income in some industries is higher;
- An increase in the level of unemployment and a decreased chance of obtaining a job in the official economy without significant protest by the population ( an officially recorded unemployed person's chances of getting a job decreased from 0.7 in 1992 to 0.18 in 1998);
- A distinctly low percentage of legal trade activities in relation to the total. Actually, the trade in the organized market makes up only 5-10% of the total. This can be arrived at by calculating the goods sold per capita. It is difficult to conceive that, according to statistical records, 2.5 kg of

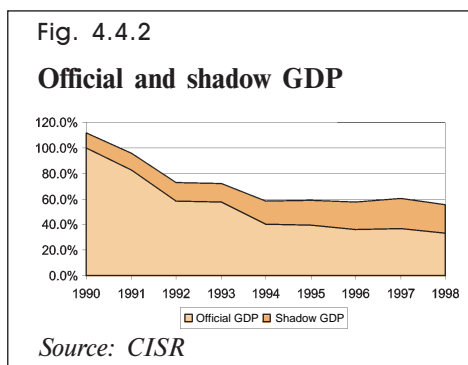
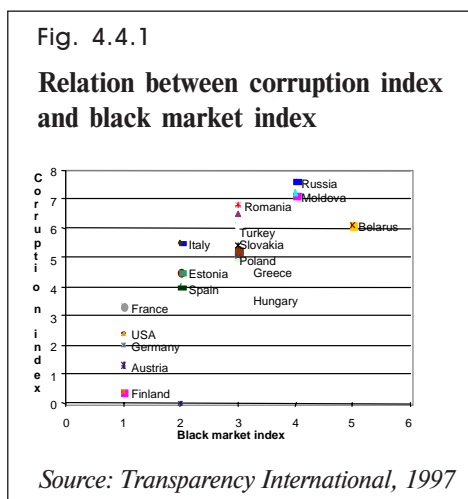
meat, 600g of fish, 200 g of butter per capita is sold within one year;

- A low level of fiscal discipline, the amplification of tax avoidance and a decrease of budget receipts. The actual tax burden in the real sector of economy between 1992 and 1997 has been calculated based on financial reports filed with the DSSA by the enterprises. The calculations show that within this period of time the official tax burden increased from 34.5% in 1992 to 44.9% in 1997 (in industry 50%, agriculture 40%, construction 38%). In the Republic of Moldova the extent of tax avoidance grew from 4% of consolidated budget income in 1994 to 32% in 1998.

The findings of a number of comparative investigations of shadow economy and economic performance indicators in various countries (by the Heritage Foundation, Transparency International, Freedom House Rankings) demonstrate a quantitative relation between the degree of corruption in the country, the amount of shadow transactions, and level of wealth.

A high degree of corruption in countries under transition favours black market development. The index of the black market in Moldova, as well as in Bulgaria, Ukraine, Lithuania and Russia has reached 4, the maximum being 5. The calculations also show a close indirect relation between the degree of corruption and the GDP level per capita. There is a distinct correlation persisting between the index of corruption and that of reforms' performance in the countries under transition, the basic elements of which being the progress made in politics, the degree of mass media independence, legal system viability, the level of public administration and private sector development. The chart clearly shows a close relationship between the corruption and black market indicators.

An assessment of shadow economy proportions in the Republic of Moldova



was made by the Strategic Studies and Reforms Centre by using six methods: *transactions method, currency-ratio, analysis of working capital, power consumption, structural and Italian methods (by analysing labour market)*. The application of these methods showed that the proportion of shadow economy to the official one varies with each method from 60% to 65%.

Such a rapid expansion of shadow sector is due to two reasons: increase in the amount of shadow transactions and the recession of formal economy (in 1998 the real GDP was only 33% of the 1990's record). Some investigations of this occurrence argue that the evolution of the shadow economy is of a non-cyclical nature and occurs as the official economy falls into decline, just as an automatic stabilizer.

The shadow economy as well as corruption may have a severe impact on human development by impairing the economic, political and ecological security of the society.

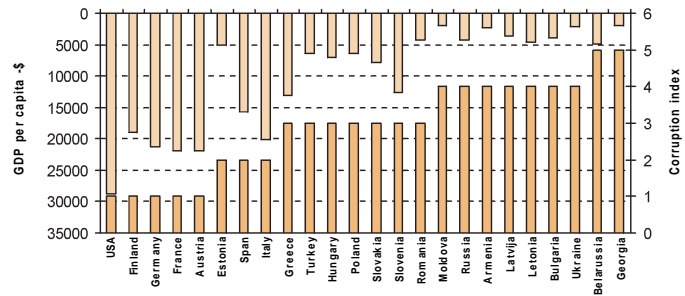
**Social implications**

The shadow economy *creates work places, which reduce the unemployment level*. The significant gap between the official record of unemployment rate (about 2% according to Statistical and Psychological Analysis Department, and 9.4% based on the criteria established by International Labour Bureau) and the fact that more than one third of the able population is officially treated as inactive, without clearly stating any source of their living, suggest that a considerable portion of population is involved in informal economic activities. The calculations performed by the Strategic Studies and Reforms Center show that about 47% of the labour force is involved in such economic activities.

The shadow economy *generates additional income* for the participants and members of their families, and sometimes

Fig. 4.4.3

**GDP per capita (PPP) and corruption index**



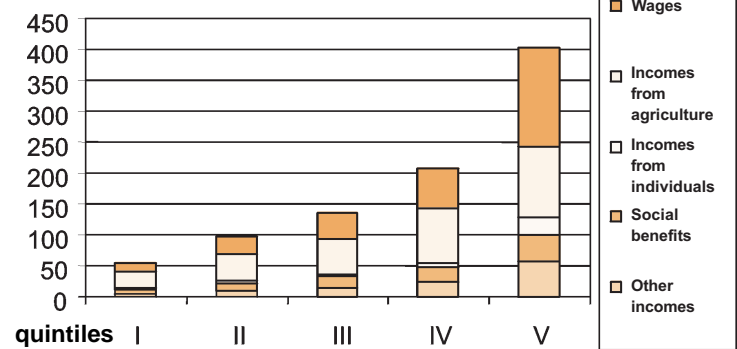
Source: Transparency International, 1997

it is the only source of their living. A sector's existence in parallel with the formal economy, in fact, generates 60% of additional income. This income is, however, *unequally distributed* among the population and the gap between the rich and poor is actually greater than that stated in the official record. Hence, the consumption of meat in families officially stated as having the same level of income is on average 60% higher for those employed with the private agricultural sector than it is for those engaged in the public sector.

The vulnerable layers of society are the most severely affected by *social inequality*, resulting from protectionism. With no political influence, the vulnerable layers of the population are often subject to an increased social pressure. Thus, according to the reports on a Household Budgets Survey carried out by the De-

Fig. 4.4.4

**Disposable incomes by quintiles of expenditures (lei per capita)**



Source: DSAS

partment of Statistical and Sociological Analysis with the financial assistance of the World Bank, in 1997 the amount of social benefits received by each member of the families having a highest level of income (level V by the available income) is about five times higher than those received by families with a minimal level of income (level I). An inequitable social system makes its appearance where layers of population earning a higher income enjoy most of the social benefits.

*The population involved in the underground sector of the economy is not entitled to social assistance and protection from the state:* the requirements with regard to working conditions, working time and minimal labour remuneration are not met. There is an abuse of the work performed by minors and women, the system of sick leaves on a temporal work inability is not in operation, the system of professional vacations is ignored, so is the pension system, etc. A special case is the illegal employment of Moldovan citizens in other countries. There are not any agreements between the Republic of Moldova and other countries on the export of labour force. Therefore, there are many cases where upon the completion of work, the individuals illegally employed abroad are paid less than initially agreed, or are not paid at all and expelled from the country, or they become slaves of some local criminal organizations.

The presence of a large underground sector gives *rise to an excessive tax burden*. The state budget is reliant for its income on official economic activity. However, most of budget expenses also serve the interests of those people who are not paying taxes (enjoy benefits in paying energy bills, public services, etc.). Therefore, while the average tax burden for the economy is about 30%, the actual tax burden on some economic entities operating within the formal economy is obviously higher (40-60%).

The shadow economy and corruption *impedes human development of the nation:*

an increased level of tax avoidance reduces budget receipts, which in turn, causes the failure of social, pension, education, health, environment policies. A weak legal framework erodes moral principles of the society. According to an opinion poll conducted as part of the “Development Strategy” project, about 52% of the respondents believe that it is impossible to conduct a business activity in the country without breaking the law. There occurs the situation where breaking the law has become a standard behaviour.

Another effect of shadow economy lies in its *adverse impact on consumers by providing them with low quality goods and services*. The findings of a production quality inspection on a network of trade outlets conducted by the National Standards, Measurement and Certification Centre, show that contraventions range from about 40% of the total food products to 70% of goods for children. In imported goods, contraventions make up 79%.

In many cases a parallel economy functions in direct connection with the criminal world thereby *threatening the personal security of the population*.

### **Economic implications**

The economic impact of shadow economy and corruption shows up in a number of ways. First of all, the *transaction costs are increasing*, particularly in carrying out small business activities and decreasing the competitiveness of the products and services. According to estimates, the amount of additional payments to be made for licenses, for so-called “protection”, and for an expeditious settlement of formalities by state officials reaches 40% of the profit.

The economic instability triggered by the expansion of the underground sector, by rackets, corruption and bureaucracy in preparing business documents, and the Government’s inability to ensure producers’ security *discourage investors and innovative ideas*.

The phenomenon of corruption, actions taken in favour of some individual persons, evasion of tender and competitive procedures causes an increase in the cost and a *drop in the quality of public projects*.

*The economy is continuously sliding into an underground sector.* Corruption and the shadow economy are self-generating phenomena. Thus, if the officers employed with inspection agencies of the Republic of Moldova were not paid for 4 or 5 months, then for them a bribe would become the only and permanent source of income. It is rising in vicious spirals: corruption — economic decline — shortage of budget resources — wage arrears to state officers — expansion of corruption.

*Inequity, unfair competition* by using state institutions in exercising pressure, falsifying the information on competitors, technological and industrial spying, racketeering, entering into monopolistic agreements, etc.

*Diverting of funds* has a greater occurrence, which reduces economic efficiency.

*Macro-economic instability and the country's vulnerability to financial crisis.* The annual macro-business turnover in Moldova is estimated at 200-250 million USD, which is 3.5 —4 times higher than the amount of foreign direct investments in Moldova made within one year, and of the amount of foreign currency reserves with the National Bank of Moldova. The drug traffic is an area controlled by several persons. Therefore, any capital outflow or inflow triggered by this sector alone could, in fact, impair the stability of the financial system.

### **The impact on the political security of the state**

Corruption *favours the emergence of an economic and political clan*, which imposes its wishes on the society without taking into consideration the demands of society, causing an enormous growth in state debts. Moldova, while having high debts

#### **Box 4.4.1**

There are four drug traffic routes within Moldova. The monthly traffic of heroine alone is estimated at 150-200 kg (for information: the wholesale price for one kg of heroine is \$1500 in Pakistan, \$10 thousand in Turkey, \$40 thousand in England, the retail price reaching \$120 thousand per kilo). Over the last five years, the estimated number of individuals consuming drugs increased from 3 thousand to 60 thousand. In 1998, their number increased 5 times as compared to 1997. The “performance” of this industry is obviously quite “high”. The chances to corrupt a state officer are quite high. Therefore the criminal files on drug traffic do not get to the appropriate authority (their total number decreased from 15 in 1996, to 10 in 1997 and, accordingly, 9 in 1998).

*Source: Conference “Criminal and shadow economy in the Republic of Moldova, Chisinau, feb. 1999 ”*

on energy resources, imports gas at a much higher price than the world price, charging no payment for the gas transit (for information: the transit charges for gas on the territory of the neighbouring countries exceed Moldova's GDP). On top of that: the installation of incoming and outgoing gas meters on its territory is delayed.

The increase in the level of tax avoidance and a decline in the budget receipts have determined the failure of policies with regard to enterprise and small business and social support, education, health, environment, remuneration of budget employees. This, in turn, impoverishes the population, and *undermines the confidence in promoted reforms*.

Government's inability to ensure that its officers are paid decently paralyzes state institutions, *prejudices citizens' rights and guarantees which are ensured by the constitution*, discredits the state system, and causes the state to lose public respect.

*The impact on environment:* Due to the fact that certain groups of people impose their interests on the society in order to obtain immediate profits without “amortization” of environmental resources, the condition of the environment is deteriorating.

The *purposes of fighting corruption* can be different: achieve short-term efficiency within the private market, dynamic long-term efficiency, economic growth, social equity.

*Sustainable strategic directions of fighting* corruption and reducing the occurrence of shadow economy in the Republic of Moldova shall include the liberalization of a legal framework, insurance of transparency, institutional reforms, the revision and improvement of the law enforcement system, the reduction of monopolies in all areas, ensuring the transparency of decision-making factors.

Implementing a policy in this area requires a legal reform, institutional reform, improvement of regulatory framework and financial control procedures, and a reduction of public tolerance.

*Legal reform would include the following steps:* applying to international institutions for help in for fighting corruption and economic crime, the use of an external monitoring system; applying for projects funded by the external technical assistance to conduct a legal assessment of laws and amendments proposed for adoption, improving the legal system by eliminating contradictions and ambiguities, etc; improving crime prevention actions; defining clearly the system of penalties in case of a violation of law.

*The improvement of the regulatory system and financial control procedures includes:* simplifying the regulations issued by the state and inspection authorities;

systematizing and standardizing activities performed by control authorities; publishing clear information on control agencies, rights and obligations of control agencies; setting up a unit which would keep a record of and control the number of inspections carried out at the same enterprise; reforming the tax and accounting systems with the view toward their simplification and ensuring transparency; improving the quality of training for financial control staff; publishing tax information and providing transparency in preparing and implementing the state budget; establishing a compulsory system of tenders to sign the contracts for the acquisition of public goods and services.

*Institutional reform calls for:* reduction in the number of state institutions and their staff; substitution of personal visits for solving the problems with mailing procedures, including electronic mail; government depoliticization, establishment of a compulsory system of professional promotion on a merit and competitive basis; implementation of a well-defined system of ethical standards for state officials; setting up independent institutions to authorize investigations of accusations of corruption.

*Reduction of public tolerance requires:* co-ordination of efforts taken by education, religious and mass-media institutions as part of anti-corruption campaign; ensuring transparency of funding provided to political parties; ensuring journalists' involvement in promoting an equitable reporting and introducing a code of conduct for journalists; increasing the public confidence in the state institutions by establishing an agency for lodging complaints about inappropriate behaviour of policemen and control authorities.

These measures, when implemented, will assist in the merger of the shadow economy with the formal economy, will assist in fighting corruption and eliminating impediments to human development in Moldova and will promote the economic, political, public, personal and ecological security of the society.

#### Box 4.4.2

According to an opinion poll conducted as part of the Project "Strategy for Development" (CISR), the underground economy seriously threatens the state system, collection of income

due to the budget, economic security and state's prestige. In the opinion of the respondents the proportion of underground economy might be reduced by taking legal measures (tax reduction, increasing access to credits), economic actions (extending the possibility of leasing of premises, technical equipment, transportation facilities), and by administrative methods (improve the performance of economic police, financial guard, law enforcement authorities).

Source: CISR

