

PART 4. STRUCTURAL REFORMS AND MICROECONOMIC POLICIES

4.1 Property reform

The first stage of Moldova's transition to market economy included the reform of property ownership and establishment of the private sector by means of mass privatization of state property through which the majority of the population received for free the largest part of the small, medium and large enterprises' shares.

The Law on Privatization and the State Programs for Privatization (July 1991), allowed, in a short period of time, to eliminate the monopolistic position of state property, and in fact, of the collective farm property, and set up a bi-sectoral economy. During the privatization for patrimonial bonds, the entire population of Moldova was involved. This allowed to avoid serious social conflicts which are often characteristic of such nation-wide property rights transfers. In this respect, it can be stated that the privatization program has achieved its social and political objectives. During the time of implementation of privatization program, a number of key elements of a market economy – stock exchange, investment funds and trust companies, broker companies, etc. – have been created in Moldova.

During the mass privatization, entirely or partially privatized were 2,235 enterprises, including 93% of all enterprises in the agricultural product processing sector, 95% of enterprises in trade and services sector, and 82% in light industry. All enterprises of sugar, canning, meat and dairy industries are now privately owned. Also, all support enterprises in agriculture (machinery repairs, maintenance, leasing, etc.) are now privatized. In order to preserve the technologic integrity and operational capacities of the subdivisions of the agri-technical complex (fruits and vegetable, wineries, tobacco, meat and dairy products processing), the members of the agricultural enterprises have been transmitted in property for free 50% of the stocks of the state, held with 70 enterprises of the agricultural goods processing industry, at a face cost worth 460 million MDL. The enterprises of public utilities, land reclamation, cereals purchasing, industrial machinery manufacturing were privatized partially. 200,000 apartments (85% of state housing) were privatized. However, privatization of housing has not yet created efficient associations of private housing owners.

The process of the agrarian property reform commenced only in 1992 by starting the restructuring of the agricultural enterprises, distribution of land plots and agricultural property to owners, setting up family farms. In 1992-1996, this process was limited, in most cases, to determination of land and property shares from the former collective farms, which, according to the law, were to be given to rural inhabitants. In most localities, the land and property shares distribution ran very slowly and in general – randomly.

Only in the fall of 1996, the privatization process of the agrarian sector picked up – real transfer of property and land shares to owners started which was confirmed by land titles. This fact allowed to set up some hundreds of farms with private ownership of land. In the end, in Aug. 1997 the Parliament adopted the law “On land price and order of purchase/sale”.

The basic results of the mass privatization are as follows: there emerged a new sector of the national economy – the private sector – which resulted in development of a new social stratum –

that of proprietors (share-holders), and created necessary conditions for development of the securities and real estate markets.

In 1997, the private sector of the national economy generated 60% of industrial output, 70% of retail trade and services and 44% of capital construction and transportation. Total stocks of the privatized enterprises (in prices of January 1, 1994) amounted to 4.3 billion lei. The securities market is being developed. More than 3,000 joint-stock companies have issued shares worth of 6 billion lei.

Problems of the post-mass-privatization period are:

- The main one – **"Real Owner is Missing". Ownership rights have been dispersed to a large number of patrimonial bond holders.** As the enterprise got out of administrative subordination, the ministries did not create, simultaneously, the corporate management of joint-stock companies. Consequently, the owners could not find financial sources for renewing the enterprises and the responsibility for the economic results of the privatized enterprises declined. The joint-stock companies set up on the basis of former state enterprises have been excluded from direct administration of the branch ministries and departments. Yet, this process was not accompanied by the creation of corporate administrative bodies of joint-stock companies and of the legal basis for utilizing economic methods by the state in regulating the production sector. As a result, the process of losing control over the production sector started. Uncontrolled, the enterprise and investment fund managers got the opportunity to manipulate the property of share holders. This created an environment favorable of the shadow economy and its criminalization.

- **The state does not provide for a due control over its property.** Given that most enterprises have been given a share of state property which in terms of size is insufficient for the state representatives to influence the decision making, in addition to poor quality of its representatives, leads to utilization of state property without any control.

- **Incoherent and unmotivated policy of pricing privatized objects** (in most cases considerably exceeding the real cost of the state property unit), first of all the unfinished objects that have been auctioned for cash. This fact does not allow to sell these objects in due course and, subsequently, transfer the state property to potential investors and allocate the cash to local and state budgets.

- **Reorganization and privatization of the main branches** and enterprises of national importance is conducted at a slow pace (energy complex, telecommunications, tobacco industry, agrochemical industry, wineries, etc.) This does not allow these enterprises to be restructured in order to attract foreign investments and, subsequently, to enhance the exports potential of the country.

Objectives and goals

The key objectives and goals in regard to property reform are:

Further strengthening of the private sector, transition from privatization for patrimonial bonds to privatization for cash;

Speeding up the privatization process and increasing **the number of enterprises subject to privatization;**

Concentration of share packages with real owners in order to raise the efficiency of enterprises and attract foreign investment;

Speeding up the **reforms of the agrarian sector property;**

Implementation of the Third Privatization Program (1997-1998) and development of the **Program** for Privatization and Restructuring of the National Economy **for the years of 1999-2005.**

Policy and implementation methods

The state privatization policy needs to be oriented towards consolidating the legal basis for property reform, setting up corporate management, enhancement of state property management, creation of capital markets as a means of privatization for cash, speeding up the creation of housing owners' associations, attraction of foreign investments and, in general, towards the creation of an efficient private sector of the national economy.

Consolidation of the legal basis related to property ownership requires immediate development and adoption of new civil and criminal codes and related normative acts, and updating of legal regulations for privatization in order to facilitate participation of foreign investors in privatization. It is necessary to apply a large range of privatization methods: auctions, stock sales, public tenders, commercial sales, asset transfers for debt settlement, etc.

Increasing the number of public enterprises to be privatized – the premises of all small enterprises that were leased out at the end of 1995; small enterprises that were approved for privatization for cash, but remained unsold; majority of the state shares held at joint-stock companies; most small, medium and large enterprises which remained state-owned after the previous privatization programs, including many wineries; partial privatization of state property in air and railway transportation, communications, energy and public utilities sectors.

Formation of corporate management – able to control the activity of managers of privatized enterprises in order to use efficiently both public and private capital (invested in shares) to the benefit of its owners. A particular role in this regard can be played by the investment funds and trust companies holding shares of the privatized enterprises.

In order to ***manage the state property*** it is necessary to sell the state's shares of the enterprises that do not provide stable and guaranteed income; to enhance the role of the state representatives in the joint-stock companies in which the state holds control share. To reorganize the less attractive enterprises of the former industrial-military complex by various procedures (division and creation of smaller enterprises, liquidation and sale of their assets, etc.), to use their assets efficiently by changing the form of property.

Concentration of controlling share with real owners should be based on a fast development of securities market, active attraction of bank capital, postponing and re-scheduling of debts of the enterprises to be privatized, change of shares among holders, pre-privatization improvement through lease and setting up holding companies.

Development of real estate market by introducing modern systems providing information of bids and demands of real estate assets, extending the legal and institutional basis for safeguarding the legal interests of the proprietors.

Speeding up the agrarian reform, the process of real transfer of land to rural population and creation of a class of efficient agricultural producers.

Finalization of housing privatization by fostering the creation of associations of privatized housing owners'. Both private and public housing need to be serviced on the basis of competition between municipal and private service organizations, based on tender, negotiations or agreements. It is necessary to transform some former hostels and dormitories into shelters to support the homeless (evicted tenants, street youth, etc.) The rise in rent payment to the market level should be welcomed, as well as the transmission of the hostels on the balance sheet of associations of the privatized blocks of flats, in order to hold-up their further deterioration.

The property reform must result in to the growth of the share of the private sector up to 60-65% by the year 2000, on the basis of various privatization methods and intervention of the state in managing certain sectors of the national economy; and the creation, by the year 2005, of highly developed capital, land, labor and real estate markets.

In line with acceleration of development of the private sector, it is not less important to provide for an efficient management of the state property.

4.2 Development of financial and banking sector

Banking activity regulation policy

Aimed at regulating banking activity and insurance of banks' stable financial standing, as well as for protecting banking creditors and depositors, starting with 1992 the NBM put in place prudential regulations for all banks, subsequently revised in March 1995, which set standards for the Moldovan banking system compatible with Basle provisions. Among the most important norms there are the following:

- minimum total regulatory capital/risk-weighted assets (capital adequacy): raised from 4% in 1996 to 6 per cent in 1997, and will gradually reach a level of 12 per cent by year 2000;
- classification of commercial banks' loan portfolio and compulsory risk provisions for covering losses in case of non-repayment of loans granted. Starting 1 April 1997 the NBM set tougher procedure of calculating the risk provisions, which corresponds now with international standards. For the standard loans granted by the banks risk provisions must be equal to 2% of the amount of loans granted, for supervised loans – 5%, for non-standard loans – 30%, for doubtful loans – 75%, and for non-performing loans – 100%. Till 1 January 1998 the banks must form 100% of the calculated reserve provisions;
- monitoring "big" loans, i.e. loans bigger than 10% of total capital;
- daily monitoring of liquidity in the banking system, ultimately relying upon NBM as lender of last resort;
- limitation of loans to affiliated persons, as well as loans granted to one single client.

To mention is, that prudential regulations are continuously improved, new prudential mechanisms being implemented, which allow insuring a greater stability in the banking system. And by modifying these norms, the NBM can influence more actively the processes in the banking system according to its monetary and credit program.

On the basis of the above norms a rating system for banks, CAMEL, was introduced and is utilized for evaluation of the financial standing of each bank after on-site inspections carried out by NBM. A number of banks have been the subject of external auditing, conducted by international chartered accountants: Price Waterhouse, Coopers & Lybrand, KPMG, Deloitte & Touche. In 1995 NBM implemented the new accounting system, based on international standards, which will be generalized with the adoption of the new model chart of accounts by all commercial banks before the end of 1997.

National Bank of Moldova works permanently on improving and deepening the banking supervision, since without a strong and competitive banking system, oriented towards the needs of economic entities, the revival of real economy is impossible. In formulating the normative environment a particular importance is given to the minimization of risk and the increasing security and stability of the banking system. Efforts are made in order to stimulate commercial banks for supporting enterprises with maximum efficiency, cessation of crediting presumably bankrupt enterprises, ensuring a stable activity of banks and adjustment of their capital in conformity with

credit risk. These actions are playing a decisive role in gaining the confidence of the population in banks, as the increase in private deposits in the past couple of years shows. This success also points to the potential for a wider role of banks as financial intermediaries.

General directions of banking system development

The system that prevails in Moldova today is one of traditional banking activities mostly limited to commercial lending and basic exchange and settlement transactions. This is appropriate for the time being, both because:

- it is unlikely to be a significant demand for more sophisticated services in the country at this stage, and
- because it is prudent to let banks develop gradually, consolidating their expertise, operational structures and internal management, before venturing into new areas.

In case of Moldovan banks a variety of services and clients would increase the competition and reduce specific risks. Of course, in providing loans commercial banks should not have a narrow specialization on branches of industry, on regions, or by terms of loans' reimbursement. On the other hand, banks providing a wide range of financial services are managed more laboriously, supervising them is a more difficult task, and the skills of local banks' employees in respect to some aspects of banking activity are insufficient.

When the development of additional financial and investment services is required, in such areas as corporate securities underwriting, trading, and insurance services, a possible strategy of diversification would be through specialized subsidiaries of the banks, that would need to be independently and adequately regulated. However, it would be particularly inappropriate for banks to acquire control of industrial or trading enterprises at this time.

Ideally, the banking system in Moldova should contain a limited number of strong and competitive commercial banks. These banks might not specialize by sectors or types of lending but neither should they diversify prematurely beyond the more conventional and adequately tested types of transactions, they should not manage firms, deal with insurance, or perform operations with shares, at least for the next several years. The suggested model has the following argumentation: management of simpler financial intermediates is easier, their activity is open, and therefore they could be easier supervised.

It should be noted, that the banks, which represent almost entire financial system of the country, will remain major source of external financing for the enterprises. New financial intermediaries – mutual funds, private pension funds, and insurance companies – are needed for completing the commercial banking system, but they are slowly developing.

Financial institutions and instruments could play a critical role in the accelerated growth of newly created private sector firms and in providing a mechanism for the privatization of large enterprises. Without access to adequate credit, investment capital and convertible currency, few entrepreneurs can start a sound and viable business. A negative effect of banking system in this context is insufficiency of private sector crediting. However, the problem is in lack of credit history, i.e. banks do not know new customers well. Maybe one of the solutions would be the creation of a non-profit corporation for clients' recommendation, or guaranteeing.

Small business entrepreneurs and employees represent the future middle class of the society, and the support is necessary for a rapid development of democratic institutions and of market economy. Without a development of private sector there is a danger of re-orientation backward of the politic and economic reforms, and promotion of populist ideas.

A number of Moldovan banks inherited a considerable portfolio of bad loans from former state specialized banks, and have continued to offer their support to non-viable enterprises,

hoping by doing that to eventually recover their bad loans. There is thus a danger that banks will persist in lending to inefficient enterprises with poor financial prospects. This is not only commercially risky for the banks, but given the very limited amount of financial resources available, this is particularly unfortunate from the national point of view, as it would be better to direct funding towards worthwhile new ventures, rather than to “throw” it at loss-making enterprises. Some help to discontinue these unsound banking practices should come from the introduction of a more decisive procedure for liquidation of bankrupt enterprises, and this should have been done long ago.

Also, it should be elaborated the strategy regarding problematic banks, and namely determination of possibilities to improve their financial standing; elaboration of legal framework for banks’ merging, setting up the procedures of quick liquidation of banks that could not act within prudential norms etc.

Commercial banks vs investment banks

Should commercial banks become investment banks? The most general answer is: yes, for their clients, and no, for investing banks’ own capital.

One issue which has been under discussion concerns the merits of allowing banks to take direct control over investments in enterprises. On balance, it would be wise to restrict the role of banks at this stage: when many enterprises carry such high financial risks, it would be inappropriate for banks (particularly those having an unstable financial standing) to acquire control of industrial or trading enterprises, which might undermine their own solvency. On the other hand, NBM considers, that banks which have good financial standing and possess disposable resources, could invest those funds in capital of non-banking enterprises, and having a control over them, to contribute to the implementation of restructuring projects for this enterprises and to reimbursement of loans granted earlier.

In general, only banks which can rely on state support, for instance large, partially state-owned banks in Central Europe, have had a significant role in enterprise restructuring. While this involved the acquisition of stakes, often of control, of individual enterprises, they were later sold on. The main purpose of this exercise was that it represented for the bank the only way to recuperate loans that had been previously disbursed to the companies.

On the whole, analysis of economic restructuring needs in Moldova, and the experience of East European countries and Russia, suggests that local banks are not the institutions that play a primary role as industrial investors. First of all, large banks have formed already their group of clients, usually out of influent industrial companies and that is why it is quite improbable that they would like to implicate in radical investment activities or restructuring. On the other hand, it is quite improbable that banks in general would have experience in the fields of financial management, accounting, marketing etc., that are so badly needed by the banks. At the same time for any other investor (foreign banks, investment funds) these aspects do not represent any problem.

A strategy of transformation of the financial and banking system into a competitive industry, initially concentrating into a limited, but properly selected, range of services based on international standards, would be a significant contribution to the strengthening of the national economy and attracting foreign investment.

Generally speaking, in the specialized functions of banks there is an entrepreneurial function, i.e. encouragement of new methods of production and willingness to finance new production units. Banking systems of Central European countries are less constrained by regulations as those in USA and Great Britain, and that is why private commercial banks have the right to be owners of industrial enterprises and to act as investment banks (continental model). In spite of the fact, that this involves big risks and more expenditures, this is a

convenient situation for the said banks, because it provides them with a larger amount of strategic economic information for financing new productions.

However, the other is situation regarding the entrepreneurial function in Central and East European countries in transition. Banks do not want to be owners of companies and to perform their supervision. The bankers' motives are different:

- The expertise required for commercial banking differs from that required for investment banking; the development of the latter activity needs diversified knowledge, requiring the training of personnel in totally new areas;
- There is a lack of personnel to monitor enterprises closely. The costs of involvement in such activities is likely to be extremely high for a long time, compared to the core activities of commercial banks;
- Bankers should not confuse the role of creditor and owner, and be put under pressure to extend credit to companies they own;
- Ownership of the client company is not likely to add much useful information for the purpose of bank lending decisions.

Generally, Moldovan bankers accept their core functions as their top priority. In a transition economy, competence in ensuring swift and reliable processing of payments and settlements, together with the capacity to provide basic but appropriate financial products (including acting as the main source of short-term finance), is the crucial contribution banks can make to the reform processes.

The financial products and services that banks offer at the moment in Moldova are modest, and there is scope for improvement and diversification without over-stepping the conventional core functions of a bank. However, the key element for the development of a well-articulated, efficient and dependable banking system is the growth in the deposit base. Thus the immediate objective of commercial banks should be to improve performance and quality in the core activities as building block for solid growth and, at a later stage, diversification. The involvement of banks in direct investment in enterprises should come as a further objective once they have consolidated satisfactorily their position in traditional activities.

Other institutions

One of the main functions of banks is to raise savings. In this respect, confidence in the stability of the system is a key element and this could be improved by the introduction of *deposits' insurance corporation*. Its main goal would be insurance of household deposits with commercial banks. Also, by establishing this corporation the National Bank would be absolved from continuous interventions for supporting banks – a task which in fact does not fit into main attributes of a central bank. The functions of the said corporation would not only be paying off the depositors of bankrupt banks, but also intervention in the activity of banks which have problems. Corporation could decide whether a specific bank should be liquidated, or it is reasonable to inject supplemental capital to save it, eventually through changing also bank's management etc. Such corporations (funds) of deposits' insurance exist in the USA, Switzerland, Poland, Hungary, Romania, Latvia and other countries. In this context it should be stressed out, that the model of deposits insurance system examined above is preferred to the one with implicit state guarantees.

What could be the sources of financing a deposits insurance corporation? The first part will of course come from commercial banks, which will have to contribute with an initial one-time payment as a percentage of their capital, plus monthly installments as percentage of their deposits amount. Another part could come from international finance institutions in the form of credits. There will be certainly some expenses to be undertaken, but they will certainly justify the final goal: maintenance of depositors' confidence in banking system, and this in its turn will

induce growth of funds attracted from households to banks. Besides that, if a specific bank has problems, this will not generate the avalanche of immediate withdrawal of deposits, which is a very destructive factor even if in general the financial standing of the concrete bank is not so bad. Therefore, banking shocks will become, provided good management, practically impossible.

However, it should be mentioned, that NBM considers as insufficient the sources indicated above for establishing the deposits insurance corporation and for covering liquidated banks' obligations. Nevertheless, this argument should be correlated with the experience of the above mentioned countries in this field, and then the conclusion could be drawn regarding the necessity and possibilities of creating such a corporation within Moldova's banking system.

Another issue in discussion is the division of banking activity and non-banking financial services. At present in many countries of the world economists try to answer which non-banking services are compatible with banking activity. Historically in developed industrial countries there was a deep specialization among financial intermediaries. Along with commercial banks there were created specialized *institutions providing long-term financing and insurance, as well as institutions operating on stock exchanges*. In the last years a tendency of reducing specialization has been observed. Competition and innovations made financial services more flexible and comprehensive.

Non-banking financial intermediaries should develop in an adequately supervised and regulated environment to provide financial services complementary to those offered by the banks. A market for intermediation of securities, both debt and equity, could play an increasingly important role as corporate governance and ownership relationship are placed on a more transparent and financially viable footing. The securities market is still very small in Moldova, but it can, in the future, play an important role in the following areas:

- providing liquidity to owners of shares in privatized joint stock companies, and a mechanism transferring stakes between different shareholders;
- providing a non-inflationary method of budget deficit financing through issuance of state securities;
- developing a competitive capital market for both domestic and foreign investors, which will accommodate the issue of new capital and act as a market check on the performance of existing firms.

It should be mentioned, that banks, which represent almost entirely the financial system of the country, will remain the major source of external financing for enterprises. New financial intermediaries – mutual funds, private pension funds and insurance companies – are needed for finalizing the framework of the banking system, however they are developing slowly.

Another type of financial institutions are *development banks*, guided by the government. The scope of development bank would be financing of small and medium enterprises, under the circumstances of a considerable risk, that can not be accepted by commercial banks. Due to the fact, that the country does not have available funds, these could be received from abroad. But the major threat is that development bank could be used for financing insolvent enterprises. The bank, however, should have limited resources available and should perform its activity on strictly commercial principles, with the goal of obtaining profit.

Integration of development banks in the financial system of the country is very important. If they do not establish good contacts with commercial banks and state financial institutions, their possibilities to optimize potential investments would be considerably limited. In this context, financial integration could be considered in form of integration into state financial system and international financial system for gaining access to important resources and international projects.

Regarding *investment banks*, it should be noted, that an investment bank could perform operations on secondary market at the same time guaranteeing placement of new securities issuance by subscribing. Investment bank can buy the entire emission from the issuer and distribute it on the secondary market at a price, that would guarantee a reward for the services provided.

In August 1997 the Government of Moldova adopted the decision on creation of the Development and Investment Bank (DIB), having a state's equity share of at least 51%. In foundation of DIB the German Bank for Development and Investment KfW will take part, and upon starting of DIB's activity will open a credit line of 30 million Deutschemarks.

However, according to NBM, presently there is no such a problem as lack of banks that could offer long-term loans. Any of the existing commercial banks can provide long-term lending, but banks do not have long-term credit resources available. Therefore, the problem of long-term lending is not linked with lack of development banks, but with lack of needed credit resources. And to the solution of this problem would also contribute elaboration of a strategy of development of an institutional and legal framework, capable of ensuring the reimbursement of long-term loans granted.

4.3 Social sector reform

Current situation

The evolution of the social situation in Moldova shows that the processes taking place in the social sector run slowly, randomly and in a contradictory manner. On the one hand, there are some positive trends. Democratization of society and liberalization of the economy create better opportunities for citizens to realize their entrepreneurial and creative potential. Initiative and professionalism become decisive factors in affirmation of personality, determining more and more the well-being and place of every individual in the society. Though still fragile, the private sector develops more consistently in fields like: education, medicare, culture and other branches of the social sphere.

Eventually, the population has the opportunity to choose between the services granted by state and private sectors. People are trained in new professions and occupations, many studying abroad. The labor market is being created and mechanisms of demand and supply. Social partnership is being developed as important a tool for building a civic consensus.

On the other hand, economic decline of the transition period has a negative impact upon the social sphere. The decline in GDP and bouncing inflation had a negative impact upon the social sphere. Destabilized exchange rates eroded the real value of salaries that at the moment are worth about a half of those in 1991. Unemployment, both official and hidden, underemployment and forced leaves have increased enormously. Wages of public sector employees, pensions and other social payments are inadequate, their payment being considerably delayed. Thus, social stratification of the population in terms of incomes is deepening.

Funding of social protection is insufficient and unstable. Relying basically on public funds, social programs cause high social costs which are in fact an unbearable burden for the economy. The social costs make up about 45% of the budget, exceeding in this regard even some industrially advanced countries. The high social contributions disadvantage investments into economy, provoking tax evasion and financial under-evaluations. Being characterized by a weak management and imperfection of the institutional sphere, the social sphere functions inefficiently and inconsequently.

The created situation makes us intensify the social sphere reform by promoting profound measures to strengthen the financial viability of the social system and adjust the social programs to the requirements of the market economy. In this regard, ***the mission of the social reform*** is to gradually pass from the centralized system to a diversified one, which might provide people with proper social services granted in compliance with the paid contributions and not to the detriment of the economic activity.

Proceeding from the above, the ***strategic purposes of the social reform*** are as follows:

- radical restructuring of the modes of funding of social programs;
- revision of the actual package of social benefits and modifying the methods of granting (based on eligibility);
- enhancement of ratio "contributions-benefits" and application of methods of personal incomes differentiation in granting social services;
- modification of the social sector institutional structure and assessment of activity performance based on cost-benefit analysis;
- development of social management and facilitation of inter-institutional actions in rendering social services;
- extension of collaboration between the local public governments and republican ones, NGOs and private organizations in implementation of social programs.

Realization of reform objectives should be carried out based on promotion of certain concrete actions scheduled in time and correlated with the economic situations. Conventionally, they should be classified in two stages, as follows:

1st stage (1998-2000) – the resources and economic potential are still limited. The main task should be to curtail the extension of poverty, to avoid mass unemployment and provide for social protection primarily to poor and disfavored strata of population (the elderly, the disabled, etc.). For the moment, measures that need to be undertaken are:

- revision of actual system of social allowances for the purpose to toughen the justification for granting them;
- prevention of wage, pensions and indemnities arrears;
- granting social assistance based on personal records (income information) of the applicants;
- creation and application of minimal social standards guaranteed by the state and insuring equal access of the population to these services;
- promotion of active measures in order to hold up the structural unemployment and mass dismissal of employees;
- enhancement of the role of wages as main source of cash incomes and providing for a fair remuneration;
- introduction of state offer related to socially important products, providing for its inclusion as component of the budgets, annual and perspective programs at both local and republican levels.

During 1998, the legal basis should be created and mechanisms elaborated to promote the reforms in the insurance system and social protection of the population, in the field of labor remuneration, medicare, culture. In conformity with the law on education the reforms of education at all levels must continue. Thus, at this stage there should be resolved 2 tactic importance tasks: *first* – there should be created premises for adopting the social sector to market economy; *second* – real possibility should appear that the material and financial resources designed for social sphere to be used more effectively and rationally.

2nd stage (2000-2005) – recovery of economic activity should generate new jobs, bigger wages and more investments in medicare, education, culture – the task consisting in a gradual advancement of living standards of the population. At this stage it is planned to:

- enhance the minimal social guarantees on the part of the state as regards pensions and labor, as well as other types of social payments;
- perfect the manner of forming budget expenses for social needs, based on application of minimal standards of the state;
- provide for stable funding of the social sphere.

Priorities and promotion of social reform

Proceeding from the multitude and complexity of the issues to be approached, reforms should be implemented depending on priority sequence, as follows:

• ***In the field of labor relations***, mechanisms should be created and implemented that would ensure respect by all economic agents, regardless of their form of propriety, of guarantees offered to employees, first of all in regard to full and due remuneration, providing for labor protection and proper conditions. The labor remuneration system should be improved based on the following measures:

• ***In the non-budget sector***, a system of guarantees needs to be created which should ensure the minimal level of salaries to the employees, depending on their qualification, based on collective tariff agreements signed between the employers and employees at all levels of social partnership; the economic agents should be encouraged to set up a special insurance fund on the account of their own income share, used for paying wages in exceptional financial cases.

• ***In the budget sector*** – improved should be the parameters of the unique tariff net for a broader usage of the incentive mechanisms for higher quality work, including through paying additional amounts to the basic salaries for uninterrupted service and high performance at work. There should be reached a more optimal correlation between the growing pace of the respective average salary in both non-budget and budget sectors.

• ***In the field of labor protection*** there envisioned a transition from passive protection of employees (a mere payment of compensations for hazardous labor conditions) to active protection (investing into accident prevention and considerable improvement of labor conditions), based on a flexible penalty system applied to economic agents.

• ***In the field of labor force utilization***, the efforts need to be focused particularly on application of active measures on the labor market, on elaboration and implementation of economic mechanisms for ensuring an optimal balance between supply and demand, in order to avoid mass lay-offs.

In this context, a ***Program of Labor Force Employment for the period of 1998-2000*** must be elaborated, including a scheme for job creation. There should be various incentive systems of entrepreneurship, small and medium business, as well as of private labor activities, particularly in the traditional fields of the national economy, as well as in the localities where the situation of the labor market is critical. Sectoral programs need to be elaborated regarding a larger scale employment of youth, women with small children and the disabled. The financial support should be more flexible with regard to payment of unemployment benefits and re-training of the unemployed.

Sectors of social reform

System of social insurance of the population. The transformations should be focused on diversification and enhancing autonomy of social insurance. In this context, the emphasis should be placed on raising the responsibility of the employees and employers in granting social payments. The amount of social benefits should depend directly on paid contributions to the social budget. Private (non-government), both mandatory and optional, types of insurance should be rapidly developed.

A particular attention should be paid to the ***pension system***. The purpose is to consolidate the financial solvency that should provide for an adequate pension for the retired without affecting younger generations and economic situation.

The strategic line of reforms is to pass from the current unitary pension system to a diversified one, based on three "pillars":

- state pensions, funded on the account of mandatory contributions, which should insure a minimal overall protection of senior citizens;
- private pension plans, funded by mandatory social contributions of the wage-earners and enterprises, which should supply pensions to the extent relative to contributions made;
- optional pension plans based on voluntary contributions and accrued interest toward retirement, which should supply an additional income to individuals who should prefer to save more for the old age. This is why there should be tax breaks and discounts in order to stimulate voluntary retirement savings.

Concurrently, measures should be undertaken to ameliorate collection of funds to the Social Fund by toughening the penalties upon debtors. Conditions of granting facilitated pensions should be revised. The censorship of retiring age should be advanced gradually.

Social assistance to the population. In this context, the eligibility terms and structure of the current set of exemptions should be revised, as well as the compensations and social payments. Unjustified social programs should be canceled, whereas the social benefits need to be directed mostly to the poor strata on the basis of income assessment. In the social field, a subsistence minimum, a poverty line, as well as the minimal set of services ensured by the state should be established. A new type of social assistance by the state – the poverty allowance – is needed which should be granted nominally and only to individuals (families) that live beneath the poverty line. The network of social institutions should be modified for the purpose of boosting their efficiency and activities. The elderly persons, the disabled, orphans and families with many children should be protected under some specially developed programs by the state.

Ensuring citizens with housing. Measures should be undertaken in the following directions:

- growing the share of housing constructions funded by private, non-budget resources;
- improvement of living standards of the social groups supported by the state;
- gradual transition of the communal-housing sphere to a cost-effective operational system, by providing for social protection of the population through insurance.

Social sphere reform

The forecast measures envision creation of favorable conditions for rendering efficient social-cultural services to the population. In this context, the ***priority directions of the reform should comprise:***

- modification of the normative basis and implementation of advanced standards in the principal activities of the social sphere;
- rationalization of the structure of the institutions and their staffing;
- transition to new principles and organizational forms of activity;
- creation of an alternative sector of social services.

The pace and span of the reforms in the social sphere should depend heavily on the evolution of economic reforms, particularly by the pace of the growing financial-economic potential of the state, economic agents and possibilities to finance the population.

A particular attention should be paid to *optimization of expenses in education, health care and culture*. In brief, this measure should be implemented through:

- diversification and extension of paid services in all branches of the social sector, including within state institutions;
- elaboration and application of a basic set of services granted for free by the state;
- application of new funding principles of the social sector, including through a broader involvement of financial means from population and companies.

Taking into account the vital importance of the social sector, the state needs to assume the responsibility to administrate and coordinate directly its strategic domains.

For this purpose, the state needs to:

- maintain in its ownership the controlling share of property in education and health care sectors and to promote the adaptation of those to new conditions emerging in the society;
- provide for maintenance and development of the intellectual and cultural assets of the country;
- create favorable conditions for developing the private sector in the social sphere and exercise the function of supervisor.

Primary activities and main measures should comprise the following:

In education:

- consequent transition to a new organizational structure of the education system and to a more effective regulation of private education development;
- elaboration and application of national educational standards and advanced techniques in education;
- modification and rationalization of the educational process and personnel training with a view to provide the national economy and all fields of activity with high quality staff;
- evaluation of the extent to which the country is provided with boarding schools (schools, orphanages, etc.), their improvement, as well as providing for a normal operation of these institutions.

In health care. Volume and conditions of medical assistance at various stages should be revised, respectively of basic functions of the medical institutions (republican municipal, raion, levels, etc.) and transition to new forms of medical assistance. In this context priority should be given to:

- activities pertaining to intensification of diagnosing and treatment of hospital patients, by reducing substantially the hospitalization periods of patients;
- treatment of out-patients by polyclinics (at raion, municipal levels), particularly for prophylactic purposes;
- implementing the system of practicing family physicians;
- implementing special state programs for fighting certain illnesses (tuberculosis, cancer, mental, cardiovascular diseases, AIDS, etc.), as well as medical assistance programs for mothers and children under 1 year, the disabled of all ages;
- measures for ensuring epidemiological security of the population.

Within this period, a health care system based on insurance must be introduced and the *State Program for Guaranteed Minimal Level of Medical Assistance* implemented.

In the sphere of culture, the emphasis should be put on the objective to recover the national cultural values, folk arts, affirmation of cultural identity in the international arena. These objectives can be reached based on the following:

- realization of the *State Program for Cultural Development and Libraries Development Program*;
- promotion of reforms (diversification of funding sources, granting managerial independence to cultural institutions).

In the context of reforms, diversified and modified should be the functions of local and national governments. Local governments should be assigned jurisdiction to develop social territorial programs, to grant social assistance, to organize a normal functioning of the social infrastructure institutions, as well as to resolve current problems pertaining to employment of the population, social-cultural protection and assistance to the citizens.

4.4 Research and development sector reform

Sustainable development of the Republic of Moldova as a sovereign state is possible only on a modern scientific and innovation basis. For this reason, the research and development sector (R&D) should become a focus of state's policy in the long term.

Current situation

Innovations and technical-scientific activity represent one of the main resources of the state. At present, the Republic of Moldova has a human potential and technical-material basis in the R&D sphere, which accomplished achievements in different areas of science and technology. R&D activities are carried out by 25 institutions of the Academy of Sciences, 9 state high education institutions and 55 branch institutions. There are also a number of private and non-governmental high education and R&D institutions. In the field, more than 9 thousand persons are working.

In the 90s, this sphere is in a crisis situation, which has resulted in uncertainty of its social statute, lack of a legal-normative and institutional framework for R&D, insufficiency of financial resources, lack of flexibility in conditions of market economy, and also delay in a political will expressed by the country's supreme decision-making bodies, to promote a continuous reform of science and technology spheres according to a well thought program.

Actual situation in the R&D sphere has the following aspects:

- R&D activities are not set as a decisive factor of macroeconomic stabilization, restructuring of production at microeconomic level, and solving social problems of population;
- there are not elaborated legal, economic and organizational mechanisms that would contribute to real including of R&D into the activities of social-economic system reform in the conditions of transition. State's R&D policy is not defined, and there are lacking the institutions of management and of strategic and operational coordination at the country level;
- lack of financial (direct and indirect) and legal levers of integration of fundamental research activities of the research institutes, and especially Academy, with high education, and also of applied research and technological development with branches of the economy and social activities;

- there have been preserved old mechanisms of financing, expertise, evaluation and control over utilization of budgetary resources allocated for R&D, which do not stimulate either researchers, or potential users in mastering the results at different steps of the process: fundamental research – applied research – technological development;
- there were not created state bodies of management and coordination of R&D activities, this having a negative impact firstly on the personnel of R&D who until 1991 were supervised by central Soviet ministries and economic or military oriented entities, and also considerably affecting the innovative infrastructure for implementation of technical-scientific results into the economy and society;
- the quality of education, including high education had declined, as well as the level of utilization of knowledge as a decisive factor of social-economic progress;
- technological dependence of the country has grown, as well as the import of technical equipment of products, having a negative impact on local production, instead of acquiring patents, licenses and know-how.

An essential cause of decline in R&D sphere are, on the one hand, contradictions that arose from the results of social-economic sphere reform (privatization, private sector development, emerging of competitive environment, formation of market infrastructure, etc. – dominated by mobile and multilateral relations), and on the other hand, maintaining of out-of-date principles in organizing R&D system, according to which the conceptual and expertise activities are resolutely adjusted to the pyramidal structure of executive bodies.

Thus, a real danger has appeared, threatening with the destruction of R&D sphere, education, and training of qualified staff, as means of self-conservation, development and security of the country.

Objectives and priorities

Strategic goal of state's policy is to ensure treatment of R&D sphere as the most important national resource of Moldova's renovation, orienting towards creation of a dynamic, autonomous, multi-functional system, supported by the state, society and business, oriented towards production of knowledge, technologies and preparation of personnel, aimed at country's development, as a member with equal rights of the European community.

Tactical goal in the period of crisis and stabilization of economy is preserving, by means of a selective policy, the best part of scientific potential (specialists, material and informational resources, organizational structures) and future support of a sufficient potential for solving current country's demand.

For the whole period till 2005, the main problem in R&D sphere is in ensuring the multiplying of new scientific information and development of technology in the priority sectors for Moldova; social goals include preserving the prestige of work in R&D sphere, stipulation on legal norms of the R&D work specifics – wages, insurance and work conditions, medical care and pensions.

Taking into account the objectives indicated for the realization of reform in R&D sphere the following aspects are of top priority:

- social orientation of science, which should make an efficient use of allocated funds for elaborating top technologies for improving the situation in spheres that contribute to increase in population' quality of life (health care, education, science, culture, social insurance etc.);

- priority of elaboration of consumer products, which is specific for market economy, maximal orientation towards production of goods, that are initially oriented to concrete customers;
- implementation of an innovative policy of saving of imported resources (fuels, metals, fertilizers etc.), that would increase the competitiveness of products and as a result the quality of life;
- creation and utilization on a wide scale of global informational technologies and networks in the R&D sphere and society, along with the goal of modernization of expertise activities and acceleration of innovative processes;
- modernization and realization of the strategy of environmental protection and of rational utilization of natural resources.

Mechanisms of realization of R&D sphere reform

In realization the state policy in R&D sphere for the period 1998-2005 the following concrete orientations have been set:

- *elaboration of legal, economic-financial, fiscal and organizational mechanisms* for an efficient functioning of R&D sphere;
- setting up *priorities* of R&D sphere development, in a strict compliance with strategic directions of sustainable social-economic development of the country; discovering "*growing points*" and reclamation zones; implementation of a competitive and transparent mechanism of elaboration priority directions of R&D development, state R&D programs, and distribution of financial allocations;
- *institutional restructuring of R&D* and modernization of structures of management and strategic, operational and financial coordination of science and technology;
- setting up *expertise mechanism* and ensuring independence of R&D conceptual activities from executive bodies;
- *elaboration of mechanisms of integration* of R&D activities *with high school*, preparation of highly qualified personnel;
- creation of market framework and mechanisms in some areas of management and infrastructure of R&D sphere, elaboration of legal, normative and institutional framework for establishing the *private sector in R&D sphere*, determining share of R&D property, information and documentation of national interest, which can not be privatized and thus shall remain under state's control;
- *modernization of the system of protection and promotion of intellectual property* objects (inventions, patents, licenses, know-how etc.);
- *creation of an innovation infrastructure* (scientific-technological and innovation parks, small innovation business "incubators" etc.) and elaboration of mechanisms of technological transfers and trading of R&D results.

Legal and normative system reform

The goal of the reform is initiation, approval and creation of conditions for applying legal and normative regulations, necessary for modernization of the institutional, financial and R&D management framework, which would ensure the process of R&D restructuring and relaunching. This activity is to be done gradually, and firstly the approval of the following laws is needed:

- law on science and technical-scientific policy;
- law on organizing R&D activities;
- law on National Academy of the Republic of Moldova.

A number of other law and normative acts regarding R&D sphere should be approved, and there will be done an expertise and modification of acting legislation regarding stimulation of R&D activities.

Reform of institutional system of R&D sphere

Implementation of the principle of separation the directions of R&D activities needs institution of management of coordination of all executive activities at state level by a *State Department of Research and Development*, within the Government. R&D Department would promote, coordinate and unify at state level the elaboration and implementation of the strategy and Government's policy in the fields of functioning and modernization of R&D sphere. In the framework of R&D Department the *Superior Consultative Council of R&D* shall be set up.

As an interface between the state political power (President, Government, Parliament) and state executive bodies of R&D – the *Supreme Council of R&D* would be created, headed by the President of the Republic of Moldova, members of which would be decision-making persons from state bodies having R&D functions. This Council coordinates R&D policy with political interests of the country, needs of the society and interests of different branches of the economy.

Setting up priority directions of R&D activities which correspond to the needs of economy relaunching and to the strategic directions of sustainable social-economic development of the country for different time frames, and is elaborated by the Superior Consultative Council of R&D, National Academy of Moldova, state ministries and departments having R&D functions. These outlines of priority directions of R&D sphere development should be submitted to the R&D Department, which after public dialogue and discussions, submits them further to the Supreme Council of R&D and to the Government. After examination by the Supreme Council and Government, these directions are presented for approval to the Parliament of the Republic of Moldova. Parliament's decision regarding the approval of priority directions of R&D would serve as a basis for allocation of budgetary funds to the R&D sphere.

Complexity and high costs of R&D, as well as limits of financial and human resources at our disposal, impose a selective strategy based on priorities, which would ensure concentration of efforts on efficient solving of country's pressing problems.

As *priority areas of R&D* the following are suggested:

- *Human resources* – culture, education, health;
- *Agri-industrial complex*;
- *Energy sector* – energy sources, including non-traditional ones, technologies with reduced energy consumption;
- *New materials and advanced technologies*;
- *Arrangement of territory and environmental protection*;
- *Formation of bases of market economy functioning*;
- *Computerization*

These priorities, after discussion, completing and adopting, would form the basis for drawing up of state R&D programs for each priority direction.

State programs. State R&D strategy and policy is efficiently implemented through financing of state programs, elaborated for realization of objectives of priority development of R&D sphere. Realization of state programs and orders of economic agents are the main points in activization of R&D.

R&D Department is responsible for drawing up and implementation of state R&D programs. It is elaborating through Scientific Expertise Councils state programs for different periods of time (mainly 3-5 years), necessary for complete realization of objectives outlined in the programs. State R&D programs are approved by Government's decision and contain as components R&D themes and projects, which are related to different steps of the research process: fundamental research – applied research – technological development. Activities carried out within state programs are organized and coordinated by the R&D Department through Scientific Expertise Councils of the said programs.

In elaboration, evaluation, selection and detailing state programs and themes, as well as in evaluating R&D results obtained with them, there should be initiated the principle of selecting R&D projects on competitive basis. Evaluation of achieved and planned results, determination of funds allocated to the R&D projects is effected by Scientific Expertise Councils of the respective programs. R&D Department appoints heads of state programs among persons chosen and suggested by Scientific Expertise Councils together with leaders of R&D projects of each respective program, and assigns the status of state program's coordinating-institution usually to a public R&D institution, or economic agents, or NGO, which won a maximum number of R&D projects within the said program.

Expertise. By the R&D Department the *R&D Superior Consultative Council* should be created, which is the superior consultative body of the Moldovan R&D. Council is formed by scientists and notorious university professors, well-known specialists in the field of applied research and development, as well as from representatives of beneficiaries of the results of R&D activity, which have been previously selected in a competitive environment by scientific community. Council has the function of coordinating activities of Scientific Expertise Councils of the state programs, and through latter it holds all information regarding R&D areas in the country.

The mission of Experts Councils of state programs is the following: drawing up state programs, evaluation of projects in conformity with employed intellectual potential and previous achievements, selection of projects in a competitive environment, advising, monitoring, control of activities for realization of state themes (tasks) and R&D projects, distributing financial allocations to R&D projects, organizing and control over the process of projects execution, underlining the potential for employing R&D results, evaluation of R&D projects results for demanding new financing, as well as other activities according to the Regulation.

R&D financing is a priority of budget expenditures and a guarantee of sustaining the innovative model of economic and social development of the country.

Presently budget allocations for R&D sphere account for about 0.4% of GDP. According to recommendations of UNESCO, proved by all countries practice, R&D is positively stimulating GDP growth in the society (as a production force) only in case when expenditures in R&D sphere are over the critical value of 1% of GDP, regardless its nominal value.

For increasing efficiency of budget allocations it is necessary to elaborate the economic-financial legal framework, which differs from the legislation of administrative institutions financed from the budget. This framework should be combined with scientific management, exercised by Scientific Expertise Councils.

R&D sphere reform presumes implementation of the following principles and procedures of financing and allocation of funds to the executors:

- as the main form of stimulation by state of R&D activities should be effected direct financing from the budget for the entire time frame of executing R&D projects within state programs;

- by institutional budget financing it would be ensured the managing costs of infrastructure, premises, social costs, technical-material base of R&D, as well as ensuring a limited time support financing of those researchers and R&D specialists that did not get R&D projects on competitive basis;
- it is instituted the principle of dependence of volume of financial allocations upon the R&D activity results, estimated by Scientific Expertise Councils;
- budget financing of state programs, as well as supporting other expenditures, foreseen by the law, should be realized annually within the limits of fixed allocations set in the consolidated budget item for R&D activities;
- out of the total volume of R&D financing from state budget there will be set the level of 25-30% for financing of fundamental research, which will be further on reduced along with the inflow of new budget allocations;
- decision regarding prolongation of financing for the next year, or modification of the volume of financing for each R&D project, that has won in a competitive system, shall be adopted by the R&D Department, advised by Scientific Expertise Council of the respective state program;
- according to the norms set by the government, it is ensured through R&D Department budget financing of activities of international cooperation and payment of necessary fees for country's membership in different R&D structures, international scientific profile organizations and institutions, international projects etc.;
- out of the centralized fund of R&D Department would be financed activities related to personnel policy (R&D staff training and turnover, getting scientific degrees, distribution of staff in the priority directions of R&D etc.), financing of the system of R&D sphere informatization, and organizing conferences, scientific seminars;
- a R&D cofinancing mechanism could be set up by economic entities (state or private), aimed at implementation of advanced products and technologies in the economy, especially at small and medium size enterprises; development of R&D activities in companies for relaunching and increasing innovative and competitive potential of enterprises etc.

Attributes of R&D Department would include defining and coordination with Ministry of Economy and Reforms and Ministry of Finance of the volume and structure of R&D financing (creation of republican budget of R&D) and submission to the government. After confirmation of state budget for the upcoming year the Ministry of Finance should transfer, according to the set procedures, the budget allocations to the account of R&D Department for being distributed by this Department directly to the executors of R&D projects within state programs.

During 1998-2000, institution of a support-financing for researchers and specialists from R&D institutions is foreseen, which did not get R&D projects in a competitive system. Amount of this support-financing, at the level of year 1997, will be granted for a term of maximum 2-3 years to these researchers and specialists, for work done under a state program and which should be put in the same conditions of evaluation, execution and control as R&D projects from within this program.

Another way of maintaining human potential, as well as of the equipment, premises etc. from R&D sphere, is to create some structures or centers similar to scientific-technological parks, "incubators" for innovative business, that offer alternatives of reorientation and employment of R&D potential.

Improvement of R&D staff salaries. In order to stop the outflow of intellectual potential from R&D sphere and out of the country, managers of R&D managers must be allowed to draw up project's expenditure statements (within the limits of the funds allocated) that would take into

account real results obtained, and complexity of work done within the R&D project (estimated with complexity ratio). This would stimulate R&D activities and implementation of the results of these activities into the economy and society.

Payment for executors' work done should be effected on the basis of individual work contracts, which would have as reference ratios the minimal consumer basket (on the date of drawing up the expenditure statement). The practice of using a unique tariff scheme for work remuneration could be maintained in case of institutional budget financing and also of financing R&D projects and jobs, which have not won the contests organized within state programs.

Academy of Sciences of Moldova (ASM) is supreme scientific forum of the country. Its value is represented by the value and prestige of its members, where notorious researchers of different R&D branches are collaborating. Today ASM has a double statute: firstly – as a society of scientists from different R&D branches, secondly – ASM is a state administrative network of R&D institutions and of their support.

Under R&D sphere reform ASM will be transformed into the National Academy Sciences (NAS) of the Republic of Moldova, which would represent through R&D institutions and collectives coordinated by NAS a republican center of fundamental and applied research. NAS would have a statute of an autonomous scientific forum and legal entity, responsible for establishing and expanding conceptual activities of country's R&D sphere development. Financing of NAS activity will be from the state budget. Main condition for NAS exercising its functions in ensuring conceptual development of R&D sphere – is its real independence, which should be ensured by the Law on NAS of the Republic of Moldova.

As a result of the reform, institutions and organizations of the Academy of Sciences would move into the administrative subordination of the R&D Department which would utilize and optimize the entire management and administrative-operational infrastructure existing by the Presidium of Academy of Science.

NAS will become a republican consultative body for supreme political structures and for R&D organizations in the country. It will contribute to training highly qualified personnel, executing an independent expertise of R&D priority directions and of the methods of management and realization of R&D activities etc.

Integration of R&D sphere with high education. Reform is aimed at tightening collaboration between non-university R&D institutions and universities, and creation of some integration mechanisms, counting first of all on fundamental research. As a condition of integration, within the reform should be a priority financing of common participation in state programs and topics. This has a main objective increase of the level of R&D and of the quality of preparing highly qualified personnel, solving the problem of availability of scientific-teaching personnel in the future, ensuring transfer of technologies into the production sphere.

Other common activities would be also recommended, such as: part time work of research and educational collaborators, within the amount of financing obtained through contest (R&D projects, grants), employment for some periods of time in teaching activities (associated professors etc.) of famous scientific researchers from R&D institutions; associative integration of research teams from R&D institutions and high schools on the basis of scientific schools; creation of scientific-teaching centers (collectives) with double subordination; including researchers from R&D institutions in scientific councils of faculties and universities, and of teaching staff in scientific councils of the R&D institutes; employment of teaching staff in R&D activities with respective reduction of their teaching load; etc.

Human resources and personnel policy. The strong point of the reform is keeping, reproduction and putting into action the personnel of R&D sphere, setting up the most favorable

working conditions. A number of factors, such as lack of an adequate legal framework, salaries under acceptable limit, lack of possibilities of stimulation of results, and others, made impossible implementation of an adequate and efficient personnel policy.

At the base of personnel policy there must be put the differentiation of motivations expressed by researchers and specialists in different areas of R&D. Legal framework which regulates job relations in R&D institutions should be modified in such a way, that professionalism criteria must prevail, as well as abilities of researches to organize and self-finance R&D activities (especially in the fields of applied research and development). A special attention is needed when appointing R&D sphere managers (selected based on previous performance), which must show a new mentality in conditions of decentralized economy, as well as understanding the fact, that research should be conducted by researchers.

There should be taken measures for social support and protection of work of researchers and specialists, especially the young ones. Work remuneration should be effected according to individual work contracts, not applying the limits indicated in the unique tariff list of work remuneration levels for R&D activities. Thus, the process of personnel aging will be stopped, ensuring the continuity of R&D staff, by supporting scientific schools and creating conditions for transferring high competence and skills from one generation to another.

A pressing matter remains to be the "brain draining" towards developed countries. This phenomenon directly affects nation's competitiveness and security. A periodic marketing research of the labor market is needed, in order to determine the need in highly qualified specialists, as well as respective remuneration of work in R&D sphere.

International cooperation is realized on 3 levels:

- collaboration between R&D institutions, universities and organizations of Moldova and from abroad (UNO, EU, OCER, NATO, CIS);
- conventions between R&D Department and foreign partners;
- agreements of collaboration in the fields of science, technologies, or culture, signed at the government level.

For realizing these objectives, R&D Department should create in its structure a division in charge of issues of international integration and cooperation. This division would have obligation to promote young staff, which proved to be efficient during international collaboration in the R&D sphere, and also would provide information to the state structures, universities, institutes, scientists and specialists regarding different international programs and would ensure correct elaboration of requests for participation.

Evaluation, protection and implementing R&D results. Correct implementation of reform imposes a continuous and impartial evaluation of R&D capacity. It has as objectives determination of R&D sphere efficiency, of possibilities to implement the obtained results, periodic estimation of standing of national R&D comparing to the international level, as well as linking the received results with human, material and financial resources allocated.

Value of a individual researcher and a R&D team can be estimated only by the scientific community, and in case of applied research and development – by economic importance of newly created products. Evaluation of R&D institutes is performed publicly by R&D Department, attracting experts (including foreign ones) and with participation of researchers.

In order to ensure protection and efficient promotion of intellectual property objects (inventions, patents, know-how, etc.) the following measures should be taken:

- modernization of legal basis, including of civil, penal and administrative norms, as well as of institutional framework, regarding protection of intellectual property objects;
- fortification of the system of state interests' protection on the basis of integration and cooperation with the international system of intellectual property protection and utilization of advantages determined by participation of Moldova in international profile conventions and communities.

For structuring, organizing and realizing the process of implementing the R&D results (transfer of technologies, new knowledge etc.) the *innovation infrastructure* should be created, in conformity with market economy:

- scientific and technological parks and technopolises, having the rights of free entrepreneurship zones (with financial and juridical favors stipulated by the acting legislation and normative acts);
- "incubators" – centers that undertake the biggest part of expenditures of newly created innovation firms;
- venture enterprises – investing capital in risky ideas, but having good chances of getting profits;
- engineering organizations, aimed at collecting finished R&D results, implement them into production and large scale trading;
- innovation centers, designed to contribute to the creation of favorable climate for organizations having libraries, databases, scientific and technological equipment etc.;
- enterprises providing computerized services – servicing integrated informational systems, creating computer databases in different areas etc.;
- informational and consulting centers, which provide services and products on contract basis;
- organizations leasing advanced technological equipment, which provide services of renting technical and scientific equipment, unique and advanced, having reduced amortization terms.

Innovation activity is usually financed out of the following sources: state budget, state R&D funds, non-governmental and private, Innovative fund with subfunds for supporting small innovation business, out of budget funds with social destination, funds of production enterprises and organizations involved in innovative processes, domestic and foreign grants, bank loans and technical assistance, special investments.

Real approach in formation of a state scientific policy for the period till 2005 must be oriented towards national interests and must correspond with the goals of political, social-economic and technological development of the country, increase of country's competitiveness.

4.5 Industrial policy and enterprise sector reform

Industrial policy represents an important part of a strategy of development of any country. Moldova, as well as other countries with economies in transition, is undergoing the processes of globalization and integration. Actually, it is searching for its niche in the world economy, becoming part of it. A separate role in this process is played by the industry, which accounts for 80% of imports and 75% of exports of commodities and services. Stable development of economy determines the export possibilities and sustainable development of the country in general.

In the beginning of the 90s, within the general crisis a threat emerged for the existence of Moldova's industry. The causes were: reduction of demand, collapse of traditional links of cooperation, disintegration of scientific-experimental basis, increase in prices of energy resources and raw material, as well as external competition.

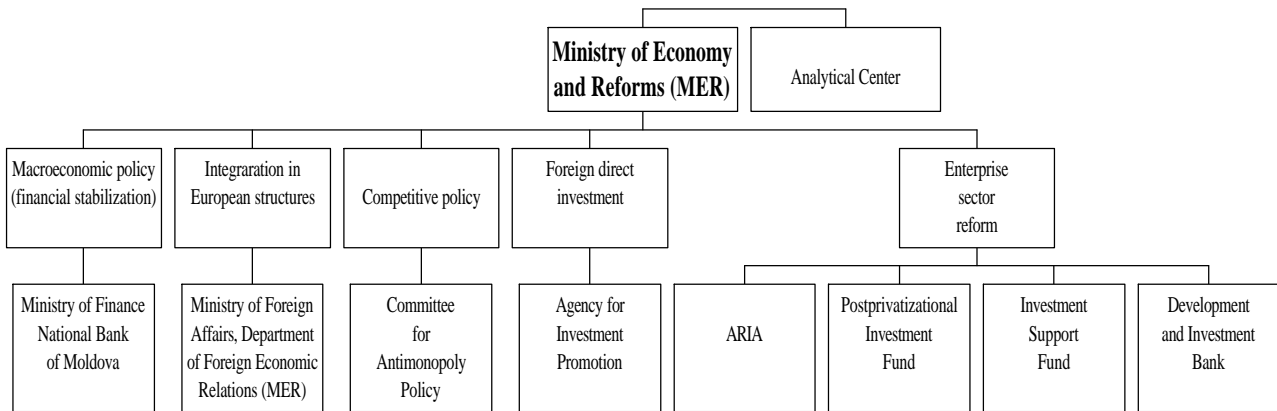
Government approved (in October 1996) the *Concept of Industrial Policy of the Republic of Moldova for the Period till Year 2000*, prepared with participation of UNIDO experts. Methodical background and practical work for restructuring industrial enterprises is implemented starting 1995 within the projects of Agency for Enterprises Restructuring and Assistance (ARIA).

State's industrial policy is a multilateral phenomenon needing a complex approach. For any country, and especially for Moldova, it is specific the influence of globalization phenomenon on economic development. This influence is experienced both at national level, and at international level. At the international level, the problem of implementing "new rules of the game" is posed on the agenda, especially in the following areas: competition between firms on global market, competition between states in attracting limited resources, access to modern technologies. The goals of industrial economy at the international level are generating its reexamination at national level, and interaction with other orientations of governmental policy. Legal basis of the industrial policy should be characterized by tenacity, transparency and responsibility.

Realization of the industrial policy of Moldova implies 3 phases: stopping the decline and attaining a stability of industrial policy; enterprise restructuring, renewing the production, and regaining the level of production as of period prior to reforms; integration into the world economy and adapting to the market demands.

It could be noted that during 1996-1997, Moldova's industry has finalized the first phase and undergoes the phase of growth on a qualitatively new basis, when implementation of industrial policy includes support for the following areas: competitiveness policy, financial stability (macroeconomic policy), attraction of foreign direct investments, fostering the process of cooperation with European partners and integration into the European structures, enterprise reform, including change of ownership forms, and improvement of corporate governance.

The logic of realization of industrial policy in Moldova can be illustrated by the following diagram:



Economic growth needs, at least at the initial stage, an inflow of *investment resources*. Taking into account the fact, that during the next seven years Moldova will not have the legal and institutional framework complying with the standards accepted by foreign investors (Civil Code, Fiscal Code, Labor Code, National Accounting Standards, Customs Code etc.), foreign investments will constitute an insignificant share, even a negligible and not important one, for relaunching and retechnologizing the most enterprises.

Also, during the next years, the budget will not offer substantial sources which could be utilized for reforming enterprise sector. Acceleration of finalizing the privatization process, legalization of the results of privatization are mandatory actions for the enterprise sector reform. Therefore, initial resources should be obtained as a result of structural adjustment.

At the *first stage*, the restructuring process will rely upon the *principle of downsizing* the big enterprises (through sale of non-used assets, through break-ups and spin-offs that would not affect the technological process, renting of industrial spaces to the private sector, having as an objective creation of small and medium enterprises (SMEs) and of employment opportunities, as well as introducing a competition environment among enterprises.

Downsizing has also clear objectives regarding the increase of enterprises' operating performance and diminishing costs (substantial reduction in consumption of raw materials and components (which for instance in industry reaches 65-70%, while in other countries – it is at 50%), consumption of energy resources, cost of credit servicing (of borrowed capital), as well as certain increase in expenditures related to wages and personnel motivation (firstly of enterprises' management through management contracts), and expenditures related to marketing and sales.

Downsizing, break-offs, spin-offs have the main goal of generating positive cash-flows that would allow for repayment of all obligations and payments, as well as accumulation of funds needed for further investments, employing also funds from World Bank's lines of credit (in cases when the projects are well formulated and economically backed).

Diminishing losses and growth in efficiency are important elements for obtaining additional resources for extending competitiveness of Moldovan goods and products.

Efficient *management of fixed assets and working capital* (turnover of stocks of raw materials, finished commodities, clearing capital) is critical in this period for the success of enterprise sector reform.

It is important that as a result, there are funds generated from the inside of the sector, along with attraction of entrepreneurial capacities and abilities which do not need essential foreign investments.

This process of restructuring and reorganization should be accompanied also by reorganization and liquidation of big loss-making enterprises, and it should be implemented by legal institutions according to the Law on Bankruptcy. *Bankruptcy* of huge enterprises would also contribute to the enforcement of financial discipline, forwarding of correct signals to other economic agents, and would make available (through sale at a market price) the non-used

resources (industrial fields, fixed assets, material working assets and clearing capital), and consequently would lead to an efficient usage of the existing potential.

During this period, it is necessary to apply *new financial instruments* related to sale of debt, converting it into shares and vice-versa, all oriented towards replacing the creditors and passive owners by initiative and innovative persons, which could effect the above-mentioned changes. Initially, because of lack of capacities and abilities of the legal system, the role in organizing the restructuring process would belong to creditors through the Council of Creditors, and Agency for Enterprise Restructuring and Assistance.

As additional conditions for acceleration and successful evolution of restructuring process, necessary are:

- elimination of barriers and obstacles in registering the economic entities;
- quick implementation of new accounting systems;
- simplifying the sale of assets procedure;
- launching a simple procedure for selling the industrial spaces;
- rapid investments in entrepreneurial and managerial capacities through implementation of a "Marshall" program, efficient usage of technical assistance;
- introduction of special programs at high schools and universities related to entrepreneurship;
- substantial reduction of control organs and agents at enterprises;
- simplification and solution of the problems regarding access to credit resources (collateral, guarantees, sophisticated business plans), as well as of the terms of examination of requests for loans.

During this period (2-3 years), it is also necessary to support the process of setting up and association of enterprises into financial-industrial groups in all segments: retail, distribution and infrastructure, production, that should be based on advantageous principles of cooperation and strategic alliances with long term interest range. The degree of specialization and diversification must ensure a maximal flexibility, along with minimal risks for all partners.

Benchmarking would serve as a reference point for development strategies and prospective view of enterprises.

Further engagement in the restructuring process of the owners, investors, would allow for this process to become irreversible and continuous.

The second stage of restructuring (3-4 years) would imply implementation of *enterprises' certification* (ISO 9000) of the entire quality control system, of the "Just in Time" principles, both in the production process, as well as in distribution and trading. For a successful implementation of these new management systems, it is necessary to accept the model of continuous improvement and substantial investments in human capital, a priority being given to managerial capacities and abilities (a good example here is the experience and success of the South-East Asia countries, totally lacking natural resources).

Rapid adjustment to the demands of *Hazard Analysis Critical Control Points standards* for the agricultural and food products used by the European Union (or similar FDA standards for the American market), as well as receiving the "CE-Mark" for textiles, leather, electric appliances, would contribute to a fast promotion of export not only on the said markets, but also on traditional markets. *Quality, productivity and competitiveness* are key factors for the restructuring of the enterprise sector in this period. Thus, the Government must promote encouragement and stimulation of setting up quasi-public structures (technical assistance centers, business centers, productivity, competitiveness and engineering centers, consulting and training firms), and quasi-private structures: industrial parks, technological incubators, as well as of functions that actually lack enterprises – marketing and sales, research & development, partially personnel function.

It is of a particular importance restructuring and adjustment to the norms and regulations of the European standards, regarding to terminology, sizes, capacities, testing methods marking, of the packaging producing enterprises (glass, bottles, cardboard, labels for food industry).

Taking into account the existing situation, and limited resources, the industrial strategy and politics oriented towards enterprise sector reform should be based on the pro-active approach, which however must not affect the main principles of the market economy, that will ensure the success of structural changes and economic growth.

It has not been stressed upon in this chapter the importance of infrastructure (energy sector, transport, telecommunications etc.), therefore coordination of reform at the macro and medium level is also critical for the success of enterprise sector reform.

A crucial importance in the process of enterprise reform, as well as re-launching the industry in general, represents the formation of a modern *management* (highly qualified, operating on computers, knowing foreign languages).

Limited resources cause the need in picking up priority branches for performing restructuring and for state's support. Choosing of priorities will be based on analysis of different criteria, which characterize branch's efficiency in the market economy:

Criteria of choosing priority branches*

	VA for one employee	Demand	Impact of the economy	Effect on exports	Level of technological developm.	Total ranking
Wine industry	H	M	H	H	M	H
Canned industry	H	M	H	H	M	H
Tobacco and tobacco products	H	M	H	H	M	H
Sugar	H	H	M	H	M	H
Textiles and clothing	L	M	L	L	M	M
Leather and leather products	M	M	L	L	M	M
Polygraph and paper production	H	M	L	L	M	M
Chemical production	M	M	L	L	M	M
Machinery construction and metallurgy	L	L	L	L	L	L
Construction materials	M	M	L	L	M	M
Furniture and other branches	M	M	L	L	M	M
Production of electricity	M	H	H	L	L	H

* *H* – high ranking, *M* – medium ranking, *L* – low rating

Taking into account the industrial potential already created in the Republic of Moldova, the needs of domestic market and possibilities to penetrate external markets, it is recommended, under implementation of the country's industrial policy till year 2005, to concentrate the attention on 3 groups of branches:

Group 1 – branches that are based on local raw materials and which maintained their markets: food industry (wine production, cannery, sugar industry, tobacco, oils and fats, confectionery);

construction materials industry (base gypsum production, cement, materials for walls, glues, insulation materials, ceramics);

light industry (leather processing, footwear, carpets);

pharmaceuticals;

cosmetics and perfumes;

local industry and artisans.

In these branches, needed is a short-term reconstruction and technological re-equipping, an active work towards increasing the quality of production and adapting the enterprises to external markets demands.

Group 2 – branches based on imported raw materials, which have a potential market, but need restructuring:

light industry (textiles, knitted wear, artificial leather and rubber items);
machinery construction industry – production of pumps, medical equipment, electronic and electric devices (TV sets, refrigerators, washing machines);
furniture industry;
chemical industry;
producing packaging materials.

Group 3 – a) enterprises with high consumption of energy and raw materials which lost the sales markets, and b) enterprises with high capacity and a reduced consumption of materials, which worked for military-defense complex, which should be re-profiled for civil production. Enterprises from this group constitute objects of long-term restructuring within some special programs having a state level importance.

Subgroup a.: production of tractors and machinery for agriculture, industrial refrigerators (including containers), technological equipment for the food industry; subgroup b.: radioelectronics, automation equipment and devices (conversion into production of means of telecommunications, energy saving and UPS systems, medical equipment, counters of electricity, water, gas, thermal consumption etc.).

Taking into account the experience of other countries in transition (Slovenia, Poland), it is necessary that the Parliament, upon Government's presentation, would approve till the year 2000 the list of **priority branches or enterprises**, which need to be stimulated in their development applying fiscal and crediting facilities stipulated by acting legislation.

As an important form of concentrating resources, **special oriented programs** should be put in place:

- *Conversion of production of enterprises from radioelectronics complex* (6 subprograms: Energy, MedFarm, AgroIndustry, Marbacaf, Paza, Calculation, Internet, Telecom, Marfa (Commodity);
- *Production of technical means for agri-industrial complex;*
- *Production of electric pumps;*
- *Production of audio & video equipment, telecommunication systems;*
- *Production of medical equipment and pharmaceuticals;*
- *Production of machinery and electric home appliances;*
- *Restructuring of energy complex;*
- *Development of construction materials industry;*
- *Development of food industry.*

Strategic objective of Moldova's industrial policy is the formation of a competitive industrial complex with a number of branches, corresponding to the European standards, which could ensure a stable economic growth (under conditions of an unstable key branch – agriculture), increase in exports and in households income.

4.6 Agrarian reform and development of agri-industrial complex

Current situation and problems

For over half a century, agri-industrial complex of the Republic of Moldova developed in conditions that had nothing to do with the market economy. During the transition period, considerable efforts have been made to reform property relations, create competitive production, modify and diversify foreign economic relations. At the same time, efforts to overcome crisis in AIC were unsuccessful. This crisis has a structural nature and it has been provoked by contradictions that appeared during economic integration into market economy of the structures inherited from the planning system.

Tendencies in AIC development. Traditionally, agriculture in Moldova has been oriented towards production of grapes, vegetables and fruit. However, during the last years, a reduction of areas sown with perennial cultures as well as with vegetables and tobacco was registered. Number of areas sown with grain and sunflower increased, which compensated reduction in the yields of these crops and helped keep gross production volume at a level ensuring food security of the country. A more considerable recession in production was registered in cattle-breeding. Production of main products (meat and dairy) fell by 63% and 45% respectively as compared to 1990. In food-processing industry, the crisis affected mainly the branches oriented towards domestic market, *i.e.* meat and dairy industries. In comparison with 1989, the basic products' consumption per capita considerably diminished. Export-oriented branches maintained their positions only in terms of some products. Production of apple-juice concentrate and sparkling wines rose.

Foreign trade. Moldova has traditionally been an important exporter of agricultural and food products. Loss of former markets and decline in production caused by the transition to a market driven economy, resulted in a significant decrease of exports. Even in these difficult conditions, exports of food products many times exceeded imports. In 1994-95, exporting started to be more active, the main items exported being apple juice concentrate and wines. Growth of export in these years was accompanied by an increase of food products imports, the total volume of the latter having continued to be insignificant and not exceeding 15% of exports. Starting in 1996, negative trends in foreign trade of food and agricultural products have become evident. Exports decreased and the share of imported agricultural and food products substantially increased.

Reforms in AIC. Some progress in the creation of market-oriented agrarian sector in Moldova is evident. However, implementation of reforms is characterized by the contradiction between pro-reform and conservative powers which resulted in government's inability to solve the most difficult problems of the transition period in a consistent manner. Liberalization of prices and formation of market relations in agriculture, process of de-monopolization of material and machinery supply and purchasing, completion of the first stage of privatization in the food-processing industry, commencing of land reform are among the main achievements of the reform process. At the same time, the most important problems of the reform (such as formation of a land market, competitive processing industry and market infrastructure) have not been solved as yet. The process of reforms is characterized by contradictory decisions and dragging-back to the centralized economy. Sometimes, there is a tendency to solve social problems connected with the reforms at the expense of agricultural producers.

Land reform. As a result of land privatization, significant changes in land ownership in agrarian sector took place. In comparison with 1990, when practically all agricultural lands belonged to sovkhozes and kolkhozes, only 17.3 % of those lands remained state-owned in 1997, out of which 13.6% were the land reserve. However, only 24% of land which was not in state ownership was privatized *de facto*. The land-tenure structure illustrates a considerable increase of land share in people's private subsidiary farms (personal land plots received as a result of "small privatization"). State agricultural enterprises practically disappeared during that period of time because most of them had been transformed into new forms of collective ownership and received their lands and property from the state.

Structure of land ownership (in % of agricultural lands)

	1990	1996
Lands in state property:	32.3	17.3
out of which		
State agricultural enterprises	27.0	1.0
Reserve fund	0	13.6
Kolkhozes	59.4	23.1
New corporate forms	0	38.9
Peasant farms and associations thereof	0	2.8
Peasant farms	0	4.8
Private subsidiary farms	8.3	13.2

Share of lands belonging to large-scale enterprises decreased from 87% in 1990 to 58% in 1997, mainly because lands had been turned over to individual sector and reserve fund.

Land privatization in Moldova started from "small privatization" which resulted in general increase of land areas of private subsidiary plots – from 180,000 hectares in 1990 to 300,000 in 1992. Following that starting phase, the major privatization program began. During implementation of this program, owners were given land titles.

Privatization through distribution of land plots encompassed 1.5 million hectares of the total area of agricultural lands (2.5 million hectares). The overall number of land owners is 1.03 million people. Distribution of land plots is practically finished. Out of total number of persons entitled to land plots, 94% received titles by January 1, 1998. Yet, only 176,000 people have received their land plots already.

Structural changes. Transfer of production into private sector should be considered the most significant structural change. In 1997, private subsidiary farms together with peasant farms produced 51.7% of agricultural output, including 66.7% of cattle produce. At the same time, large part of agricultural plots is still owned by large-scale units which have not developed yet effective mechanisms to ensure high productive labor. It is planned to restructure about 10% of large collective farms by the beginning of 1998.

Fragmentation of land ownership is a serious problem for the development of the land private sector in Moldova. In accordance with the results of a selective opinion poll of 1,000 peasant farms from 27 raions of the republic, more than 75% of them owned 3 to 6 land plots and only 10% owned more than 6 plots. The average land plot in the Republic equals 1.5 hectare. Taking into consideration these data, it is clear that private land ownership cannot develop without a land market.

The law "On Normative Cost of Land and the order of land purchase and sale", passed in August 1997, should constitute the legal basis for its formation. However the law so far is not supported by a mechanism for its implementation, and, what is more important, the system of legal administration of land cadastre is missing.

Shortage of funds in agriculture. The outflow of funds from the agricultural sector is going on. The collective farms have practically ceased investments. A serious problem is their debts' growing. In 1997, they stood at 90% of the overall sales volume and services in the collective farm sector. A series of farms incur costs outrunning the sales volume, which unavoidably leads to their bankruptcy. The agrarian lending is still underdeveloped. Out of the overall volume of commercial banks' credits (1.32 billion lei), only 100 million were in agriculture, a minuscule amount compared to the role of agriculture in the national economy. Due to insufficient state and private investment, branches that supply raw materials to main exporters – wineries and canning plants – are deteriorating.

Social development of rural areas. In conditions of the administrative economy, large agricultural enterprises traditionally played a significant role in social development of rural regions. Local governments were practically totally dependent on agricultural enterprises located on their territory. Crisis in agriculture aggravated the social problems in rural regions. Employees of large agricultural enterprises – where the level of all incomes in 1997 amounted to 80% of average wage in national economy – found themselves in the worst situation. The volume of benefits provided by large collective farms to their employees sharply declined. Employment problem has aggravated in rural regions, including in non-agrarian and construction sectors.

Aims and tasks of agricultural complex development.

Agrarian policy must be directed to the improvement of food products supply of the country, formation of new industrial structure in correspondence with needs of domestic and foreign markets.

Short-term objectives of AIC development:

- completion of privatization and creation of property relations characteristic of a market economy in which mechanism of motivation for high-productive labor should be used to the fullest;
- development of export of production to traditional and new markets;
- improving supply of the population with food products;
- resolution of urgent social problems in the most depressed rural regions.

Long-term objectives:

- increasing productivity competitiveness based on structural reconstruction and introduction of new equipment and technologies;
- enhancing the well being of the rural population;
- preserving of natural landscapes and ecological systems.

Proceeding from this set of objectives, it is planned to carry out tasks in the following order:

- in 1998-2000, necessary measures should be taken to overcome crisis in the economy. Immediate normative and legislative acts on functioning enterprises of all economic types, regulating all economic forms in agriculture, agri-service, processing and sales should be adopted. The system of crediting institutions servicing AIC should be improved. Investment activity needs to be fostered; industrial structure needs to be adapted to the new conditions, market infrastructure should be formed;
- in 2000-2005, structural reconstruction of agri-industrial complex should be continued, growth in finished products on the basis of use of effective technologies, storage and processing

should be ensured. The state has to create a system of supporting the agricultural enterprises' development. Based on concentration of domestic resources and attraction of foreign investment, conditions are to be formed for improving production in all sectors of the agri-industrial complex.

Land relations

Land reform is called for to provide rational management and protection of land as the most important natural resource, to create legislative, economic, organizational, technical and other conditions that have to favor production and increasing land fertility, preserving and improving of the environment, effective development of market economy.

Land reform has already led to a real diversity of land property forms. However, the main purpose of land improvements must be further democratization of land relations and formation of a land market.

The main directions of land relations improvement are as follows:

- completion of land titles distribution;
- strengthening and developing the land private property system in agriculture;
- creation of legislative system regarding land cadastre;
- state control over land management.

Privatization of the land fund should be logically accompanied by introduction of economic mechanisms that stimulate land owners' and land users' responsibility for preserving and improving soils fertility under conditions of scientifically-sound territory lay-out, regular mineral fertilization, application on regular basis of chemical and bacteriological methods of plant protection and maintaining ecological balance of nature.

In order to accelerate land reform it is necessary to undertake the following measures:

- speeding up the process of peasants' titling and setting deadlines and mechanisms for this procedure;
- improvement of the procedure for peasants' withdrawal from collective farms and their registration by local governments;
- analysis of current pilot projects involved in agricultural restructuring with a view to develop suggestions of its improvement;
- carrying out an efficient information campaign on the topics of existing land relations legislation, citizens' rights and responsibilities;
- creation of the land market infrastructure, including the uniform land and property registration system.

Structural policy

The need to restructure and adjust the enterprises in Republic's agri-industrial complex to the new relations established in internal and external markets of production means and food-stuffs is self-evident.

It is necessary that new economic units be aimed at being profitable in conditions of market relations, on the basis of private property on land and other production means.

Social and economic structure of agriculture should be based on principles of equality of all forms of economic administration, free will and freedom of farmers. It is necessary to consider the regional peculiarities of production, traditions and value orientations of the population, and

specific features of the social and psychological perception of reform by different groups of population.

It is important that the national structural policy serve the purpose of setting up viable enterprises in the agri-industrial complex. In the nearest future, it is necessary to overcome excessive fragmentation of land ownership that appeared after the first stage of land reform by ensuring the operation of land market and lease of land.

One of the most important objectives is restructuring of the collective farms. It is necessary to transform them into individual peasant farms or some other corporate structures with effective management systems.

The enterprises ensuring scientific and technological progress in agriculture (new crop development, seed-growing, breeding, etc.) should remain state-owned.

Privatization of agri-processing enterprises is complete. During the privatization period, new organizational forms of entrepreneurship fostering the accumulation of investment finance should be created. Aggregation of banking and industrial capitals within holding companies and financial-industrial groups, through enterprise restructuring, should make it possible to increase the productivity and competitiveness of the finished agricultural produce.

In order to ensure the conditions necessary for production management, purchasing, transporting, storing and processing of the agricultural products, there should be various types of agricultural entities: joint-stock companies, agricultural firms, consortia, scientific and production associations, other kinds of associations, unions, joint ventures.

One of the state measures to resolve the problem of agricultural enterprises' debts can be the application of a mechanism for the state to hold shares of processing enterprises in exchange for debts. Later, packages of shares should be created in order to sell them to strategic investors.

The structural policy should be implemented through the following measures:

- enhancement of financial discipline, implementation of bankruptcy procedure for insolvent enterprises;
- development of alternative mechanisms and other possibilities to restructure the agricultural enterprises;
- efficient enforcement of antitrust legislation in the field of technical-material supply of agriculture, processing and sale of output;
- developing the legal basis for aggregating the banking and industrial capitals within the agri-industrial complex (AIC).

Revitalization of the AIC production capacities

In the process of production capacity improvement, it is necessary to point out two major stages related to the structural restructuring. On the first stage, the main exported products should continue to be semi-finished goods and agricultural materials, particularly grapes, raw-wine, fruits, vegetables, tobacco and tobacco products, limited quantities of vegetable oil and sugar. In these conditions, export and import of animal products is economically unprofitable.

On the second stage, once sufficient amounts of foreign exchange for economic restructuring and introduction of marketing systems, production of cheap and labor-intensive products should be discontinued in favor of products made with the application of advanced technologies and modern machinery in agriculture and processing industry.

The technological level of agricultural production should be determined by the actual state of affairs in the labor and capital markets which requires a revision of previously used concept of agri-industrial complex technical re-equipment.

In current conditions, all sectors of AIC should implement capital- and energy-saving technologies, including those based on solar and wind energy, animal-drafted devices and other traditional sources of energy.

In the institutional aspect, all branches of Agri-industrial complex should avoid large-size forms based on monopolistic and state property, which should make it possible to create premises for implementation of more effective technologies.

In plant-growing and cattle-breeding, together with the use of industrial machinery and mechanisms, various technical innovations should be introduced for mechanization of the hardest manual work in relatively small farmer enterprises.

Revitalization of production capacities of various industries, transportation, construction, trade, communications, and of social services should lead to an increased migration of the rural population to the industrial centers. Part of the population, occupied in agricultural production should move to non-agricultural sectors (services in the rural area) that should grow simultaneously with the normalization of production.

To ensure full employment of the rural population, it is necessary to enhance production of goods that are in demand in internal and foreign markets, and to increase capacities for processing, storage and transportation of raw materials and finished products. In the rural area, it is necessary to implement a set of measures directed toward developing of secondary industrial production. Beside traditional secondary production and craftsmanship, manufacturing of more technically complex products – textiles, construction materials, machinery, etc. – should be developed in the rural area.

The purpose of the Government's economic and social policies should be to increase the inflow of foreign capital into the rural areas. This is why efforts should be continued to ensure the rapprochement of the legislation with the international standards, to familiarize potential investors (business-centers) with the Republic's capacities in developing the industries requiring direct and indirect investment. To speed up the attraction of capital to rural localities, it is intended to create some free economic zones in the raions adjacent to national borders.

AIC production capacity renewal pre-supposes the implementation of the following measures:

- implementation of low-cost, energy-saving technologies;
- creation of an alternative crediting system in the rural area;
- increasing productivity and effectiveness of the agricultural production through development of mobile and flexible human resources;
- attracting foreign capital by creation of the free enterprise zones and technological yards.

External agri-economic policy

International trade in food-stuffs and agricultural products is gradually adjusting to the requirements of the market-oriented economy.

In 1998-2000, export restrictions should be eliminated gradually for food-stuffs and agricultural products. The inter-state agreements on supplies to the CIS should be replaced by the competitive trade. Importation of production means for the needs of Agri-industrial complex should be liberalized.

Development of cooperation with the CIS countries should be promoted by Moldova's participation in the Inter-government Council for Agri-industrial Complex and Organization of the Common Agricultural Market, using the mechanisms of inter-state regulations and implementation of joint programs, creation of production corporations, processing and trade of agricultural products.

In order to integrate into the world trade system, necessary institutional reforms should be conducted. On the last stage of these reforms, Moldova should become a member of the World Trade Organization.

The external economic policy is to be based on the following undertakings:

- negotiations on free-trade regime with the member-countries of the Central European Trade Agreement;
- Moldova's participation in the Inter-governmental Council for Agri-Industrial Complex of the CIS countries;
- revision of tariffs and external trade regime in order to create an effective and less bureaucratic system;
- negotiations with the European Community regarding the status of Associate Member.

Agri-industrial complex management

Ministry of Agriculture and Food is the central managing body of the Agri-industrial complex. The Agri-industrial complex management is carried out on the basis of separation of state and business management at all levels, non-intervention of the Government into business activities of the economic entities which should have the rights to create their own business economic bodies and social institutions.

The functions of government management should be limited to the following:

- coordination and monitoring of development of technological and technical policies, national standards, veterinary control, plants protection, control of the use of quality seeds, stock preservation, rational use of land;
- provision of services, information on internal and external markets, scientific and consulting assistance, personnel training;
- analysis, monitoring, summarization and identification of reasons and consequences of changes in the AIC economic development.

In the future, goods-producers' self-government should be increased, which, based on their free consent and at their expense, should create management bodies effectively protecting their interests. Producers' associations should be created in each food-stuffs sub-complex.

The increase in efficiency of public management in agriculture should be based on the following measures:

- adaptation of the management functions of the Ministry of Agriculture to the needs of market economy;
- restructuring at all levels of the agricultural education system;
- establishing a network of know-how and consulting firms;
- rationalization of the agricultural research institutions system.

Social and cultural development in the rural areas

Social development policy should be based upon providing high living standards of all social layers of rural population, creation of wholesome living environment for the rural population. Social and cultural changes in the rural area should be oriented at revival and development of the national, cultural and historic traditions, improvement of moral and physical health of farmers, and promotion in society of respect toward farmers' work.

It is necessary to stimulate, by means of loans and subsidies, the construction of apartments for young families in the rural area, there should be stimulated women's, children's and elder people's working at home, production of means to mechanize the hand-work.

It is necessary to revise the distribution of funds from state and local budgets for up-keeping the social infrastructure, regular functioning of schools, cultural, educational and medical institutions. It is necessary to support enterprises and organizations involved in the construction of objects of social infrastructure in rural area. The state social development policy should be aimed at implementation of large-scale programs of construction of health-care objects, development of water- and gas-supply systems, telephone network, republican roads network; speeding up the development of the social infrastructure of Moldova's southern districts.

The local governments should establish Funds for Social Development of Villages financed by voluntary donations by enterprises, organizations and farms meant for construction and maintenance of schools, hospitals, kindergartens, local water-supply systems and other objects.

Implementation of social development policy pre-supposes:

- undertaking measures to reduce the anthropogenic impact on the environment (creation of environment protection zones, natural reserves, man-made water dams);
- improving sanitation conditions in rural settlements;
- granting tax breaks and other incentives to enterprises investing in the rural areas, leading to creation of new employment possibilities;
- development of local governments, including by way of forming an NGOs network in the rural areas.

Increased role of the state in promoting agrarian reform, establishment of new market relations in the Agri-industrial complex – Moldova's key strategic sector, should make it possible to facilitate overcoming of crisis and should boost Moldova's economic development.

The implementation of the strategy for country's development as a whole, will depend, in general, on the extent to which the reforms of Agri-industrial complex, land and rural development are successful.