

Center for Strategic Studies and Reforms (CISR)

Quality of Growth – Changing Priorities

Calitatea creșterii – modificarea priorităților

Качество роста – смена приоритетов

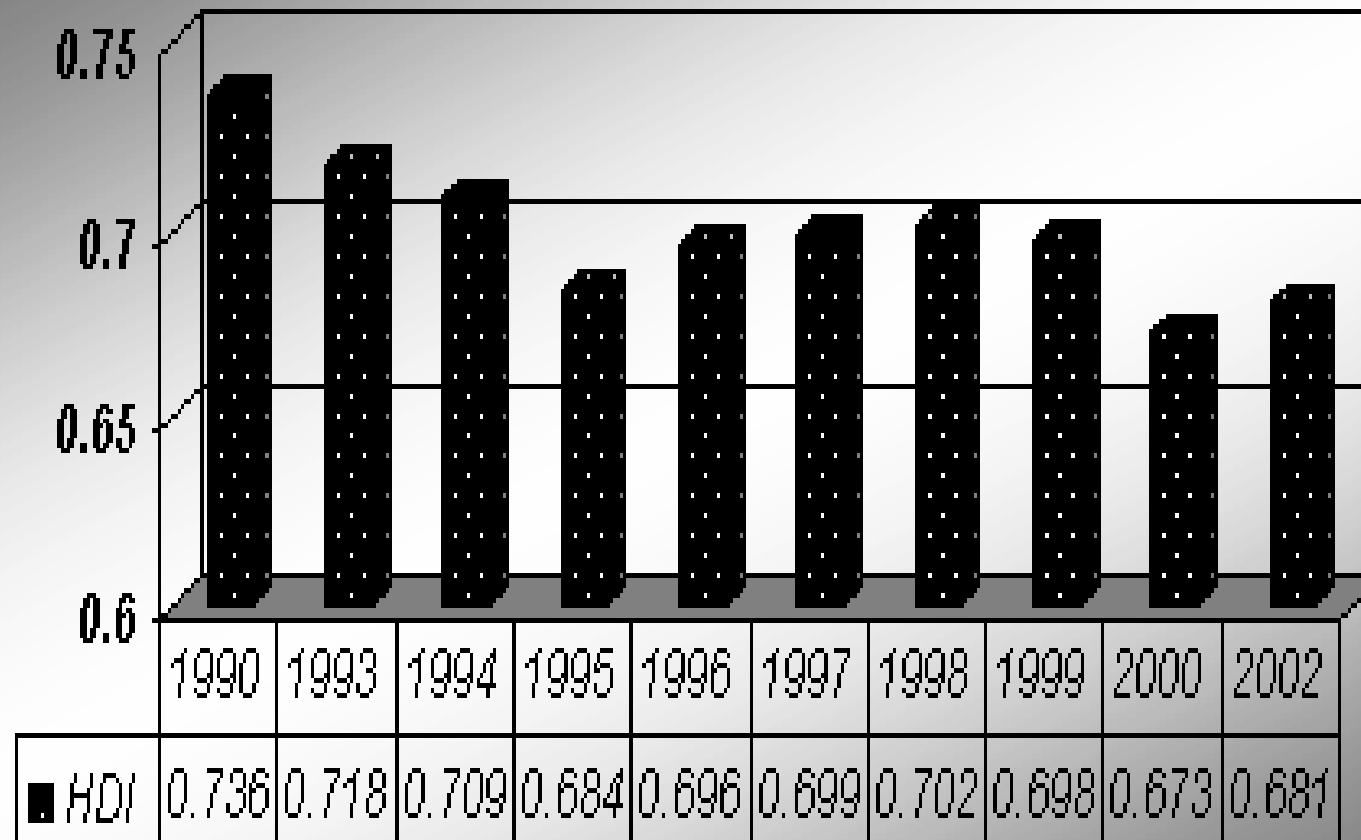
Ministry of Economy/TACIS

Seminar “EG-PRSP and Donor Coordination”

September 28-29, 2004

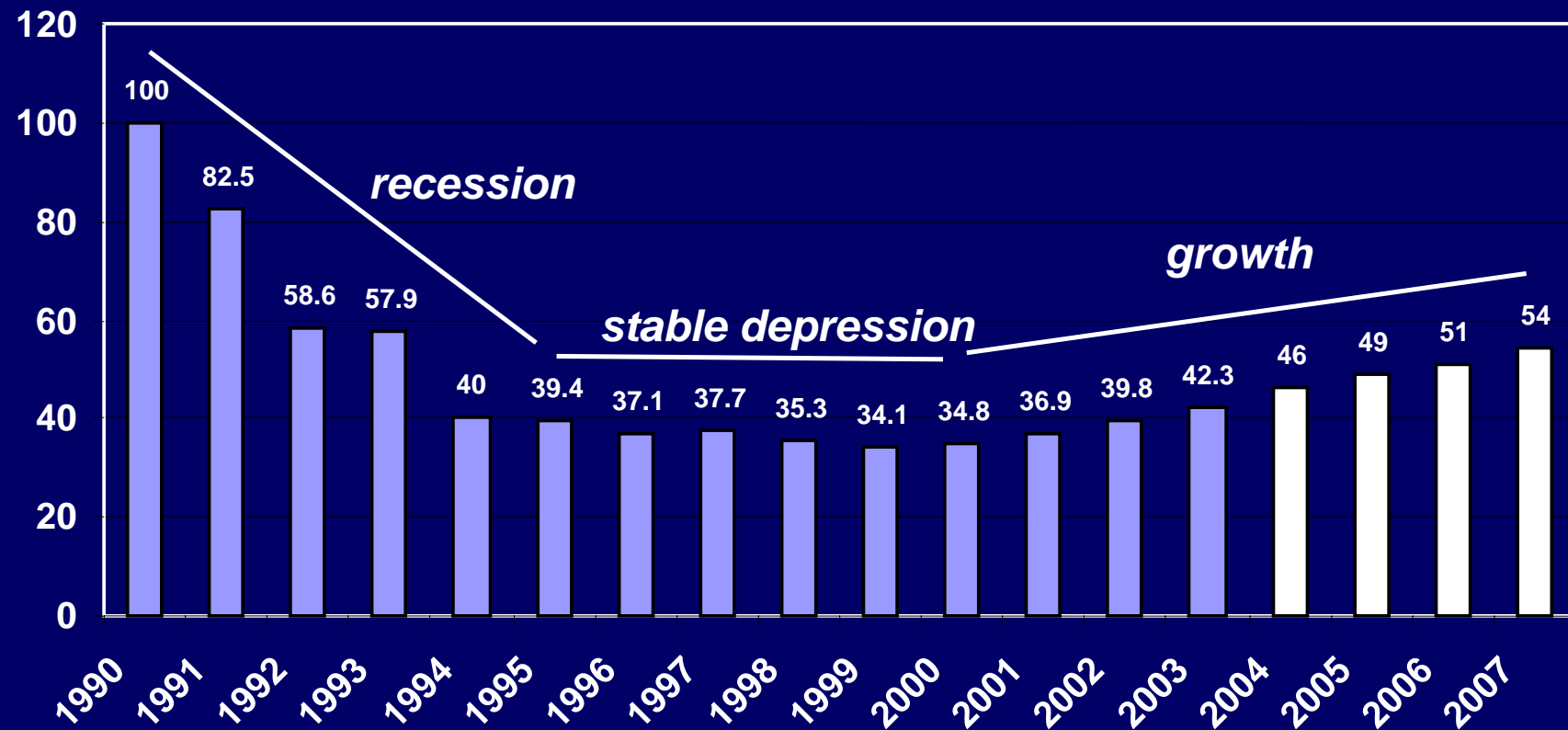
Moldova:

Human Development Index Trends



Source: UNDP, NY, 2004

GDP Growth in Moldova



Source: DSS, Ministry of Economy, 2004

Experience of Aid Coordination

Drawbacks related to the Government:

- Lack of clearly formulated priorities and a balanced strategy of reforms;
- Insufficient coordination and control of the technical assistance (TA);
- “Spontaneous actions” of ministries and departments that long for TA;
- Insufficient transparency of elaboration and realization of projects.

Reserves and defects of donor organizations:

- Arguable selection of areas for rendering of TA;
- Sluggishness in project building, unsatisfactory quality of monitoring, parallelism of actions of different projects in identical areas;
- Predominance of consultations, “papers” and insufficient “hard aid” share, investment component within the TA structure;
- Hidden manifestations of corruption, “softening” of relations between projects management and state bodies.

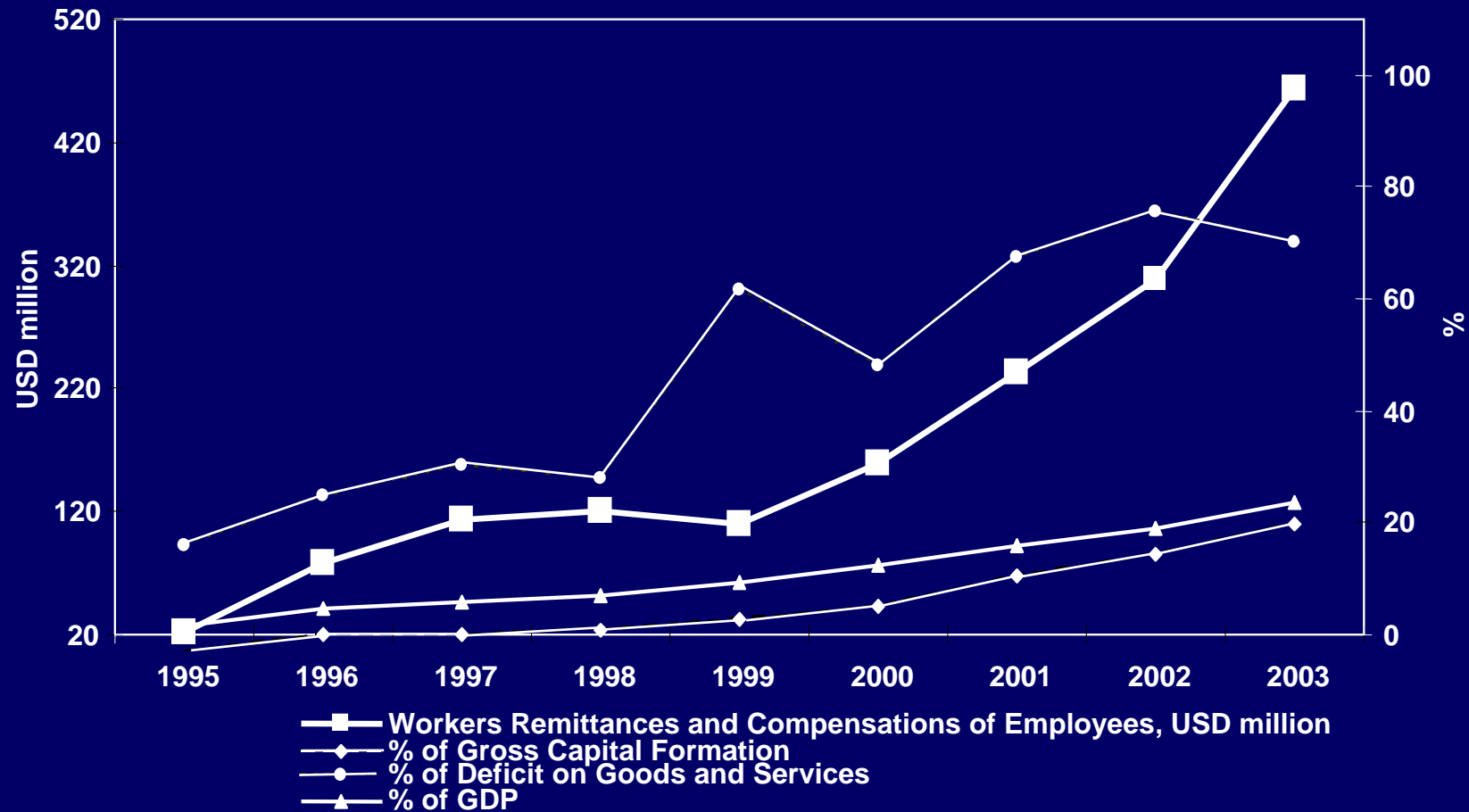
Source: TACIS/CISR, 2003

Structure of Moldova's GDP

Indicators	2000	2001	2002	2003	2004	2005	2006
	<i>De facto</i>				Forecast		
GDP growth, %	102,1	106,1	107,8	106,3	106	105	105
GDP Structure, %							
<i>Gross Value Added</i>	87,5	88,0	87,3	85,6	85,0	84,9	85,2
agriculture	25,4	22,4	21,0	19,3	17,1	16,2	15,0
industry	16,3	18,7	17,3	17,8	18,2	18,8	19,6
services	48,2	49,2	51,0	50,8	52,2	52,5	53,3
financial intermediation services indirectly measured	-2,4	-2,3	-2,1	-2,3	-2,5	-2,6	-2,7
<i>Net taxes on products and import</i>	12,5	12,0	12,7	14,4	15,0	15,1	14,8

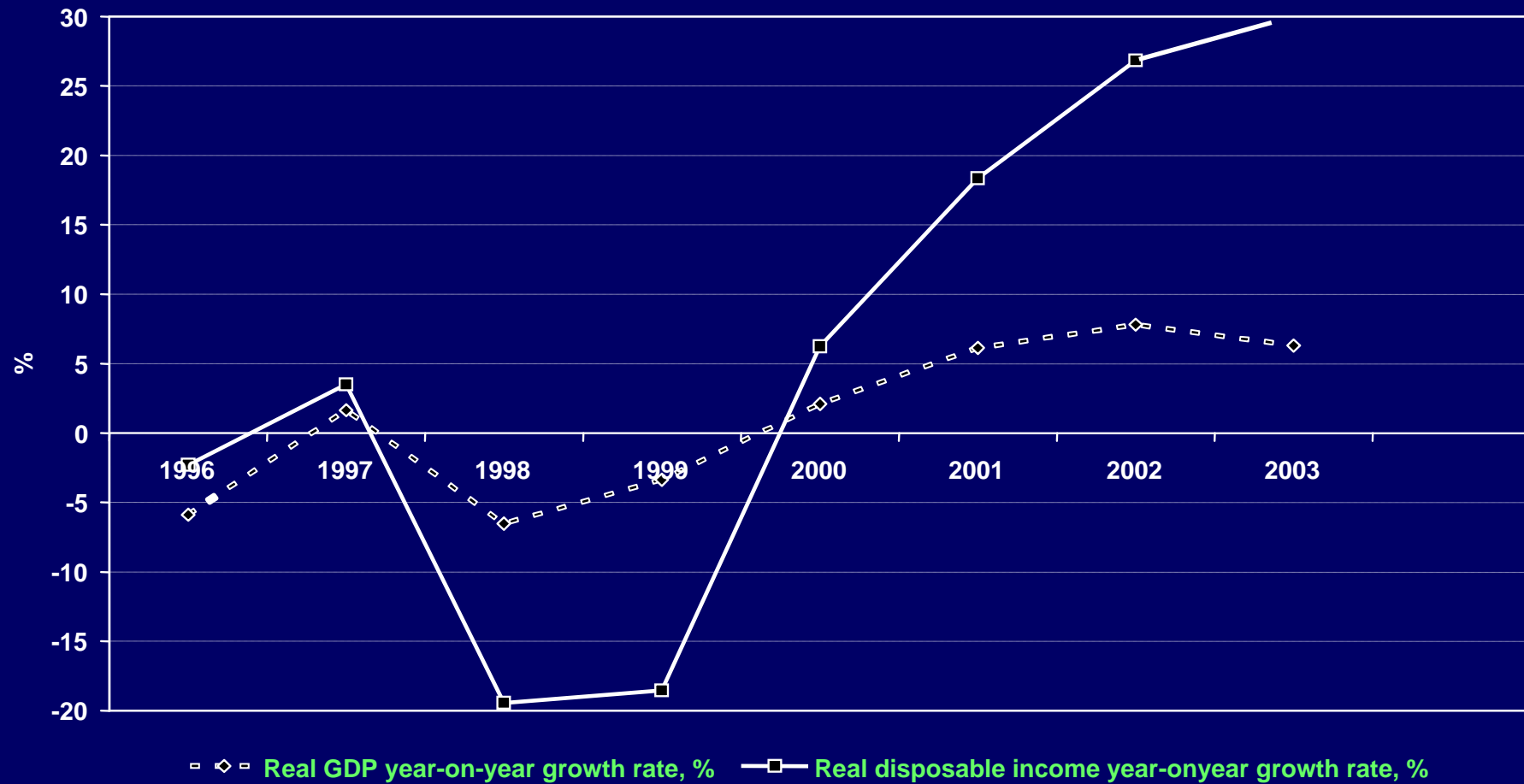
Source: EG-PRSP, p.144

Remittances



Source: NBM/CISR, 2004

GDP and Disposable Income



Source: DSS/CISR, 2004

PRSP Framework Principles

- **Country should have Poverty Reduction Strategy as a legal document;**
- **Main attention to monitorable results;**
- **Multidimensional character of poverty calls forth comprehensive approach to the poverty reduction;**
- **Partnership relations between the Government and the Donors' Community;**
- **Combination of medium and long-term targets.**

Source: IMF/WB, 2000

EG-PRSP Priorities

Main Goal:

**Sustainable and Socially Oriented
Development**

Key Idea:

**“To change the Paradigm and Quality
will require mobilization of new sources
and factors of growth”**

Source: EG-PRSP of Moldova, 2004

Middle-Term Actions

- Harmonization of *Moldovan Legislation* with European Legislation;
- Improvement of *relations between state and private sector*, amelioration of business climate;
- *Reduction of shadow economy*, avoidance of “seizing the state” by elite groups pursuing their own ends;
- *Build-up of “growth poles”* in real sector, social sphere and regional development;
- Participation in the *process of sectoral integration* with the EU.

Long-Term Changes

- **Structural reforms in the industry, agriculture and infrastructure;**
- **Reintegration of the common territorial - economic complex (Moldova/ Transnistria);**
- **Reformation of the social welfare system;**
- **Human capital development;**
- **Channeling growth to ease poverty.**

GDP per capita, 2003 vs 1991

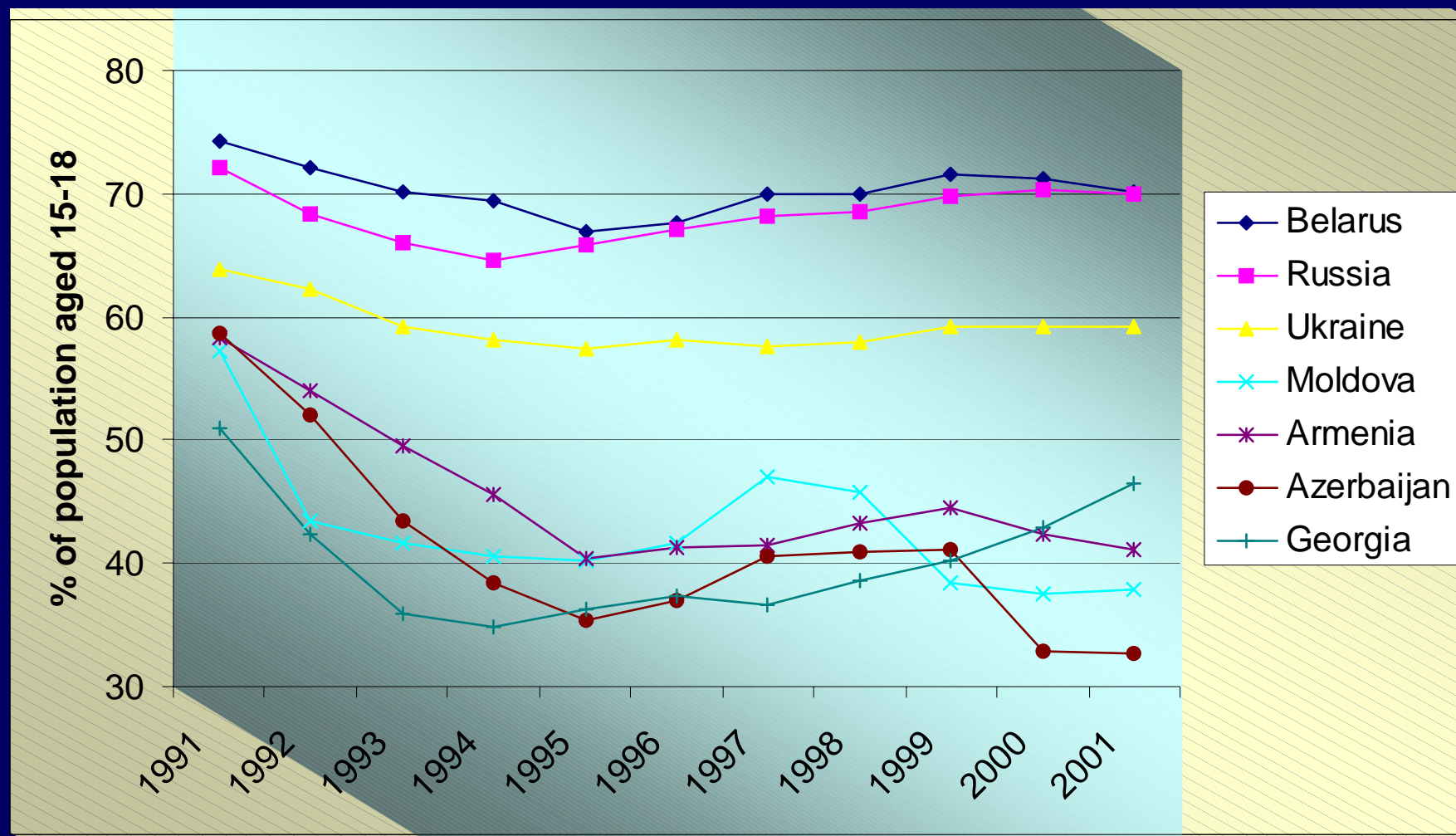
(1995 international \$ at PPP)

12

	1991	2003	Change
Hungary	\$9,011	\$12,673	+\$3,662
Poland	\$5,996	\$10,108	+4,112
Russia	\$8,966	\$7,997	-\$969
Ukraine	\$7,189	\$4,759	-\$2,430
Moldova	\$2,894	\$1,308	-\$1,586
Tajikistan	\$1,525	\$973	-\$552

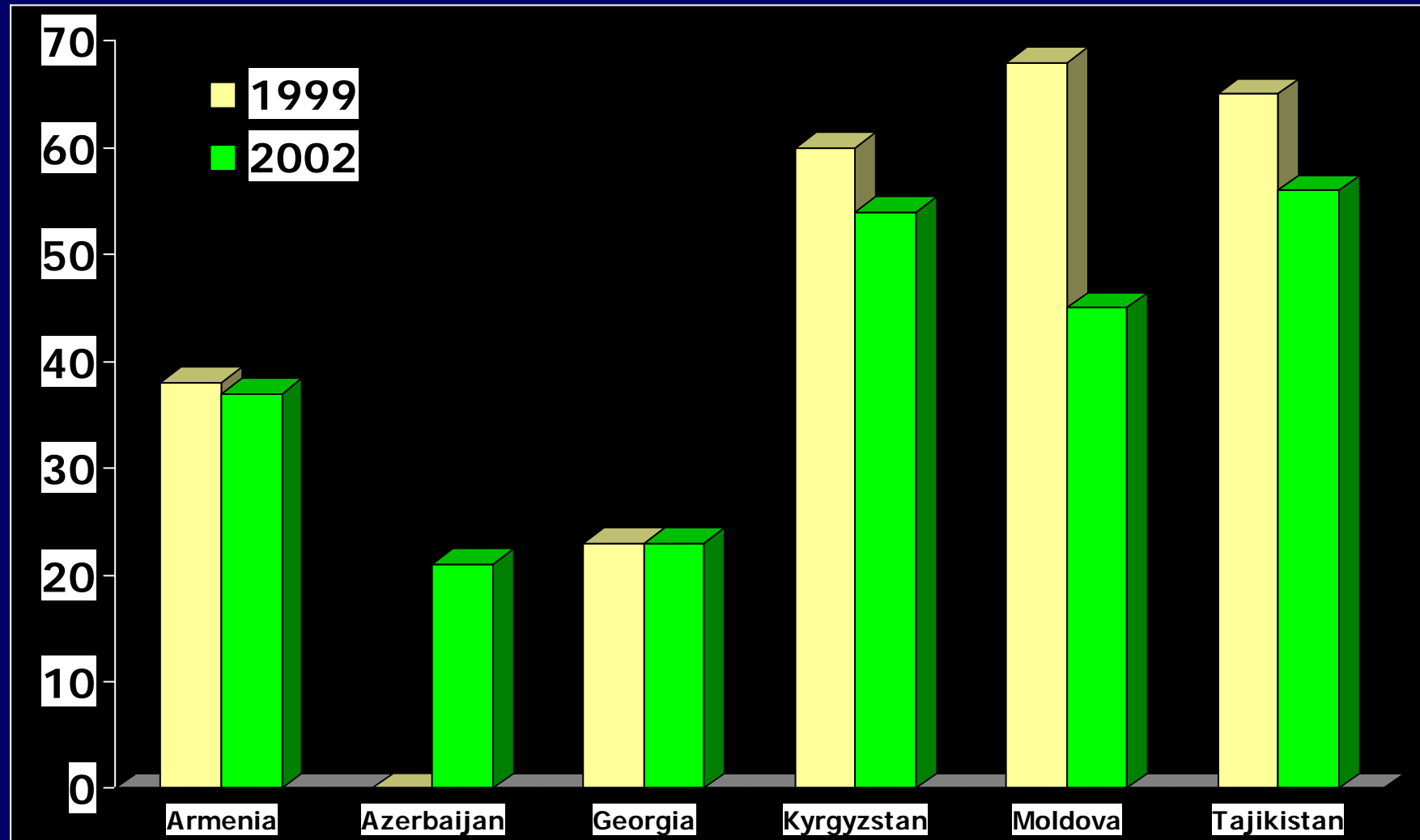
Source: World Development Indicators database

Education: High School Enrollment, 13 Western CIS and Caucasus



Growth Reduces Poverty

(% below US\$ 2.15 per day at PPP)



Source: IMF/World Bank CIS-7 update, 2004

Channeling Growth to Ease Poverty

15

In sustaining robust growth while better fighting poverty, three key challenges:

1. Correcting a *skewed business structure* that inhibits “bottom-up” job growth, esp. SMEs
2. Adapting the *social welfare system* to modest financial resources and low taxes
3. Halting and reversing an acute *crisis in “human capital”*

Priority Areas for Donors' Cooperation

- **Legislation, Institutional Environment**
- **SME Sector Development**
- **Social Welfare System**
- **Human Capital Development**
- **Decentralization, Regional Development**