

Center for Strategic Studies and Reforms

Moldova in transition

ECONOMIC SURVEY

No. 6, 2000

Chişinău, July 2000

CENTRUL
*de Investigații Strategice
și Reforme*



CENTER
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CONTENTS

<i>PREFACE</i>	3
1. MACROECONOMIC INDICATORS AND PROBLEMS	
1.1. FINANCIAL SECTOR EVOLUTIONS - FIRST HALF OF 2000	4
1.2. OBSERVATIONS ON SOME CURRENT ECONOMIC PROBLEMS	14
2. AGRARIAN REFORM: STEPS IN THE RIGHT DIRECTION?	18
3. ASSESSMENT OF THE NEGATIVE IMPACT OF THE 2000 DROUGHT	21
4. SMALL AND MEDIUM BUSINESS: NATURE AND PROBLEMS	35
5. INVESTMENT CLIMATE	39
6. LIVING STANDARDS	
6.1. EVOLUTION OF THE LIVING CONDITIONS OF THE POPULATION	45
6.2. A DIAGNOSIS OF THE SOCIAL PROTECTION MECHANISM	57
7. POLITICAL BACKGROUND OF THE 2000	63
<i>ANNEXES</i>	67

PREFACE

The year 2000 started for the Republic of Moldova in extremely difficult circumstances after dramatic Governmental crisis (Nov.-Dec. 1999) and Parliament's refusal to privatize a handful of wineries and tobacco enterprises, which blocked the relations with the IMF and WB. Moldova has really encountered the threat of default and subsequent financial and social turbulence.

The Government under D. Braghiș succeeded, however, in controlling the situation: commitments have been met with regard to foreign debts, debts to National Bank repaid, inflation and national currency exchange rate up-kept within reasonable frames and, improvements have been recorded in terms of tax collection. In conditions of lack of external financial support the Government attempted to resort to internal reserves – to activate the real sector based on structural reforms, support small and middle business, improve investment climate and promote exports. Unfortunately in this regard the situation is improving too slowly. This fact is the main reason of depression on the labor market, as well as the mass, and often illegal, migration abroad to earn a living; worsening living standards of the population. The sad conclusion is that after ten years of reforms the poverty became a depressing reality for most part of the population of the country.

Quality of Governance is the key issue, which draws attention now in the Republic of Moldova. The country which was considered as “a model of correct reforms, perfect laboratory for their implementation” (Economist, March 1995), now turned into one of poorest and badly governed country of Europe, and the question is raised: “Can Moldova get worse?” (Economist, July 2000).

Unfortunately the process of strengthening the statehood and reforms implementation has been carried out under the strong and negative impact of the political factors and at the same time without a jointly acknowledged long-term national strategy for development, which makes possible to provide for a consecutiveness of the changing governments.

This Survey comprises studies carried out by the CISR and cooperating experts. The opinions and conclusions presented in this survey entirely belong to their authors and do not necessarily express the viewpoint of any organizations or governmental structures.

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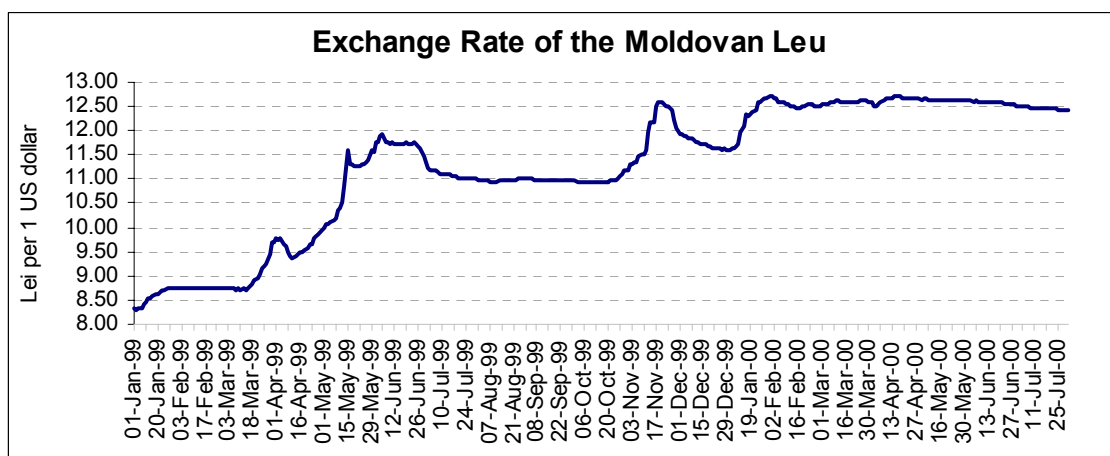
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1. MACROECONOMIC INDICATORS AND PROBLEMS

1.1. FINANCIAL SECTOR EVOLUTIONS - FIRST HALF OF 2000

Despite the anxious expectations regarding financial sector that dominated in the beginning of 2000, it was succeeded to keep the situation in this sector during the first half of the year under control as a result of weighed and coordinated actions of Government, its collaboration with the National Bank and the continuing contacts with international organizations and donor countries.

Evolution of the nominal *exchange rate of the Moldovan leu* against the US dollar has shown a remarkable stability during the first half of year 2000. While in the period of 1 January-31 July 1999 the leu has depreciated from 8.32 lei/1US\$ to 10.99 lei/1US\$, i.e. by 32% (expressed in domestic currency terms), then in the same period of the current year the nominal depreciation has constituted only 7%. In fact, it should be noted, that a more accelerated depreciation in the current year was only in January, the pick being reached at 1 February (12.72 lei/1US\$), and after that a period of stability followed (the „corridor” with 12.5-12.7 lei/1US\$ in February-June), accompanied even by an appreciation of the leu in some periods of time. The most significant appreciation has started on 15 April (12.695 lei/1US\$) and continues by the moment this report is written (at the beginning of August the exchange rate was 12.4 lei/1US\$).

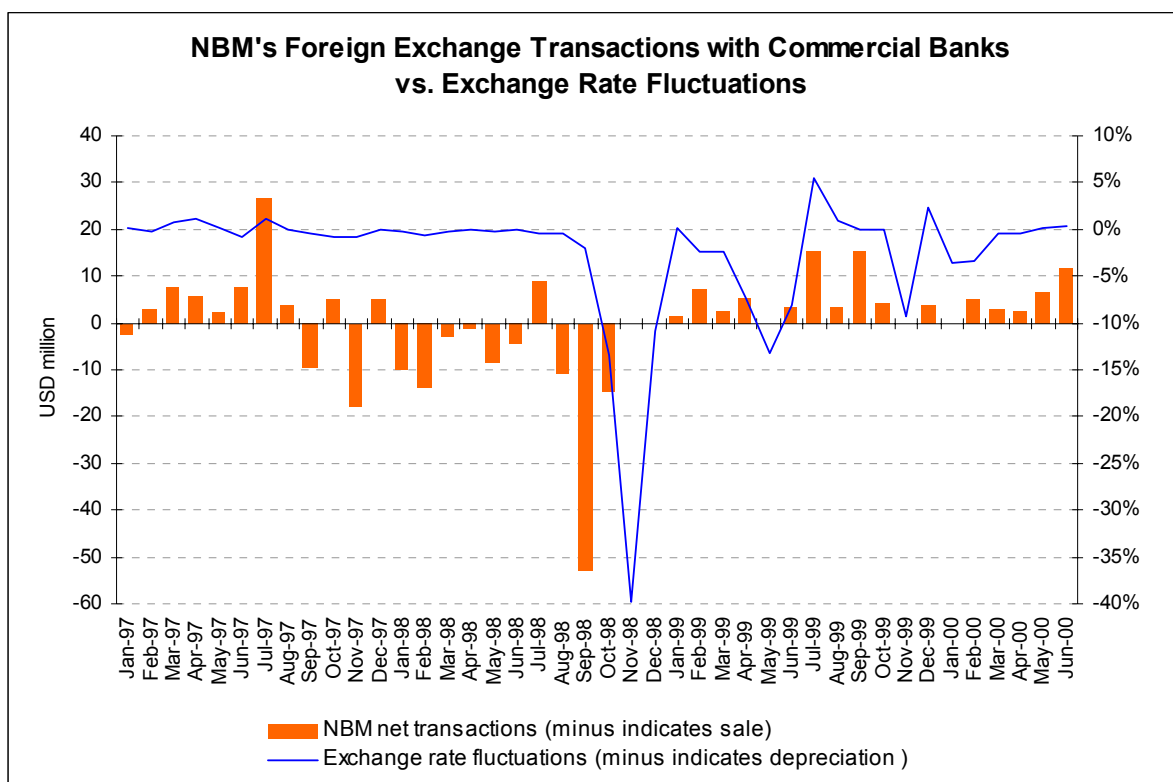


This appreciation of the national currency against the US dollar was caused by the surplus of foreign exchange in the local market. And this happened in spite of the foreign currency purchased by the NBM in the market (in the first 6 months of the year NBM bought from commercial banks about US\$30m, which proves that this surplus was significant). The presence of such a high volume of foreign exchange was caused by:

- Increase by the NBM of the minimal capital requirement for commercial banks (from 1 July - 24 million lei for a basic banking license, comparing to the norm of 16 million lei introduced from 1 January 2000). In order to maintain their licenses, banks, among other measures, had to convert into lei a part of their hard currency holdings aiming at accumulating the needed lei capital;
- Arrival of some foreign investors to Moldova. Although the volume of foreign investments in Moldova's economy is still very low in 2000, yet there were some spectacular events, such as –

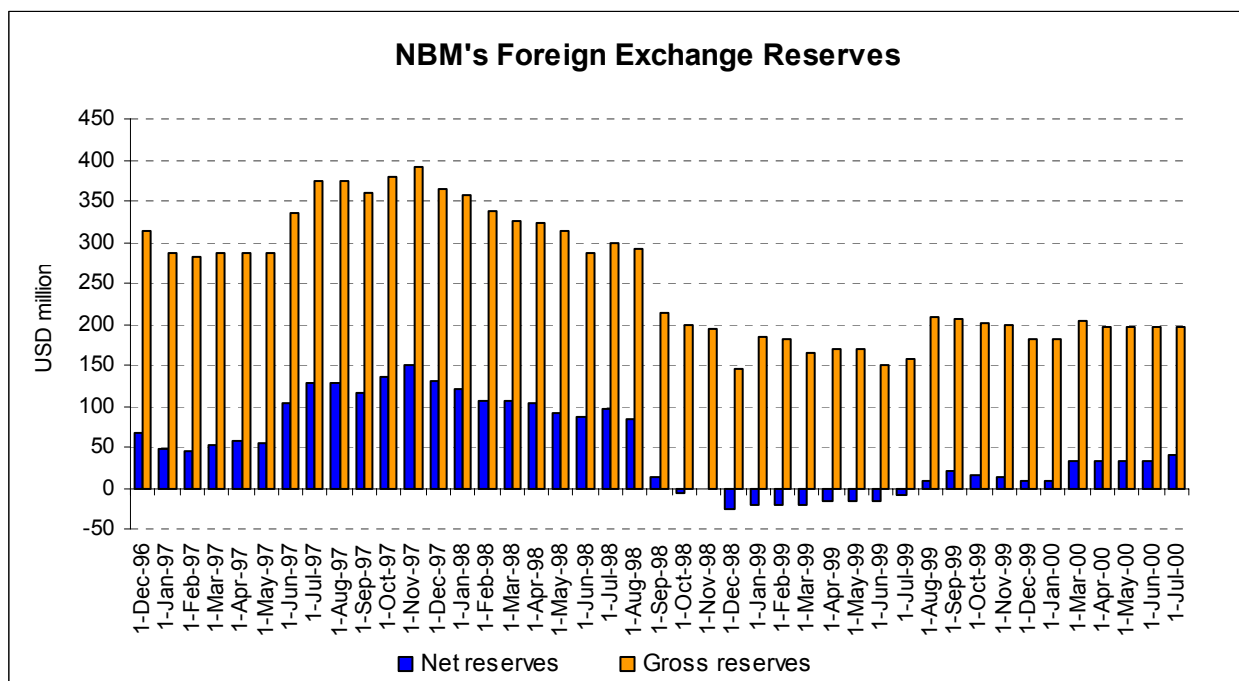
transferred into the account of the Moldovan Government and subsequently used mainly for foreign debt servicing), in banking sector: Banca Turco-Română (which brought to Moldova about \$4m in order to for the required capital), etc.;

- Incomes of residents of Moldova working abroad – estimated annually at 100-150 million dollars (according to BOP data this figure was \$110m in 1999, and estimation for QI of 2000 year being of about \$30m). Only a part of these incomes is transferred to Moldova through the banking system, the rest is just brought in cash;
- Some revival of the Moldovan exports. According to statistical data, in the first half of current year exports reached about \$200m, i.e. by 12.2% more than in the same period of previous year;
- Usual seasonal tendencies.

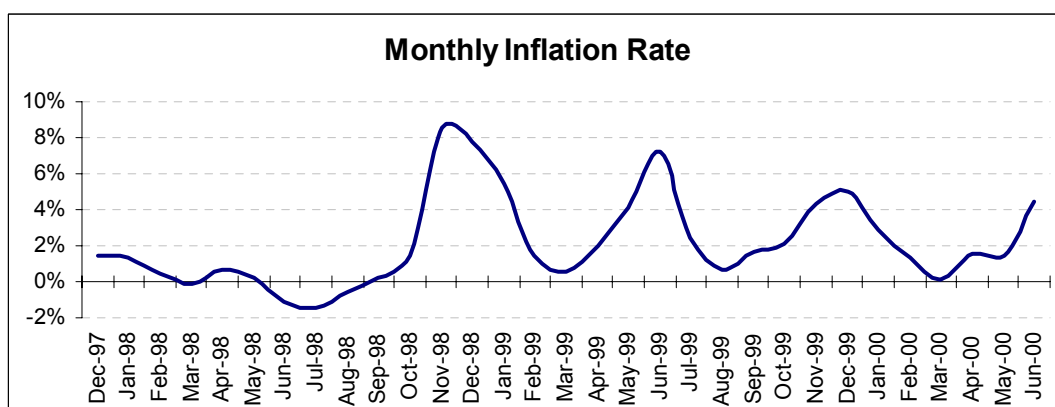


Owing to the successful strategy implemented on the foreign exchange market, in the current year, as well as in 1999, the National Bank has continued to build-up its foreign exchange reserves exhausted in 1998. Thus, as a result of purchases of foreign exchange and good reserves' management, the NBM's gross foreign exchange reserves grew in the first half of the current year from \$180m to about \$200m (in spite of the fact, that NBM has serviced its debt to IMF paying about \$20m). As a result, NBM's hard currency reserves presently cover over 1.5 months of imports of goods and services.

Starting with February 1999 NBN's net foreign exchange reserves started to increase continuously. While in the crisis year 1998 they reduced from about \$130m to minus \$25m, in August-September 1999 net reserves became positive, and in May-June 2000 they have reached the \$30m mark.



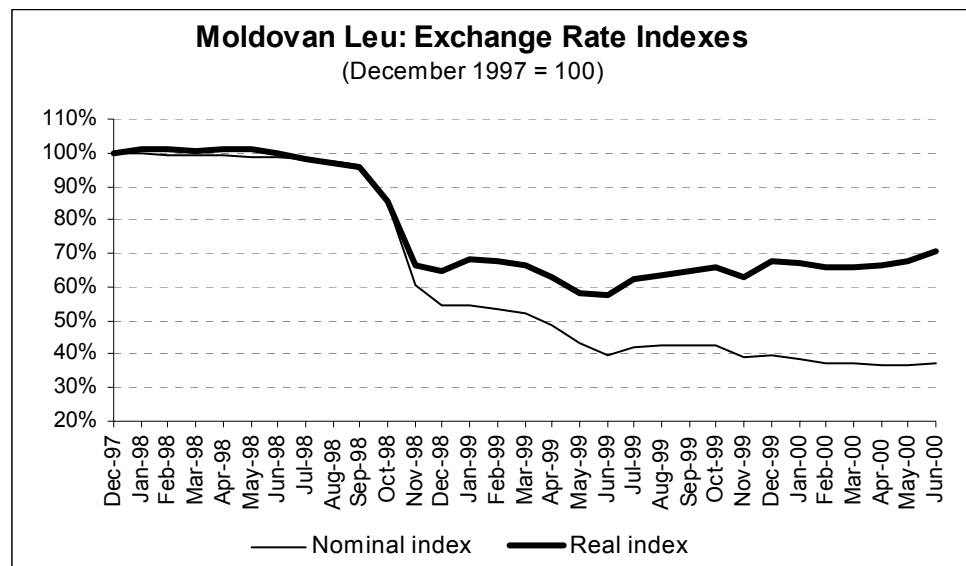
Inflation rate kept stable (even too low according to some opinions), except last months (June – 4.4%), when have considerably grown prices for some goods, especially for bread and fuel, as well as for utilities services). As in previous years inflation has a mainly non-monetary origin, being generated especially by the increases in prices for goods and services.



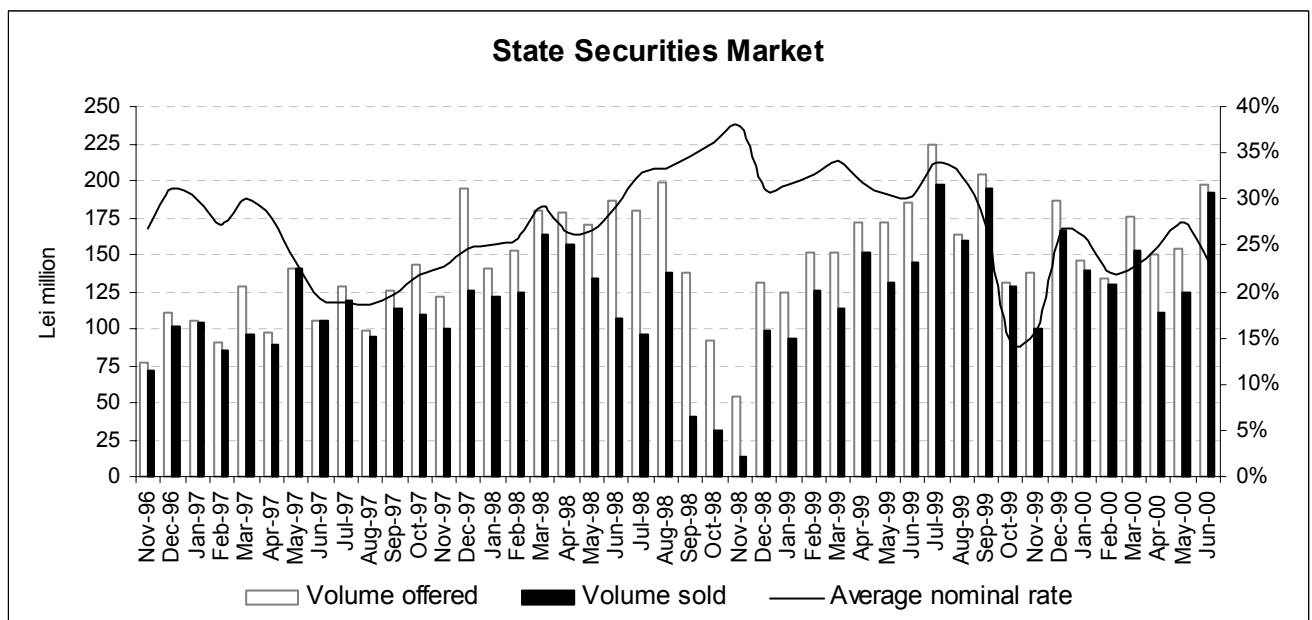
Cumulative rate of inflation in the first 6 months of the current year is 12.2% (in the same period of 1999 it was 22.5%). NBM's forecast for end-2000 is 15-18% (Monetary Policy for 2000), while IMF forecast is 18% (July 2000 mission).

Analyzing the evolution of the exchange rate of the Moldovan leu against the US dollar in real terms, one could remark that the nominal appreciation of leu shown in April-June was also accompanied by an appreciation in real terms of leu upon dollar, which is shown in the table (right) and chart (below).

	Nominal	Real
Dec-99	100.0%	100.0%
Jan-00	96.6%	99.4%
Feb-00	93.5%	97.4%
Mar-00	93.2%	97.2%
Apr-00	92.7%	98.3%
May-00	92.8%	99.8%
Jun-00	93.2%	104.6%

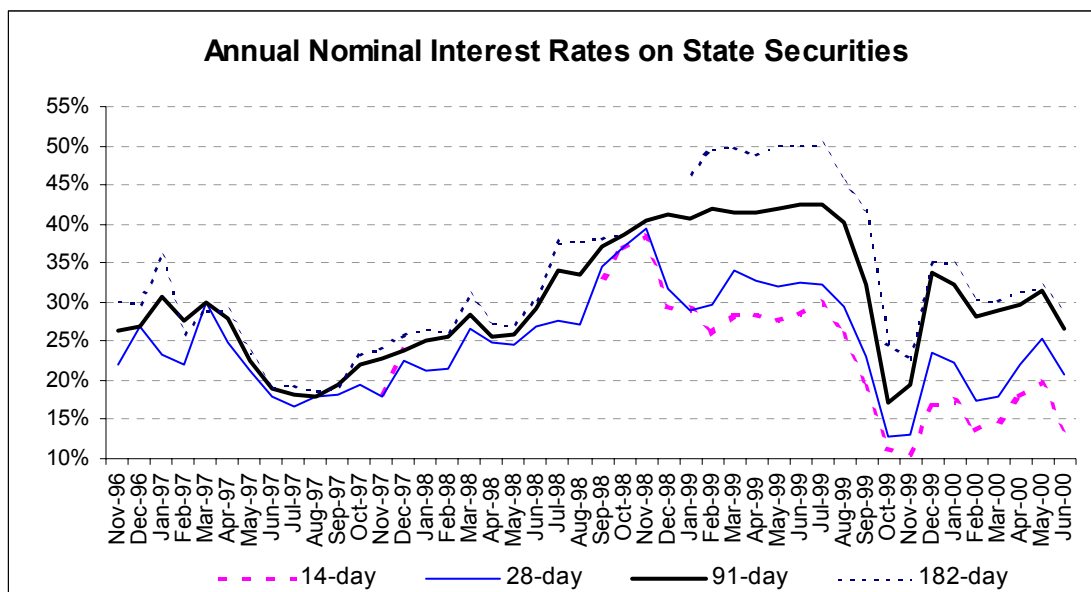


Situation in the *state securities market* is maintained stable. Ministry of Finance does not have difficulties in placing the new treasury securities and redeeming those in circulation. In January-June 2000 at the auctions at NBM there were offered treasury securities in a total volume of about 950 million lei, the volume sold being 820 million lei, i.e. on average 130 million lei sold each month. In the same period of last year were sold securities in the amount of about 750 million lei, total volume in 1999 being about 1650 million lei. In the first half of 2000 Ministry of Finance redeemed securities totaling about 770 million lei (which means that the net volume was of about 50 million lei, these funds going into the state budget), while in the same period of the previous year were redeemed securities amounting to 715 million lei (net amount being about 20 million lei).

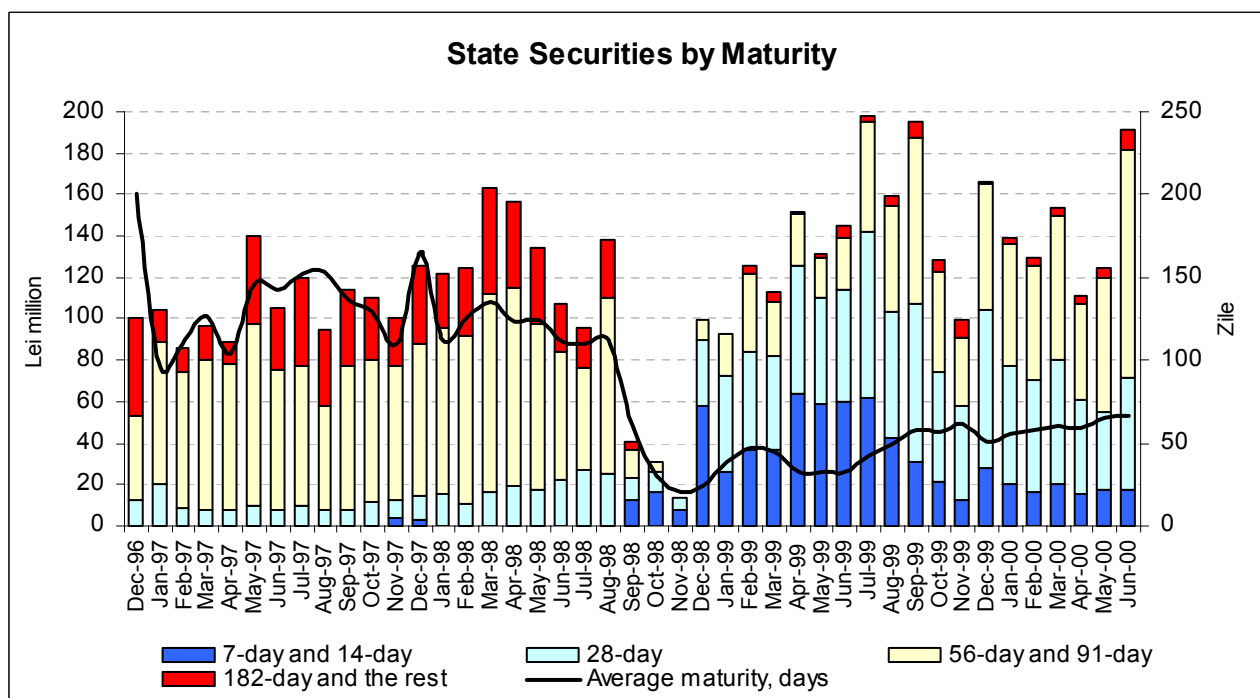


Average interest rate has been decreasing if compared with previous year: in the first 6 months of the current year the nominal rate constituted 24.3% (all maturities), while in the same period of the last year it was equal to 31.8%, the yearly average for 1999 being 28.8%. This reduction in interest rates on state securities shows a confidence vote to the government, which managed to maintain the stability on the treasury securities market – the demand for state

securities is high, and this allows the Ministry of Finance to cut the interest rates, thus reducing the burden of expenditures for servicing the issued securities.



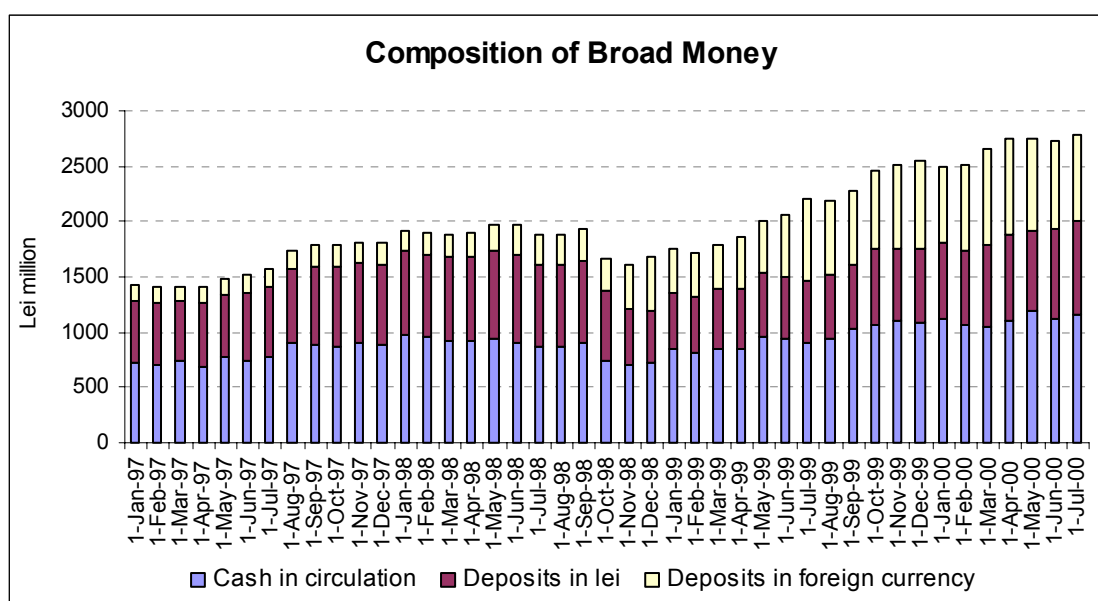
Analyzing the maturity structure of state securities sold one can observe the positive tendency of increase in the volume of securities sold having a longer maturity. After the crisis in autumn 1998 treasury securities with a maturity of 182 days and longer could not be realized, except only starting with the spring of 1999. Also, after the above-mentioned crisis there were launched T-bills with a very short maturity (7 and 14 days), and their volume started to rapidly grow, reaching in summer 1999 40% of sold securities. Later on, due to the efforts of government and NBM to stabilize the macroeconomic situation, the volume of short T-bills gradually diminished, and after 20 July 1999 there were no more 7-day T-bills sold. On 25 April 2000 there were launched 56-days bills (which are in demand on the market), thus the market segment between 28-day and 91-day securities is better covered.



As for the average maturity in the system, there is a positive tendency of increase of this indicator during 1999, and especially – the continuous growth in 2000. If before the Russian crisis in 1998 average maturity for all state securities was longer than 100 days, already in November 1998 it dropped to 20 days. Later it started to grow constantly, reaching 55 days in January 2000 (65 days in June).

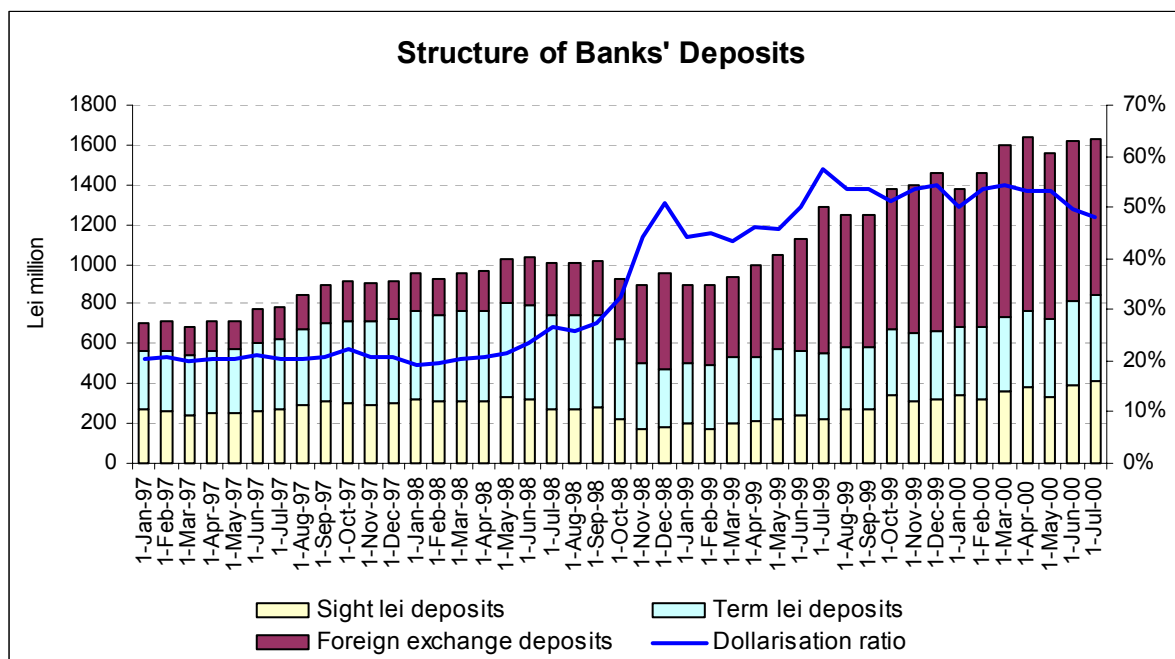
Evolution of *monetary aggregates* also follows a path of stability in the first 6 months of current year. Volume of lei in circulation – M_0 – grew by only 3.3% (base money increase by 7.8%, broad money – M_3 – by 11.4%), while in the same period of 1999 the respective growth was by 6.4% (base money – by 17.9%, broad money – by 25.3%).

Comparing the fluctuation of cash in circulation with the evolution of inflation rate, we receive the confirmation that inflation in Moldova does not have a monetary nature.

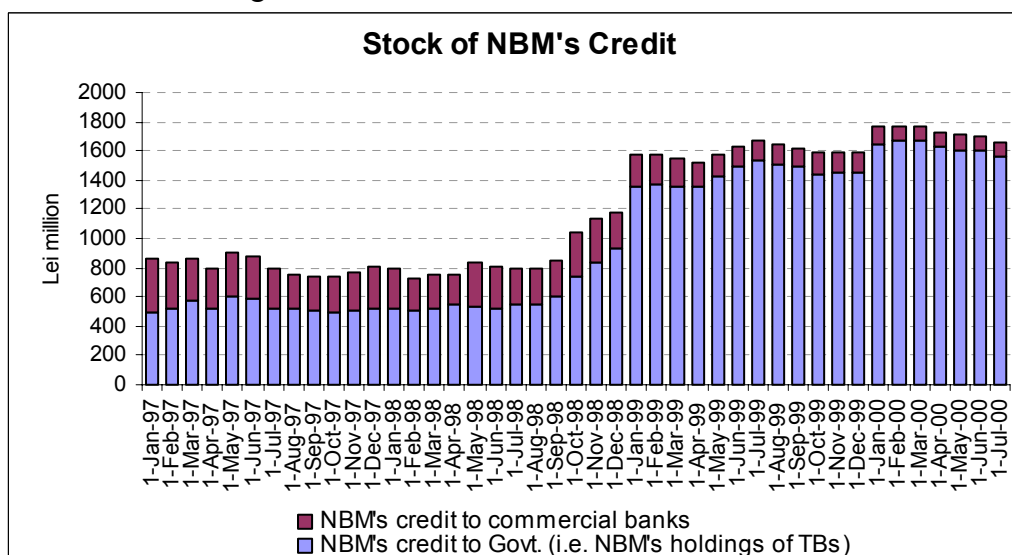


It is good to see that broad money grow bigger than M_0 – this implies an increase in deposits in deposits in the banking system (by 18%), which shows the confidence of population and economic agents in banks.

Also, it should be noticed the positive trend of continuous growth of term deposits in lei (by 20%) during the first half of current year, while the volume of foreign exchange deposits was slowly falling starting with March. Consequently, in Q2 of 2000 dollarization ratio of deposits with banks began to decrease gradually from 53% to 48%.

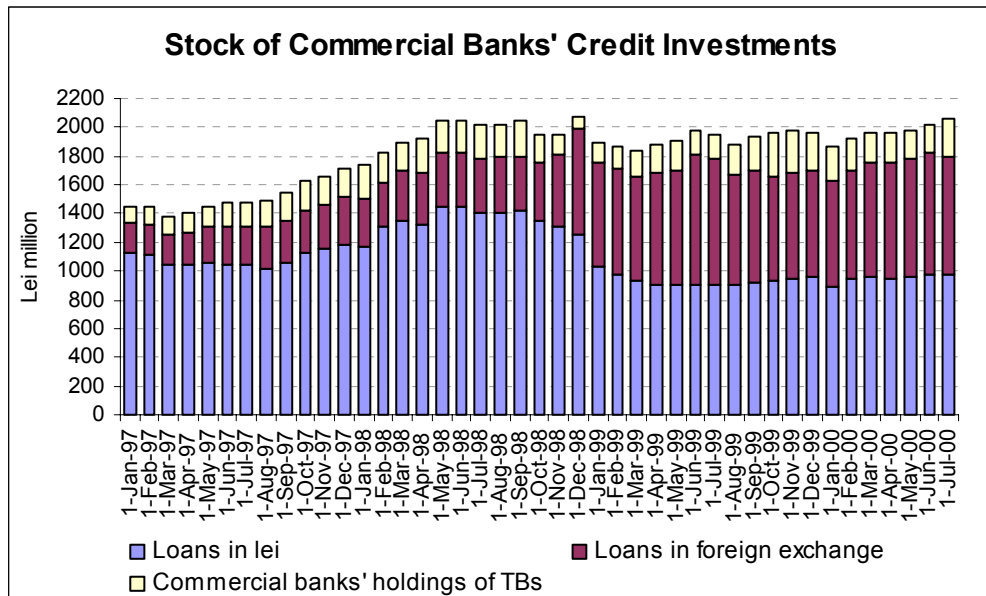


In the first half of current year *government's debt to NBM* has decreased, expressed in reduction of the stock of NBM's state securities – from 1644 million lei to 1557 million, i.e. by 5.6%. According to the Law on Budget for 2000 the Ministry of Finance has to pay back to the National Bank 256 million lei, out of which about 90 million were already repaid. Apparently in the second half of 2000 the Ministry of Finance will not be able to repay the debt to NBM due to the lack of funds. At the same time it is important that NBM resists the pressures to extend new credits to the government.



The stock of *NBM's credit to commercial banks* has remained practically at the same level in January-June 2000. In the absence of refinancing auctions the main instrument of granting loans to commercial banks are open market operations performed by NBM – mostly sale REPOs and direct sales, amounting to about 100 million lei in the above period.

However, it appears that banks have sufficient credit resources and they are not so interested in getting new loans from NBM. One of the main causes of insufficient crediting of production sector is not exactly lack of financial resources, but lack of efficient investment projects and still small number of solvent economic entities, that could efficiently use the credits and reimburse them in due time.

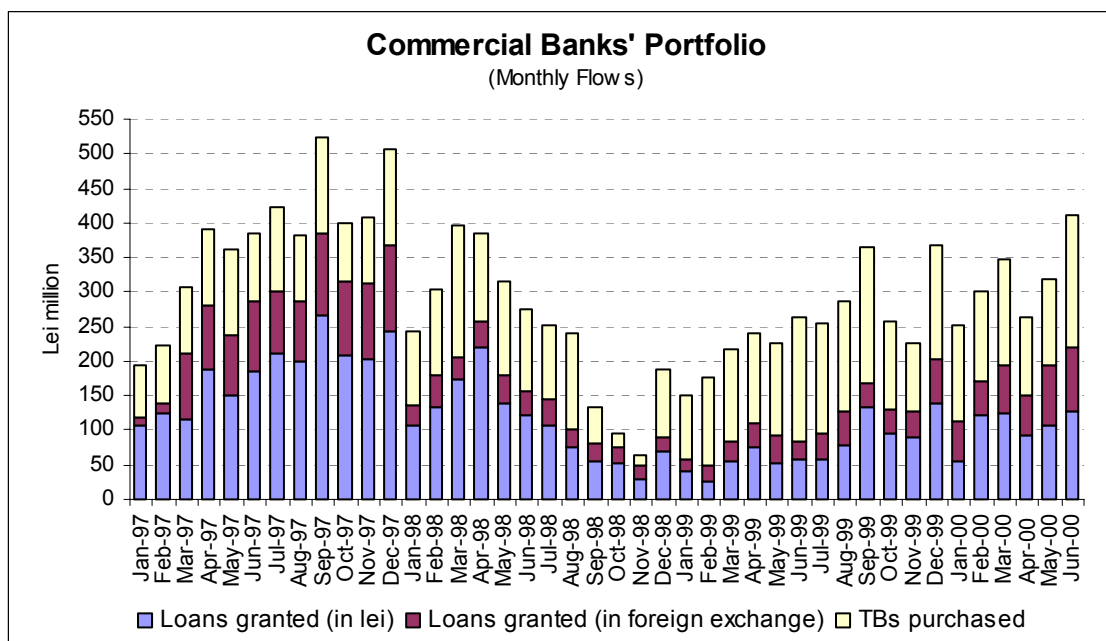


Analyzing *commercial banks' lending activity*, one could notice here as well a relative stability (similar to previous year) – the stock of banks' credit investments has grown in January-June 2000 by 10% (in the same period of the previous year – it grew only by 1%), reaching at 1 July - 1796 million lei. In structure – about half of the stock of granted credits are loans in foreign exchange and this ratio keeps constant: dollarization of credit was at 1 July 45.4% comparing to 45.8% at the beginning of the year (in 1999 it was respectively 49.2% at 1 July and 41.6% at 1 January).

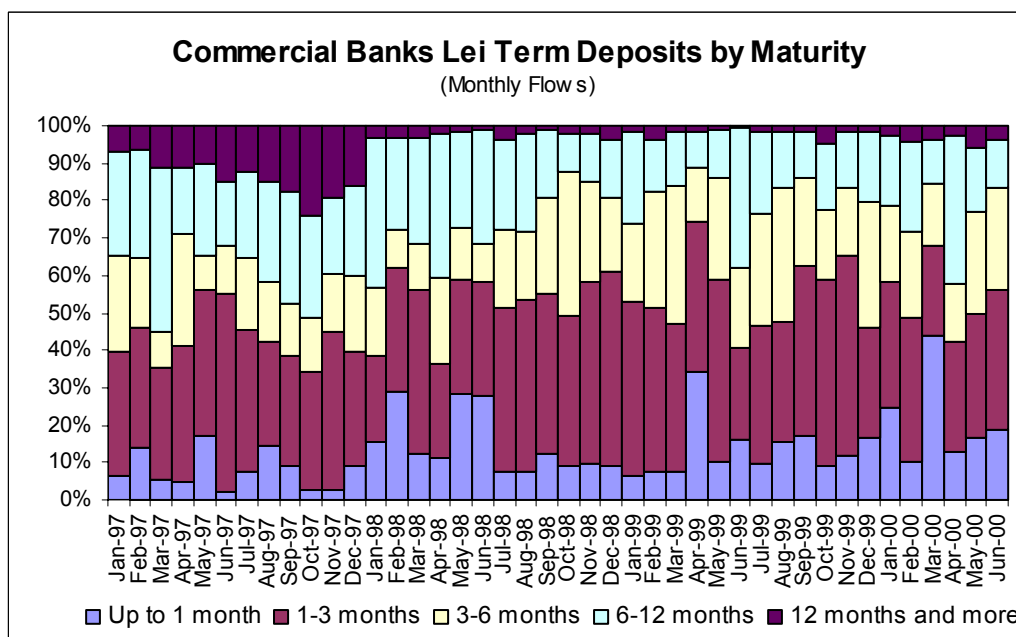
As regards the stock of treasury securities in banks' portfolios, it fluctuated within 190-220 million lei in January-May, growing to 271 million lei at 1 July 2000, comparing to 237 million lei at the beginning of the year.

But a more dynamic picture is offered by the monthly flows data for commercial banks' credits. One could notice that in January current year banks granted loans in lei amounting to 55 million lei, and in the following months this figure has practically doubled (while in the first half of 1999 loans in lei totaled about 50 million lei per month).

Loans granted in foreign exchange were worth about 60 million lei per month in January-April, rising to 90 million lei in May-June (in the first half of 1999 loans in foreign exchange were worth about 30 million lei per month).



Looking at the maturity structure of deposits with banks and banks' loan portfolios, one could see that in 2000, as well as in 1999, the deposits are mostly short term (96% are up to 1 year), which also determines the respectively reduced maturity of the loans granted by banks (83% are up to 1 year). Obviously banks cannot make long-term lending having a short-term deposit base of their clients.

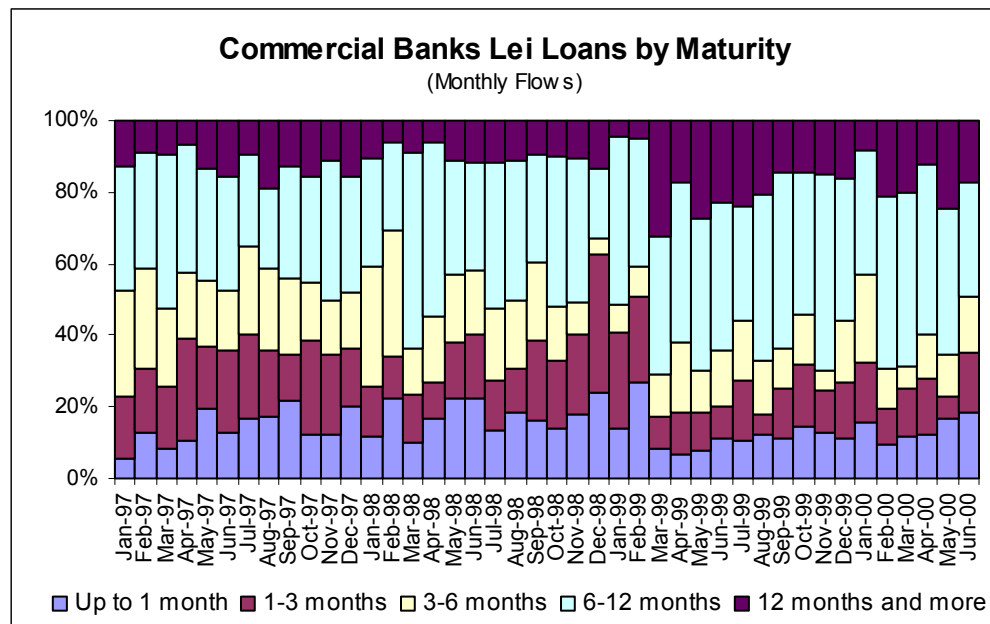


Structure of deposits by maturity (average):

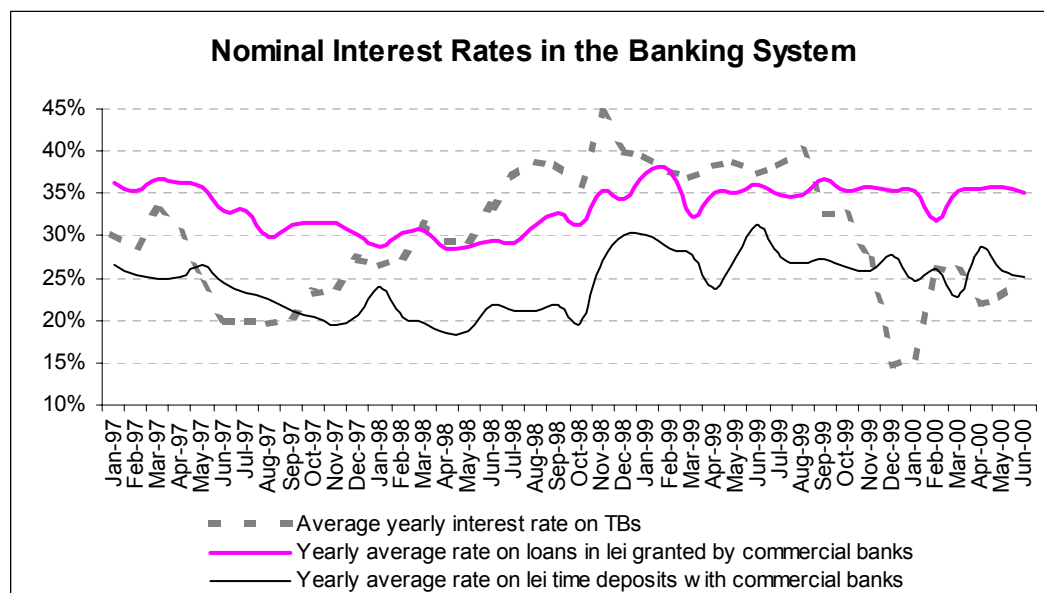
Term:	Jan-Jun 1999	Jan-Jun 2000
<1 m.	13.6%	21.2%
1-3 m.	40.6%	32.7%
3-6 m.	25.3%	21.5%
6-12 m.	18.8%	20.7%
>12 m.	1.7%	3.9%

Structure of loans by maturity (average):

Term:	Jan-Jun 1999	Jan-Jun 2000
<1 m.	12.5%	14.1%
1-3 m.	15.2%	13.1%
3-6 m.	12.3%	13.5%
6-12 m.	41.7%	42.1%
>12 m.	18.3%	17.2%



There is a clear problem of availability and cost of credit, partly resulting from limited competition in the commercial banking sector, which continues to keep the real cost of credit at a high level. In 2000, similarly with 1999, interest rates on deposits with commercial banks and on banks' loans did not vary much.



High borrowing requirements of the government combined with low supply of domestic savings have led in the recent years to the high interest equilibrating the financial market. Attractive interest rates on TBs crowded out credit investments to the private sector leading to a situation when portfolios of most banks consist mainly of profitable and low risk government securities. On the other hand, high systemic risk, driven by the weakness of court and legal environment, reduced the incentives for search for profitable lending opportunities.

1.2. OBSERVATIONS ON SOME CURRENT ECONOMIC PROBLEMS

As evidenced by experience of many countries in transition, Moldova's including, *political stability and social cohesion are fundamental factors for economic development* and a success of continued macroeconomic stability, establishment of sound business environment and continuation of difficult, socially painful, yet badly needed structural reforms. However, for more than a year now, *political environment appears to be the most destabilizing factor* in the otherwise rather favorable economic developments, notwithstanding the effects of severe drought, followed by heavy hails last June-July, which caused additional large damage, especially in the south of Moldova. Although there were satisfactory stocks of grain (and of wheat especially) throughout the country, last May politically motivated strikes and protests were organized in Chisinau. It is feared that this scenario may be repeated next October, when shortages of grain and some other crops may be real, and losses of income of the peasantry and those earning their living in food processing industries will be significant. Taking into account the political tensions due to the attempted change in political system of Moldova, and the proposed changes in the Moldova's Constitution that would significantly limit the powers of the President, whose term of office ends in the middle of next January, even without the drought (followed by heavy hails), the stage appears to be well set for yet another round of political wrestling that may destabilize economic developments.

Under the circumstances it is recommendable that the present Government of Dumitru Braghis keeps a well-measured distance from political power play, as it has done in the past four months, and this despite of increasing pressures that come from all parties involved. On the other hand, it is important to note some measure of *desinterrment* of the largest political fractions in the Parliament regarding a quick change of *the present Government*.

The Center of Strategic Studies and Reform and the Center for Private Business Reform have prepared a professional estimate of losses due to drought, based on extensive field survey. The losses are estimated at some 4-5% of GDP. They concentrate in the southern judets of the country where in may crops losses exceed 40% of the expected output. Losses of 20% of expected crop output affect most of the country, however. In order to estimate the combined losses of both the drought and the hail, the survey will be repeated shortly. It is clear, however, that Moldova badly needs humanitarian aid, and possibly much greater that originally expected. The recent declarations of President Clinton, promising to provide bilateral assistance to the tune of about USD70 million are not only a signal of in-depth understanding of the economic situation of Moldova, but also a recognition of its delicate political position.

However, the following points, I believe, should be taken into account in relation to *administering of this humanitarian aid*:

- aid should physically arrive no later that by mid-August, so as to provide farmers with the necessary seed grain and fertilizers necessary for autumn season and replenish the stocks of lost feed for animal breeding.
- if aid arrives early enough, not only will it defuse potential for political unrest of those really affected by drought and hails but, moreover, it may prevent instigating of politically motivated action in September-October, especially when it is made clear that should such actions take place, humanitarian aid is suspended, with obvious losses for agricultural population.
- last but far not least, administration of this aid through NGOs and local Government is of critical importance not only as a measure of preventing corruption and misuse of grants, but more importantly, as an exercise in advancing local democracy, institution building, transparency of procedures and public accountability.

Revisions in the Moldova's Constitution will give the Government powers to approve any privatization project without prior consent of the Parliament. This should open way for clearing the project of privatization of wine industry and thereby to the disbursement of the second installment of the World Bank's Structural Adjustment Credit (SAC). However, if it is to be released by the end of 2000, several other structural conditionalities (some of which are of a lesser importance, but must be cleared for the disbursement to be OK-ed) should be re-examined and put straight. Since time is short, this task should be given high priority by both the Government of Dumitru Braghis, and the World Bank. As of last March, those measures included among others:

- *Abolishing of some energy privileges and significant reduction of others* (measures 2, 3 and 4 on the list of prior actions of the Memorandum on SAC)
- *The excise and tax administration chapters of the tax code need to be subjected to the Parliament* (measure 5), and the *property tax chapter of the tax code* needs to be *approved by the Government* (measure 6)
- *Launching tender for the two remaining electricity distribution companies* (measure 7) has been *completed*, *completion of preparations for tender of the Chisinau power generation companies* (measure 8) is *likely to be delivered*, as is the *Law on Independent regulatory Agency for telecom sector* (measure 9).
- Regarding amendments in the *Law on licenses* (measure 10), *provision of Annex 17 of the 2000 Budget project (p. 97) is insufficient from the World Bank's point of view since the Law on licenses also requires corresponding revisions*, and it is unclear whether these have already been considered by the Government.
- *Parliamentary approval of individual privatization plans for the tobacco sector and five wineries* (measure 11) is *likely to be delivered once the above mentioned changes in Constitution will be adopted*.
- *Abolishing the limits on the number of notaries* (measure 12) is *less relevant*, once the maximum fee on their services was introduced. Nevertheless insufficient number of notaries may cause delays in the necessary paper work related to acquiring property rights.
- *Mass registration in territorial cadastre offices of the already privatized land titles* (measure 13) continues to be a problem; indeed recent attacks and seizure of project's assets aggravate the question of the future of the Land Project. Recognition of misconduct and naming by the Government those who are responsible for violation of law and international agreements appears to be a precondition for successful continuation of the Land Project.
- Finally, *submission of the draft Civil Code to the Parliament* (measure 14) needs to be implemented, although until recently the Code's draft was still at the very early stage of presentation in the Government.

These conditions are supplemented by several *structural benchmarks* (included into Annex II of the SAC's Memorandum), which need also to be cleared prior to the release of the second tranche of SAC. They included among others the following measures:

- *A draft code on local taxes and fees;*
- *Further reduction in the average tariff rate;*
- *Reversing the Government's decisions requiring that all energy companies effect their banking transactions via the Savings Bank;*
- *Complete liquidation of 300 state farms and title registration to individual farmers;*

- *Initiation of liquidation procedures against 24 firms in the manufacturing and agro-processing industries, and of restructuring of another 24 state-owned and loss-making firms.*

Of course, there are also several *structural benchmarks* of Annex II of the Memorandum on SAC that were supposed to be implemented at later dates than end-March 2000. In the light of the above the road to the clearance of the second tranche of SAC is still long and laborious. If Moldova does not want to loose this money, a lot of work of is still ahead of us all.

In the course of the recent visit in Moldova, the head of IMF mission expressed the mission's satisfaction with the macroeconomic policies of the Braghis Government and declared that IMF was ready to re-establish normal financial relations with Moldova as soon as a new program of IMF financing is agreed upon and signed. The presently prepared program, i.e. the project: on Interim Poverty Reduction Strategy, however, is a very complex one and, in my opinion, is unlikely to be effectively delivered by the end of 2000. Moreover, there are yet several problems that need be considered in course of program's preparation and, more importantly, during its implementation.

- The program is a combination of a standard IMF financial support program and several World Bank's structural programs, some of which are in preparation or already underway. This requires close co-operation of the two institutions in devising the project and in monitoring its implementation. Especially, criteria of program implementation must be precisely defined and balanced.
- The scope of the program requires also close co-ordination of work of the Moldova's Government, much above its present standards. Establishment of a special task force for program's drafting and implementation may be recommendable. The task-force leader should have easy access to Prime Minister, since co-ordination of effort of individual Ministries will be necessary.
- The drafter(s) of the project document must clearly see that *poverty in Moldova is first and foremost due to lack of employment opportunities*, and that it concentrates in single-parent families with many children (and not necessarily among the pensioners and the old-aged people). *Thus a program of poverty alleviation in Moldova must address first of all the questions of job creation, private sector development (of SMEs especially), then the problem of structural changes and infrastructure, and only then the problem of social benefits and safety network for the unemployed and the poor. Shortly speaking, the program should emphasize the country's strategy of development rather than a strategy of its trade unions.*

Notwithstanding the IMF's positive assessment of macroeconomic policy in Moldova in the past four months, the data on Moldova's economic performance in the first half-year appear to me partly misleading.

- The data shown in the *www.infomarket.md* [tax inspection], indicates that average daily tax collection in June and July 2000 are less than in June and July last year, and also compared to daily collection earlier this year. Is this a symptom of declining tendency of tax revenue collection that will continue? Since farmers hardly pay any taxes other than land tax (payment of which has been deferred because of drought but this is hardly responsible for the decline in tax collections), and the drought's impact on agro-processing business will not be felt before autumn, there must have be some other factors responsible for this tendency.
- After some decline in wage arrears of the budget employees and then stabilization of those arrears, since last May they started again to rise. At the first sight it appears that

the monthly increases in arrears roughly correspond to wage rises granted to those employees since April 1. The question merits farther investigation, however.

- Servicing of foreign debt has been better than satisfactory, especially taking into account lack of external sources of finance. Also foreign debt servicing in the second half of the year does not give rise to concern. The situation is not so good regarding domestic financing of budget deficit, however. Although Braghis Government is first in the recent history of Moldova to pay back at least part of its debt to the central bank (it paid back lei 93 million in the first half of the year), not only it is unlikely to pay back the remaining lei 163 million, planned in the 2000 budget, but due to poor sales on the treasury bills market, it presently negotiates an NBM's credit. Hopefully there will be no new net financing of the Government by NBM this year, but these developments are a clear deviation from what had been accepted in the 2000 budget.
- Decisions of the NBM to beef-up capital requirements of commercial banks in two steps, by end June and end December 2000, have – no doubt – helped to stabilize the rate of exchange of the lei. Yet, taking into account rising deficit on current account of the balance of payments, and should commercial banks decide to consolidate rather than to issue new emission of stock, the rate of lei may well depreciate in the last quarter of 2000.

Regarding the idea of Government replenishing its grain reserves through effecting the payment by emission of Government securities to be bought by the central bank and paid back by Government from proceeds from selling these reserves when the need arises, on condition that the reserves do not evaporate before the need arises and proceeds match the costs, I find the project acceptable.

Finally, regarding the IMF's preference for Large Taxpayers Unit (LTU) of the State Tax Administration system, allegedly neglecting thereby tax collection from small enterprises, which represent about a quarter of turnover and profits, the following points should be considered. (i) LTU is meant to operate next to standard State Tax Administration units and their respective operations, and not instead of them. (ii) regarding the small taxpayers, it useful to examine in Moldova the recent experience of Uzbekistan, which apparently is very successful in combining indirect and direct taxation of the SMEs sector.

2. AGRARIAN REFORM: STEPS IN THE RIGHT DIRECTION?

The agriculture is a key segment of the national economy, and macroeconomic indicators of the country as well as well being of the population strongly depends on success of reforms in this sector. As it is known, real implementation of agricultural reform was delayed and commenced almost in the late 90s. Starting with the current year, the new Government has focused its attention upon the following basic directions: land reform, privatization and enterprise restructuring; support to agricultural production; financial, lending and price policy.

Land reform, privatization and agricultural enterprise restructuring. The Government has finalized implementation of the national “Land” Program according to the Memorandum-Agreement with the World Bank. The public attitude to this Program is equivocal. Yet everybody agrees that the land should have its particular owner.

With reference to the Government Order No. 173 of 25 February 2000, which established the implementation schedule of the “Land” Program, the potential number of participants is determined as 918 households out of the total 1223 in the Republic. By 1 July 2000, 901 households had concluded formal contracts with the Department of Privatization and Management of Public Property by the Ministry of Economy and Reforms, 865 households had held auctions to share the land and fixed assets. 787 households had announced about their liquidation in “Monitorul Oficial” (“Official Monitor”) and 594 households had been liquidated, instead of them appearing new economic agents with private property on land and means of production.

According to the data provided by the National Cadastre Agency, Land Resources and Geodesy, about 634,000 peasants had received certificates confirming their property rights to land plots by 1 July 2000, including 544,000 (86%) within the “Land” Project.

Over 239,000 people (51% of all) of the total number of citizens who received plots of equal quality land shares had founded and registered over 177,000 peasant households (farms) by 1 July 2000.

Since the privatization process has started, over 414,000 persons who have received land ownership certificates (who have not been given real individual land shares) transmitted over 664,000 ha for use by other legal entities and individuals. The plots have been transmitted in use of 1,088 new entities, including 426 peasant households (farms) and 529 limited liability companies.

An important moment in development of the agricultural reform was a new office of the “Land” Program opened in Comrat in April 2000 and involvement of households situated in the Autonomous Territorial Unit of Gagauzia. Thus, agricultural enterprises of all administrative and territorial units of the right-bank Moldova take part in the program. In July, a group of Government and “Land” Program representatives held a special seminar with the leaders and specialists of Rybnitsa Raion, who consider an opportunity to extend the Program over Transnistria region as well.

Thus, the Government policy during the first six months of the year is characterized by consequent and logical actions aimed at implementation of agricultural reform in accordance with the previously agreed principles.

Support to agricultural production. The Government policy foresees support to the agricultural producers in the following basic directions: direct financial subventions, tax privileges, deregulation of organization and functions of agricultural enterprises.

To encourage participation in privatization and restructuring process of the agricultural enterprises the Government continued policy of one-time financial support to the new landowners, having provided 100 million lei for these purposes in the State Budget 2000. Of this amount, 90 million lei are to be spent for direct financial aid to the landowners, on the basis of 150 lei per hectare, and 10 million lei are meant for creation of a special fund to support agriculture. The funds were to be allocated in the spring to provide a timely and efficient performance of spring field works. Due to financial difficulties, however, only 25 million lei had been allocated by May, the amount being distributed among individual owners of just three Judets. The balance, according to the affirmations by the Government, will be paid out by the autumn. Taking into account the real state of the finance, however, it is little probable that this promise is kept, which will have its negative impact upon the peasants' attitude to the reform policy. The first sign of this attitude is the mass strike of the farmers in Cahul Judet and promises made by the National Farmers' Federation to organize a national strike. In this connection, the Government must urgently review other budget heads and on the account of their reduction, particularly of the capital investments, to keep its obligations to the farmers.

A very positive factor is the success achieved by the Government of Moldova during its negotiations to join the WTO, particularly in the matter of determining the limits of the general amount of subventions that can be offered to the agriculture. This limit is determined as 5% of GDP. An important role in development of this indicator played the Government actions to go on with the program of agricultural enterprises' debt restructuring. By 1 July 2000 the restructured agricultural enterprises saw cancellation of debts of 1 billion 200 million lei by various ways (almost 50% of the total amount of debt of the agricultural sector).

The Government tax policy is generally favorable for the agricultural sector. According to the surveys made by the Agency for Restructure of Agricultural Enterprises (ARA), the tax burden in agriculture equals to 11-13% of the gross product in this sector (and when one considers the rate of tax collection, it is still less – 2,5%), whilst the average rate in the national economy is 35-40%. In this connection one cannot estimate as positive the range of measures proposed by the Government and included in the Law on the State Budget 2000, and namely the extended list of imported goods, which benefit of tax "vacation" for VAT. In fact, the agriculture has no gain here, as these goods (fertilizers, chemicals, forage additions, etc.) are largely imported by special companies rather than agricultural enterprises, the latter buying these goods at their real market price with VAT included.

Thus, the decision made under lobbyist pressure from the interested groups is actually aimed to provide free of interests state lending to the importers. Besides, the previous experience has shown that after the tax "vacation" term expires, a considerable amount of VAT is still not paid. To solve this problem, one should renew the practice of customs warehouses, which were also abolished under pressure from the groups interested to maintain the possibilities for smuggled import.

Among the measures of organizational support to the agriculture one ought to positively evaluate the Government actions aimed to simplify the registration procedure for the enterprises, and particularly for peasant households, and delegation of the right to certain notary activities to the leaders of the local public administration. At the same time, almost no improvement is noticed in the local departments of agriculture, which must play a more active role in rendering legal, informational and consulting help to the local agricultural sector.

Along with the positive measures undertaken by the Government in order to deregulate agriculture, there are certain measures that can have a negative impact on this sector. Particularly, the Government decision forbidding export of grain. References made that the greater mass of grain is exported at lower prices (or is illegally exported) and then imported at higher prices are not satisfactory. The figures mentioned by the Parliament are not proved documentarily. Meanwhile, the data provided by the Customs Department say that the average price of the exported grain in 1999 was about 60 US dollars per ton, whilst the price of the imported grain equaled about 70 US dollars/ton. Taking into account that in the overall volume of import part of the grain has a higher content of gluten the difference is rather insignificant. Absence of an alternative market and possibility to sell products for real money places the agricultural producers in disadvantageous conditions compared to the suppliers of inputs, and first of all the suppliers of combusive-lubricating inputs, who barter wheat at low prices and thus aggravate financial problems of the agricultural sector.

Lending, financial and price policy. Although the Government is not a direct lender to the agricultural sector, its policy in this area has a significant impact on the financial state of the agricultural sector. Still, one of the biggest problems of the agriculture is a lack of real money, insufficient lending and almost total absence of investments, including foreign ones. One of the reasons behind this situation is a persistent and even expanding policy of state loans through the state treasury liabilities. While solving current budget problems, the Government leads the banking sector away from the necessity to look for efficient methods of work with industrial customers, particularly with the agricultural sector. Taking into consideration that the International Monetary Fund actively supports this method of solving budget problems, the Government ought to be more insistent at negotiations and press for reduction of this pyramid.

A considerable fright is raised by the last Government trends in price regulation. The proposals to create a special Department of Prices, a return to the method of the extreme normative profitability, active interference in the mechanism of price formation by purely administrative, subjective means while the market mechanisms just start functioning normally – it all will affect agricultural producers first of all. That is why the main focus should be placed on improvement of direct social support system for the vulnerable groups of population, rather than on price regulation.

Evaluation of results of the Government policy for the first six months of the year suggests that they can be generally considered as rather positive, if one also accounts for the hardest climatic conditions of the current year. The situation remains under control. However, remarkable is the fact that the new Government has not declared any strategic initiative so far, which could radically change the situation in this field. No change has occurred in the methods and nature of work of the Ministry of Agriculture and Processing Industry, who has lost any ability of administrative-command management in the sector, which has not yet adapted to work under market economy conditions.

3. ASSESSMENT OF THE NEGATIVE IMPACT OF THE 2000 DROUGHT *(digest)*

The present study was performed at the request of USAID-Moldova to provide an independent evaluation of losses caused by the spring drought, its potential economic and social consequences, and recommend short-term actions to ameliorate the impact of the drought. The work was carried out by the Center for Strategic Studies and Reforms (CISR) and the Center for Private Business Reform (CPBR), from June 20th to July 12th.

Field surveys were performed throughout the country by CPBR monitoring and polling specialists working on the National Land Program. Interviews with private farmers, rural residents and representatives of local government were conducted in all 10 counties and TAU "Gagauzia" (275 mayoralties in total). Individuals and/or focus groups from 678 agricultural enterprises were surveyed, including 460 peasant farms, 188 limited liability firms, 20 cooperatives and associations, and 10 joint-stock companies. This represented 15.4% of the planted area of the country, or approximately 207,500 hectares.

Traditionally the Republic of Moldova is situated in a zone of risky dry-land farming. The meteorological data for a period over 150 years, and statistical data, show that the country is periodically subjected to natural disasters – droughts, frosts (late spring and early autumn), hail storms, floods, torrential rains and landslides. To alleviate the consequences of those natural calamities always implied conducting measures to adapt crop location, technology and work organization.

Moldovan agriculture is subject to several common disasters or risks, as follows:

- *late spring and early autumn frosts* – during the first decades of September, March, and early May, there is substantial risks of frost. Thus, the first frosts in the central zone in 1990-1993 were in the first decade of September, while the last spring frost occurred in early May;
- *land slides and soil deterioration* – occur due to natural circumstances (hard rains, storms and inappropriate technology applications, particularly on sloped areas). Agricultural land deteriorated by erosion amounted to 23.6% in 1965, 32.9% in 1997, and about 35% now. Annual losses of fertile soil due to erosion are reportedly 26 million tons. During the past 25 years the areas affected by soil slides amounted to 62,600 hectares;
- *atmospheric precipitation* – the most dangerous period for hard rain storms that cause substantial damage to crops is during the summer. For example, on June 10th and July 9th, 1948, the Chisinau area received 220 mm and 184 mm of rain during each of these 24-hour periods, which amounted to half the yearly norm. Hard showers, often with hail, are recorded yearly, which destroy plantations, greenhouses, and wash out the soil. The ratios of precipitation and air temperature, as well as the degree of soil moisture accumulation are extremely important for proper plant growth.
- *drought* – one of the typical natural occurrences for Moldova, particularly in the southern zone, is frequent droughts, particularly during the 90's. Agri-meteorological peculiarities of the droughts are shown in Annex 1. *Often*

droughts occur two years consecutively, for example: in 1952-1953, 1982-1983, 1986-1987, 1989-1990. Most dramatic was a three years drought from 1945-47, which produced a famine and many victims. Drought frequency has increased recently, for example: in 1945-1970 there were 7 drought-affected years, in 1971-1996 – 9 droughts. Starting from 1982 droughts repeat each third year, and since 1989 – each second year.

The difficult *conditions in the spring of 2000, followed by the “heat shock” and the lack of rain after the Easter, during May-June*, entailed considerable adjustments of the expectations. According to “Hidrometeo” Service the air temperature exceeded the norm during April by 2.5 – 4.00C, reaching 12.5 – 14.00 C, in May respectively by 1 – 20 C and reaching 16.5 – 17.50 C and in June it being about the norm 18.5 – 20.500 C. The maximum temperature of dry air in April rose to 25 – 290 C, May to 29 – 320 C and June to 32 – 350 C. The water reserves accumulated in the soil were rather poor and atmospheric precipitations were extremely low. The amount of precipitation during April equaled only 30 to 90% of the multi-year average values, in May by only 2 to 20% of the multi-year average and in June from 10 to 25%.

The meteorological station in Chisinau area, for example, recorded rains in May of only 5mm, which was lower than any year since 1995. This year in the Chisinau area only 6% as much rain fell compared to 1998. The station in Bricheni recorded respectively 85.7% of the 1995 rainfall and 33% of the 1998 amount; the Cahul station reported 16.7% and 9.6% respectively. In territorial terms, the poorest precipitations of only 4 mm were registered in May in the Lapushna county.

Consequently the reserves of productive humidity in a layer of 1 m of soil of the fields planted by cultivated crops on 28 June amounted to only 40-65% of the norm. The amount of water flowing in the Nistru and Prut rivers as well as in small rivers during June accounted for 40% - 55% of the multi-year average.

Table 3.1.

Precipitation amounts vs. average multi-annual level per counties of the Republic of Moldova, 2000

		Edinets	Soroca	Balti	Ungheni	Orhei	Chisinau	Lapusna	Tighina	Cahul	Taracalia	Gaguzia	Moldova-total
A	B	1	2	3	4	5	6	7	8	9	10	11	12
1	January, mm	26	31	25	39	33	41	44	59	46	35	42	38
	as % to normal level	81	106	78	101	100	130	145	191	131	109	131	118
2	February, mm	33	28	31	42	34	28	25	26	25	26	26	29
	as % to normal level	106	102	104	113	100	84	88	82	71	68	73	90
3	March, mm	25	29	31	41	25	22	16	16	18	11	12	22
	as % to normal level	82	108	105	141	87	74	61	62	69	41	47	80
4	April, mm	38	48	44	66	25	24	14	45	16	44	27	36
	as % to normal level	86	131	106	150	59	62	39	138	40	113	46	88
5	May, mm	24	13	13	7	8	6	4	17	7	16	13	12
	as % to normal level	39	22	22	11	14	11	7	31	13	29	18	20
6	June, mm	57	38	37	18	33	11	17	27	17	22	22	27
	as % to normal level	79	55	53	23	47	16	25	42	26	34	32	39

Source: Hidrometeo data

Table 3.1, developed on the data provided by the “Hidrometeo” log shows that in February-April the amount of precipitation vs. the normal level amounted to only 8 - 90% in the various stations, and in May, 20% and June, 39% respectively.

The graphs 1 and 2 below show an extraordinary spring and early summer of 2000, in terms of precipitation.

Official forecasts for 2000 comprise macroeconomic indices and forecasts of certain agricultural crops. Proceeding from the macroeconomic forecast of the Ministry of Economy and Reforms (MER), the agricultural outputs in 2000 was anticipated to be 7.3 bln. MD lei (while actual output in 1998 was 4.8 bln. MD lei and in 1999 5.4 bln. MD lei), and produce value added worth 3.7 bln. lei (while actual value added in 1998 was 2.4 and in 1999 2.7 bln. lei). Given that 1999 was unfavorable for sugar beet, fruits and other crops, in 2000 the structure of fields was changed (share of cereals, tobacco and others' have increased), and a 9% growth in agricultural outputs was anticipated (while there was a decline of 11% in 1998 and an 8% decline in 1999). See Table 3.2.

The official 2000 crop forecasts of the Ministry of Agriculture and Processing Industry (MAPI) for certain crops was for a 50% increase as compared to actual 1999 harvests. The forecasts of the private farms interviewed were also optimistic – about 20% growth.

Table 3.2.

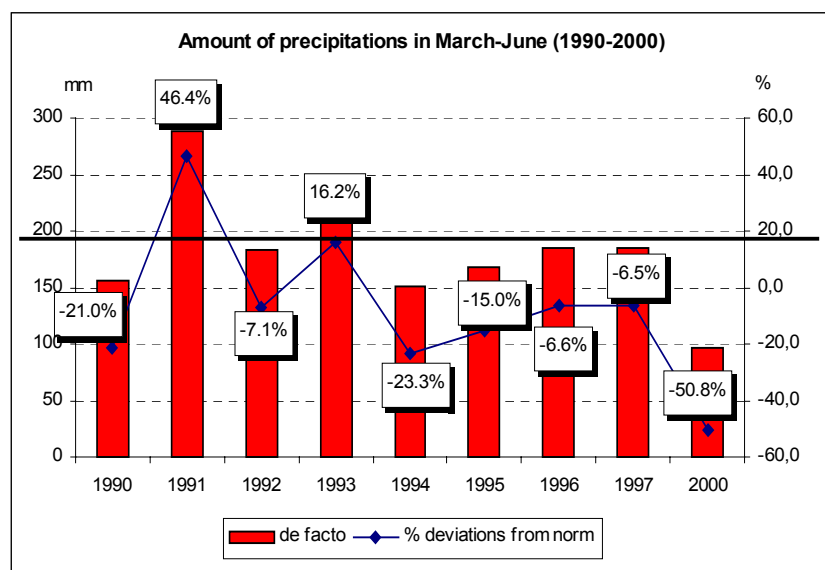
Output of main agricultural products in all categories of farms (thou tons)

	Crops	1999	Average for 1994-1999	Planned for 2000	
				Ministry of Agriculture and Food	Agricultural enterprises
1	Winter wheat	797.8	881.9	1171.0	980.8
2	Barley	182.6	235.4	233.0	226.8
3	Maize	1140.3	1096.1	1620.0	1231.2
4	Leguminous plants	58	54.5	165.0	79.2
5	Sugar beet	1008.8	1556.5	1725.0	1257.4
6	Sunflower	285.6	212.1	340.0	291.9
7	Soy-bean	13.7	5.2	24.0	21.5
8	Tobacco	22.4	26.3	48.0	33.0
9	Potatoes	329.5	373.4	400.0	490.1
10	Vegetables	488.8	434.9	600.0	436.9
11	Fruits and berries	136.3	518.4	600.0	458.3
12	Grapes	464.9	560.1	600.0	467.7

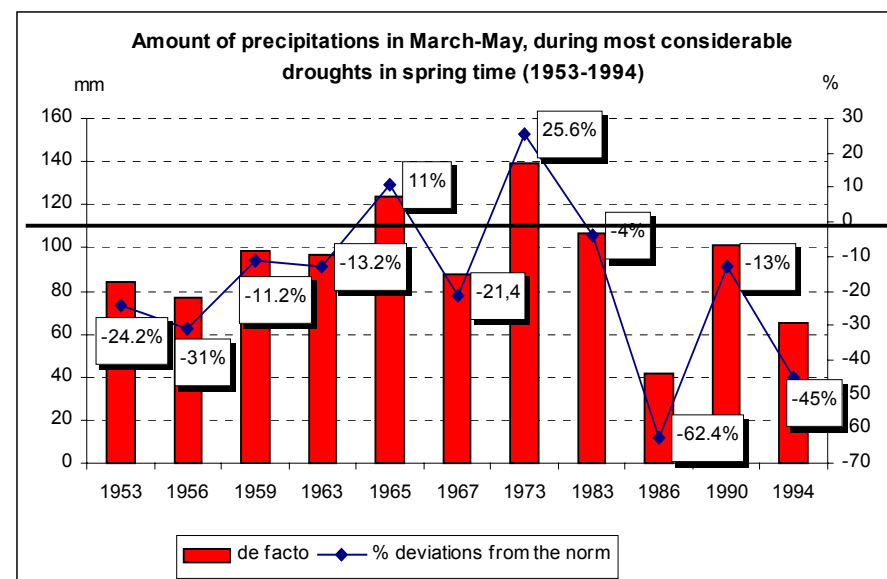
Source: Information note on drought impact (MAPI)

The prices used by the MAPI in making their 2000 forecasts are substantially higher than actual prices on the domestic market. The increases in prices used in the official forecasts also exceed considerably the index of inflation stipulated in the macroeconomic forecast of the MER.

Graph 3.1.



Graph 3.2.



This is why the MAPI's forecast of crops output using planned tons and forecast prices amounts 11 bln MD lei, whereas the MER's forecast for the whole 2000 output in agriculture was only 7.3 bln. MD lei.

Thus, an inconsistency occurred between the macroeconomic forecast and the prognosis of certain agricultural outputs, which has been admitted and is due to a too optimist estimation of the forthcoming harvest (See Table 3.3). Therefore when projecting losses due to the drought, initial estimates were based on the inflated 2000 prognosis, which had no basis in science other than estimates made by local officials which were channeled through official sources to MAPI.

Table 3.3.

Yield of main agricultural crops of all categories of farms, centner/ha						
	Crops	Average for 1971-1980	Average for 1981-1990	Average for 1991-1999	Planned for 2000	
					Ministry of Agriculture and Food	Agricultural enterprises
1	Winter wheat	32.8	34.4	29.4	33.0	28.8
2	Barley	37.4	30.5	25.1	23.5	22.5
3	Maize	35.7	37.7	32.2	36.0	29.0
4	Leguminous plants	15.6	16.5	12.3	20.0	13.2
5	Sugar beet	278	267	228	230.0	193.5
6	Sunflower	17.1	18.8	12.8	17.0	14.5
7	Soy-bean	8.8	10.7	9.6	12.0	12.6
8	Tobacco	13.9	17	14.2	16.0	15.0
9	Potatoes	83	87	66	100.0	74.3
10	Vegetables	145	157	77	109.0	89.2
11	Fruits and berries	66.9	73	38	42.0	32.7
12	Grapes	61.3	64	39.2	42.0	33.4

Source: Information note on drought impact (MAPI)

Those two ministries mentioned above – MER and MAPI have carried out the official assessment of the drought impact and consequences. Macroeconomic forecast losses are estimated to be worth 1.2 bln MD lei in terms of agricultural products and 0.6 bln. MD lei value added. This is caused the MER to adjust their growth forecasts for 2000 from a two percent (2%) growth to an expected further decline of between four and five percent (4-5%).

The negative impact of the drought, carried out by MAPI since the second half of June, has been increasing: initially losses were estimated as being worth 2.157 bil. MD lei, then 3.315 bln. MD lei. In some statements in the press and on TV, even greater amounts of alleged losses were mentioned. The Prime minister, however, never officially reported more than 2.2 bln. MD lei (See his report on national meeting the mayors, from 6 July, 2000).

CISR/CPBR assessment of the drought consequences has been performed in terms of an analysis of the data collected from interviews conducted by CPBR monitoring and polling specialists on randomly selected agricultural businesses: 460 peasant farms, 188 limited liability firms, 20 production cooperatives and associations, 10 joint-stock companies (678 units in all).

The survey comprised all 10 counties (Judets) and the autonomous territorial unit of Gagauzia and included farms located in 275 mayoralities (primării). The overall surveyed planted area represented 207,490 hectares, which accounts for approximately 15,4% of the total sown area of the country (See Table 3.4).

According to the results of the survey three drought development variants were calculated by CISR considering the drought consequences. The *optimistic variant* is the most important variant, proceeding from the assumption that since the beginning of the rain in first half of July and relatively better conditions thereafter, the losses caused by the drought will not be enhanced and prices will maintain at the level of those considered in the computation.

Table 3.4.

Number of the surveyed agricultural enterprises by judetses

	Judets	Total number of the surveyed city halls	Number of the surveyed agricultural enterprises	Including					Total sown area (excluding fobber crops), thou ha	Surveyed sown area (excluding fobber crops), thou ha	Share of the surveyed sown area in the total sown area, %
				Peasant farms	Limited liability firms	Joint-stock company	Cooperatives	Kolkhozes and agricultural firms			
1	Edinets	23	56	31	24		1		149,1	17,12	11,5
2	Soroca	33	94	64	27	1	2		139,1	20	14,4
3	Baltsi	25	56	35	21				220,2	14,6	6,6
	Total in Northern zone	81	206	130	72	1	3	0	508,4	51,72	10,2
1	Ungheni	19	47	40	7				75,8	4,69	6,2
2	Orhei	45	100	65	32		3		161	24,04	14,9
3	Chisinau	41	104	74	26	1	2	1	97,3	19,12	19,7
4	Lapusna	22	73	55	17		1		124,5	24,5	19,7
	Total in Central zone	127	324	234	82	1	6	1	458,6	72,35	15,8
1	Tighina	23	51	31	19		1		141,7	26,01	18,4
2	Cahul	25	66	53	11			2	129,7	22,72	17,5
3	Taraclia	4	5	1		2	1	1	29,6	9,2	31,1
4	Gagauzia	15	26	11	4	6	2	3	78	25,49	32,7
	Total in Southen zone	67	148	96	34	8	4	6	379	83,42	22,0
	Moldova	275	678	460	188	10	13	7	1346	207,49	15,4

Pessimistic – 1 scenario assumes increasing losses per crops to be harvested in late fall.

Pessimistic – 2 variant relies on the assumption that demand of agricultural products will sharply increase (particularly of wheat), and prices will also increase (See Tables 6, 7 and 8).

Losses estimate: optimistic scenario – 1.9 bln. MD lei, which accounts for 25% of the crop volumes envisioned by the prognosis of the farms, interviewed during the fieldwork survey. Losses according to pessimistic – 1 variant is worth 2.6 bln. MD lei, or 34.5% of the crop volumes envisioned by the prognosis of the farms interviewed during the fieldwork survey, and pessimistic – 2 variant is 3.2 bln. MD lei, or 34,4% of the crop volumes envisioned by the prognosis of the forms interviewed. These forecasts *do not factor in recent losses due to torrential rain and some flooding the week of July 10th in some regions of Moldova.*

According to the basic variant most losses are forecasted in terms of cereals production, e.g., winter wheat - 29.5%, barley - 36.8%, maize-36.6%, leguminous plants - 51.9%, and in terms of fruit production -52.9%.

Territorial aspect. Typically in case of droughts the losses increase from North to South due to zonal differences of precipitation. In 2000, according to field work estimates, losses were determined not only by the natural factors *but also by the quality of agri-technologies*, i.e., autumn soil preparation, seed quality, crop rotation, fertilization, etc.

The aggregate evaluation of the agricultural output losses due to 2000 drought, proceeding from the surveyed agricultural businesses, is presented in Table 5 (basic optimistic scenario). Based on those circumstances, and according to the data from the field survey, winter wheat recorded the most losses (30-34%) and these are anticipated in Ungheni, Orhey, Tighina and Cahul counties, and Lapushna – 44%. In terms of barley most losses are expected in the Tighina county - 41%, Chisinau county and Gagauzia about 50%. In terms of maize the southern zone was hardest hit – Cahul, Tighina, Gagauzia – 45-50%, Lapushna - 57% and Taraclia - 65%. In terms of fruits most losses are forecasted in the

central zone, county Orhey, and in the all Southern counties – Tighina, Gagauzia, Taraclia, Cahul (65-80%).

As Table 3.5 illustrates, losses as a result of the drought vary from north to south, with general impact being greater in the south. However, even in Edinet, Soroca and Balti, some farmers suffered substantial losses in one crop. Grape growers in Edinet, for example, reported losses of about 45.5 percent while vegetable losses in Soroca were in the neighborhood of 70 percent. Meanwhile, barley losses in Balti were in the neighborhood of 30 percent.

Table 3.5 presents an illustration of losses at the 20, 30 and 40 percent levels.

Table 3.5.

Summary of losses by Judet due to drought

Losses >40% of Crop	Edinet	Soroca	Balti	Ungheny	Orhey	Chisinau	Lapushna	Tighina	Cahul	Taraclia	Gagauzia
Winter Wheat							43.9				
Barley						50.8		40.7			50.8
Maize							57.2	44.0	47.0	64.7	49.1
Leguminous Plants					45.0		48.6		47.0	50.5	65.3
Sugar Beets					44.4				48.0		
Sunflower							43.6				
Soybeans									62.0		62.0
Tobacco									50.0		50.0
Potatoes											
Vegetables		70.0									
Fruits					71.4	57.5	42.9	75.0	80.0	66.7	66.7
Grapes	45.5					50.0					

Losses >30% of Crop	Edinet	Soroca	Balti	Ungheny	Orhey	Chisinau	Lapushna	Tighina	Cahul	Taraclia	Gagauzia
Winter Wheat				34.0	32.8		43.9		33.0		32.7
Barley			30.0		34.0	50.8	32.6	40.7	37.5	37.6	50.8
Maize				39.0	32.5		57.2	44.0	47.0	64.7	49.1
Leguminous Plants					45.0		48.6		47.0	50.5	65.3
Sugar Beets					44.4				48.0		
Sunflower				32.7			43.6			35.0	
Soybeans				30.8					62.0		62.0
Tobacco									50.0		50.0
Potatoes											
Vegetables		70.0							30.0	30.0	33.0
Fruits					71.4	57.5	42.9	75.0	80.0	66.7	66.7
Grapes	45.5					50.0					

Losses >18-20% of Crop	Edinet	Soroca	Balti	Ungheny	Orhey	Chisinau	Lapushna	Tighina	Cahul	Taraclia	Gagauzia
Winter Wheat	23.2	28.7	25.1	34.0	32.8	23.2	43.9		33.0	29.3	32.7
Barley	19.1	21.4	30.0	18.7	34.0	50.8	32.6	40.7	37.5	37.6	50.8
Maize				39.0	32.5		57.2	44.0	47.0	64.7	49.1
Leguminous Plants	22.5				45.0	25.3	48.6	22.3	47.0	50.5	65.3
Sugar Beets		19.5			44.4			28.0	48.0		
Sunflower				32.7	26.4		43.6		27.1	35.0	
Soybeans				30.8		25.0			62.0		62.0
Tobacco					25.7			20.0	50.0	27.6	50.0
Potatoes					21.7		24.8	24.8	24.8		
Vegetables		70.0							30.0	30.0	33.0
Fruits		28.0	20.0	26.7	71.4	57.5	42.9	75.0	80.0	66.7	66.7
Grapes	45.5	28.0				50.0					

Table 3.6.

Optimistic scenario

Assessment of agricultural output losses due to 2000 drought registered by the farms of **Moldova**, according to extraordinary study, as on 1.07.2000

	Crops	Surveyed area, thou ha	Yield (ton per ha)		Shortage in yield (ton/ha)	Total area, thou ha	Total harvest, thou t.		Shortage in harvest (thou t.)	Average market price for 2000 (MDL/ton)	Planned for 2000 mil. MDL	Shortage in income (mln MDL)	Share of shortage in plan, %
			Planned for 2000	Expected in 2000			Planned for 2000	Expected in 2000					
A	B	1	2	3	4	5	6	7	8	9	10	11	12
1	Winter wheat	87.5	2.88	2.03	-0.85	341	980.8	691.2	-289.6	1000	980.8	-289.61	-29.5%
2	Barley	14.5	2.25	1.42	-0.83	101	226.8	143.4	-83.3	870	197.3	-72.51	-36.8%
3	Maize	36.9	2.90	1.84	-1.06	424	1231.2	780.6	-450.7	900	1108.1	-405.59	-36.6%
4	Leguminous plants	7.81	1.32	0.63	-0.68	60	79.2	38.1	-41.1	1800	142.5	-73.98	-51.9%
5	Sugar beets	9.69	19.35	16.34	-3.01	65	1257.4	1061.8	-195.7	275	345.8	-53.80	-15.6%
6	Sunflower	39.13	1.45	1.16	-0.29	201	291.9	233.2	-58.8	1700	496.3	-99.88	-20.1%
7	Soybeans	2.74	1.26	1.10	-0.16	17	21.5	18.7	-2.8	1800	38.6	-5.04	-13.1%
8	Tobacco	5.83	1.50	1.20	-0.30	22	33.0	26.4	-6.6	10000	329.8	-65.70	-19.9%
9	Potatoes	0.61	7.43	5.93	-1.49	66	490.1	391.7	-98.5	3000	1470.4	-295.38	-20.1%
10	Vegetables	2.78	8.92	7.84	-1.08	49	436.9	384.0	-52.9	1700	742.7	-89.92	-12.1%
11	Fruits	21.2	3.27	1.55	-1.72	140	458.3	216.8	-241.5	1800	824.9	-434.64	-52.7%
12	Grapes	18.61	3.34	3.26	-0.08	140	467.7	456.7	-10.9	1800	841.8	-19.69	-2.3%
	<i>Total annual plants</i>	207.49				1346.0					5852.2	-1451.4	-24.8%
	<i>Total perennial plants</i>	39.81				280.0					1666.7	-454.3	-27.3%
	Total crops	247.30				1626.0					7519.0	-1905.7	-25.3%

Table 3.7.

Pessimistic scenario-1

Assessment of agricultural output losses due to 2000 drought registered by the farms of **Moldova**, according to extraordinary study, as on 1.07.2000

	Crops	Surveyed area, thou ha	Yield (ton per ha)		Shortage in yield (ton/ha)	Total area, thou ha	Total harvest, thou t.		Shortage in harvest (thou t.)	Average market price for 2000 (MDL/ton)	Planned for 2000	Shortage in income (mln MDL)	Share of shortage in plan, %
			Planned for 2000	Expected in 2000			Planned for 2000	Expected in 2000			mil. MDL		
A	B	1	2	3	4	5	6	7	8	9	10	11	12
1	Winter wheat	87.5	2.88	2.03	-0.85	341	980.8	691.2	-289.6	1000	980.8	-289.61	-29.5%
2	Barley	14.5	2.25	1.42	-0.83	101	226.8	143.4	-83.3	870	197.3	-72.51	-36.8%
3	Maize	36.9	2.90	1.50	-1.40	424	1231.2	636.0	-595.2	900	1108.1	-535.69	-48.3%
4	Leguminous plants	7.81	1.32	0.63	-0.68	60	79.2	38.1	-41.1	1800	142.5	-73.98	-51.9%
5	Sugar beets	9.69	19.35	12.70	-6.65	65	1257.4	825.5	-431.9	275	345.8	-118.78	-34.4%
6	Sunflower	39.13	1.45	1.00	-0.45	201	291.9	201.0	-90.9	1700	496.3	-154.61	-31.2%
7	Soybeans	2.74	1.26	1.10	-0.16	17	21.5	18.7	-2.8	1800	38.6	-5.04	-13.1%
8	Tobacco	5.83	1.50	1.00	-0.50	22	33.0	22.0	-11.0	10000	329.8	-109.77	-33.3%
9	Potatoes	0.61	7.43	5.00	-2.43	66	490.1	330.0	-160.1	3000	1470.4	-480.39	-32.7%
10	Vegetables	2.78	8.92	6.70	-2.22	49	436.9	328.3	-108.6	1700	742.7	-184.55	-24.8%
11	Fruits	21.2	3.27	1.45	-1.82	140	458.3	203.0	-255.3	1800	824.9	-459.54	-55.7%
12	Grapes	18.61	3.34	2.90	-0.44	140	467.7	406.0	-61.7	1800	841.8	-110.98	-13.2%
	<i>Total annual plants</i>	207.49				1346.00					5852.2	-2024.9	-34.6%
	<i>Total perennial plants</i>	39.81				280.00					1666.7	-570.5	-34.2%
	Total crops	247.30				1626.00					7519.0	-2595.5	-34.5%

Table 3.8.

Pessimistic scenario-2

Assessment of agricultural output losses due to 2000 drought registered by the farms of **Moldova**, according to extraordinary study, as on 1.07.2000

	Crops	Surveyed area, thou ha	Yield (ton per ha)		Shortage in yield (ton/ha)	Total area, thou ha	Total harvest, thou t.		Shortage in harvest (thou t.)	Average market price for 2000 (MDL/ton)	Planned for 2000	Shortage in income (mln MDL)	Share of shortage in plan, %
			Planned for 2000	Expected in 2000			Planned for 2000	Expected in 2000			mil. MDL		
A	B	1	2	3	4	5	6	7	8	9	10	11	12
1	Winter wheat	87.5	2.88	2.03	-0.85	341	980.8	691.2	-289.6	1250	1226.0	-362.01	-29.5%
2	Barley	14.5	2.25	1.42	-0.83	101	226.8	143.4	-83.3	1125	255.1	-93.77	-36.8%
3	Maize	36.9	2.90	1.50	-1.40	424	1231.2	636.0	-595.2	1125	1385.1	-669.61	-48.3%
4	Leguminous plants	7.81	1.32	0.63	-0.68	60	79.2	38.1	-41.1	2250	178.1	-92.47	-51.9%
5	Sugar beets	9.69	19.35	12.70	-6.65	65	1257.4	825.5	-431.9	370	465.3	-159.82	-34.4%
6	Sunflower	39.13	1.45	1.00	-0.45	201	291.9	201.0	-90.9	2065	602.9	-187.80	-31.2%
7	Soybeans	2.74	1.26	1.10	-0.16	17	21.5	18.7	-2.8	2250	48.3	-6.30	-13.1%
8	Tobacco	5.83	1.50	1.00	-0.50	22	33.0	22.0	-11.0	12500	412.2	-137.22	-33.3%
9	Potatoes	0.61	7.43	5.00	-2.43	66	490.1	330.0	-160.1	3000	1470.4	-480.39	-32.7%
10	Vegetables	2.78	8.92	6.70	-2.22	49	436.9	328.3	-108.6	2500	1092.1	-271.39	-24.8%
11	Fruits	21.2	3.27	1.45	-1.82	140	458.3	203.0	-255.3	2300	1054.1	-587.19	-55.7%
12	Grapes	18.61	3.34	2.90	-0.44	140	467.7	406.0	-61.7	2300	1075.6	-141.81	-13.2%
	<i>Total annual plants</i>	207.49				1346.00					7135.5	-2460.8	-34.5%
	<i>Total perennial plants</i>	39.81				280.00					2129.7	-729.0	-34.2%
	Total crops	247.30				1626.00					9265.2	-3189.8	-34.4%

Social consequences of low production and yields are obvious: prices of basic food products are rising resulting in less consumption by major segments of the population, particularly those persons with fixed incomes, unemployed poor, pregnant and lactating mothers, and institutionalized persons (orphanages, old persons' homes, handicapped persons, hospital patients). Amongst other segments of the population, increasing shares of their incomes are being spent on food, which potentially may result in worsening of the already deficient nutritional state of another large segment of the population, particularly during the upcoming winter-spring periods.

Taking into account that according to the evaluation of poverty (1999) in Moldova, incomes of less than \$1/day are received by 92% of the population, the problem of poverty due to increasing prices may worsen. This is why; potential humanitarian assistance on behalf of international organizations (flour, wheat, macaroni, etc.) should be targeted towards poorest segments of population.

One could anticipate that the movement of able population to earn their living in Western and Southern Europe (Greece, Italy, Turkey, Portugal, Ireland) and Russia, given that even the low-quality labor payment in those countries is higher than the average incomes in Moldova, will increase. By transferring cash payments worth approximately \$150-170 million on yearly basis, "gastarbeiters" from Moldova considerably alleviate the social position of their families left behind.

The preliminary evaluation of the situation emerged due to the problem "drought-2000", will allow to conclude, that the ***Government in the near future will encounter two problems.***

Firstly. It is necessary to create state reserve of wheat (about 60-80 thousand tons), in order to provide for adequate strategic reserves and maintain a semblance of control over the price of bread, a very important social and dietary indicator in Moldova. However, recent events have amply demonstrated that the State needs assistance planning, financing and managing the strategic reserve of grains so that reasonable price stability is maintained at the farm gate and bread price increases do not place this vital commodity out of reach of major segments of the population. It is also important to note that a large portion of the population does have the economic wherewithal to pay higher percentages of their incomes for food and food security programs should be tailored so that subsidies are not available for these people. This implies some other mechanisms rather than merely controlling the price of wheat and bread through such actions as prohibiting the export of wheat or freezing the bread price.

While forecasting a harvest of 600-650 thousand tons of wheat, the problem of famine will not emerge, however, low-income large families and pensioners, other persons with low fixed incomes, unemployed poor, pregnant and lactating mothers, and institutionalized persons (orphanages, old persons' homes, handicapped persons, hospital patients) will need humanitarian assistance. The problem may aggravate if a considerable share of local wheat is exported from the country. This is why the State, in order to replenish the state reserves, should establish a worthy market price – \$80 to \$100 USD/ton for the local producers. Moreover it is not recommended and might be considered even dangerous the suggestion, emerged in the Government in the end of June, of allowing farm enterprises pay their debts to the State with grain. In such a case farmers and agribusinesses will remain *both without wheat and without money.*

Secondly. The main concern is preparation for the next agricultural year. The stocks of qualitative seeds are missing in the country. Traditionally the problem of adequate diesel fuel for tractors is one of the major reasons autumn work (planting and plowing to trap snow and winter moisture) that is supposed to complete by November 1st are not completed or are late. Likewise, due to lack of financial resources mineral fertilizers are also not being used in

3. ASSESSMENT OF THE NEGATIVE IMPACT OF THE 2000 DROUGHT

Moldova to any significant degree. Therefore with crop losses likely according to the projections from the survey work and official estimates, farmers are likely to have even less ability to properly prepare the land and plant this fall's grain crop. Of course this will aggravate the overall food balance next year as well. Besides, proceeding from the experience of the 1994 drought, one could expect considerable breakage of plows and respectively additional costs.

According to the field estimates, the priority needs of the agricultural sector are grouped in the Tables 3.9 and 3.10.

Table 3.9.

Required inputs for re-seeding areas due to the drought, per all categories of the farms, as on 1.07.2000

	Crops	Area, thou ha	Input needs		
			Seeds, t.	Diesel oil, t.	Mineralal fertilizers, t.
1	Maize for grain	17.7	425	750	1770
2	Maize for silage	57.0	1710	2394	5700
3	Annual plants for forage	1.5	300	50	150
4	Sugar beets	5.0	50	350	500
5	Buckwheat	4.7	500	188	470
6	Mangel	8.0	80	560	800
7	Sunflower	0.4	3	28	40
	Total	94.3		4320	9430

Table 3.10.

Needed inputs until the end of 2000 by all categories of farms.

	Inputs	Needs for harvesting and autumn	Available on 01.07.2000	Necessary to acquire
1	Diesel oil, t.	68850	4800	64050
2	Gasoline, t.	7000	850	6150
3	Oils, t.	2300	1050	1250
4	Mineral fertilizers, t.	153000	1220	151780
5	Pesticides, thou MDL	150000		150000
6	Seeds of the winter crops, t.			
	winter wheat	81600	7800	73800
	winter barley	8000	1200	6800
7	Seeds of the spring crops for the 2001 spring sowing			
	maize	10900	1500	9400
	spring barley	10800		10800
	sunflower	2000	900	1100
	sugar beets	700	250	450
	soybean	1800	320	1480
	peas	17500	1600	15900

Of course, avoiding the consequences of drought is a task not only for certain farms and agricultural enterprises but are also a task for the Government and State as a whole.

Year by year farmers operate in a cyclical environment; drought - too much rainfall, spring frost - early frost before harvest time, as well as in a cyclical economic environment. Yet the trees give fruit each year, the cows must be milked daily, and once wheat (or tomatoes) has been planted it cannot be shutdown like an assembly line in a manufacturing facility.

The cyclical economic environment is usually caused by factors beyond the control of farmers; e.g., devaluation of the national currency drives up factor costs of production since Moldova does not manufacture fertilizers or agro-chemicals. High inflation caused by Government overspending or low tax collection rates causes all costs to increase, except output prices which consistently remain depressed because of low aggregate demand caused by miniscule purchasing power of the vast majority of population. Regional-scale financial crises result in lost markets (e.g., the Russian financial crisis in 1998), etc.

In addition to these negative impacts and risks Moldovan farmers face other market distortions caused by overt local and national government actions. Actions such as the recent prohibition to export wheat depress prices. Government importation of large amounts of certain agricultural commodities may also depress prices farmers receive for their crops, e.g., the recently announced “donation” of 20,000 tons of American wheat (or flour) in the middle of the harvest season may negatively impact local wheat prices.

This year, due to the drought, some farmers who manage to get a crop – perhaps because they were able to irrigate or they received enough rainfall in their specific area – may have an opportunity to make decent money after years of negative or declining incomes due to the difficult economic situation. Therefore, well intentioned foreign assistance to ameliorate the impact of any drought or other natural calamity affecting Moldova must be orchestrated in such a way so as to minimize the negative impact on Moldovan farmers, who through whatever means have managed to bring some crop to market. In addition, there are segments of the population who have the means to pay higher food prices or the ability to feed themselves, like most rural inhabitants (unless disabled, institutionalized or simply too old to be an agricultural or livestock producer) and the growing middle class. These people should not be subsidized; instead, they should be expected to pay higher food costs as a result of the drought.

In addition to above mentioned, the following are several suggestions for *short-term actions* to reduce the drought impact:

(i) Increase in-kind *humanitarian assistance* to vulnerable groups who are unable to purchase food products (bread, macaroni) due to scarcity or high prices caused by the drought until the next harvest is due, i.e., until the end of August 2001. These groups would include institutionalized persons (disabled, orphans, elderly, prisoners, etc.), pensioners who do not have access to land plots or other means of support, unemployed poor such as women and children with no means of support, etc. If donors accept this recommendation, then it needs to be complemented with answers to the following questions: How much of what kinds of foods? When? How to distribute? What about cash so they can buy food?

(ii) Additional supplies of coal should be distributed to those people able to use it to heat homes, schools, hospitals and institutions where vulnerable persons are housed. This is presumably necessary due to increased cost of living as a result of higher food costs caused by the drought. The coal should be distributed as in the past, only in larger quantities.

(iii) *Fuel* for fall ploughing and planting (presumably because farmers lost their grain crop and the income from this crop). If donors accept this recommendation, the following questions must be answered: How to select the eligible farmers? How much fuel to give? How should it be acquired and distributed? When? By whom?

(iv) *Grain seeds* for fall planting (presumably because farmers lost their grain crop due to the drought and have no seeds to replant the fall crop). If donors accept this recommendation, the following questions must be answered: How to select the eligible farmers? How much seed to give? How and from where should it be acquired and distributed? When? By whom?

(v) *Fertilizer* for fall planting of grains. If donors accept this recommendation, the following questions must be answered: How to select the eligible farmers? How much of what kinds of fertilizer to give? How and from where should it be acquired and distributed? When? By whom?

(vi) *Small cash grants* to machinery firms and tractor/equipment owners to undertake urgent repairs so that the maximum machinery pool is available in time for fall planting. If donors accept this recommendation, the following questions must be answered: How much money should be given? How to select the beneficiaries? How should money be distributed? When? How to monitor use of money to ensure it is used to repair equipment and make ready for fall planting?

(vii) Adopt a crop *insurance program* to protect farmers signing-up for the insurance program. This might be undertaken for the fall grain crop and require co-payment by the farmers participating in the program. The authors believe such a plan should be designed with assistance from foreign experts and should operate in the private sector with possibly GOM re-insurance in case of national-level disasters.

In the *long-term perspective*, the following issues are actual – formation of adapting system of agriculture, at both local and regional levels; restoration of irrigation systems, implementation of post-privatization program, including the formation of associations of farmers and cooperatives, creation of an effective infrastructure for technical, agri-chemical, transport services, water supplying; creation of an extension service/consulting centers for farmers, etc.

The combination of properly focused short-term drought assistance and long-term actions, will allow releasing the social tensions and in the future enhance the sustainability of the agricultural sector and food security of the country.

4. SMALL AND MEDIUM BUSINESS: NATURE AND PROBLEMS

Over the period Nov. 1999 – Jan. 2000, a baseline survey of businesses was undertaken in the Republic of Moldova. The survey, entitled “Small and Medium Enterprises. Baseline Survey” was conducted by USAID’s NewBizNet Project (Small and Medium Enterprise Support in Western NIS). In Moldova, international experts from Development Alternatives, Inc. (DAI), USA, monitored the survey, with targeted consultations by Kiev International Institute of Sociology (KIIS). The fieldwork was managed by the Moldovan NGO ADSISTO, and the analysis and report-writing tasks were accomplished by the Center for Strategic Studies and Reforms (CISR).

Private sector entrepreneurship is a new and most dynamic part of the transition economy in the Republic of Moldova. According to official statistics, as of the end of 1999 the private sector accounted about 60% of GDP and employed 66% of the labor force. Property reform and mass privatization carried out in Moldova in the 90s led to the formation of many new businesses, which will assist the state in solving the problems of employment, production of goods and services, and increasing incomes of the population.

At the same time the relations between the state and the business sector are far from being unclouded. According to EBRD estimates (Transition Report, 1999), the quality of governance and the environment for entrepreneurship in Moldova are the worst among the 26 countries in transition.

4.1. Nature of Enterprises, Number of Businesses and Employment

Moldova’s business sector is a network of enterprises with different legal origins and sizes. The “core” of business sector (14.2% of the total) forms the privatized and broken-up former state enterprises. However, the vast majority of businesses (81.8%) are newly created, particularly in agri-business, constructions, transport, wholesale and retail trade, eating and drinking places.

Based on survey data, the study estimates that there are about 195,000 businesses operating in Moldova. The largest part of them (about 166,000 or 84.8%), operate in the field of unorganized (that is, not officially registered) business as self-employed individuals. The organized business, operating “within the legal framework”, as estimated from extrapolation on both samples (households and registered businesses) amount to nearly 30,000.

The survey estimates that about 818,000 Moldovans are employed by businesses, and of these about 228,000 work in unorganized businesses. The earlier figure represents more than 45% of Moldova’s working age population.

According to the survey, wholesale and retail trading engages some 40% of all Moldovan businesses. Construction operations are also very common (16%), especially among the smallest of firms. Evidently, these sorts of activities involve low initial costs, and may not require a great deal of specialized training. Services of various sorts occupy another 16% of Moldova’s businesses, while industrial firms account for only 1.3% of the total. Another 9.1% account for other types of activities.

Three-quarters of all businesses in Moldova was founded after 1993, shortly after the first laws were introduced allowing the creation of private enterprises. During 1995 - 1999 the number of enterprises increased by 68.5%, an annual growth of 13.7% per year.¹ This period is

¹ This figure does not take into account enterprises that may have closed during the period. This statistic then should only be taken as a general indicator.

characterized by the implementation of privatization; thus, the state enterprises were transferred into private "hands", i.e., the private sector was increased at the expense of the state sector.

In 1999 and the first month of 2000, as the result of the drop in business activity (regional financial crises and etc), the number of new enterprises slightly decreased and constitutes 9.5%.

4.2. Employment

As noted earlier, when taken together the two surveys indicate that at least 818,000 Moldovans are employed in the business sector. Of these, 61% work in small enterprises, 25% in medium enterprises, and 14% are employed in the largest firms. At present, two types of activities provide most of the jobs: wholesale and retail trade (mainly in small enterprises), and industry (mainly the largest enterprises. Nearly half of all employment is in these types of activities.

Small enterprises are prevalent in both rural and urban areas, although a larger proportion of business employment in villages is in the small size category. The majority of Moldova's businesses employ only full-time workers: 74.4%. However, part-time workers are more common in medium and large enterprises. In addition, 46.4% of all the firms operating in the country are employing relatives. Relatives are most commonly employed in medium and large enterprises.

According the data of the survey, the 195,000 enterprises in Moldova employ 373,000 women. Of these nearly 50% are hired by enterprises where women amount for more than 20 employees.

The availability of many relative-employees by enterprises apparently is one of the reasons that a considerable part of them are stable and have relatively small payroll arrears. Nearly all (97%) of Moldova's businesses reported not changing the number of employees in the previous 6 months. In addition, the vast majority of firms pays their payrolls in cash (rather than in kind) and does so in a timely fashion.

For the businesses that reported firing workers in the previous 6 months, most said that the process of firing a worker took a day or less to complete. However, nearly 10% of businesses reported that the process took between 10 and 60 days to complete. Evidently, while most businesses do not face a great deal of bureaucracy in this regard, some are certainly constrained.

4.3. Ownership

If in the early 90s in the Republic of Moldova the share of state ownership accounted for over 80%, then during the last decade the picture changed dramatically. The survey's data reveal that at present the legal status of enterprises is as follows: individual entrepreneurs – 85.1%; private enterprises – 10.2%; collective/stock companies, where the main part of shares belong to individuals – 2.8%; collective/stock companies, where the majority of shares is owned by the state – 0.7%; and other types – 1.1%.

Enterprises with a group form of ownership prevail in Moldova - 74% have two or more owners. Single-owner firms are more common in villages, and much less common in cities.

Proceeding from the survey's data, it was discovered that the share of businesses in which women own more than 51% of property constitutes only 30%, which is significantly less than the share of women in the demographic structure of the country's population. Women-dominated businesses are more commonly encountered in wholesale and retail trading, and in

hotels and restaurants. Female-dominated firms are especially rare in construction and industry, and women dominate no firms in transportation and communication.

More than one-quarter of Moldova's enterprises reported that their firms had changed organization-legal forms in the past. Two-thirds of the medium and large firms had changed form, no doubt reflecting the ongoing process of privatization. Indeed, of the enterprises that did change organizational-legal status, over 70% were once state-owned enterprises.

Overall, most of Moldova's businesses (72%) were started as new businesses. Another 17.6% were started as a result of privatization. Small firms and village-based firms are much more likely to have started new, while medium and large firms were more likely to have started as a result of privatization.

4.4. Entrepreneur and State

The general environment for business in Moldova is unfavorable. It can be observed in the "uncomfortable" aspect of the legal framework and regulatory methods (registration, licensing, taxes and inspection), the unfavorable climate for investments, the limited access to bank credits, and the weakness of business infrastructure. A special concern involves the constant existence of entrepreneurial risk and non-protection of his life and property.

The vast majority of Moldova's enterprises are part of the "shadow economy" – they are not registered. The unregistered firms fall entirely in the small size category (and most of these with between 0 and 5 workers), reflecting in part the relative ease such businesses have in avoiding detection. The cost in terms of time and money may also be especially burdensome to these smallest of businesses.

Obviously there is a need to streamline the registration, licensing, and administrative procedures, because the current procedure is known for a high level of bureaucracy. The most onerous of these for businesses is licensing. There are 13 ministries, the National Bank, 3 departments and 10 other state bodies issuing licenses for 106 types of activities. Most inspections (69.4%) are made by four bodies - health-epidemiological, fiscal inspection, economic police and financial guard. On average, each Moldovan enterprise was visited 3 times in the preceding 6-month period. The frequency of visits increases with firm size: the largest enterprises were visited 23 times. Their efficacy however is less tangible: violations were registered in only 18% of cases. The population, which at the beginning of the '90s had a suspicious attitude towards businessmen and considered the private business as something semi-legal, has now after 10 years come to understand the positive importance of entrepreneurship, initiative and self-engagement as an important mean for survival in crisis conditions. On this background, unfortunately, the state, which was the initiator of the reforms, could not yet fully execute its role as a "protector" of the private sector.

The State plays an insignificant role in creation of the new outlets for products and services produced by Moldovan businesses: only 6.8% of enterprises are involved in activity pursuant to state orders.

4.5. Customers and Suppliers

The majority of Moldova's businesses do not rely on barter either in procuring their inputs or as payment from their customers. Medium and large firms much more commonly participate in such arrangements; a similar pattern was observed in Ukraine. Only a few proprietors report that their businesses are able to obtain their inputs on credit; most must pay up front.

An insignificant number of Moldovan enterprises export any part of their production: clearly at present these firms are oriented towards the domestic market. Of the few that do export, the majority exports to Russia or CIS countries.

4.6. Economic Results and Proprietor Expectations

Businesses in Moldova were more likely to have seen decreases in volume of sales and profitability over the previous 6 months than increases, according to survey results. More than half of businesses registered a drop in sales for the last 6 months, and only about 12% registered an increase. Similar pattern emerged with respect to levels of profitability. Not surprisingly, Moldovan proprietors are generally pessimistic about changes in sales volume and the general environment for entrepreneurship in the coming 6 months. Less than 15% predicted any improvement in either of these situations.

4.7 Business Investment

The prospects for the business sector are considerably related to investments. Unfortunately most businesses work for “survival”, and only 11.3% of them made capital investments in the previous year. Most of these were medium and large firms, with firms engaged in industry and in hotels and restaurants the most likely to make capital investments. Firms in wholesale and retail trade, and in construction, are especially unlikely to have made this sort of investment.

4.8 Business Problems and Access to Credit

Primary problem of Moldova’s entrepreneurs is low purchasing power of the population, inflation and low market prices. Larger firms complain more frequently about taxation and regulation issues.

Access to credit continues to be a very difficult issue also. 85.4% of businesses did not try to obtain credit during the last 6 months. Given the number of unregistered enterprises, this is not entirely surprising: the movement of cash predominates in shadow economy, which allows one to avoid paying of taxes, expensive banking services, etc. The possibilities of innovation for small enterprises are very limited given the weak banking system in Moldova, and the lack of specialized banks concerned with businesses (especially those at the small end of the spectrum).

* * *

Unfortunately incomplete legal framework, unprotected property and personality of entrepreneurs, as well as corruption, informal relations of SMEs with officials seriously darken the everyday activity of the entrepreneurship. It is high time to undertake legal, economic and administrative measures, which would stimulate the entrepreneurship, diminish the shadow economy segment and eliminate barriers, which impede the day-by-day activities of the businessmen.

Taking into account the long-term interests of the country and its population, the SMEs sector is in need of a National Development Plan, in which entrepreneurship would be treated with due respect. It should envision a constructive policy for entrepreneurship as one of the key components of the state strategy for social-economic development. Only in these conditions, the SMEs sector will need less protection on behalf of the state and will become a competitive part of the national economy.

5. INVESTMENT CLIMATE

5.1. Introduction

Developments in investments are carefully monitored in every country. Investments determine future production capacity of the economy and its growth potential. Every economic policy oriented for medium and long term focuses on raising the rate of investment, or maintaining it at a high level, because this is the only proven recipe for a good growth performance.

Performance of Moldovan economy has been very bad since its independence: the real GDP has been falling every year except for a very modest growth in 1997. Typically, an economic program designed to improve the situation and put Moldova back on a growth path should include some policies oriented at stimulating investments. However, there is a puzzle here: according to the existing data, in Moldova, regardless of the dismal economic performance, the share of investments has been reasonably high and stable in relation to GDP.

It needs to be determined what is wrong with the existing investments, or investment statistics. Understanding the problem of adequacy of the existing investment activities is necessary in design of economic policy for Moldova: does the country need stimulation of investments, or should the policy be oriented at other goals?

5.2. Inventory investments in Moldova in the world perspective

The first striking feature of investments in Moldova is a very high level of inventory investments in GDP. Typically, in market economies inventory investments only occasionally exceed the range of -1% to +1% of GDP. In transition economies inventory investments tend to be positive and higher'. This is probably connected with the rigid behavior of the enterprises (because of managerial inefficiency, lagged adaptation to market conditions and slow restructuring) facing structural changes in the economy and relative price changes. In the period of 1995-1999 Moldova was among the countries with the highest and most stable level of inventory investments among the transition economies. After falling from ridiculously high levels in the first half of the nineties (44%-9%), inventory investment share still hovered around 4% of GDP.

Table 5.1. Total Investments (I), Investment in fixed capital (I fix.), Inventory investments (I fix.) (% of GDP)

Period	I	I fix.	linv.
1995	24.9%	16.0%	8.9%
1996	24.2%	19.7%	4.5%
1997	23.7%	19.9%	3.8%
1998	25.9%	22.1%	3.8%
1999	22.1%	18.8%	3.3%

5.3. Fixed investments in Moldova in the world perspective

Fixed capital investments in Moldova are relatively high too. According to the International Financial Statistics, in 1997 the world non-weighted average share of Gross Fixed Capital Formation (GFCF) in GDP was about 22%. Moldova is not quite there, but in comparison with many other transition economies she is doing quite well. In countries like Armenia,

Bulgaria or Kyrgyzstan the share of investment hovered around 15% since the mid-90's and - occasionally fell much lower.

Table 5.2. Gross Fixed Capital Formation (GFCF) / GDP, Transition Economies, in 1997

Country	GFCF/GDP
Bulgaria	0.113
Kyrgyz Republic	0.140
Armenia	0.163
Ukraine	0.184
Russia	0.188
Moldova	0.198
Poland	0.212
Romania	0.221
Slovenia	0.235
Belarus	0.250
Czech Republic	0.307
China	0.338
Slovak Republic	0.386

Source: International Financial Statistics

Investments tend to be higher in transition countries like Russia, Ukraine and, especially, Belarus, where restructurization of enterprises has been delayed. As a result, enterprises are managed in the old, soviet style, and operate without entirely hard budget constraints, in a 'virtual economy'. These specific conditions result from preferential treatment by tax agencies, various offset and barter schemes and possibility of in-kind payments to workers. High investments in this group of countries often result from decisions, which are either inefficient or based on non-market incentives. As a result, they poorly enhance productivity.

Guriev and Ickes (1999) describe how, as a result of barter schemes, enterprises end up with an excess of construction materials, which belong to most popular barterable goods. To make use of them, enterprises engage in unnecessary construction projects. Through theft or in-kind wage payments those materials also end up in households' construction projects.

Shady investment projects subcontracted to firms owned by the managers or their relatives are an convenient method of channeling enterprise resources to private pockets of managers, hi developed market economies effective corporate control prevents such conduct. In many transition economies mechanisms of corporate control are not operating and a brand of corrupt capitalism called 'nomenclature capitalism' has developed (see e.g. Gaidar (1999)). Anomalies characteristic for this brand of capitalism can foster high investments, at least according to their book value.

All the above can be applied to the Moldovan case too. This explains why the reported high and stable level of investment in Moldova has so little impact on the economic performance.

5.4. Foreign direct investments

The level of foreign direct investments, which are most likely to efficiently increase productivity, is too low relating to the needs, and does not show any increasing trend. It looks better in relation to GDP, because the GDP in Moldova is very low. In per capita terms foreign direct investments in Moldova are among the lowest in transition economies, similar to those in Ukraine or Belarus.

Table 5.3. Total Investment in fixed capital (I fix.) (% of GDP), Foreign Direct Investments (FDI) (% of GDP), Foreign Direct Investment per capita (S/person)

Period	I fix.	FDI	FDLeap
1995	16.0%	5.1%	20
1996	19.7%	1.4%	6
1997	19.9%	3.7%	20
1998	22.1%	4.8%	24
1999	18.8%	2.8%	9

Source: MET, IMF (1998, 1999) own calculations

Table 5.4. Foreign Direct Investment per capita in 1997 (S/person)

Country	FDI per capita
ARMENIA	14
AZERBAIJAN	146
BELARUS	20
ALBANIA	13
KAZAKHSTAN	79
KYRGYZ REPUBLIC	18
BULGARIA	61
MOLDOVA*	20
RUSSIA	42
CHINA	36
UKRAINE	12
CZECH REPUBLIC	125
SLOVAK REPUBLIC	31
ESTONIA	182
LATVIA	211
HUNGARY	205
LITHUANIA	96
CROATIA	86
SLOVENIA	161
MACEDONIA, FYR	7
POLAND	127
ROMANIA	54

Source: IFS

5.5. Government investments

Public finances in Moldova are in a dramatically difficult situation and large arrears are cumulated on politically most sensitive items, like pension and wage payments. Given this situation, it was quite an accomplishment that government investments (which are usually the first candidate for reduction) amounted to around 2% of GDP prior to the crisis. However, the nature of those investments is specific, as most of the government capital investment expenditures were committed under netting out schemes for tax arrears. Comparing the data on netting out operations by expenditure [IMF (1999) (p.57, table 19)] and total government capital investments (MET) shows, that netting out financed 85% of government investments in 1997 and 93% in 1998 (but it is not certain if the classification and coverage of investments is exactly the same in MET data and the IMF data, but certainly the order of magnitude of investments financed by netting out compared with total government investments is large) (there is no data for other years). In such schemes both the price of an investment project and its scope are a subject of a very non-transparent bargaining. Thus, the real value and efficiency of government investments are uncertain.

Table 5. Investment in fixed capital (I fix.). Non-government Investments in fixed capital (Ing fix.) and Government Investments in fixed capital (Ig fix.) (% of GDP)

Period	I fix.	Ing fix.	Ig fix.
1995	16.0%	13.9%	2.1%
1996	19.7%	17.8%	1.9%
1997	19.9%	17.3%	2.6%
1998	22.1%	19.8%	2.3%
1999	18.8%	17.9%	0.9%

Source: MET, own calculations

5.6. Relative prices of investments

In addition to the mechanisms discussed above, a part of the explanation of the apparent high level of investment lies in a different dynamics of prices of capital goods and the overall level of prices. Although in the period 1995-1998 the share of investment in GDP was growing, capital investments in constant prices were falling much faster than GDP in constant prices. Thus, the growing share of investments resulted only from a rise of the relative price of investment goods.

The available data on the dynamics of the price index for capital goods and the GDP deflator are not consistent with the figures in constant prices (possibly because the former excludes prices of imported equipment), but they also suggest a growth of the relative price of investments in the examined period.

Table 6. Capital investments in constant prices (% of the previous year), GDP in constant prices (% of the previous year). Price index in capital construction (without imported equipment) (avg. per year, in % to the previous year), GDP deflator (in % to the previous year)

Period	Capital investment	GDP	Price index of capital	GDP deflator
1995	84	98.6	141	139
1996	92	94.1	126	128
1997	92	101.6	133	113
1998	110	93.5	109	109

Source: Statistics Department, Republic of Moldova in Figures - Statistical Pocketbook, Chisinau 1999, deflator - own calculation

5.7. Investment statistics in Moldova

The phenomenon of relatively high and stable level of investment, given the bad overall economic outlook in Moldova, can also raise suspicions about the quality of the national accounts statistics.

In addition to national accounts data, there exist also two alternative datasets on investments, produced by the Statistics Department, Section For Investment Statistics. The first of them (published in January) includes only larger enterprises and government agencies. The second one (published in April) includes all enterprises that report to the Statistics Department, including those that do it only once a year. National accounts include, in addition to that, estimates of household and other unreported investments, including those in the shadow economy. According to Statistics Department, especially household investments in construction contain a large adjustment for unreported or underreported projects.

Table 7. Investment data: January dataset (lei min), ratio of January dataset to NAS GFCF (%), March dataset (lei min), ratio of the March dataset to NAS GFCF (%), NAS GFCF data (lei min)

Period	January data(J)	J/GFCF	March data (M)	M/GFCF	NAS GFCF
1995	572	55%	845	82%	1034
1996	650	42%	987	64%	1540
1997	799	45%	1202	68%	1774
1998	900	45%	1444	72%	2012
1999	1026	45%	-	-	2296

Source: Statistics Department: (J) - Investment reports, (M) - Republic of Moldova in Figures - Statistical Pocketbook, Chisinau 1999, National Accounts GFCF - after MET.

The relationship between all these investment data series is reasonably stable. Although, because of differences of coverage, their level is different, they convey a similar message about the dynamics of investment activity.

5.8. Stability of the level of investments

Yet the dynamics of investments is another puzzle. Investments in Moldova have been remarkably stable in spite of the 1998 crisis. Usually, households smooth their consumption and the level of investments is much more volatile, absorbing most of the shocks to income. In Moldova consumption took much of the impact of the shock: In 1999, when domestic absorption share in GDP shrunk due to the devaluation, non-government consumption share in GDP shrank by 8.8% (percent, not percentage points) while non-government investment by 9.4%, so the relative responsiveness to the shock was almost the same. This stands in contradiction with the economic theory, which would predict a stronger adjustment on the side of investments.

5.9. Conclusions

After a decade of crisis and real GDP decline, the level of investments of e.g. 10% of GDP would not be surprising. In fact, it would fit well into the picture, together with the technological backwardness and inefficiency of the economy. And yet in Moldova fixed capital investments have been growing steadily from 16% in 1995 to over 22% of GDP in 1998, and fell quite modestly after the crisis.

The quality of statistics in Moldova can be doubtful. Not only are investments suspiciously high, but also in addition they did not react strongly to the 1998 crisis, which is surprising in light of the economic theory. However, alternative investment datasets, with different coverage and produced by different departments, exhibit a similar dynamics, and thus, at the first glance, do not suggest any inconsistency of investment data.

The macroeconomic performance and technological backwardness of Moldovan economy suggests that investments, if high, must be very inefficient. A persistent and very high share of inventory investments reinforces this interpretation, which is another proof of inefficient management. Given the proliferation of netting out operations, barter and in-kind payments of wages, it can be inferred, that enterprises in Moldova operate in a quasi-market environment, under distorted incentives, which inevitably deteriorates the efficiency of their investments.

In addition to all the problems with the investment efficiency, data in comparable prices suggest that the real level of investment has been falling fast throughout the recent period (excluding 1998). The high and growing share of investment in GDP reflects only the growth of relative prices of investments.

Nothing can, and should be done about the relative price adjustments, but the anomalies in the volume and efficiency of investments should be addressed. Problems with investments have the following sources: poor corporate control (poor corporate control allows an inefficient management and, possibly, criminal behavior of managers), government tolerance for netting out and barter schemes (government tolerance for netting out and barter schemes in its dealing with enterprises lies at the source of the emergence of barter in the economy. Through network effects this spreads and creates a whole sphere where economic incentives are distorted. In addition to that, investments paid for by barter or netting out operations most probably have inflated reported values).

Moldova is a small open economy and Government's urgent task must be the creation of climate favourable for local business investments, and also the realization of successive and transparent policy of attraction of direct foreign investments. Unfortunately, this problem has not been solved in 90s that constitutes one of the causes of the remaining depression in the national economy.

6. LIVING STANDARDS

6.1. EVOLUTION OF THE LIVING CONDITIONS OF THE POPULATION

As a result of various economic, social, demographic, technological and political processes, any society can be affected by a series of negative phenomena that inevitably lead to the destruction of the existing models of the population's welfare, to changes in the human behavior of individuals as well as of the social-human inter-relations. Thus, the economic transition in the Republic of Moldova, considered as a turning point in the social sphere and social, cultural and economic behaviors of the individuals related to these radical changes, brought prejudices to the life quality of the entire society.

The economic turmoil persisting in the country's economy during the last 10 years, accompanied by a sharp economic decline, caused the mass pauperization of the population, the degradation of the health care and education systems, the disparagement of the social protection system and other negative phenomena such as crime, corruption, social apathy, etc. A continuous destruction of the existing human capital is taking place in the country, which decreases the successful opportunities of the current transition and the sustainable development of the society in the future.

The continuous fall of the real GDP during the last 10 years by 66.3% determined a serious decrease in the incomes of the population. The appointment of the new leadership of the country at the end of 1999 did not bring any results. The most expected improvement and growth of the country's economy did not occur yet and there are no signs for it to happen in the nearest future. During the first half of 2000, the economy was on a continuous decline with a fall in the real GDP by 1.7% of the level of the respective period of time of the previous year.

The most critical phenomena encountered by the Moldovan society now is the unexpected drop of the living standards of the population due to the considerable *reduction of the purchasing power*. Thus, according to official data and UNDP estimates, during those 8 years of economic transition since the prices liberalization, the real income per capita has dropped by more than 4 times being on a continuous decrease. According to the household budget surveys, in the third quarter of 1999, the nominal incomes of the population constituted 7,260.8 million lei, by 19.4% more as compared to the same period of the last year while the real incomes during the reference period fell by 12.0%. The drop in the real incomes of the population of the country continued in the first half of 2000. Although the available average monthly income per capita increased by 40% during the first quarter of the year (from 114 lei in 1999 to 160 lei), its value constituted 2% under the inflation rate of this period.

The Reduction of the Salary Role in the Income

One of the major features of the formation of incomes now in the Republic of Moldova is the considerable *decrease of the salary share in the overall incomes*. The reduction of the salary role in the formation of incomes in favor of other income forms is a natural process of the transition to a market economy. When this decrease takes uncontrolled proportions, a transfer of the reproductive function of the labor force may take place that undermines the economic tool and the human capital development. A great part of employees (mainly from the public sector) which make their incomes exclusively out their salaries is disadvantaged as compared to other categories of population that have additional incomes. This leads to the degradation of the employees' commitment and as a result, to an exode of the labor force from the productive

sphere to other areas of activity. Thus, if in some developed countries, the share of the salary in the overall incomes accounts for 50-70% through various government policies ensuring labor motivation and the increase of productivity and social equity, in the Republic of Moldova the share of the salary in the total incomes during the first quarter of 2000 constituted 35.4%, registering a slight increase as compared to the same period of the previous year.

The discrediting of the salary role in the national economy of the Republic of Moldova can be considered as a direct consequence of the income policy, in particular, of the salary one that existed during the recent years as well as the profanation of the state commitments to the public employees. Freezing of the minimal salary worth 18 lei (not adjusted to the evolution of the subsistence minimum) aimed at alleviating the inflation rate and strengthening of the national currency, the utilization of a common tariff network of salaries in the budget sector, not indexed in time for many years and the salary arrears increasing from year to year are convincing arguments of the incapacity and often of unwillingness of the state to improve the situation of the employees. All these led, on one hand, to the decrease of the real incomes of individuals which directly depend on this income form and on the other to a drop in the people's credibility towards the state as a guarantee of the population's welfare as well as to the strengthening of some phenomena that undermine the state authority on a long term basis, such as shadow economy, fiscal evasions, corruption and crime, among others. A great part of active population emigrates from the country for a short or long period of time or forever in order to improve their material situation. The Government's recent attempt to improve the situation by increasing the salary level for the first category of qualification to the level of 115 lei cannot improve the situation of the employees when the minimal consumption basket is estimated at 965 lei.

As a consequence, the lowest salaries as compared to other developing countries characterize the Republic of Moldova. Thus, if the average monthly salary in Moldova constituted 187 lei or \$40 in 1996, in Uzbekistan its accounted respectively \$53, Belarus - \$89, Ukraine - \$84, Kazahstan - \$103, the Russian Federation - \$156, Romania - \$131. The same trends exist now as well.

During the first quarter of the 2000, the monthly average salary constituted 351 lei, by 35% more than during the same period of the previous year. This remuneration covers only 40% of the minimal consumption basket estimated at 965 lei, which confirms the fact that the salary in the Republic of Moldova cannot fulfill the reproduction function of the labor force for some categories of employees. Under these circumstances, it is impossible to rely on labor productivity, which is often based on labor commitment, and contribute to the economic growth in the future.

The biggest increases in the nominal salary were registered in the constructions and power institutions, water and gas supply and processing industry. The biggest salaries are in the financial-banking, power sector and gas and water supply fields. During the same period of time, the average salary in the public institutions constituted 254 lei which covers only 30% of the minimal consumption basket. As a result, the difference in the level of salary payment in the economic sector is getting bigger. Thus, the ratio between the average salary in the social sphere and financial-banking system increased from 1:3.4 in 1994 to 1:10.3 during the first quarter of 2000.

A factor that seriously affects the formation of the cash incomes of the population and the life quality of individuals is the salary arrears and social transfer delays, which reach the beneficiary with delays ranging from 1 month to 8-9 months, depending on the locality. As of June 1, 200, the salary arrears constituted 503 million lei, with 49 million lei less than on January 1, 2000. The most difficult situation in this respect is in the agricultural and public sector where the salary arrears account for 220.4 million lei. Being aware of the importance of this issue as

well as of its consequences, the Government is making great efforts to solve this problem. Although the salary arrears have slightly dropped (by 49 million lei during the first quarter of 2000), this issue is still critical and requires radical solutions, often unusual ones, but the attempts to improve the situation through compensatory measures such as the substitution of the salary and pension arrears to the beneficiaries with first need goods or the provision of additional compensatory aid which turned out to be inefficient.

Under these circumstances, the expansion of the shadow economy which accompanies the economic transition is, on one hand, a means for survival for some categories of the poor population who start “black market” activities or elements of natural economy (self-employment and self-consumption) and on the other, a source for quick enrichment of other categories of the population which lead to social inequality. Such a means of polarization of the society represents a factor of continuous social-political instability and impedes the sustainable human development of the society.

The evolution of the population’s incomes in the Republic of Moldova during the transition period has caused an excessive social differentiation of the population. During the first quarter of 2000, the incomes of the richest 20% of the population were 10 times bigger than the incomes of the poorest 20% of the population. The Gini coefficient, which expresses the degree of social differentiation, has a stable tendency to increase. In 1999, it constituted 0.44, calculated in conformity with the overall incomes of the population. Social differentiation in the rural area is greater than in the urban localities. This is explained by the speedy reduction of the salary role in the formation of the population’s income from the rural area as compared to the urban one, manifested through big salary arrears, the payment of salaries in kind and the presence of natural economy elements.

Poverty Impact on Life Quality

The considerable drop in the real incomes of the population leads inevitably to poverty. The pauperization of the population is the most serious social problem encountered by the transition to a market economy. Except “old” poor – families with many children and the incomplete ones, handicaps and old people – “new” poor appeared. These are usually unemployed people, those employed in agriculture, public sector where salaries are extremely low unable to ensure a decent living. The peculiarities of poverty in Moldova are characterized by the following:

- the poverty level of the population is bigger than in other developing countries;
- the poor include not only socially vulnerable groups but also people employed in the national economy;
- the population included in the category of the poor maintain high educational and health care standards as well as of providing goods of long-term use which essentially alleviate the social negative impact which may bring low incomes.

Poverty can be considered a disease of the society given that it affects both social groups attacked by poverty and those who cannot be considered poor. If until not long ago, poverty was considered a temporary phenomenon related to the social costs of the transition in the Republic of Moldova. Now poverty is being transformed into a chronic phenomenon, which requires alleviation measures. The transformation of poverty from a temporary phenomenon into a social chronic one is obvious for any economy in transition to a market economy. The market economy itself, based on the social differentiation, envisages the existence of poverty. Thus, in countries with a developed economy, poverty is calculated according to the existing life quality standards in the respective country and constitutes 10-20%. At the same time, the state protects the

population affected by poverty by ensuring an adequate social protection so that people overcome these difficulties. The issue of poverty eradication does not consist in its complete eradication but rather in its management, which means the maintenance of poverty at a low level so that the financial possibilities of the state aimed for social protection could offer to people in need a relative decent living. The poverty level in the Republic of Moldova constitutes 80% of the population and the state cannot provide social protection to people affected by poverty due to its existing system of social protection.

A human tragedy, poverty compromises the pace of reforms and the democratization of the society (nostalgia towards the old regime is increasing) and is a source of the disorganization of the society, moral and behavioral degradation, that is why it cannot be ignored if the social conflict has to be avoided and decent living standards for all citizens to be ensured. This requires a reformulation of the priorities of the economic and social policies aimed at eradicating poverty and increasing the incomes of all social groups.

The elaboration of poverty alleviation strategy is to a great extent a matter of cognition. It requires the evaluation of the dimensions, profile and causes of poverty, social protection systems and possibilities of their improvement and reforms envisaged in this field, features and peculiarities of the behavior of various categories of population (consumption, demographic, civil, social, etc.), values, customs and mentality which generate this behavior, the economic situation and its capacity to create and avail resources necessary for the improvement of the living conditions of the population.

The elaboration of the poverty eradication strategy has a political significance given that it involves the political decision in selecting the adequate tools, which settlement depends on the harmonization of interests which meet and confront at various points in the strategy. Another problem is the official definition of the poverty line and of the subsistence minimum to be guaranteed by the Government to all citizens. There is a need of political will in being aware of the fact that poverty in the Republic of Moldova has taken big proportions, which can affect the security of the state, and poverty eradication should be one of the major objectives of the state activity. Although poverty is one of the most burning issues in the country, the main legal tools for its eradication have not been adopted yet. This is the set of key laws on the subsistence minimum and social guarantees, laws that can contribute to the elaboration of a viable institutional framework in poverty eradication as well as making effective the resources necessary to achieve this goal.

Another problem is the evaluation of the poverty dimensions. Depending on the method of evaluation, the poverty level can be higher or lower, which involves higher or lower costs in its eradication. The selection of a correct method of evaluation depending on the budget possibilities and poverty peculiarities determines to a great extent the success of the strategy. Thus, according to the international norms estimating poverty according to the share of the population with a daily average income of less than \$1 per capita, the poverty level in the country is estimated at 92%. In its poverty evaluation survey, the World Bank calculates the poverty level through the share of people with a consumption level under 40% out of the average consumption, which constituted 19% of the population.

The evaluation of the poverty dimensions in the Republic of Moldova used in the National Programme for Poverty Alleviation, approved in June 2000, was conducted based on the household budget survey held by the State Department for Statistics (with the technical assistance of the World Bank). In order to evaluate this social phenomenon, the "subsistence minimum" worth 233.1 lei was used as a quantitative indicator both for the entire population and each social group. The household budget surveys indicated that poverty in the Republic of Moldova is increasing: in 1999, 79.3% of the surveyed population is under the subsistence

minimum (taking into account the equivalence scale). Of these, 65.5% live in rural areas, which is explained by the big share of the rural population in the total number of the population of the country, as well as a bigger impact of the poverty risk of the rural population as compared to the urban one. The extremely limited budget resources do not allow the state to provide social assistance to all people under this subsistence minimum. The state has committed itself to offer social assistance to the poor, to people under the poverty line, estimated at 30% of the subsistence minimum worth 70 lei. According to the survey data, 21% of the respondents are under the poverty line. As a consequence, each fifth citizen of the country lives in absolute poverty. This type of poverty can be considered short time (the temporary incapacity of people to ensure their living). Without an adequate assistance from the state, it may transform into a chronic poverty or the self-reproduction poverty conditions may occur).

While evaluating poverty phenomena, its complex character has to be taken into account, which is manifested, by an economic aspect as well as a social, behavioral and cultural ones. If the economic aspect of poverty is reflected by the evolution of the country's economy, the level of incomes of the population, the differentiation level, the structure of consumption, the level of employment, the social aspect is focused particularly on the social phenomena that accompany poverty – crime, use of drugs, demoralization of the population, illiteracy, morbidity, corruption, among others. As far as the psychological side is concerned, poverty, in particular, the chronic one, generates certain behaviors, determined by deviating social-human values, which occurred as a result of a miserable life. By organizing themselves, the poor have their own culture and a way of living different from that of people not affected by poverty. The poor do not make efforts to get out of it. Only qualitative services of social assistance (psychological, legal, consulting) can help people overcome the poverty crisis.

All these poverty aspects are interrelated, being dependent on each other.

Taking into consideration of the complex character of the poverty phenomena, its eradication experience has a number of policies different from country to country from one period of time to another. The economic situation, the level and profile of poverty, the philosophy that dominates the economic policy of the state determine their selection. Depending on the objectives, poverty eradication policies could be:

- policies pertaining to the distribution of incomes which mainly consist of the use of transfers (cash or in kind) for supporting families affected by poverty. These policies do not eradicate poverty but cure its symptoms so that it may favor its chronic character;
- policies focused on supporting the participation of the poor to economic activities, thus ensuring incomes by employment. There are policies that address the roots of poverty or the economic causes, which affect the population able to work (unemployment, low productivity, difficulties of the access of small producers to the market, etc.).
- policies pertaining to the investments in the human capital, the creation and maintenance of the people's capacity to efficiently participate in the economic activity and social life. There are policies that address particularly the roots of poverty and to a certain extent its impact. The low level of education, the bad quality of health care and nutrition are frequently associated with poverty, representing its causes and impact at both individual and national level. The increase of the educational level and professional training and a better health care extend the opportunities of the individuals to get bigger incomes and get out of poverty. Poverty eradication policies through the investment in the human capital include, first of all, policies for the development of social services, in particular, those pertaining to education and health care, policies for ensuring the access of the entire population, including of the poor categories to the respective services, policies for

stimulating the poor towards the use of social services. Policies that guarantee food security, programmes for ensuring dwellings and the development of family planning services can be included in the same context, otherwise malnutrition appears as one of the forms of poverty.

Social protection

In view of avoiding poverty traps, caused by the long parasitism of the social protection system by those affected by the poverty risk, redistribution policies are used very seldom. Usually they are focused on socially vulnerable categories.

In order to protect these groups against the poverty risk, the state is undertaking a number of measures related to social protection, the majority of them being inherited from the socialist economy that offered people a very generous social assistance. Social protection plays one of the major roles in the social policy of the state. The social protection system provides the following services guaranteed by the state:

- the payment of pensions;
- allowances and compensations to the vulnerable groups;
- benefits for some social categories while purchasing medicines, public transport, utilities;
- housing of some categories of the elderly, invalids and orphans in asylums;
- allocation of material aid to needy people.

Pensions play a central role in the social protection system. Each fifth citizen of the Republic of Moldova gets a pension. The main requirements for the right to receive pension are: the pension age, the adequate number of working years, sickness and the loss of the main supporter. The amount of the pension depends on the previous salary of the person, the work years and the number of persons being supported by him. Persons with relatively low pensions have a series of benefits and allowances. The average pension constituted 84 lei at the end of the semester 2000.

90 thousand people benefit from allowances and benefits for children and needy families. The amount of the allowance is established depending on the number of children in the family, their age and is calculated using the minimal salary in the country (18 lei).

Except these social transfers, the Social Insurance Fund of the General Federation of Trade Unions provides allowances for the temporary loss of the working capacity, pregnant women, the birth of child and funerals.

The Ministry of Labor, Social Protection and Family is administering 10 asylums, where 2,400 old people, invalids and orphans live. All these people are being taken care by the state (housing, meals, medical assistance).

About 17.6 thousand citizens, old people and invalids are provided medical assistance at home in the form of medical services, the purchase of goods of daily necessity (food), the payment of utilities and other current needs.

This model of social protection inherited from the old regime used to have a political justification and not an economic one. As a consequence, it tuned out to be wasting and not reasonable from the social point of view, in particular during the transition period. The crisis of this model during the transition period consists of the following:

- under the considerable reduction of the living standards of the population, the number of beneficiaries of the social protection system has increased once with substantial reduction of the financial possibilities to meet the needs of the social protection system. As a consequence, the social protection guarantees are becoming simple promises, undermining the state authority as a guarantee of the population's welfare. For example, the arrears of the state in the payment of pensions and social transfers for many years. As of June 1, 2000, the pension r constituted 222.3 million lei.
- the cumulating of the functions of social insurance and social protection in one system, the impersonal mechanism of social insurance lead to social inequality;
- social protection system is not coherent: the number of beneficiaries is getting higher, the funds on behalf of the population and economic entities decrease;
- the social aid is provided equally, ignoring the nominative principle (address), due to which the little funds are inefficiently used. Thus, households under the poverty line benefit from only 5.1% of the total social transfers aimed for social aid while 37.5% of resources contribute to the improvement of the living standards of better household whose per capita incomes surpass the subsistence minimum. A big share of transfers allocated for certain merits and not aimed at the social protection to the vulnerable groups. As a consequence, the current social protection system contributes to a sharper differentiation of the population, leaving without assistance people who are really in need of it, being inefficient in the implementation of their objectives.

All these prove that the current social protection model is not adequate to the conditions of the transition to the market economy. This turned out to be absolutely unprepared to face poverty. More so, its further preserving could lead to bankruptcy. As a consequence, a deep reform in the respective field is an immediate priority. There is a need of managerial efforts on behalf of the state as well as other non-state institutions in reforming the social protection system so that the latter corresponds to the philosophy of the young society and the functioning principles of the new economic system.

The first serious effort in the field of restructuring the social protection system was the reform of the pension system, adopted by the Moldovan parliament in December 1998. The Law on the Pension System Reform stipulates the transition from the old pension system, based on the principle of generations solidarity which is not efficient under the current circumstances and had high taxes, to a new system, based on the personal contribution of each person to his/her future pension. New pensioning conditions envisage the freedom of every individual to choose the amount of the pension and gives the possibility to participate through his/her contributions to the state pension funds through compulsory insurance and private pension funds through voluntary insurance, increasing considerably the pension. The amount of the pension will depend both on the amount of the contributions of the individual and the period of the allocation of taxes to the pension funds, thus making the new pension system socially adequate and contributing to increasing the motivation. The new pension system will correspond to the principles of the market economy given its efficiently and equity.

The functioning of the new pension system can contribute to the improvement of the situation of the elderly. In view of this, there is a need of time so that pension funds accumulate a certain quantity of recourse for the payment of the pensions of the beneficiaries, the elderly cannot benefit from the services of the new pension system given that no money has accumulated on their account. Thus, the new law on pensioning envisages a transition period, wherein both pension systems will function both for current pensioners and future ones with a gradual increase of the share of the new pension system.

One of the main components of the new pension system is the increase of the pensioning age respectively for men 65 years and women 60 years. This measure is necessary to alleviate the impact of the population's aging and for decreasing the demographic pressure on the active population and therefore, for decreasing the compulsory insurance taxes in the pension funds. The increase of the pensioning age will take place gradually during a period of 10 years, 6 months each year.

The promotion of the of the pension reform of the population continued during 2000. During the first semester of 2000, the Regulation on the calculation procedure and confirmation of the share for the establishment of the pension was elaborated aimed at creating the legal framework of the pension reform. The Social Fund was transformed into the National House of Social Benefits.

The implementation of the new pension system does not solve the problems of the pensioners' welfare. In view of improving the conditions of the elderly, the Government in cooperation with UNDP elaborated a complex programme "Assistance to pensioners" - a component of the National Programme for Poverty Alleviation which except the implementation of the new pension system, envisages a series of measures that contribute to poverty alleviation among the elderly and ensuring a decent living. The most important measures of the programme are:

- the liquidation of the pension arrears and ensuring of a mechanism that would not allow future delays in the payment of pensions;
- the improvement of the nominative principle while providing services of social assistance and social aid so that limited recourses would be focused on the most vulnerable categories of the elderly;
- multilateral study of the problems faced by the elderly aimed at identifying efficient solutions for their settlement as well the extension of the range of social assistance services provided to the elderly;
- the mobilization of all political and economic forces in the society which can contribute through public organizations to the improvement of the social-economic security of the elderly.

The Government in the social protection system reform achieved several successes. Thus, a number of laws have been prepared for examination, such as the Law on social assistance, the Law on social assistance of the elderly, the Law on volunteers, the Law on social aid canteens, which if had already functioned, the situation in the field of social protection would not have been so critical.

Imperfections of the labor market functioning

The phenomenon of poverty is very often considered a phenomenon of a labor market, because namely the imperfect functioning of the labor market provides a low level of income of the population. The situation on the labor market from the Republic Moldova totally reflects the successes and the failures of the present transition. Being a market in formation, the labor market from the Republic of Moldova includes elements and mechanisms inherited from the socialist economy, as well as new elements specific for an economy with a modern market. The given situation provoked a considerate lack of poise, which is manifested, on one side, through increase of unemployed and degradation of the social protection system on the labor market, while on the other side, through inefficient use of labor force, accompanied by decrease in labor productivity, reduce of real salaries of the workers etc. Thus, in conditions of an economic decline, the

majority of big state enterprises, with the aim to avoid eventual social conflicts, did not lead to mass reduction of the personnel. The sub-occupation forms were preferred (administrative annual leaves, reduced regime of work) or latent form of unemployment, accompanied by wage debts.

The presence of elements from socialistic economy and market ones is observed in official statistics, which in reality very often do not correspond to the current requirements. Thus, the estimation of the labor occupancy rate and the rate of unemployment note the fact that a considerable part of the active population is not able to appreciate the real situation on the labor market of the Republic. With all these, the tendencies of evolution of labor market processes are clearly outlined.

Pursuant to the official statistics, in 1998 the economic active population constituted 1659 thousand persons, and the employed population - 1625 thousand people. The difference between these two categories – registered official unemployment – was respectively 34 thousand people, which constitutes 2% from the active economic population.

Table 8. Economic active population and employed in the national economy

Years	1995	1996	1997	1997
Economic active population	1673.0	1686	1671	1659
Employed population thou. persons	1673	1660	1646	1625

Source: DASS

At the same time, specific alternative studies, as the Labor Questionnaire undertaken by DAAS, present more real results regarding the situation on labor market. Thus, according to the evaluations of the given studies, in 1999 the employed population constituted 59.8% from the population of working age, when the rate of unemployment was 11.5%. In the first quarter of 2000 the number of unemployed decreased to 170 thousand people, which constituted 10,5% from the economic active population. The situation of labor force occupancy varies depending on the different regions.

Formation of the labor market in the Republic is a difficult and long-term process, but one of the most difficult problems in this context is approval by the labor forces of new market conditions, or a modern labor market requires from the participant a behavior specific to a competitive environment, based, first of all, on individual responsibility, a behavior that leads to an increase in labor productivity and its quality.

The inheritance of the socialistic economy in the field of labor relations had an impact on the current situation of the labor market from the Republic.

A trait characteristic for the labor market from the Republic of Moldova on the present stage is the extremely low level of registered unemployment. The level of 2% of official unemployment rate in conditions of an economic decline of 66.3% during 10 years of transition imposes a hypothesis of being one of the most serious deficiencies in the system of statistical monitoring, as in insufficient activity of Labor Offices or the specifics of the economy of the Republic. More detailed analyses shows that all three aspects of the given phenomena are present and they correlate. It is true that the statistics has some difficulties in registration of unemployed. The rate of 2% shows only those unemployed who addressed the Labor Offices. In conditions of economic crises, when the State cannot really assist the available labor force in providing jobs, very few of those available address to the State institutions. Usually this available labor force

find occupation in the shadow sector, which gained a big size in the Republic of Moldova, or they find auto-occupation in agriculture or handcrafting.

The low level of registered employment is completed by a rather high level of latent employment, stimulated through the occupancy policy promoted by the State. Being a logical continuation of the policy on use of the labor force in socialistic economy, based on full occupancy, the present occupancy policy focuses on active measures, as creation of new working places, etc. In the context of this policy, the enterprises that face some difficulties in their activity - but in conditions of an economic decline, the majority of big enterprises are in this situation, are put in conditions when they have to undertake the expenses for social protection measures, related to the availability of the personnel, so that they prefer the application of unlimited administrative vacations without payment to the available labor force.

Another specific trait of the labor market from the Republic is the extremely low wages. Maintenance of a low level of the salaries is an inheritance from the socialistic economy continued, practically, by the majority of the governments in transition. In socialistic economy the low salary was compensated by a drastic policy of prices. Besides, each worker benefited from a large variety of social services for free: medical assistance, kindergartens, ticket for a group tour, dwelling space etc. The low level of wages, as well as a relative equality through different planning measures, then led to a non-motivation of workers, which manifested through weakening of the labor discipline, unwillingness of the workers to improve the qualification, which, on its turn, led to a decrease in labor productivity in all the branches of economy. On the other hand, the low level of wages is determined by the structure of the economy of the Republic, where about 50% of human resources are occupied in the fields where the labor productivity is the lowest (agriculture, etc). But, at the same time, a significant share of employment (28%) is registered in the budget sector, where the salary depends on the limited possibilities of the budget. Usually, these are the workers from education sector, health protection, culture etc - persons with a high level of qualification, who deserve a better life. Non-appliance of some urgent measures on resolving of the created situation may lead to unexpected consequences, affecting seriously the existing human capital and in perspective, impeding the sustainable human development.

The situation on the labor market of the Republic is deteriorated by the reduced mobilization of labor force. An efficient allocation of human resources foresees a rather high level of mobilization, which is impeded in the Republic by: sedentary character of labor force, especially in rural sector; imperfect development of the real estate market; practice of residence permit system inherited from the socialism, without which the worker is not hired.

Lack of some State institutions, in charge of this problem, as well as lack of some experience in stimulation of labor force mobilization in condition of mass dismissals. It creates an uncertain situation for the available workers and sometimes, for those not available, which imposes the use of some solutions - very often inappropriate, on getting out of this situation, which contradic the present occupancy policy for labor force. Thus, if a small part of the available workers register at the labor offices, joining the number of unemployed and benefiting from specific social guarantees provided by the State. A big part of them, being auto-occupied, are absorbed by the shadow sector of the economy of the country, in this way not controlled by the State. A third part of them, also a considered one, leave the houses and families and go abroad looking for a job, that would provide a decent income for support of their families, taking the risks related to this departure.

Another big proportion is covered by the *international non-regulated migration* of the labor force. According to the estimations, the number of those who left the country looking for a job varies between 120 thousand and 600 thousand people.

Unqualified international migration of labor force may be considered as a benefit process for the labor market of the Republic, in conditions of an excess of the labor offer, because, beside the provision of occupancy and of a decent income for the workers, it contributes to the education of the labor force, adapting it to the conditions of the market economy. That is why the present occupancy policy has to be involved in this process more actively, regulating and minimizing the possible risks.

At the same time, international migration of highly qualified labor force, known as the “brain drain”, clearly outlines the loss of the intellectual capital.

Another trait characteristic for the labor market of the Republic of Moldova in present may be considered the *latent occupancy*. A big part of the active population of the Republic, with the aim to provide a decent level of living is forced to be engaged in more than one job, out of which one is official and the other ones, as a rule, are in shadow sector. For the time being the latent occupancy gains bigger proportions, being stimulated by small and late wages in the budget sphere, “forced” vacations without payment (usually at the state enterprises), by the exaggerated fiscal pressure in the private sector. For the time being, the shadow sector plays a compensatory role for the employed population, for provision of a decent standard of living. On another side, the shadow economy continuously and seriously undermines the national economy, decreasing the chances of an eventual re-launching. Due to the big proportions of the shadow economy, the evolution of the labor market cannot be identified, with the aim to draft a correct labor occupancy policy.

Obviously, under this crisis, the involvement of the state on the labor market of the country is undisputed. Being an extremely fragile market, even in the conditions of a macro-economic stability, the labor market needs a permanent assistance on behalf of state authorities. The problem that arises in this situation consists in the identification of the degree as well as the intervention tools of the state on a labor market under formation. The transition to a market economy envisages the formulation of a new concept of employment that would correspond to the new economic conditions.

During the recent years of transition, the intervention of the state on the labor market underwent many transformations regarding the elaboration of a new institutional-legal framework, the promotion of the employment policies as well as the salary policies. Thus, new completions to the Law on Labor Force Use were adopted, in particular, regarding the social protection of the unemployed. A new law on salary will be adopted by the current Parliament, the Labor Code has considerably improved, and being adapted to the market conditions and the activity of the institutions on the labor market is continuously improved. The policy on employment underwent changes having been improved and rationalized. If during the first years of transition, it was focused mainly on active, expensive measures, aimed at ensuring a complete employment, currently the employment policy is concentrated on passive measures, which are more efficient in the conditions of the economic decline. Therefore, the *permanent modification of the intervention mode and mechanisms of the state on the labor market* can be considered a specific feature of the labor market in the Republic of Moldova.

Labor market policies which stimulate the salary incomes and the reduction of the real unemployment could be considered the most efficient and important poverty eradication policies given that it stimulates consumption, completing the resources necessary to the state for redistribution policies, applied to socially vulnerable groups in poverty eradication.

An efficient way in the implementation of the employment policies and increase of the incomes in the current period is the promotion of small business. Small business is the sector where a great part of the active population finds their sources of existence and overcoming of poverty risk. Currently, about 700 thousand people are employed in the small business.

Although its dimensions become more significant, this type of activity is facing a series of economic, financial and administrative impediments; fiscal burden, limited access to the external market, bureaucracy and corruption of the civil servants, the lack of managerial experience. The incoherent policy promoted by the state regarding this economic sector stimulates its transition to a shadow economy.

The state has to use small business as a means of poverty eradication and not as an essential source for completing the budget. That is why small business has to be supported through various fiscal and administrative facilities given that it can be a main investment source necessary for the economic growth in the Republic of Moldova.

The impact of poverty on the human capital

Poverty in the Republic of Moldova leads to the degradation of the existing human capital. The drop in the consumption level, in particular, in the food consumption generated the spreading of malnutrition in the society. Children from poor families suffer of malnutrition most of all. According to official estimates, all the consumption components decreased but it is more found at the basic food products: meat - 57%, milk - 49%, fish - 84%. The regress of the food consumption has reached the critical level, threatening the normal development of the individual as a human being. According to the estimates of the CSSR, the average consumption per capita in Moldova constituted 1,980 calories while the standard established by FAO is 2,500 calories. At the same time, 10% of the population consumes less than 1,500 calories, which is the maximal subnutrition line. It is worth mentioning the fact that malnutrition affects both people with low incomes and medium incomes from the public sector.

Malnutrition also has an impact on the health of the population. The morbidity of such social diseases like tuberculosis, hepatitis, AIDS, is increasing. Thus, life expectancy at birth - the synthetic indicator that characterizes the social health care, has fallen by 7% since 1991 and the fertility rate, the indicator that shows the reproduction of the population, fell from 2.3 to 1.6.

The reduction of the public costs is a one more factor that explains the decline in the health care. Thus, some specialized studies showed that the real level of public means in the health care system constituted in 1996 50% of the 1990 level. Therefore, personal costs for the medical assistance considerably increased. As a result, many poor have lost the access to medical assistance. The delay of the health care reform system could lead to the worsening of the population's health, which, in turn, reduces the capacity of the population to provide stable and well-paid services.

The situation is not better in education. For the Republic of Moldova, a country that lacks important natural recourses, education could contribute essentially to the improvement of the life quality and prosperity of the entire nation. The development of education and the improvement of the professional training level of people, in other words, the accumulation of the human capital could be as important as the accumulation of other traditional capital forms. Education is one of the important resources of the social prosperity of a modern society.

The economic crisis continues to have a negative impact on the education system. The major problems of the current period are as follows:

- the access to pre-school education has reduced;
- children from the vulnerable families are not provided enough aid;
- there are no equal opportunities for the schooling;
- the number of children who do not attend the schools is on an increase;
- the allocations for the maintenance and development of the technical-material and didactic base of education are not sufficient;
- remuneration of teachers under the average salary level leads to the loss of the human potential in education;
- the reduction of the compulsory education from 11 to 9 grades leads to the decrease of the intellectual level of the population;
- the gap between the villages and city regarding the possibility to get general education;
- the training system and professional training does not meet the demands of the labor market both at local and country level;
- the long-term forecast of the need of qualified labor force is not practiced;
- educational standards for all levels and training levels have not been completed, there is a lack of efficient mechanisms for the evaluation of the school results.

At the same time, taking into account the transition period in Moldova, the state must keep the available educational potential, creating, promoting and supporting the conditions this potential could be further developed and adjusted in line with new demands of the economic and social life.

6.2. A DIAGNOSIS OF THE SOCIAL PROTECTION MECHANISM

6.2.1. Introduction

The continuous worsening of the economic situation in Moldova during the period of transition affected the situation in the social sector, which has been confronted with specific difficulties generated by the overall change of redistribution role of the state and of rules of allocating resources. Consequently, social inequalities have increased while the standard of living for a significant part of population has dramatically worsened. The economic difficulties are equally determined by external factors (high economic dependence on Russia), as well as by insufficient and inefficient structural reform in all economic domains. According to Ronnas and Orlova (1998), three main factors have induced the current deterioration of living standards in case of Moldova: erosion of liquid assets through inflation; fall of real wages, employment opportunities and alternative sources of income; near collapse of public social security system.

If we concentrate only on the active part of social and labour market policies, the core objective of any reform should be related to the second factor. According to the UNDP calculations, in 1998 the average monthly wage in real terms represented only 25,4% of 1991 level. This situation is mainly generated by the fact that the process of labour adjustment during

the transition period has been mainly done through price (wage) adjustment, and to a much lower extent through quantity (employment), as it is shown by Jarocinska and Zaman (2000). This is due to the evident incapacity of the official economy to generate remunerative activities, while labour market rigidity in terms of employment remained excessively high. A relatively strange characteristics, given the fact that in Moldova the power of Trade Unions is much lower than in Central and Eastern European Countries. In reality, the labour hoarding phenomenon in Moldova is determined by the slow pace of restructuring state firms, by the cheap labour and by the links between employees and employers in terms of certain social services, still provided at the firm level.

Concerning the situation of the social sector, although we cannot totally agree with the above statement that this sphere is nearly in collapse, its effectiveness in curing social problems is indeed very poor. This is due to the lack of resources, inefficiency in using the existing ones and excessively wide range of services provided, many of them unrelated to the income level of beneficiaries, but awarded on category principles. Increasing arrears to the budget - including therefore social contributions - reduce furthermore the funds availability for the social sector. Unfortunately, the privatisation process seems to add nothing significant to the improvement of situation, since un-payments of obligations to the budget is a common feature of privatised companies too.

Under such circumstances, Moldovan authorities are confronted with a dilemma coming from the fact that it is very difficult for the state to provide basic social services (health, social protection, education) given the lack of resources, while the impoverishment of a large part of population makes the need for such services more necessary than ever. Consequently, Moldova needs to reform urgently the entire system together with adopting proper policies to stimulate the economic development. In this respect, the policy objectives of all governments (see, for instance, MER 1998) in the social sector are directed towards moving from the current unitary system to a diversified one, which is supposed to provide the necessary services to the population.

6.2.2. A brief analysis of poverty in Moldova

Any diagnosis of poverty should start by addressing four basic questions:

- a) Who are the poor? To answer this question, a proper mechanism for identifying the vulnerable part of the population is needed.
- b) Why the poor are poor? Clearly, the factors described in the introductory section explain most of the determinants of poverty.
- c) What is the dynamic of poverty? In other words, how many persons become poor each period and how many others succeed to quit the pool of poverty. The dynamic of the phenomenon is important, first of all, for studying the permanent component of poverty, i.e. those individuals for which this status has a chronic characteristic.
- d) How to take the poor out of poverty? This is, obviously, the objective of the social policy and subsequently the aim of reforms to be adopted by Moldovan authorities.

According to 1997 Household Budget Survey [although the quality of information provided by HBS might be poor, the conclusions of the survey seem to be reasonable. Fleming and Micklewright (1999) consider that HBS data is a less suitable source of study of income distribution], UNDP (1998) concludes that in Moldova the following social categories run the highest poverty risk: large families, incomplete families, families with unemployed parents, social pensioners, respectively persons engaged in agricultural activities. It follows that, similar to other countries in transition where the economic transformations are still timid - like Romania, for instance (Pop and Tesliuc, 1999) or Bulgaria (Kotzeva, 1999) - geographically,

the poverty hits mostly the rural area. When considering the social spectrum, the phenomenon affects the elderly, the unemployed people, and respectively large families. Another common determinant of poverty is the low level of education: less educated people face a higher risk to enter poverty.

Excepting the families with unemployed parents, all the other categories are confronted - in a large proportion - with permanent poverty. It means that the transient component is insignificant in Moldova, the majority of poor persons having no real perspective to improve their status. The HBS conclusions are however incomplete, since they are based on data collected before the 1998 crisis, which pushed additional individuals/ categories into poverty. Comparing the minimum consumption budget (almost 1000 lei according to recent calculations) with the average salary in the economy, it follows that a significant part of employed persons should be considered poor, even if they do not belong to any mentioned category. In addition, wage and pensions arrears represent a catalytic element for poverty increase in Moldova.

Under such circumstances, the fourth question raised above becomes rhetoric. The most urgent measures to be adopted within the social policy framework should be focused on stopping the evolution of the phenomenon. Simultaneously, a reform package should be designed for reducing the amplitude of poverty. In both cases, only the economic recovery and improvement of human capital can provide real positive results.

When analysing the effectiveness of a social policy one should consider, first of all, the effectiveness of the welfare state, which is given by its ability to redistribute resources. From this point of view, no social policy in Moldova can be significantly successful, until proper allocation mechanisms are in place. *Ex ante* (tax collection), this implies financial discipline, fighting corruption and reducing the share of underground activities in the economy. In terms of effective distribution, proper mechanisms of allocation means reasonable administrative costs, efficient institutional infrastructure, respectively a proper set of eligibility criteria for distributing resources.

In the field of social protection, there are three efficiency indicators of a social policy and/or its components (social programs): coverage, targeting, respectively effectiveness. They measure the impact of the policy, mainly through the share of poor covered by a program and the share of social benefits in the average consumption of recipients. While the coverage indicator depends, to a relatively high extent, on resource availability, the targeting represents the most sensitive issue when evaluating social programs. There are many investigations in the economic literature regarding the efficiency of targeting the recipients of social support: for example Atkinson (1995) and Besley and Kanbur (1993) in developed economies, Grosh (1994) in developing countries, Kotzeva (1999) in case of transitional economies.

There are practically three ways of targeting the beneficiaries of social programs: by disposable income of the recipient, by category, respectively through surveys. In case of social assistance, the most efficient method of allocation is the one based on income level of recipients, which reveals both the right persons who need help and the quantum of the transfer, which is necessary in each case. When the available income cannot be revealed properly and the poverty affects to a large extent certain categories of population, the transfers could be allocated on the basis of group characteristics - see Barr's (1999) example. Finally, when the real income cannot be revealed properly and there is no strong correlation between poverty and specific social categories, the surveys are the only possibility to target the most needy persons. In case of Moldova, the lack of information regarding the income level of individuals makes the first method ineffective. The choice between category targeting and surveys depends on the probability of miss-allocation associated to each method. Very rough estimations conclude that in Moldova the coefficient of correlation between poverty and social categories suspected to be poor varies between 0.5 and 0.6. This implies that the probability to allocate social transfers to people who do not need effectively social assistance (inclusion errors) may reach 50%. In

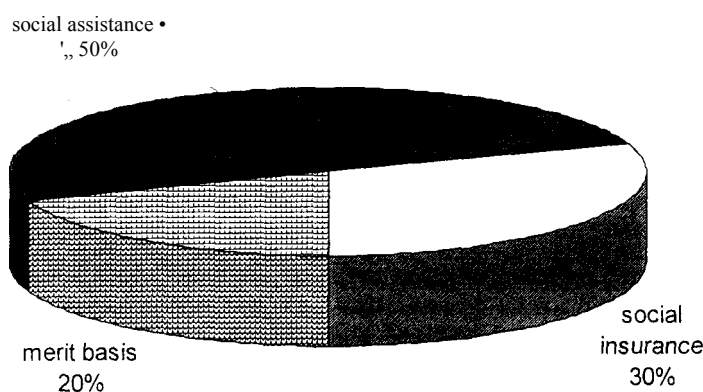
addition, there is always a certain probability that the pool of needy persons is larger than the total number included in the categories to which the transfers are allocated (exclusion errors). For those who do not belong to any considered category, there is therefore no allocation. It follows that if targeting is done through surveys, the methodology should be designed in such a way that the probability of miss-allocation will be lower than the one corresponding to category based principles.

A first particularity of the social sphere in Moldova is the ambiguity of scope, destination and way of transferring social services to the population. The existing literature defines three main fields of social protection: social assistance, generally awarded on the basis of specific risks and contingencies to individuals facing insufficient resources; social insurance, covering mainly the pension schemes and loss of work capacity, based on previous contributions; universal benefits, awarded independently of the income level of the recipient (child allowances, for instance). If this classification is used for analysing the Moldovan system of social protection, one can see that most of social transfers have an ambiguous character. Few examples are relevant in this respect:

- i) Certain transfers are based on merit, although they are supposed to fulfil social assistance objectives. It is the case, for example, of indemnities awarded for compensating the prices of heating fuel or for the consumption of liquefied gas to war veterans or to Chernobyl participants. These transfers are independent on the income level of recipients; they are set according to the living surface of the house and certain unclear norms of consumption.
- ii) Some transfers are independent on income of the recipient, but they should belong to the social assistance mechanism. Compensations for electricity consumption, for instance, are given to all persons within a predetermined liveable limit, while they should be awarded only to those who need a state support for such a consumption item.
- iii) Some transfers belong to the field of social assistance (financed from the state budget), although they are closer to the social insurance field - the case of orthopaedic prosthesis, for instance.
- iv) Certain transfers belong either to social insurance mechanism (in case the recipient is insured) or to the social assistance (non-contributors). It is the case, for example, of birth allowances paid from the Fund for Protecting Large Families.

Using the above classification, the current structure of services awarded through social assistance (SA), social insurance (SI), respectively on a merit base (M) is represented in Figure 6.2.1.

Figure 6.2.1. The structure of social services by number of transfers provided through social assistance, social insurance and on merit basis



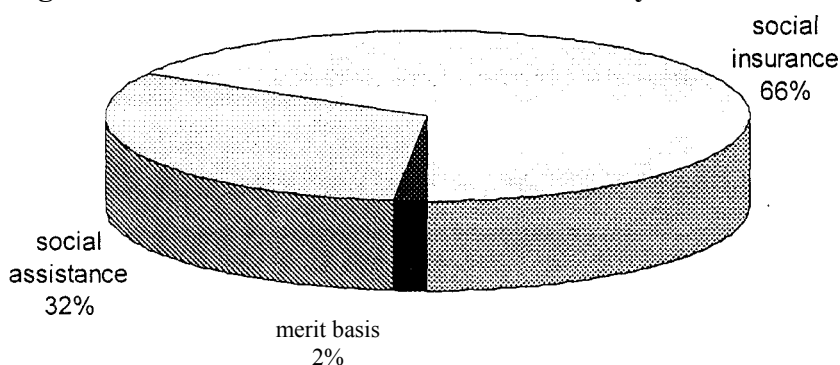
Source: Ministry of Finance

Out of the 25 services awarded under the social assistance scheme, 8 are not related to the level of disposable income of recipients. Compared to the above composition by number of social services provided by each of the three schemes, the structure of total funds allocated in 1999 by the state budget and social fund is presented in Figure 6.2.2.

In terms of total number of recipients, the merit beneficiaries represent only 0.12% of total number of individuals receiving social services, while the highest proportion (70%) corresponds to Social Assistance type of transfers. It follows that the average monthly transfer per beneficiary was in 1999 20,10 lei, each of the three categories being sensibly different in terms of the effective amount transferred:

Social Insurance	44, 38 lei/month/person
Social Assistance	9,16 lei/month/person
Merit	275,90 lei/month/person

Figure 6.2.2. The structure of social services by funds allocated in 1999



Source: Ministry of Finance

From the above calculations, one can draw the second important particularity of the Moldovan system of social protection: merit, rather need is the basis for social services provided by the state to the population: a merit transfer, which is in fact a privilege, is 6 times higher than a pension provided through social insurance and 28 times more consistent than a social support given to poor individuals. Such a practice shows that the social role of the state is significantly distorted: instead of smoothing inequalities, the state contributes to their deepening.

Moreover, beside the high weight put on privileges in spite of poverty alleviation, the state is promoting ad-hoc priorities with respect to the effective payment of merit based services: in 1998, for example, only 30% of the necessary funds for pensions granted to disabled persons were effectively allocated, while merit transfers were integrally awarded.

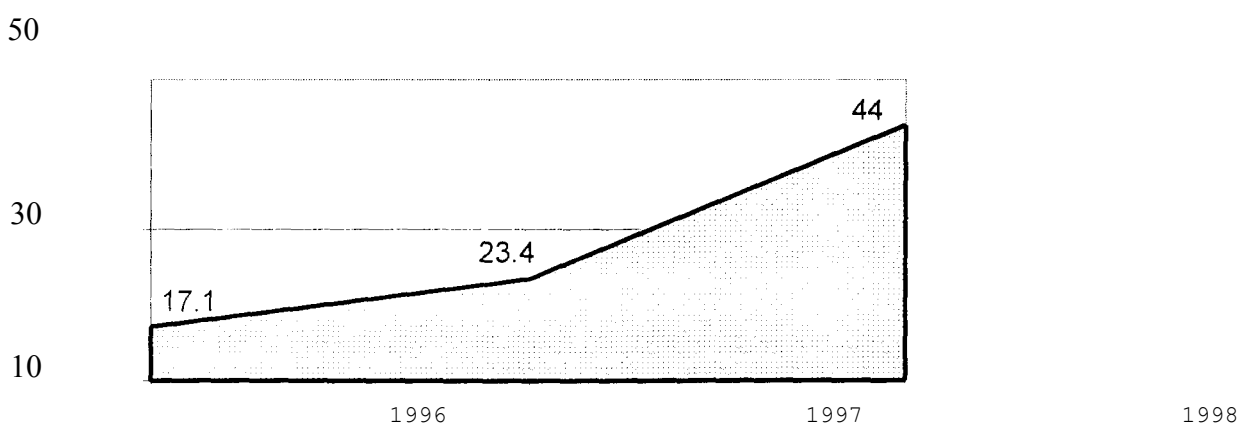
The merit, as a basis for social payments, is not only unfair but contrary to the social fundamentals of economics: merit transfers do not belong to the social sphere, and they must be excluded from this sector.

Another particularity of the Moldovan system of social protection, which shows its ineffectiveness, is related to the overall financial discipline in the economy. A major part of social insurance services are funded from social contributions paid by economic agents for their workers. Beside the low degree of payment of state obligations, which translates into excessively low resources for the Social Fund, Moldova is confronted with an increasing preponderance of in kind transfers from firms to the social budget (Figure 6.2.3). The goods received from commercial companies are then transferred instead of pensions to retired people, who are therefore forced to consume commodities that are not necessarily needed. On the other

hand, by accepting goods instead of cash payments, the state allows a very soft budget constraint at the level of productive firms, which have no incentives for improving their marketing activities or the quality of their products.

The social protection sector of Moldova is also characterised by a heavy and complicated scheme of financing the social services. The payment is made through the state budget, through local budgets, respectively through the Social Fund. The state budget provided 27 types of services, out of which 15 are awarded directly, 10 are transferred to the Social Fund and 2 to local budgets. The Social Fund, beside the transfers from the state budget, provided 4 additional services, while local budgets complement the state services with 7 direct transfers. The Social Fund is composed from four different sub-funds, with specific destination and types of services, which complicates furthermore this structure; at least two of them have no significant role in the field of social policy.

Figure 6.2.3. The proportion of in kind contributions to the social budget (%)



Source: Ministry of Finance

Finally (but not the last), another particularity is related to the institutional framework of the social protection. Three ministries are currently involved in the process of designing the social policy: Ministry of labour and Social Protection, Ministry of Finance, respectively the Ministry of Economy and Reform. This generates overlapping of responsibilities and inefficiency in the management of social expenditures. The legislative framework, which is the result of the contributions coming from the three institutions, is therefore ambiguous, contradictory and excessively diversified.

7. POLITICAL BACKGROUND OF THE 2000

The Republic of Moldova entered the political year 2000, being in the state of a deep conflict in the interior of political elite. During 1999, the head of the State, Mr. Petru Lucinschi, insistently promoted the idea of transformation of the Republic of Moldova in a presidential republic. A consultative referendum was conducted on the initiative of the President, along with the elections to local public administrative bodies from May, 23. The citizens of Moldova had to vote for or against the idea of presidential republic. The results of the consultative referendum allowed to interpret them from different points of view. The President of the Republic appointed a Committee, which published a modification project of the Constitution by the end of August, 1999. After its publishing in press, this project caused mostly a negative reaction, especially among political parties. In consequence, the relations between the Parliament and the Presidency became more tense. The followed confrontations demonstrated the fragility of parliamentary parties, and respectively, lack of a stable majority in the Parliament, consolidated through a sincere adherence to a common governmental program.

Just after the elections from March 23, 1998, in the result of rather complicated negotiations, the constitution of a majority was announced, which was based on the doctrine *urge*. Political responsibility for governance was undertaken by the Alliance for Democracy and Reforms (ADR), composed by a number of parties and 61 mandates. The Communist Party from the Republic of Moldova (CPM), with 40 mandates, stayed in opposition. Consequently, “anti-communism” and “reformism” were declared as the basic principles. But the reality demonstrated that for the majority of deputies the arguments of the doctrine proved to be secondary. By the end of 1999, it became evident that the Government, headed by the Prime-Minister Ion Sturza (who was voted into with a fragile majority of 52 votes out of 101 in February, 1999), lost the political support in the Parliament. Nevertheless, the personality of Ion Sturza was net superior in comparison to his predecessor, the deputies of the Popular Christian Democratic Party (PCDP) refused to vote into the Government proposed by him in February, 1999. By the end of 1999, it became evident that ADR continued to ruin – a number of deputies, elected on March 23, 1998, by different parties-component parts of ADR, declared their “independency”. In the result, in November, 1999, the Government of Sturza was dismissed with 58 votes.

A period of political crises followed, when neither of candidatures for the position of Prime-Minister could not accumulate necessary votes. The Constitution of the Republic of Moldova, in the event the Parliament is not able to elect a Government within 45 days, stipulates for a dismissal by the head of the state and announcement of anticipatory elections. In case when deputies remaining with ADR declared their opposition and refused to vote for the composition and program of the Government, which had to come in exchange for Ion Sturza’s Government, anticipated elections could be avoided only in the event when a new parliamentary majority was formed, composed from 40 deputies-communists, 9 from PPCD and 9 “Independents”. In the result, it would mean a political alliance among communists and PPCD representatives – formations, which during their existence declared to be on firm anti-communist positions. With the perspective of the Parliament’s salvation, this “event”, which always seemed impossible, happened and the Republic of Moldova entered the year 2000 with the Government headed by Dumitru Braghis, voted into by the majority of “conjuncture”. It should be pointed out that neither of the political formations, out of those voting for Braghis Government, further did not undertake political responsibility. It also should be mentioned that dismissal of the Sturza Government was preceded by the refusal of the Parliament to vote the privatization program for a number of units from wine and tobacco sectors. Additionally, political crises was aggravated by the loss of external financial assistance.

On the basis of the political confrontations of late 1999, less attention was paid to the fact that two amendment drafts for Constitution were submitted to the Constitutional Court. One of them stipulated for an extension of Government authorities, another one – election of the President of the country by the Parliament and not by general elections. Both these projects obtained positive approval from Constitutional Court and could be submitted to be voted in the Parliament after the term of 6 months expired (in the middle of May, 2000). At the same time, with the foundation of continuous “atomization” of the Parliament, nobody could think seriously about the capacity of the parliamentarians to vote for these amendments to the Constitution with the majority of 2/3 of the votes. Along with it, the attention of the public opinion was already focused on the perspectives of presidential elections 2000, the first round had to take place on December, 3.

Political spring - 2000 was marked by the launch of the idea of nomination of the *unique candidate* on behalf of the “center-right” parties with the aim to remove the present head of the state Mr Petru Lucinschi in the first round of electorate campaign. A political axiom was considered that the second round will be won by the candidate of the communist party, Mr Vladimir Voronin. The idea of nomination of the *unique candidate* required that all political parties with democratic orientation will consolidate around him and this candidate gets more votes than Petru Lucinschi in the first tour, and in the second tour all forces consolidate with the aim no to admit the election of a president-communist. It was clear that the decision of this political intrigue was up to the ADR. But as the time passed, the leaders of the parties-members of the ADR avoided to answer directly to the question – who will be the contra-candidate of Petru Lucinschi?

At the same time, it is clear that Petru Lucinschi mobilized all resources to provide his reelection as the President of Moldova. The constitution of the Public Movement “Republic” was declared in 1999. The objective of this organization is transition of Moldova to a presidential system of governance. The board of this organization was composed by the persons who were among those surrounding the head of the state. In situation when parliamentary parties opposed the idea of transformation of Moldova into a presidential republic, conflicts appeared among them. As an example we may take the Movement for Democratic and Prosperous Moldova (MDPM). In electorate campaign 1998 this formation had the only one electorate motto: “We are the team of Lucinschi!”. But at the time Petru Lucinschi launched the idea of transition to a presidential republic, the MDPM Board, headed by Dumitru Diacov, opposed this idea. In condition of more severe political confrontations, a part of MDPM adherents were attracted by the party of Lucinschi. It could be projected from the only reason that MDPM was constituted on the basis of the electorate team of Petru Lucinschi in 1996. Approximately eight deputies from parliamentary fraction of MDPM left it, but the movement resisted and strengthened. Repeated declarations about mass splitting within MDPM were not confirmed. The Congress of MDPM was held on April 15, 2000, where MDPM declared the formation of the Democratic Party (DP) with social-democratic platform. On the same day, in other premises, another congress was held, which constituted a new political party – Centrist Union of Moldova. It was obvious that this party was created as a politica alternative for DP and with electorate strategy for the candidate of Petru Lucinschi. The team of Petru Lucinschi seriously worked on the informational part of the future electorate campaign. Pro-presidential newspaper (issue of about 30 thousand) “De Facto” has been publishing in two languages since 1999. The TV Channel “ORT in Moldova” became controlled by Petru Lucinschi. In spring 2000 the adherents of Petru Lucinschi undertook an intense work in the majority localities of Moldova. In the result, by the middle of 2000 there was a situation created when the present head of the state, having all necessary resources, has already launched the electorate campaign for his reelection, while all other political forces-from communists to PPCD, did not have a single perspective to be elected with “political profit” from this political campaign.

After they vote together with the deputies communists for dismissal of Sturza Government and institution of Braghis Government, the Board of PPCD was accused from interior for being in collusion with communists and Lucinschi. In this situation, the leaders of PPCD could not allow the support of Petru Lucinschi in public. At the same time, the chances to join some forces with the perspectives of presidential elections became very vague. Probably, the leaders of the Communist Party also realize that their candidate has few chances to be elected as the head of the state. If we assume that PPCD and the Communist Party represent the extremes of the political spectrum from the Republic of Moldova, then "the center" also, represented by ADR, do not manifest the same level of consolidation without participation of the Alliance in the presidential campaign, which will lead to a failure. In the middle of summer 2000 there was a situation created when the majority of the parties, parliamentary ones, as well as extra-parliamentarian, were accusing the head of the state for all possible and impossible bad issues, but were not able to strengthen their forces and stop him on his way to the second presidential mandate. At the same time, it is obvious, that in the event of his reelection, Petru Lucinschi will apparently succeed to promote the amendments to the Constitution in regards to the extension of his own authorities and will escape from any control on behalf of the political forces of the present Parliament.

An unexpected clarification of this conflict took place at the beginning of July – the Agenda of the Parliament included an item on amendments to the Constitution. On July, 5 with an overwhelming majority (91 – "pro" out of 101) the deputies voted amendments to the Constitution in two readings, which stipulated for election of the head of the state by the Parliament. When the head of the state did not promulgate these amendments, on July, 21 the Parliament with a relief passed the veto of the President. In his attempt to solve the situation, on July, 13 Petru Lucinschi submitted his own amendment project for the Constitution to the Parliament, which was already approved by the Constitutional Court and, at the same time, asked the Parliament to organize a constitutional referendum on November 13, 2000. Within the referendum the citizens would have to chose between the Constitution approved by the Parliament and the one proposed by Petru Lucinschi. The resolution of the problem in this way is incorrect from the legal point of view. Anyway, the fate of this initiative is not clear and the confrontations around it are for the time being postponed till autumn. Through an approximately unanimous vote for amendments to the Constitution the Parliament undertook the initiative and, at the same time, undertook the political responsibility. The situation is not an easy one, but if we recall that in the same Parliament a big number of fractions and conflicts took place, followed by dismissal from the post etc. The present composition of the Parliament demonstrated its capacity to strengthen against Lucinschi, but it was more difficult when there was a need in a "constructive strengthening", even if we speak about the distribution of the portfolio in the Government.

It should be stated that after the amendments to the Constitution, the causes of the political instability and the Government weakness did not disappear. The notion of "a constructive vote of censure" was not included in the new draft of the Constitution, the candidature of the prime-minister is again proposed by the head of the state, which continuously offers space for the promotion of "devide et impera" policy. It would be appropriate, in conditions of the declared parliamentarism that the formation of the Government is given to the president of the majority party. In the event of failure – the president of the next one, depending on the number of seats of the party in the Parliament etc.

At the same time, the first attempts to insure the activity of the Government in new conditions confirmed the priority of the fight of interests in reformation declarations in the Parliament, - the Government was not granted the right to give orders with the aim to privatize different units from the national economy. In other words, the situation when Sturza Government was dismissed repeated. The political autumn promises to be a hot one, - social-economic

situation aggravated at a greater extent in the result of the drought. The majority of the population does not believe in the capacity of the present political elite that can insure the way out of Moldova from the crises that had created in the country. The issue of transnistrian separatism becomes more serious. On this extremely tense basis, the Parliament has to elect, before January 15, 2001, the date when the authorities of the present head of the state expire, a new president of the Republic of Moldova. At the same time, the fate of Braghis Government remains unclear. In December, 1999, at the moment of its election, in the public opinion it was a Government completely loyal to Mr Petru Lucinschi. One of the main objectives of this executive was the insurance of a successful electorate campaign of the candidate Petru Lucinschi. In political situation, which appeared after the amendments to the Constitution, the fate of the present Government remains uncertain. Due to the lack of a clarity in election of a new head of the state, the deputies avoid “touching” this issue. It confirms the projection that the Constitution was amended with a lack of an advance understanding in terms of further filling of the key-positions in the power branch in a new situation.

At the same time, it is early to completely ignore the present head of the state. It is obvious, that as long as he is on his duties, the weakness of the present Parliament will be used at a maximum trying to obtain a political revanche. Today Petru Lucinschi, in comparison to his political opponents, is more prepared for an eventual electorate campaign. That is why we may presume that his surrounding will try to profit from the weakness of the present Parliament at a maximum level with the aim to provoke a parliamentary crises and, implicitly, of anticipated parliamentary elections. In these conditions Petru Lucinschi has maximum chances to gain forces, already as a leader of a “centric” block, presented by a considerable number of mandates in the composition of the new Parliament. At the same time, the weakness of the Parliament will be used by the team of Petru Lucinschi and as an argument in favor of the requested referendum. But here the chances are less. If we imagine that the constitutional referendum is announced, its results may be available only in the event in the referendum will participate not less than 60% from the total number of voters, and *more than 50% of those included in the list* will vote for (and not those who participate!). Even if we do not consider the state of exhaustion and indifference among the population, it is not clear how the total number of voters will be determined, in the situation when about 17% of the population of Moldova lives in the zone controlled by the separatist regime from Tiraspol?

Out of the political events of the year 2000, the initiative of the Democratic Forces Party (DFP) is to be mentioned. In the result of this action, 23 parties from the Republic of Moldova adhered to the “Strategy of the Republic of Moldova on Joining the European Union” in July, 2000. This step constituted a reason for consolidation, which is true – at a declarative level, of the political parties from Moldova gathered by one major idea. Another significant fact is that the Communist Party refused to undertake this step. For the time being, the question remains unanswered – at what extent the main parties will be able to promote this idea? Also in 2000 the Reform Party undertook an attempt to reach a consensus on the position of the political parties from Moldova regarding the transnistrian conflict. Nevertheless the non-solution of the transnistrian conflict constitutes a real danger for Moldovan state, causes immense losses for the national economy and serious violations of the fundamental human rights, the main parliamentary parties ignored this initiative.

An evident fact can be also stated that despite the spectacular recent changes, political processes, at a specific extent, continue to depend on the quality of the political elite and the level of civil culture all together. At both these chapters the Republic of Moldova has to follow its burdensome way of learning by the citizens the values of political democracy, legal state and civil society. The totals of political year 2000 will be summarized after the term of authorities of the present head of the state expires on January 15, 2001.

ANNEXES**Table 1. Main macroeconomic indicators for Republic of Moldova ⁽¹⁾**

Population (1999) : 3.6 mn		Population growth rate (1994-99) : - 0.3%p.a.				
GDP (1999): USD 1.1bn		GDP per capita at market exchange rates (1999) : USD318				
GDP per capita at purchasing power parity (1998) : USD 1.995 (= 6.8% of USA level)						
	1995	1996	1997	1998	1999	2000 ⁽⁵⁾
Domestic economy and finance						
Real GDP growth (%)	-3.0	-8.0	1.3	-6.5	-4.4	-5.0
Unemployment (% of labour force)	1.5	1.4	1.7	1.9	2.1	2.4
Consumer prices (annual average % change)	29.9	24.0	12.0	8.0	39.0	31.0
Gross domestic savings/GDP (%)	17.1	5.7	2.7	-0.4	12.2	11.4
General government balance/GDP (%)	-7.7	-10.7	-4.0	-8.1	-1.0	-3.0
General government debt/GDP (%)	53.4	59.5	64.9	106.6	103.9	105.9
Broad money (% change December to December)	65.3	14.8	34.5	-8.3	42.9	24.0
Exchange rate MDL per USD (annual average)	4.49	4.59	4.63	5.38	10.52	13.33
Real effective exchange rate ⁽²⁾ (1995=100)	100.0	103.5	108.8	104.6	91.6	88.1
Reer: % change (+ = appreciation)	5.9	3.5	5.2	-3.9	-12.4	-3.8
Balance of payments						
Current receipts, CXR ⁽³⁾ (USDbn)	967	1,104	1,271	1,020	828	903
Current receipts (annual % change)	38.4	14.1	15.1	-19.7	-18.9	9.1
Current payments, CXP ⁽³⁾ (USDbn)	1,052	1,296	1,553	1,348	850	990
Current payments (annual % change)	34.7	23.2	19.9	-13.2	-36.9	16.4
Current account balance (USDbn)	-85	-192	-282	-328	-23	-87
Current account balance/GDP (%)	-5.9	-11.3	-14.7	-19.2	-2.0	-7.6
External assets and liabilities						
Gross external debt (USDbn)	674.4	862.1	1,093.8	1,080.2	1,099.7	1,043.6
Gross external debt/GDP (%)	46.7	50.7	56.8	63.4	94.8	90.6
Gross external debt/CXR (%)	69.7	78.1	86.0	105.9	132.9	115.6
Net external debt (USDbn)	379.0	506.0	694.9	900.9	847.6	801.8
Net external debt/GDP (%)	26.3	29.8	36.1	52.9	73.1	69.6
Net external debt/CXR (%)	39.2	45.8	54.7	88.3	102.4	88.8
Short-term debt/Gross external debt (%)	0.7	8.2	5.0	2.4	6.3	0.8
Debt service/CXR (%)	7.6	5.3	9.3	17.3	26.3	17.8
Interest service/CXR (%)	3.2	3.1	3.8	4.6	5.5	7.0
Liquidity ratio ⁽⁴⁾ (%)	274.7	463.8	188.9	172.5	73.7	109.7
Foreign exchange reserves including gold (USDbn)	257.4	313.1	365.9	143.5	196.5	169.3
Foreign exchange reserves in months of CXP	2.9	2.9	2.8	1.3	2.8	2.1
D Foreign exchange reserves/Broad money (%)	93.0	102.2	88.7	67.7	90.4	81.6

(1) Not including Transnistria.

(2) Based on consumer price inflation.

(3) Exports/imports of goods, services, income, and current transfers.

(4) Official reserves incl. gold plus banks' foreign assets/ Debt service plus liquid external liabilities.

(5) Fitch forecast

Source : Government of Moldova, NBM, Fitch – I BCA

**Table 2. Main indicators of socio-economic situation,
January – June 2000**

Indicators	1999	2000
	January – June	January – June
Baseline macroeconomic indicators		
Gross domestic product (Q1), million MDL	2533.4	2991.5
in % compared to respective period of previous year (at comparable prices)	92.2	98.3
Foreign trade volume, million USD	445.2	563.1
Including: Export	196.1	218.7
Import	249.1	344.4
Balance	-53.0	-125.7
Inflation rate at:		
December of the previous year, %	22.5	12.2
Previous month of the current year, %	-	-
Official exchange rate of the national currency, MDL/USD	9.72	12.52
Money in circulation (million MDL):		
at the end of period	910.3	1159.2
monthly change	-	-
Broad money M3 (million MDL):		
at the end of period	2200	2788.8
monthly change	-	-
Public finances. Banks		
Consolidated budget (million MDL):		
Revenues	1180	1644.8
Expenditures	1369.8	1711.1
deficit (-), surplus (+)	-189.8	-66.3
State budget (million MDL):		
Revenues	928.6	1282.1
Expenditures	1132.9	1358.1
deficit (-), excess (+)	-204.3	-76
Local budgets (million MDL):		
Revenue	353.5	541.1
Including transfers from state budget	102.1	178.4
Expenditure	345.9	525.5
deficit (-), surplus (+)	7.6	15.6
Volume of government securities traded, million MDL	823.1	1282.4
Including foreign investors	0	0
Government securities in circulation, million MDL	579	644.8
Government securities profit rate, %	31.2	24.17
Expenditures on repurchase of government securities, million MDL	806.8	1232.8
Foreign debt contracted by Government, million MDL:		
at the end of period, million USD	613.2	752.2
monthly change, million USD	-	-
Foreign credits payment (Government), million USD	4.2	6.3
Contracted new foreign loans (million USD):		
at the end of period	45.6	90
monthly change	-	-
Foreign debt service (profit), million USD	12.2	13.4
Domestic debt (million MDL):		
at the end of period	1744	1867.4
monthly change	-	-
Domestic credit (net), million MDL:		
at the end of period	1667.1	1511.2
monthly change	-	-
including claims on Government:		
at the end of period	1527.8	1407.4
monthly change	-	-
Volume of credits provided by commercial banks (million MDL):		
at the end of period	1777.6	1795.8
monthly change	-	-

ANNEXES Table 2. Main indicators of socio-economic situation , January-June 2000

Indicators	1999	2000
	January – June	January – June
Average profit rate on credits provided in national currency, %	35.29	34.67
Deposits at commercial banks at the end of period, million MDL	1289.7	1628.8
deposits in lei, million MDL	550.4	846
deposits in foreign currency, million MDL	739.3	782.8
Monthly change of deposits at commercial banks, million MDL	-	-
deposits in lei, million MDL	-	-
deposits in foreign currency, million MDL	-	-
Average annual bank interest rate, %	27.79	25.23
Real sector of economy		
Industrial products at current prices, million MDL	3217	3615.6
in % compared to respective period of previous year (at average prices of previous year), %	74.8	103.6
Agricultural products at current prices*, million MDL	1014	1260
in % compared to respective period of previous year (at comparable prices of 1995), %	98	90
Backlog at the end of period of (million tons):		
Coal	81.7	52
Black oil	44.6	17.8
Backlog monthly change of (million tons):		
Coal	-	-
Black oil	-	-
Investments in fixed capital (w/o population assets)*, million MDL	328	401.3
Including foreign	159.4	96.3
Goods transported by specialized transport units – total, million tons	2240.0	2032.4
Of which:		
railway (total delivered by country)	1189.9	1407
auto (auto enterprises only)	1045.7	621
Volume of retail sales, by all types of units*, million MDL	2175	2365.7
in % compared to respective period of previous year (at comparable prices), %	70	102.4
Volume of retail sales, by officially registered units, million MDL	797.8	1379
in % compared to respective period of previous year (at comparable prices), %	75.2	105.1
Services to population, by all types of units*, million MDL	757.4	1100.4
in % compared to respective period of previous year (at comparable prices), %	77.1	97.9
Services to population, by officially registered units, million MDL	639.7	1009.5
in % compared to respective period of previous year (at comparable prices), %	79.8	106.3
Amount of available goods in retail commerce:		
at the end of period, million MDL	241	360.2
monthly change, million MDL	-	-
Privatization, reorganization, stock market		
State property sold, million MDL	79	379.6
Volume of paid out funds, million MDL	46.8	323.6
Number of state property auctions for money, units	70	87
Quantity of state owned objects sold at auctions for money, units	54	31
Number of investment contests, units	13	10
Number of commercial contests, units	3	3
Quantity of sold objects at investment and commercial contests, units	9	28
Number of rounds at Moldova Stock Exchange, units	7	14
Quantity of sold objects at Moldova Stock Exchange, units	26	89
Number of possessors of issued ownership certificates to ground areas, thousand persons	110.7	116.9
Sold ground areas:		
Number, units	450	332
Area, ha	67.9	369.5
Selling price, thousand MDL	7638.4	13261.1
including paid amount	3328.2	4668.4
Total number of securities traded:		
on money market, thou units	29.1	47.4
on off-exchange market, thou units	73.3	66.8

ANNEXES Table 2. Main indicators of socio-economic situation , January-June 2000

Indicators	1999	2000
	January – June	January – June
Total volume of transactions (million MDL):		
on money market	196.8	158.6
on off-exchange market	132.3	420.8
Number of enterprises filed for bankruptcy, units	78	180
Social sphere		
Average monthly wage of employee in national economy (on 1st of June), MDL	260.8	351
Minimal consumer budget per inhabitant (in June), MDL	-	-
Amount of backpays on 1st of June (million MDL):		
Work remuneration	607.8	503
including: in budget sphere	266.3	220.4
pensions payment	384.9	216.1
Backpays change during May for (million MDL):		
Work remuneration	-	-
including: in budget sphere	-	-
pensions payment, million MDL	-	-
Number of unemployed (persons):		
Registered at the date of report	38641	33173
Engaged in work	8370	9936
Dole beneficiaries	15618	18772
Number of registered marriages, units	9228	8551
Live births, persons	19358	17930
Deceased, persons	21877	22667
Deceased under 1 year, persons	402	359
Number of registered crimes, units	18915	19824
Deceased due to these crimes, persons	241	263
Crimes disposure rate, %	69.2	70.1

Source: Ministry of Economy and Reforms