MOLDOVA

Critical days

The political and economic situation in Moldova – one of the weakest European countries in attracting Foreign Direct Investment – is critical and sets the scene for long-term development trends. Progress towards the Millennium Development Goals (MDGs) is currently at risk owing to the impact of the economic crisis. Out of 28 national targets set by the Republic of Moldova, six are likely to be missed by 2015. Efforts to strengthen civil society involvement in development policies have been quite effective, increasing the potential for independent analyses and diagnoses of important national trends.

Partnership for Development Center

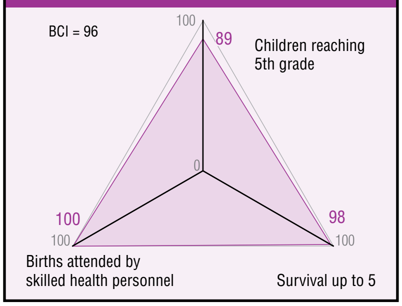
Although on the surface Moldova's economic performance over the last few years looks quite successful – with an average GDP growth rate of 5% between 2006 and 2008 and monetary and fiscal indicators kept in check – this growth was based largely on consumption, mostly of imported goods, and fuelled by remittances from abroad, which accounted for 30% of GDP in 2008 (among the highest in the world) and registered double-digit growth rates for most of the decade.[1] However, the global economic crisis had a major and abrupt impact on the economy of the country. In 2009 remittances fell 27%, reflecting plunging economic activity in countries with large numbers of temporary Moldovan workers.[2]

Moldova has been one of the weakest countries in Central and Eastern Europe in attracting Foreign Direct Investment (FDI); weak private-sector companies currently generate only 65% of GDP. This is very low when compared to private sector contributions in European transition countries: 70% of GDP in Latvia, Romania, Slovenia; 75% in Bulgaria, Croatia, Kyrgyzstan, Lithuania, Poland; and 80% in Czech Republic, Estonia, Hungary, and Slovakia.[3]

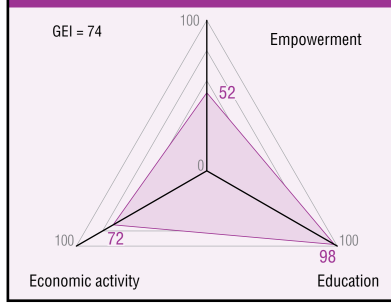
Foreign Direct Investment

Over the long term, FDI has played a major role in the country's economic growth. The share of foreign companies and enterprises in GDP increased from 1% in 1995 to about 19% in 2008 and many sectors, such as mobile telecommunications were started or – like energy production and distribution – were saved from collapse by companies with foreign capital. Also, in the period 2004-2008, foreign companies achieved a higher sales volume than did domestic companies. In addition, sectors with the strongest growth in sales revenue during 2004-2008 were those with relatively high or very high share of FDI. Nevertheless, foreign-owned firms still have a modest role in creating jobs for Moldovans (although this role is increasing, from 9.3% in 2004 to 14.3% in 2008).

Basic Capabilities Index (BCI) 2010



Gender Equity Index (GEI) 2009



During the period 2005-2008, FDI increased and diversified. While at the end of 2005 it was largely concentrated in manufacturing, electricity, gas and water, and also in wholesale and retail trade, repair of motor vehicles, motorcycles, household and personal goods, then at the end of 2008 has increased the share of financial activities and securities transactions, renting and business activities of enterprises. However, it should be pointed out that these investments were not allocated to sectors that produce export goods and services. Indeed, as only 16.8% of the total stock goes to manufacturing, it is clear that FDI plays a modest role in developing the country's international competitiveness.

According to Expert-Group (an independent Moldovan think-tank), in order to increase the volume of FDI in the national economy, the Government must continue to privatize state-owned enterprises and implement reforms to develop the country's most precious resource: human capital. It should also lift the ban on foreign purchase of agricultural land and make it simpler to take land out of fallow, remove bureaucratic barriers in construction and the creation of industrial parks, particularly in the beverage and food industries.

Debt and international assistance

Official Development Assistance (ODA) per capita to Moldova has risen constantly – from 18.2% in 1995 to 33.7% in 2000 and 269.2% in 2007. An analysis of debt sustainability made at the beginning of 2008 concluded that Moldova's external debt outlook is favourable, with a low risk of debt distress, and qualifying Moldova as a "low indebted" country. However, with the willingness of country development partners to provide around USD 2.6 billion (for financing development, half of which in grant, the rest being in concessional loans) to support Moldova during 2011–2013, expressed during the Consultative Group Meeting on March 2010, Moldovan foreign debt will increase dramatically.

Also, it should be noted that international assistance has not always been translated into efficiency gains.[4] Moreover, the provision of loans under non-preferential conditions at the outset of transition brought external debt to increase dramatically: by 2000, gross external debt had climbed to 133% of GDP, while external government debt stood at 60.4%.[5]

In the 2000s Moldova incurred a high level of external debt, exceeding 100% of GDP. This was due largely to economic decline in the previous decade, and to significant exchange rate depreciation. While the nominal value of the external debt stayed broadly constant over the period, strong economic growth combined with a real exchange rate appreciation helped to bring the ratio of external debt stock to GDP to 56% as of 2005.[6] After a peak in 2006, external debt service declined significantly in 2007. Servicing of foreign public and publicly guaranteed debt declined from close to 10% of public sector revenues to well below 5% in 2007.[7]

1 Government of Moldova, *Rethink Moldova*, Report for the Consultive Group in Brussels, March 2010. Available from: <siteresources.worldbank.org/INTMOLDOVA/Resources/Rethink-Moldova-2010-2013-Final-edit-110310.pdf>.

2 *Ibid.*

3 See: <expert-grup.org/library_upld/d265.pdf>.

4 See: <rapc.gov.md/file/ECOSOC%20Report_discutions.doc>.

5 *Ibid.*

6 See: <webcache.googleusercontent.com/search?q=cache:2jn0xzkSg9sJ:particip.gov.md/files/Raport_ECOSOC_FINAL.pdf+According+to+a+recent+IMF+study,+the+Gross+External+Debt+in+2010+constitutes+78.6%25+of+GDP+and+is+expected+to+rise+to+85.9%25+of+GDP+by+2012.&cd=5&hl=es&ct=clnk&gl=uy>.

7 See: <ec.europa.eu/economy_finance/evaluation/pdf/moldova_eval_en.pdf>.

According to a recent IMF study, Moldova's Gross External Debt in 2010 constitutes 78.6% of GDP, and is expected to rise to 85.9% of GDP by 2012. Its structure is as follows:[8]

- The share of public debt decreased over the last five years, reaching 25.4% in 2009. Since the external debt is contracted from IFIs on concessional terms, at below market interest rates, there are no budgetary pressures to service this debt.
- Long-term debt is increasing, representing a higher level of trust in the country.
- The external bank debt is to parent companies and IFIs. It might go even higher, as foreign capital is cheaper and may help reduce the cost of lending to the economy.

All these factors are relatively stable and have long-term or no maturity. However, the risky part of external debt is short-term debt, as it can flow out of the country very rapidly. In recent years, the Government has made sustained efforts towards settling both gross external debt and external government debt, reducing these to 67.5% and 12.9% respectively in 2008. Furthermore, as a result of the world financial crisis, the rise in gross external debt level has been much higher in some developed countries than in Moldova (Luxemburg 3,733% of GDP, Ireland, 881% and UK 338%).[9]

Over the first nine months of 2009, budget revenue dropped over 10% relative to 2008 due mainly to a decline in VAT receipts, non-tax revenue and import duties. A number of wage and pension increases were enacted by the former Government, draining limited budget resources even further. The fiscal deficit increased from 1% of GDP in 2008 to about 6% of GDP between January and September 2009, financed mainly by a drawdown of previously accumulated balances in budget accounts and heavy domestic borrowing. [10]

MDGs at risk

For Moldova, a transition country, the creation of development partnerships is crucial both to attain higher population living standards and for the country's integration into the EU.[11] But this implies constant cooperation among the countries aiming to achieve the first seven MDGs as well as to achieve progress in important domains that are not covered by the MDGs, such as foreign trade, transport and communications infrastructure.

The MDG agenda, which seemed to be within arm's reach in 2007, is currently at risk due to the economic downturn. Out of 28 national targets set by the Government six – pertaining to education, HIV/AIDS, access to water and sanitation – are unlikely to be reached by 2015.[12]

The MDGs translate the most urgent national problems into concrete, measureable development targets, with gender equality central and cross-cutting all of these goals.[13] While education, public health and social protection are the sectors that consume most public expenditure in Moldova, expenditure across these sectors is far from optimal. According to the Government, "Efficiency gains in education spending would arise from school optimization. Similarly, there are savings to be produced through healthcare reform but the initial costs for the modernization of the hospital system are high. With regard to social protection, the challenge is to direct social assistance to the neediest and away from the outdated system of 13 different social assistance programs. Moldova allocated 1.8% of GDP in 2007 to spending on social assistance programs and 8% of GDP to education on average for the 26 transition countries)."[14]

Gender equality

Since 2006, gender equality is of particular concern for the Government and has been addressed through the signing of a number of international documents, the ratification of treaties and a formal commitment to achieving the MDGs. The Government reported in 2010 that a series of actions have been realized: "the Gender Equality Law and the Law on preventing and combating domestic violence were adopted; the Governmental Commission for Equality between Women and Men and the Department of Policies for Ensuring Gender Equality and Prevention of Violence have been established; the National Program for Ensuring Gender Equality (NPEGE) 2010-2015 and the Plan of Actions for implementing the NPEGE for the period 2010-2012 have been adopted; gender statistics were developed and disseminated (more than 250 sex-disaggregated indicators)."[15] However, there are still many obstacles to achieving the desired results:

- Although the share of women's seats in Parliament has reached 30%, there are limited possibilities for women's equal participation in the labour market;
- Work-life balance is a challenge, as 97% of childcare leave is taken by women;
- Women are mostly employed in the low-paid sectors (education, healthcare, social assistance) and occupy lower positions in any of the considered domains;
- The share of women employed in own-account work is increasing;
- The number of women who have dropped out of the labour force is increasing.[16]

Development and civil society

PASOS, the Policy Association for an Open Society, has stressed that the current political and economic situation in Moldova is critical and is setting the scene for long-term development trends in the country. The process of strengthening civil society involvement in development policies has progressed well, increasing its ability to produce independent analyses and diagnoses of various national trends.[17] Despite the need to further improve the quality of the contribution provided by NGOs, and to make their inputs more consistent and recommendations more realistic, there are already many examples of civil society participation in public life, including changes in major problematic areas in society.

Outstanding concerns are first of all in the areas of human rights, justice and economic development as well as corruption and media freedom. In 2009 many civil society organizations have been very active and often pro-active in all these spheres. In early 2010 a National Participation Council composed of 30 national NGOs was set up in order to facilitate government dialogue with civil society on various policy issues. However, as NGOs often look at such issues through the lens of their own missions, there is a tendency to cover a rather narrow spectrum and a resulting lack of a holistic vision.[18] It is to be hoped that such a vision will soon emerge. ■

8 See: <pc.gov.md/file/ECOSOC%20Report_discutions.doc>.

9 *Ibid.*

10 *Rethink Moldova*, *op. cit.*

11 *Ibid.*

12 *Ibid.*

13 National report of the Republic of Moldova on the implementation of the Millennium Development Goals.

14 *Rethink Moldova*, *op. cit.*

15 See: <www.un.org/en/ecosoc/julyhls/pdf10/moldova_presentation_ecosoc.pptx>.

16 National Voluntary Presentation on MDGs achievement, Government of the Republic of Moldova, ECOSOC, New York, 2010.

17 Valeriu Prohnitchi, Alex Oprunenco, *Moldova 2009: State of the Country Report*, PASOS, 8 April 2010. Available from: <www.pasos.org/content/view/thematic_area_folder_filter_full/134?Area=596&Class=policy>.

18 *Ibid.*