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On approval of the National Development Strategy for 2008–2011

The Parliament adopts the present ordinary law.

Art.1. – The National Development Strategy for 2008–2011, which is included in the Annex that is part of this law, is approved.

Art.2. – Within a timeframe of 3 months since the effectiveness of this law, the Government will develop and approve an Implementation Plan and the monitoring system for the National Development Strategy for 2008-2011.

Chairman of the Parliament

MARIAN LUPU

Chişinău, December 21, 2007.
No.295-XVI

**NATIONAL DEVELOPMENT STRATEGY
FOR 2008-2011**

List of Abbreviations

ACTD – Agency for Constructions and Territorial Development
PH – Primary Healthcare
NEA – National Employment Agency
CPA – Central Public Administration
LPA – Local Public Administration
ALRC – Agency for Land Relations and Cadastre
ASM – Academy of Science of Moldova
ATP – Autonomous Trade Preferences
SSIB – State Social Insurance Budget
EBRD – European Bank for Reconstruction and Development
WB – World Bank
ILO – International Labor Organization
NBM – National Bank of Moldova
NBS – National Bureau of Statistics
HBS – Household Budget Survey
CCECC – Center for Combating Economic Crime and Corruption
MTEF – Medium-term Expenditure Framework
CEC – Central Electoral Commission
ECHR – European Court for Human Rights
CEFTA – Central European Free Trade Agreement
BSEC – Organization of the Black Sea Economic Cooperation
CEN – Comité Européen de Normalisation
CENELEC – Comité Européen de Normalisation Electrotechnique
CET – Electro-heating plant
NHIC – National Health Insurance Company
NCCRD – National Council for Coordination of Regional Development
NCFM – National Commission on the Financial Market
NSPPMC – National Scientific-Practical Preventive Medicine Center
COST – European Program for Cooperation on Science and Technology
CRDF – Civilian Research and Development Foundation
CIS – Commonwealth of Independent States
EA – European co-operation for Accreditation
EMAS – Eco-Management and Audit Scheme

ETSI – European Telecommunications Standards Institute
EUBAM – European Union Border Assistance Mission in Moldova and Ukraine
EUREKA – Pan-European Network for Research and Industrial Development
MHIF – Mandatory health insurance funds
FP7 – Frame work Programme 7
GEANT – Gigabit European Academic Network
GRECO – Group of States against Corruption
GSP – General System of Preferences
GUAM – Organization for Democracy and Economic Development
HIV/AIDS – Acquired immune deficiency syndrome
ICAO – International Civil Aviation Organization
SADI – Small Areas Deprivation Index
GDI – Global Development Indicators
IOSCO – International Organization of Securities Commissions
FDI – Foreign Direct Investment
ISO – International Standard Organization
STI – Sexually transmitted infections
SME – Small and medium enterprises
AEL – Air electric lines
MI – Ministry of Interior
MET – Ministry of Economy and Trade
MENR – Ministry of Environment and Natural Resources
MJ – Ministry of Justice
MH – Ministry of Health
MSTQ – Metrology, Standardization, Testing and Quality Assurance
MR – Ministry of Reintegration
MTRA – Ministry of Transport and Road Administration
NATO – North Atlantic Treaty Organization
NUTS – Nomenclature of Territorial Units for Statistics
MDG – Millennium Development Goals
NGO – Non-governmental Organization
UN – United Nations
MEUAP – Moldova-EU Action Plan
GDP – Gross Domestic Product
Strategy – National Development Strategy

PPP – Purchasing Power Parity
RED – Energy Distribution Network
EGPRSP – Economic Growth and Poverty Reduction Strategy Paper
SECI – South-east Cooperation Initiative
SMS – Standardization and Metrology Service
CS – Customs Service
STCU – Science and Technology Center in Ukraine
SWOT – Strengths, Weaknesses, Opportunities, Threats
TB – Tuberculosis
ICT – Information and communication technologies
PACU – Policy Analysis and Coordination Unit
TAU – Territorial-administrative unit
UCTE – Union for the Coordination of Transmission of Electricity
UNESCO – United Nations Educational, Scientific and Cultural Organization
PSU – Primary sampling unit
SS – State securities

INTRODUCTION

The National Development Strategy (NDS) for 2008-2011 (hereinafter referred to as *Strategy*) is the *main internal medium-term strategic planning paper*, which defines the development objectives of the Republic of Moldova by 2011 and identifies the priority measures and actions to achieve these objectives. The Strategy serves as a unique tool for the integration of the current strategic framework, alignment between the budgeting process (MTEF) and the policy framework, and absorption of external technical and financial assistance. In order to ensure the targeting of available resources towards the accomplishment of objectives and measures with a maximum impact on the economic and social development of the country, the Strategy focuses on a limited number of strategic priorities.

The key objective of the Strategy is to ensure a better quality of people's lives by strengthening the foundation for a robust, sustainable and inclusive economic growth. **In this context, the spirit and vision of the Strategy aspire towards Moldova's alignment with European standards and, consequently, to the accomplishment of the European integration goal. All priority development areas set forth in the Strategy aim at adjusting relevant national policies to European ones.** To this effect, the Strategy's implementation actions will be based on the four Copenhagen criteria, the correspondence to which can ensure Moldova's alignment with European values and structures. In particular, the Government will undertake through the Strategy efforts to translate the *acquis communautaire* into the national legislation, ensuring the consistent enforcement of the adopted European legislation. During the Strategy's implementation the Government will pay special attention to issues identified in the Progress Reports developed by the European Commission under the European Neighborhood Policy.

The Strategy's development derives from the need to further pursue the reforms initiated in two important strategic planning documents – the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) and the Moldova-European Union Action Plan (MEUAP), the implementation timeframes of which expire at end-2007 and beginning of 2008 (See Box 1). While being a completely new process for Moldova, the implementation of these two programs has been mixed. Hence, a number of planned actions had been successfully implemented, other are still under implementation, and a fair part remained as mere statements due to various reasons¹. The results of these reforms haven't produced an immediate tangible effect, and it might be the case that the impact of their implementation is noted at a later stage. In this context, the Strategy is meant to continue the successful reforms initiated in the past and promote new and coherent policies that would ultimately lead to the accomplishment of the society's aspirations towards a better life.

¹ In particular, this statement is revealed by the annual reports on EGPRSP implementation evaluation for 2005 and 2006 and by the reports on Moldova-EU Action Plan implementation evaluation for February 2005 – August 2006 and 2007.

Box 1: EGPRSP and Moldova-EU Action Plan

The Economic Growth and Poverty Reduction Strategy Paper for 2004-2006 was conceived based on the existing strategic framework, through an extensive consultation process, as a Government instrument to accomplish the medium- and long-term aspirations of the country for economic growth and population welfare. EGPRSP was meant to change the paradigm and quality of economic growth by mobilizing new growth sources and factors, which would then generate an impact on poverty reduction. In this context, through the EGPRSP, the Government targeted its efforts towards the following medium-term objectives: i) sustainable and shared economic growth; ii) reduction of poverty and inequalities; expansion of poor's participation in economic development; and iii) development of human resources. The *de facto* implementation of EGPRSP provisions started in 2005, together with the establishment of the new Government, with a 1-year delay, and that is one of the reasons for the non-accomplishment of some actions. This served as the main reason to extend the timeframe for EGPRSP provisions' implementation by the end of 2007.

The Moldova-EU Action Plan is a political document between the European Union and the Republic of Moldova, which establishes the program, strategic objectives, and priorities for these two parties' relations for the period of 2005-2007. MEUAP doesn't replace the current contractual framework between EU and Moldova, which is the Partnership and Cooperation Agreement (PCA), but supplements it, giving more importance and urgency to the economic and political reforms stipulated in the PCA. Thus, MEUAP is not only a roadmap for our country's approximation to EU and accomplishment of the strategic European integration goal, but it's also an internal political and economic reform program that the Moldovan authorities committed to implement.

Because of the systemic transformations that Moldova had been subjected to during the transition period and the scarcity of resources in view of attaining the proposed objectives, the implementation of these two major documents has been a difficult challenge. Given that the implementation of these documents is an unprecedented process in the Republic of Moldova, which is based on a *learning by doing* process, there have been difficulties at both development and implementation stages. This is largely due to the lack of experience in creating an operational institutional framework, in appropriately correlating strategic measures and the budget process, and in efficiently prioritizing sector policies.

Currently, there are papers in Moldova establishing both medium- and long-term policies and sector strategies that aren't consistent with the national policies. The experience of implementing papers of national importance proves that establishing a large series of dispersed priorities, with limited financial coverage, leads to a difficult implementation and unsatisfactory results. Thus, the Strategy is intended to focus people's attention on a limited number of priorities and target existing resources towards their strict implementation.

Initiatives that are part of the Strategy will be reflected in the national public budget and in the Medium-Term Expenditure Framework (MTEF). Altogether, the Strategy and MTEF serve as a framework for the allocation of resources to priority areas for several years, and for the reorientation of public expenditures towards achieving national objectives. The harmonization of these two papers and a more efficient correlation between planning and budgeting procedures is a continuous process.

Furthermore, in the context of the concurrent operation of a number of national papers, there is a multitude of regulations and guidelines governing the monitoring and reporting process

and which, while being inadequately coordinated, make this process cumbersome and sometimes even impossible. Hence the need to simplify and increase the efficiency of the monitoring and reporting process in order to focus on the evaluation of implementation results. This will be a priority of the administrative reform implemented at both central and local levels.

In many European countries, whose experience in drafting a national development plan was analyzed, the National Development Strategy represents a specific instrument for the absorption of structural funds provided by the European Union (EU) and does not substitute the general development strategy of the country. In case of Moldova, the purpose of the Strategy is different – the National Development Strategy represents a domestic umbrella-paper, which is intended to prioritize the Governmental policies and to establish a clear mechanism of their funding from both internal and external sources.

The paper is based on the following principles:

- *Participation* – the document is developed, implemented, monitored, and evaluated in consultation with all stakeholders;
- *Alignment of the existing national strategies and programs to national priorities* – the paper contains specific objectives and unifies cross-sector approaches based on the priorities stated in the Strategy;
- *Reiteration of external commitments* – the paper includes actions and commitments agreed upon with the development partners.

The Strategy promotes a dynamic approach to strategic planning, with two components: 1) the strategy paper itself, which covers the tentative areas of activities to be implemented over the medium-term, and identifies ways and mechanisms to achieve the established objectives; and 2) the Action Plan for the Strategy's implementation, which outlines the specific tasks to achieve the identified objectives. The Strategy paper will be revised every four-five years to confirm or modify the key objectives and directions. The Action Plan will be revised annually by adding actions for the next year, as is the case of MTEF, so that this plan evolves concurrently with achievements made throughout the Strategy's implementation. The Strategy's implementation monitoring results will be evaluated through an Annual Evaluation Report, which will reflect last year's progress towards achieving the Strategy objectives and the dynamics of selected performance indicators.

I. SITUATION ANALYSIS²

1. Geographic Data

The Republic of Moldova is located in South-east Europe (to the North-east of the Black Sea, landlocked between Romania and Ukraine, between the river beds of Prut and Nistru). The land surface area of the country, which stretches some 350 km North to South and is 150 km-wide West to East, is 33,846 square km. The population of the Republic of Moldova totals 4.1 million people³, with a density of population accounting for 121 inhabitants per square km.

The Republic of Moldova is a geographic space with a very high degree of anthropogenic harnessing of natural space. Approximately 10% of the country's territory is occupied by human settlements.

The total surface of land resources is 3.385 million ha, of which 1.952 million ha are farming lands, including 1.659 million ha of arable lands, 242 thousand ha sown to perennial crops, 335 thousand ha of grasslands, and 9,807 thousand ha are pastures. Lands sown to forests and other areas covered by forest vegetations account for 433 thousand ha. The chernozem (humus) lands cover approximately 80% of the country's territory (2.5 mil. ha).

Administratively, the Republic of Moldova is made up of 1,679 communities, including five municipalities (Chisinau, Balti, Tighina (Bender), Comrat, and Tiraspol), 60 cities, 39 settlements within towns (municipalities), 917 residence villages (villages where village councils or communes are located), and 658 settlements within communes (except for the residence villages).

2. Demographic Situation⁴

The 2004 census data are indicative of depopulation trends in the country, mostly caused by a reduction in the birth rate and by people's migration. As of 1 January 2007, the stable population of the country consisted of 3.58 million inhabitants. Between 1997 and 2006, the number of population dropped by some 62.0 thousand people. The Republic of Moldova continues to be the country with the lowest level of urbanization within Europe, with 41.3% of people living in urban settlements and 58.7% – in rural settlements. Approximately half of the urban population is living in the municipality of Chisinau. In terms of gender balance, men account for 48%, and women make up 52% of the total number of population.

An analysis of population by age groups points to a growing demographic aging effect within the society. The average age of the country's population increased from 33.4 years in 2000 up to 35.6 years in 2007, putting Moldova in the group of countries with "adult" population. The decrease in the birth rate resulted in a reduction of the number of young people in absolute and relative terms. Compared to 2000, in 2007 there was a decline from 23.8% down to 18.2% in the share of 0-14 years-old population, with the share of people over 65 years going from 9.4% up to 10.3%. The adult population (15–64 years-old) accounts for 71.4% of all people – an upsurge of some 126.3

² The situation analysis, SWOT analysis and analysis of constraints conducted within the COMPACT assistance programme under the initiative of the Millennium Challenge Corporation, serve as tools for the identification of medium- and long-term priorities of the country. The analyses are inter alia substantiated in the Annual EGPRSP Evaluation Reports and in the EU-Moldova Action Plan Evaluation Reports.

³ Including the population of Transnistria;

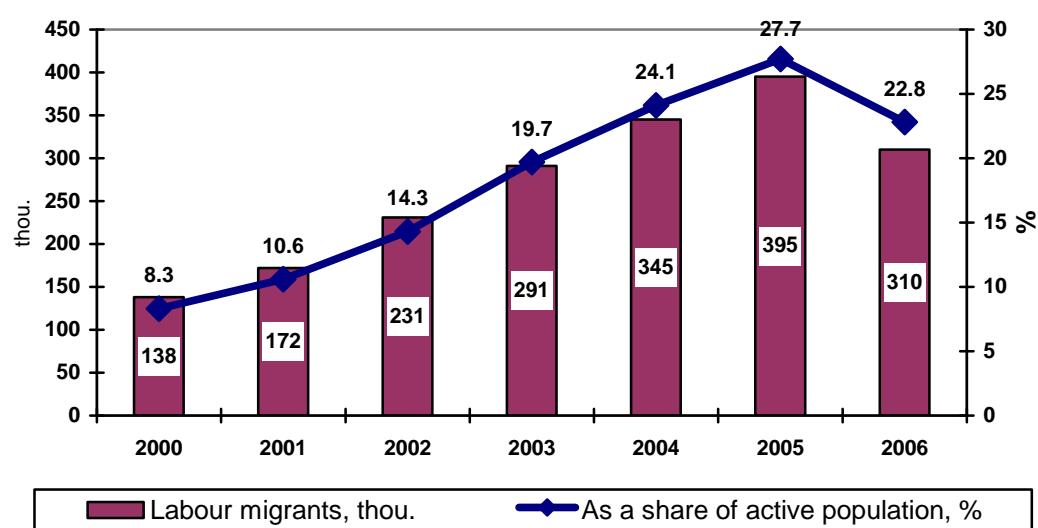
⁴ The demographic review draws upon the data that excludes the left bank of the Nistru River and the municipality of Tighina (Bender).

thousand people versus the situation at the beginning of 2000. There was an increase in the proportion of age groups of 15-34 and 45-59 years within the adult population, alongside a decrease in the shares of age groups 35-44 and 60-64 years respectively.

The discrepancy in the age structure of population is more obvious when considered by regions, caused by territorial variations in the demographic phenomena and by the migration flow of population. The proportion of elderly is 1.4 times higher in rural areas than in urban settlements. Almost 12% of the rural population is over 65 years, and the elderly women account for 14% of the total number of women living in rural settlements. In urban settlements, the average age of the women is 2.9 years higher than the age of men, with the age gap reaching 3.3 years in rural areas.

Labour migration has a key role in changing the demographic situation, and is still a major problem for the medium and long term. According to the National Bureau for Statistics data, there have been approximately 310 thousand people reported to have left the country for a job or in search of a job abroad in 2006, that is 22.8% of the total active working population of 15 years and above. Two thirds of those reported to have left are men. The same proportion was noticed among people who have left from rural settlements. Outward migration is characterized by a massive outflow of people of reproductive age and economically active. People belonging to the 20-29 years-old age group account for the biggest share of those (40.3%), followed by 30-39 years-old people (22.1%).

Figure 1: Labour migrants working abroad, 2000-2006 (%)



Source: National Bureau of Statistics, calculated by the Ministry of Economy and Trade

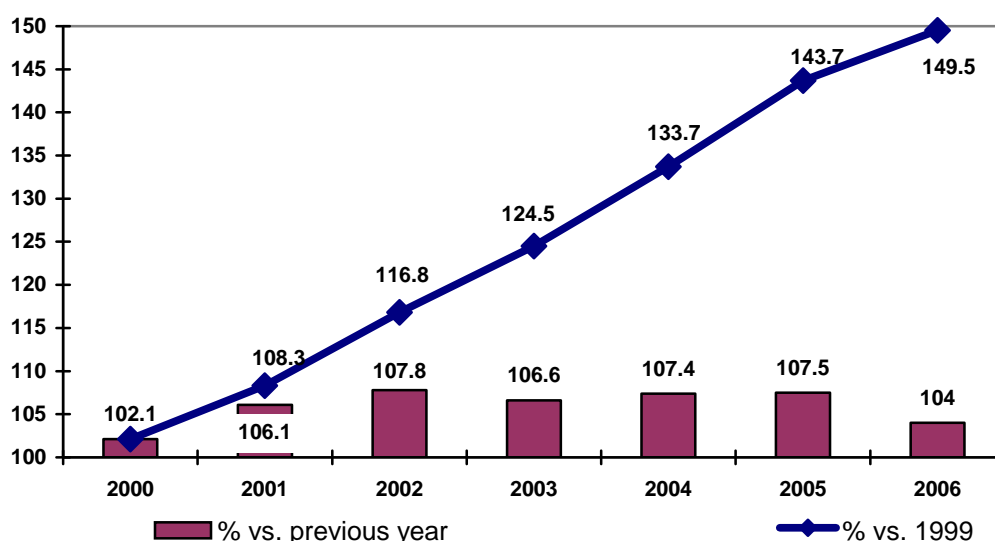
The reduction in the number of working population and the increase in the average age of employees in the national economy have resulted in complex consequences for the country's social and economic development, with a direct impact on the overall supply of labour force, investments, income distribution, public expenditure for social insurance, etc. The ongoing aging of population will result in serious shortages of human capital needed for a sustainable development of the country.

3. Economic and Social Situation

Beginning with 2000, Moldova's economy has resumed its growth track, reversing a decade of ongoing decline and deterioration of the living standards. The macroeconomic policy measures taken within the framework of internal and external growth contributed towards the halting of economic recession and ensured a steady growth in the gross domestic product (GDP). The real GDP grew on average by 5.9 per annually during 2000-2006, with a cumulative growth of 49.5% versus 1999.

The consumption of households was the main source of growth, funded mostly by increased domestic revenues (the real salary increased approximately 2.3 times during this period) and remittances sent home from abroad. Investments in fixed capital have had a lesser contribution to the economic growth, increasing by 81.5% versus 2000, accounting for 15.7% of GDP on average.

Figure 2: GDP growth between 2000 and 2006 (%)



Source: National Bureau of Statistics

Securing macroeconomic stability has played an important role in revitalizing and sustaining economic growth. The monetary policy provided for by the National Bank of Moldova (NBM) targeted several objectives, including a reduced level of inflation, maintaining a competitive exchange rate for the national currency, and accumulating international reserves. The huge flow of remittances put greater pressure on the national currency, which contributed to its deflation. Under these circumstances, the NBM stepped in the currency market in order to reach a balance between the demand and supply of foreign currency, thus pumping up the country's international reserves. The increased sterilization efforts and the slowing growth of monetary mass led to the offsetting of inflationary pressures.

The economic growth was accompanied by a significant improvement in the fiscal situation. There was a considerable growth of the national public budget revenues up to 40.5% of GDP in 2006, and the state budget reported an average surplus of 0.2% of GDP. Indirect taxation accounted for the largest part of the upsurge in revenues, and made up approximately 45.4% of all revenues in 2006. A drop in the rate of income taxes paid by natural persons and legal entities kept these revenues at 5% of GDP. The increase in revenues and decrease in costs for public and publicly guaranteed debt servicing allowed for an increase in public spending earmarked for other priorities. The social sectors benefited the most from this growth (almost

90%), expenditures for these sectors accounting for 63.2% of all national public budget expenditures in 2006. At the same time, the growth of consumption expenditures cut down the fiscal space for public investments, and the high share of public revenues and expenditures in GDP is generally indicative of a rapid expansion of the public sector – a situation that could limit the economic growth prospects.

The economic growth and the prudent debt management contributed to a significant improvement in foreign debt indicators. The total foreign debt to GDP ratio dropped from 133% in 2000 down to 74% in 2006. The public and publicly guaranteed debt was 26% of GDP at the end of 2006 (versus 79% of GDP in 2000). Also, there was a moderate growth in foreign direct investments (FDI) reported during the reference period. The total stock of FDI into the national economy represented USD1,300 million, or USD363 per capita, at the end of 2006 (versus USD123 in 2000). However, the amount of foreign investments is still much smaller than in South-east European countries, and is insufficient to ensure a sustainable development of economy. At the beginning of 2007, a more significant growth of FDI was observed, which increased by USD205 million, accounting for USD1,505.4 million on July 1.

The revitalization of economic growth was coupled with an increase in the external vulnerability of economy and higher emphasis on certain discrepancies both at macro and branch levels. The evolution of foreign trade featured a rapid growth of imports and a modest performance of exports during the given period – a situation that resulted in an ongoing increase of the trade balance deficit from 23% of GDP in 2000 up to 47% in 2006. The current account deficit was on a rise too, although at a lower pace than the trade balance deficit, due to massive inflows of remittances. The external vulnerability is exacerbated by the high concentration of exports to a limited number of countries and products. Despite a shift in the orientation of exports over the last years, specifically towards the European Union markets, most of the exports are still targeting the CIS countries, and the Russian Federation in particular. At the same time, approximately 45% (in 2006) of Moldovan exports are farming products (including from the processing industry), with alcoholic beverages dominating.

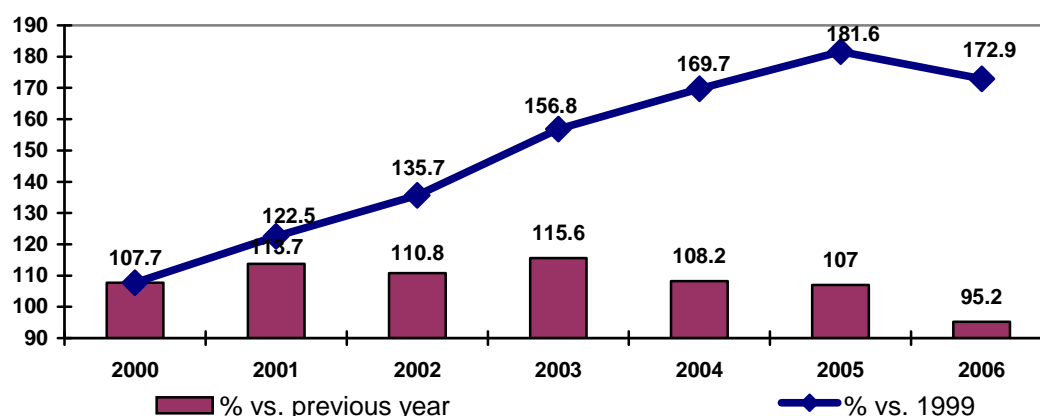
The true size of the country's economy external vulnerability was revealed by the 2006 trends. A doubling of natural gas prices and export restrictions on certain categories of products resulted in a number of negative trends – economic growth had slowed down (4%), inflation went up (14.1% at the end of the year), whereas the trade deficit and the current account deficit reported a considerable growth (by 34% and 65%, respectively). These trends pose threats to the sustainability of progress to date and are tokens of the low competitiveness of Moldovan companies on regional and world markets.

The economic recovery period is characterized by a poor development of domestic supply and low competitiveness on domestic and foreign markets. The development of the country's production sector during the given period drew mostly upon the growth in the use of existing capacity rather than building it up. Better productivity occurred against the background of a slump in the labour force, mostly due to migration. The wearing out of these resources, which are ensuring the growth of productivity, under the circumstance of few domestic and foreign investments to complement and replenish the stock of capital in the economy, is a paramount obstacle for the medium- and long-term development of the country's production sector.

To this effect, the evolution of the country's real sector corroborates the concerns set out above. The evolution of the industrial sector between 2000 and 2006 had been positive. The cumulative growth as compared to 1999 was of 73%. The growth of the industrial sector had varied (except for 2006), with the best results noted in 2003 (see Figure 3). The industrial output decreased by 4.8% in 2006 versus 2005 – something explained particularly by the

restrictions on the Moldovan wine imports to the Russian Federation and, as a result, a shrinking of the winemaking subsector. During the economic recovery period, a high proportion of enterprises (50%) operated in red, whereas there was only an insignificant growth in the number of enterprises reporting profits (by 4 percentage points (p.p.)).

Figure 3: Trends in the industrial sector between 2000 and 2006 (%)



Source: National Bureau of Statistics

The economic growth continues to display geographic polarity, exacerbating disparities in the social and economic development of the country. The municipality of Chisinau accounted for half of the industrial outputs in 2006 and for 56% of fixed capital investments. Companies registered in Chisinau contributed towards almost 91% of the net financial outcomes reported within the economy in 2006, whereas those registered in other districts – merely 2.7%. Hence, in 2006 the highest average monthly salary was reported in the municipality of Chisinau (MDL2,218) and municipality of Balti (MDL 1,854.3). The average monthly salary was as low as approximately MDL1,000 in some districts of the country.

Development continued to be low-profile in rural areas due to a modest progress accomplished in agriculture and below-par expansion of non-farming activities. Agriculture continued to report low productivity and low compensation for work. The marginal revenues of agricultural producers are dictated by the limited nature of economic trade in most farms (half of the revenues are in-kind), high prices of invested inputs, specifically for energy resources, as well as the extremely low sale prices on final outputs. The low performance in agriculture is also caused by the limited access to funds, scarce investments, deteriorated infrastructure, poor management of agricultural enterprises, and high vulnerability to natural disasters. Given the share of agriculture in the GDP (15% in 2006) and the number of people employed in this sector (33% of the total labour force in 2006), the low performance of this is cutting down on the growth prospects for the rest of the economy and is undermining the poverty reduction efforts.

The reduction in Moldova's vulnerability to the shocks caused by foreign prices for energy by diversifying energy import sources and by increasing the efficiency of its use is still a major challenge. Recent gradual increases of prices for energy resources has had a serious impact on the economy and the population alike. The direct impact of these resulted in increasing trade and budget deficits. The increase in the purchase prices contributed directly to the growth in costs of power, natural gas and oil products purchased by public institutions at all levels (bringing the budget spending up by 0.5% of GDP). The increased prices for energy, without a better social assistance system, have considerably added on to the needs for

public funding to support the system.

The prospects for development of the domestic supply are impeded by a severely deteriorated infrastructure. Infrastructure is one of the most critical constraints to economic growth in Moldova (see Box 2). The underdeveloped road infrastructure is generating an important impact on the mobility of assets and people, particularly in rural areas.

In 2007, with support from the Millennium Challenge Corporation, the Government conducted a constraints analysis to growth and development in the Republic of Moldova. According to this analysis, the following are extremely critical constraints in the Republic of Moldova: (i) physical infrastructure because of energy losses and poor quality of roads; (ii) investment climate with its burdensome license and permit issuance regime; (iii) rigidity on the labor market, and (iv) judiciary system performance. Less critical but as important for decisionmaking is the geographical location – a factor that we can't influence, and the macroeconomic risks shown through inflation and exogenous risks. Access to finance, human capital, innovations and competitiveness aren't considered critical constraints according to this analysis. Though these are preliminary conclusions, coupled with previous analyses conducted by the Government and the country's development partners, they served as a benchmark for the formulation of policies in the National Development Strategy.

This is also an obstacle for trade by imposing certain additional costs on both exporters and importers. The water supply and sanitation infrastructure has deteriorated all over the country, and most of these utilities face major financial issues caused by low collection rates, tariffs lower than the real production costs, and huge losses of water through leakages within the system. On top of that, almost 40% of the water pumped through the systems doesn't meet the health criteria. Although the level of public investments increased over the last years, it is still insufficient for the rehabilitation of infrastructure.

Table 1: Fixed capital investments by source of funding (%)

	2000	2001	2002	2003	2004	2005	2006
Fixed capital investments - Total	100	100	100	100	100	100	100
Funded from:							
State budget	3.3	4.1	2.0	2.1	3.0	5.3	7.8
Budgets of territorial-administrative units	4.9	4.5	4.2	3.5	5.6	4.5	5.3
Economic agents' own funds	56.4	57.0	71.3	70.2	61.3	57.7	52.8
Population funds	3.8	4.0	3.8	3.6	2.4	2.2	1.8
Foreign investors' funds	25.3	19.4	11.9	14.8	20.6	18.5	19.0
Other sources	6.3	11.0	6.8	5.9	7.1	11.8	13.3

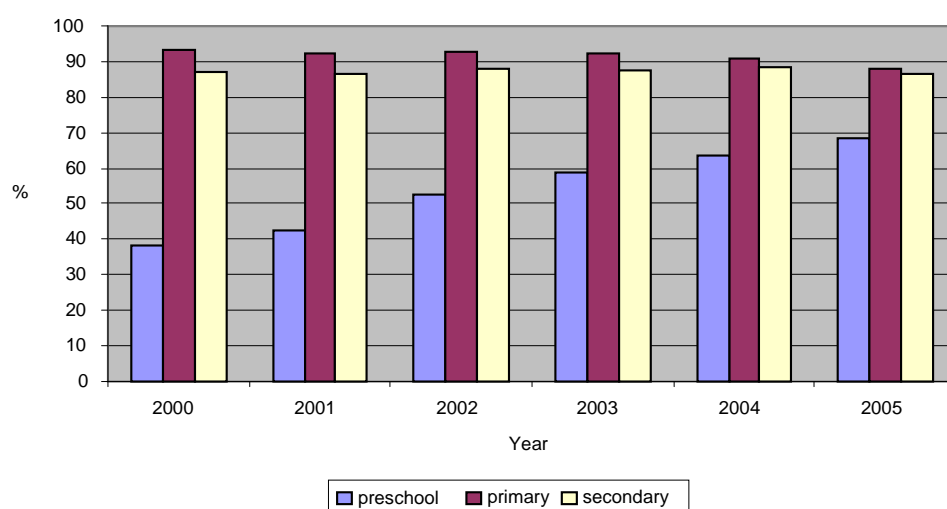
Source: National Bureau of Statistics

It's necessary to emphasize that the growth of economy hasn't achieved so far a new quality level. Even if the increased income of the population continues to support the robust growth of consumption in the short run, this model of growth will be used up given the lack of a strong response of domestic supply. The shift in the growth paradigm turned to be a far-reaching and enduring process, which is still a major challenge for the future development of the country.

As mentioned above, the economic growth and improvements in the fiscal area allowed increased public spending for the social sector. The growth of spending in this sector hasn't

been always accompanied by a similar improvement in the quality of rendered services. There were mixed feelings about the progress accomplished in improving the access and quality of education services over the last years. On the one hand, the enrolment rate in preschool education registered a significant growth from 38.5% in 2000 up to 68.6% in 2006. On the other hand, the net enrolment rate dropped from 93.5% in 2000 to 87.6% in 2006 for primary education, and from 87.0% in 2000 down to 86.1% in 2006 for lower secondary education (see Figure 4).

Figure 4: Net enrolment rate by educational level between 2000 and 2006 (%)



Source: National Bureau of Statistics

The quality of education is negatively affected by the method of funding in the education system, which doesn't provide the incentives required for an efficient use of resources. The reduced number of school-age children and the fact that in many communities the schools' projected capacity is already several times over the limits set for the number of students are conducive to unjustified costs. Furthermore, the optimization of the school network remains and obvious solution to improving the efficiency of resources by cutting down the proportion of non-teaching staff in the total number of staff, by lowering maintenance costs, and by bringing the student/teacher ratio in line with international norms. In this context, the mapping of pre-university education facilities was completed, and a school network optimization strategy will be developed on its basis.

The health sector has been subjected to important changes over the last years. The mandatory health insurance system was introduced in 2004, while the total expenditures in this sector increased from 4.2% to 4.8% of GDP in 2006. The health system reform strengthened in particular the primary health sector and launched the restructuring of the hospital sector. All these factors generated a reversal in the adverse trends from the previous decade, thus resulting in better health indicators. The introduction of health insurance improved the financial protection of the people, with almost 77.5% of population being covered by health insurance. Yet, there are still serious problems related to the general provision of health care services in rural communities and small towns. Even though the access to health services improved, there is still considerable room for improving the quality of health care services.

Despite some progress in improving the financial status of the pension system (by increasing the retirement age, improving collections), the reform initiated back in 1998 hasn't met its

long-term objectives. The payment of pensions continues to be based on declared salaries and not on individual contributions, thus undermining the financial sustainability of the pension system, leading to an inequitable redistribution of resources among various categories of insured people, and determines relatively low pensions. Moreover, there is no comprehensive solution to the issue of farmers participating in the pension system. The average retirement pension was MDL457.51 in 2006 – 5.3 times higher compared to 2000. This amount is very close to the poverty line. The replacement rate (average old-age pension as a share of the nominal average monthly salary in the economy) continued to drop, representing 26.9% at the end of 2006.

The current social assistance system is based on the nominal compensation system, which is still the most expensive social program, and amounted to 38% of social assistance expenditures in 2006. However, this system is known for not being efficiently targeted to the poor, its benefits equally covering all income quintiles (see Table 2).

Table 2: Beneficiaries of nominal compensations by quintile

Categories of beneficiaries	Quintile I	Quintile II	Quintile III	Quintile IV	Quintile V
Disabled, degr.I	12.5%	20.9%	21.6%	26.6%	18.5%
Disabled, degr.II from labour	29.7%	17.6%	19.2%	14.0%	19.5%
Disabled child	7.9%	14.3%	25.0%	29.7%	23.1%
Participants to the WWII	1.5%	3.4%	9.9%	41.2%	44.0%
Family suffered from Chernobyl	13.3%	4.4%	24.4%	23.3%	34.4%
Disabled from childhood, degr.I	5.9%	12.4%	19.1%	32.7%	29.9%
Family with 4 and more children	29.4%	26.6%	19.0%	19.2%	5.8%
Disabled, degr.II, unlimited period	34.1%	20.0%	13.1%	15.8%	17.1%
Lone pensioners	13.2%	46.4%	23.7%	11.8%	4.9%
Persons who worked on the home front	7.5%	29.0%	20.6%	30.4%	12.6%
Persons who stayed in Leningrad under blockade	0.0%	18.2%	27.3%	27.3%	27.3%
Disabled, degr.I Chernobyl	6.5%	2.2%	10.9%	41.3%	39.1%
Disabled from childhood, degr.III	24.5%	24.9%	16.1%	14.9%	19.6%
Disabled from WWII, degr.I	3.6%	3.6%	25.0%	17.9%	50.0%
Disabled from WWII, degr.II	2.3%	2.3%	6.0%	29.2%	60.2%
Disabled from WWII, degr.III	0.0%	11.8%	5.9%	23.5%	58.8%
Disabled, degr.II of related persons	19.5%	17.1%	7.3%	24.4%	31.7%

Source: Ministry of Social Protection, Family and Child

Other types of social assistance benefits are not targeted to the poorer quintiles either, and the public social protection expenditures (11.7% of GDP in 2006) don't always generate the expected impact. This situation limits the efficiency of poverty reduction efforts, and is a constraint for the implementation of reforms required for future economic development.

4. Poverty and Inequality Trends

Poverty is a very complex phenomenon, determined by the evolution of several factors. A poverty line is used to estimate poverty, which is a benchmark to explain various aspects of this phenomenon. In the Republic of Moldova the poverty measurement indicators are calculated based on the Household Budget Survey (HBS) undertaken by the National Bureau of Statistics. The HBS is a selective study that aims at determining under different aspects the population welfare by looking at income, expenditures, consumption, living conditions, and other indicators.

Essential changes have been operated to the HBS starting in 2006: the sampling framework changed, the instruments (questionnaires) for data collection improved, and a single data collection network was established for research in the social area. Changes operated to the 2006 HBS contributed to an improvement in the quality of data and to the alignment of the poverty measurement methodology to international standards, but the disadvantage of these changes is that **the 2006 data are not compatible with the data from previous years.**

Due to data incompatibility, poverty in 2006 will be analyzed independently of its evolution in previous years. Below is the evolution of poverty before 2005 and poverty trends in 2006, as shown in the data generated by the new generation of HBS implemented by the National Bureau of Statistics.

Poverty and inequality trends before 2005

There is a close relation between poverty and economic growth. Economic growth is a prerequisite for poverty reduction and improvement of living standards. Thus, Moldova's economic performance throughout 2000-2004 contributed to achieving an economic growth that had an impact on poverty reduction. Between 2000 and 2004, the poverty rate had reduced significantly and constantly, and by 2004 only 26% of the country's population was below the absolute poverty line. Although in 2005 the economic growth trend of the previous years was maintained, it didn't produce an impact on poverty reduction in the country, specifically in rural areas, where poverty rates increased. Hence, in 2005 the absolute poverty rate increased by 3 percentage points (p.p.), meaning that 29% of Moldova's population lived in absolute poverty line, and 16% lived in extreme poverty (see Table 3).

Table 3. Poverty indicators in 1998 – 2005^{5, 6}

Indicators and sources	2000	2001	2002	2003	2004	2005
<i>Absolute Poverty Line (MDL per adult equivalent per month)</i>	234.8	257.3	270.7	303.5	327.0	353.87
Poverty rate, %	67.8	54.6	40.4	29.0	26.5	29.1
Poverty gap, %	27.0	19.3	12.4	7.3	6.8	8.0
Poverty severity	13.7	9.1	5.2	2.7	2.5	3.2
<i>Extreme Poverty Line (MDL per adult equivalent per month)</i>	183.9	201.5	212.0	235.5	258.1	278.52
Extreme poverty rate, %	52.2	38.0	26.2	15.0	14.7	16.1
Extreme poverty gap	17.6	11.6	6.6	3.1	3.2	4.0
Extreme poverty severity	8.2	5.1	2.4	1.0	1.1	1.5
Gini coefficient by consumption expenditures per capita (weighted)	0.38	0.39	0.37	0.36	0.36	0.38
Distribution 90/10, mean consumption expenditures per equivalent ⁷	10.45	10.85	9.40	8.39	9.10	10.28

Source: Ministry of Economy and Trade, based on HBS data

Other poverty measurement indicators showed similar trends. In 2005, the extreme and absolute poverty gap amounted to 4% and 8%, respectively. This means that the poor have an average consumption deficit of MDL11 to reach the extreme poverty line and MDL28 to reach the absolute poverty line.

In 2005, the inequality level slightly increased in the Republic of Moldova. This trend is reflected in the evolution of the Gini coefficient (see Table 3), which measures the level of inequality in household consumption at country level. The higher this coefficient, the greater inequality is. Thus, inequality in terms of the population's consumption maintained a relatively high level (the Gini coefficient was 0.38). Causes of inequality's growth are related to the increase in the income gap between the rich and the poor, in particular due to a faster development of urban areas, as compared to rural.

The poverty profile in Moldova is characterized by major differences between urban and rural areas. In 2005, rural poverty showed an upsurge of approximately 4.8 percentage points, reaching 36%, which has largely determined poverty growth at national level. In 2005, the poverty risk⁸ for rural population was approximately 6 times higher than in large cities. However, poverty remained at the level of 2004 (see Figure 5) in small towns.

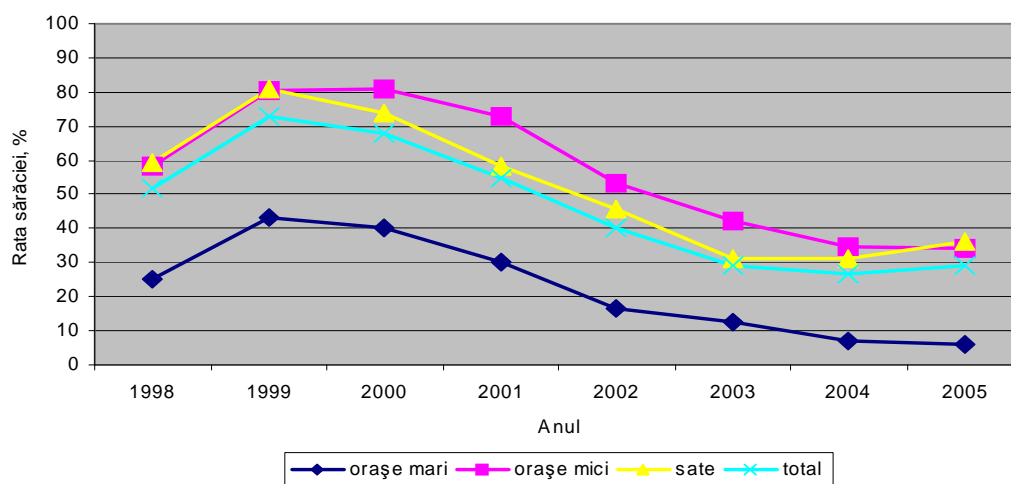
⁵ Numbers are weighted and are nationally representative.

⁶ Poverty lines are calculated per adult equivalent per month, unless otherwise noted.

⁷ Adjusted for Purchasing Power Parity. Values per capita per month.

⁸ Poverty risk is a relative concept, which indicates the probability of households/individuals with certain characteristics to fall under the poverty line.

Figure 5: Poverty by area of residence (1998 – 2005)⁹



(Poverty rate; Cities, towns, villages, total)

Source: Ministry of Economy and Trade, based on HBS data

In 2005, poverty risks were considered higher for big families, farmers, families with many children, and elderly. The level of education is another factor affecting household welfare. Individuals with primary education or incomplete secondary education are 7 times more likely to fall under poverty unlike people with higher education.

Poverty and inequality trends in 2006

2006 was a special year for Moldova, when the country's economy faced two economic shocks: increased prices for gas and introduction of restrictions on the export of alcoholic production. Certainly, these factors affected the population's wellbeing in that period. However, the full impact of these shocks cannot be assessed due to the incomparability of data and measures taken by the Government to alleviate these effects, such as compensation of expenditures for natural gas consumption.

According to statistical data, 30.2% of the population were under the absolute poverty line and 4.5% under the extreme poverty line in 2006 (see Table 4).

A rather low value can be noted for the extreme poverty rate, which proves that the problem of food poverty will no longer be relevant for the Republic of Moldova in the near future.

⁹ Numbers are weighted and are nationally representative.

Table 4. Poverty indicators in 2006^{10, 11}

<i>Extreme Poverty Line (MDL)</i>	<i>404.2</i>
Extreme poverty rate, %	4.5
Extreme poverty gap, %	1.0
Extreme poverty severity	0.4
<i>Absolute Poverty Line (MDL)</i>	<i>747.4</i>
Absolute poverty rate, %	30.2
Absolute poverty gap, %	7.9
Absolute poverty severity	3.0
Gini coefficient by consumption expenditures per capita (weighted)	0.315
Distribution 90/10, mean consumption expenditures per adult equivalent	7.01

Source: Ministry of Economy and Trade, based on HBS data

The difference between the absolute poverty line (MDL747.4) and the food poverty line (MDL404.2) is remarkable, and is considerably higher compared to previous years. This is explained by the change in the structure of household consumption in the 2006 HBS, as compared to the previous structure. Thus, food products have a lower share in the total household consumption, representing 46.3%.

In 2006, the poverty gap was 8% in relation to the absolute poverty line and 1% in relation to the extreme poverty line. This means that the monetary transfer needed by each poor person to get out of absolute poverty is MDL59 and approximately MDL4 for each person living in extreme poverty.

In 2006, the inequality of the consumption level overall for the population of Moldova, as measured by the Gini coefficient, was 0.315. While comparing the level of inequality in Moldova with the level of inequality in other countries, it is higher than in Ukraine, Bulgaria and Hungary, but lower than in the Russian Federation, Latvia, Lithuania, and Estonia.

Poverty profile

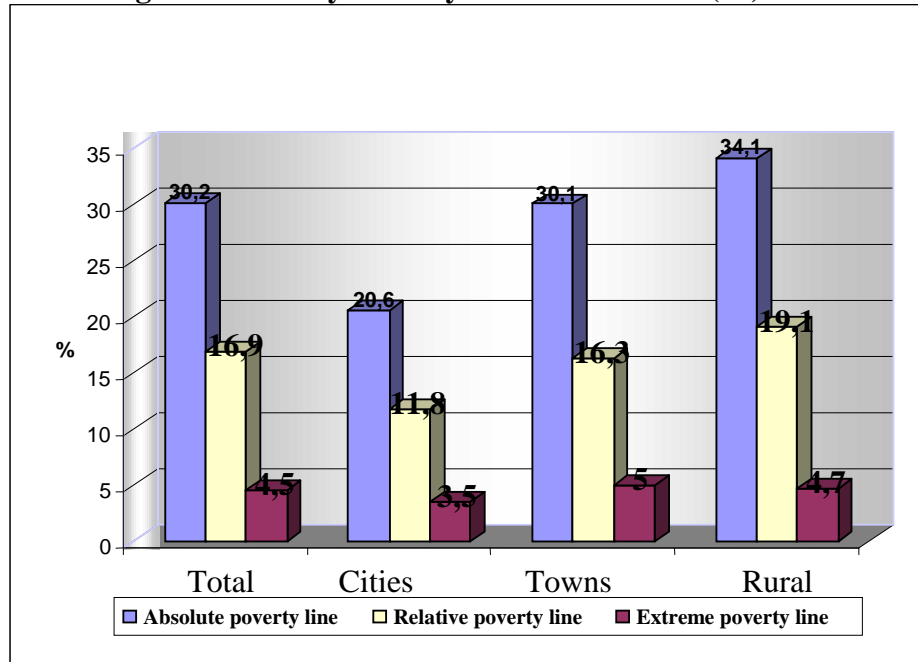
The area of residence is one of the factors with the strongest correlation to poverty. Rural population represents approximately 59% of the country's population and approximately 60% of all the poor live in village settlements.

The analysis of poverty rates by area of residence (see Figure 6) reflects the same overall profile of poverty as in the previous years, with significant differences between urban and rural areas. People living in cities still have the lowest risk of living in poverty, with a poverty rate of 20.6%. Poverty rates in rural areas are the highest (34.1%). Compared to large cities, absolute poverty in rural areas is by 13.5 p.p. higher, and compared to small towns – by 4 p.p. The high incidence of poverty in rural areas is due to low agricultural productivity and reduced employment opportunities for areas other than agriculture.

¹⁰ Poverty lines are calculated per adult equivalent per month.

¹¹ Numbers are weighted and are nationally representative.

Figure 6. Poverty rates by area of residence (%)



Source: Ministry of Economy and Trade, based on HBS data

Poverty level increases with the number of household members, from less numerous households to those with 5 and more members. The share of persons living in large households (5 and more members) of the total population is approximately 22%, while their share of the total of poor households is 34%. At the same time, the poverty risk also prevails in households with one person (29.6%), while their share in the total population is only 7%. The highest absolute poverty rates were found in households with 4 members – 28.4%, 5 members – 38.5%, and 6 or more members – 55.9%.

Poverty trends in relation to the number of children are the same as in the previous years. The poverty risk increases with a higher number of children in a family. Almost 67% of the total households are households with one child and those without children. These households are the least poor, while the most affected are households with 4 or more children, with an absolute poverty rate of 65.4%. Extreme poverty is also higher in this type of households, representing 14.8%, or by 10 p.p. higher than the country average.

Data analysis according to socio-economic groups shows that poverty incidence is the highest among agricultural workers (42.8%). The high poverty risk among farmers and agricultural workers is closely related to the development of this sector. Agriculture in Moldova continues to be defined as the sector with the lowest level of productivity and compensation for work. Furthermore, the significant dependence of the level of income on the weather conditions determines its instability and is a specific and additional risk factor for poor rural households.

Another category affected by a high poverty risk are pensioners. Their share in the total population is 25%, and their share in the total number of poor households is 35%, with a poverty rate of 41.8%.

Education is another factor influencing the poverty rate. The evolution of the poverty rate is inversely proportional to the level of education of the household head and are strongly correlated. A household headed by a person without primary education is almost 5 times more likely to live under the poverty line than the household headed by a faculty graduate.

The share of households headed by persons without primary education and illiterate of the total population is not high (2.3%), although these households have the highest poverty level – 55.2%. The majority of the poor (89%) is made of households headed by persons with general secondary and special education (52.1%) and incomplete secondary and primary education (37.4%). The poverty rate for this group of households in 2006 was 27%; respectively 45% in relation to the absolute poverty line.

Poverty analysis by gender and area of residence confirms that both women and men have the same poverty rate of 30%. However, the situation differs by area of residence. People living in rural areas, both women and men, have a poverty risk by 9 p.p. higher than those living in cities. This trend is common for persons aged under 59 years. However, the situation changes in the case of elderly people. The absolute poverty rate for the elderly living in urban areas is by 2.3 p.p. higher than for rural residents, and represents 39%. The possibility of the elderly living in rural areas to earn their own living from what they produce reduces their poverty risk.

II. SWOT ANALYSIS

Key objective: *Ensure a better quality of people's life by strengthening the foundation for a robust, sustainable and inclusive economic growth.*

Strengths:	Weaknesses:
<p>Maintain relative macroeconomic during profound reforms</p> <p>Relatively developed and stable banking sector</p> <p>Relatively cheap labour force in smaller towns and rural settlements</p> <p>Majority consensus on the European vector</p> <p>Customs duty free access to EU markets based on the GSP Plus system, to the countries of South-east Europe based on the CEFTA agreement, and to CIS countries based on free trade agreements</p> <p>Legal and fiscal frameworks conducive to investments</p> <p>Skilled human resources in certain sectors of economy</p> <p>Growing purchasing power of population and poverty reduction</p> <p>Opening the Giurgiulesti port and harnessing ensuing benefits</p> <p>Expanding the services sector</p> <p>Expanding the sector of information technologies and communications</p> <p>Cooperation between the Republic of Moldova and regional and international security structures</p>	<p>Skewed structure of production</p> <p>Relatively high cost of capital</p> <p>Growing deficit of skilled labour force, in particular due to outbound migration of manpower</p> <p>Utilization of energy-intensive, morally and physically outdated technologies</p> <p>Underdeveloped physical infrastructure</p> <p>Limited capacity of public administration</p> <p>Inefficient judiciary system and persevering corruption</p> <p>Administrative hurdles to businesses and attracting investments</p> <p>Poor targeting of social assistance</p> <p>Negative demographic trends</p> <p>Excessive social and economic gap between the municipalities of Chisinau and Balti, and other localities</p> <p>Some categories of natural resources are poorly explored and there is unused space</p> <p>Adverse impact of development on environment</p>
Opportunities:	Threats:
<p>Sustainable economic growth in trade partner countries</p> <p>Geographic proximity to EU and major trade markets</p> <p>Clear-cut prospects for better access to the EU markets based on ATP (autonomous trade preferences)</p>	<p>Delayed regulation of the Transnistrian conflict</p> <p>Reliance of the national economy on external factors</p> <p>Increasing prices for energy resources</p> <p>Protectionist measures on foreign markets</p>

Penetration of foreign banks on the domestic banking markets	Unfavorable image of the Republic of Moldova worldwide, and limited global visibility
Availability of international financial organizations and donor countries to provide financial and technical assistance for the country's development	

1. Strengths

Maintain macroeconomic stability during profound reforms. The performance of the economy made it possible to overcome a period of ongoing economic decline and poverty growth over the last seven years and reach economic growth and improvement in the living standards. Thus, the cumulative growth of GDP has been 49.5% during 2000-2006. The national currency exchange rate stayed stable, and the National Bank reserves grew significantly. The robust economic growth and prudent foreign lending limits led to a constant growth in public revenues and a reduction of foreign debt as a share of GDP from 60.4% in 2000 down to 21% in 2006.

Relatively developed and stable banking sector. Stability indicators of the financial sector are quite sustainable and, by and large, Moldova is meeting the criteria of the Basel Committee for an efficient banking supervision. Generally, the banking sector is characterized by growing revenues, capitalization and liquidity, as well as by few non-performing assets. In particular, between 2000 and 2006 the banking system's assets grew 5 times¹², the credits provided by commercial banks to the economy doubled in relation to GDP, and the share of non-performing credits out of the total of credits provided by commercial banks in the Republic of Moldova reduced 4.7 times. Moreover, the growing interest on the part of foreign banks to invest in the banking sector of the Republic of Moldova is improving the internal and external credibility towards this sector.

Relatively cheap labour force in smaller towns and rural settlements. Labour force is relatively cheap in small towns and rural communities of the Republic of Moldova when compared to other countries in the region. Thus, the average monthly salary in Moldova was MDL1,700 (USD130) in 2006, while in Romania the average salary was over USD350 according to the National Institute of Statistics. The average monthly salary in Ukraine's public sector is approximately USD260. Also, the average salary in Baltic countries was slightly over USD650, being 5 times the one in Moldova. The relatively low cost of manpower is one of the incentives to attract investments and promote trade during a given period. However, one should take into account that our comparative advantage of lower costs will erode more and more as the time passes by, and the technological gap between Moldova and developed countries might widen.

Majority consensus on the European vector. There has been political and social consensus in the recent years regarding the country's domestic and foreign policy of European integration. According to the public opinion barometer conducted in November 2006 by the Institute of Public Policies, should there be a referendum on joining the European Union, as many as 68% of people would vote for it.

Customs duty free access to EU markets based on the GSP plus system, to the countries of South-Eastern Europe based on the CEFTA agreement, and to CIS countries based on free trade agreements. Moldova's access to the Generalized System of Preferences (GSP

¹² January 1, 2007 versus January 1, 2001.

Plus) as of January 1, 2006 allows free access to the EU markets for about 9,200 tariff items out of the 10,200 items existing in the country. Therefore, 2,000 items are made available to all third countries based on the EU customs tariff, and 7,200 items based on the GSP Plus, that only 15 countries benefit from. Getting the GSP Plus is a considerable improvement in the trade arrangements with the EU, thus making it possible to increase the exports to the EU markets by 20% in 2006. Moldova's adherence to the CEFTA (European Community Free Trade Agreement) is an excellent framework to prepare for the joining of EU and adherence to European values, by opening up economies and by developing regional trades. Similarly, the signing of free trade agreements with the CIS member states provides considerable opportunities to widen the spectrum and import markets for the domestic products.

Legal and fiscal framework conducive to investments. The legal and fiscal frameworks in the Republic of Moldova are not creating obstacles for investments. Once the Law No. 81-XV of March 18, 2004 on Business Investments was adopted in 2004, there were equal opportunities set up for local and foreign investors alike. Moreover, the rate of the corporate income tax was brought from 32% in 1998 down to 15% in 2006, and the tax legislation provides for incentives promoting investments in various areas, such as: information technologies, import of production equipment for operating SMEs, etc. Furthermore, three components of the medium-term fiscal reform were approved in 2007, which imply: fiscal amnesty (which is already completed), capital legalization, and enforcement of the "0"% rate for reinvested income of economic entities starting in 2008.

Skilled human resources in certain sectors of economy. By and large, considering the income levels reported by the population of the Republic of Moldova, the education they benefit from is quite substantial. The gross enrolment rates are 97% and 93% for the primary and lower secondary education, respectively. Although the education system in the Republic of Moldova is not fully meeting the demands of domestic and foreign markets, the country is benefiting from skilled and trained human resources in certain areas (specifically, in information technologies and communications, banking and financial services, health care etc.). Moreover, the majority of the country's population speaks two languages and are prone to easily assimilating foreign languages, providing the Republic of Moldova with additional opportunities for education, employment and retraining both inside and outside the country.

Growing purchasing power of population and poverty reduction. The purchasing power of population grew up in recent years. This is reflected in the increase of household consumption, particularly due to the inflow of remittances in Moldova, which accounted for 35% of GDP in 2006. At the same time, there was an increase in salaries, and the annual indexation of pensions made it possible to avoid the adverse impact of inflation. Furthermore, the number of population below the absolute poverty line dropped by 38.7 p.p. during 2000-2005. There was also a reduction in the number of people below the poverty food line by some 36.1 p.p.. This allowed to cut down on the social exclusion¹³ and scale up the access of population to health care and education services, thus contributing to consolidating the human development in the Republic of Moldova.

Opening the Giurgiulesti port and harnessing ensuing benefits. The signing of an investment agreement for the Free International Port "Giurgiulesti" provides room for harnessing certain actions not taken previously, such as the construction and use of petroleum terminal objects, construction of a port for passengers and handling of goods (including a cereals terminal) on the Danube River. Additionally, the Government is looking into the

¹³ Social status that is peripheral, isolating individuals or groups, with limited drastic access to social living conditions: economic, residential, occupational, educational and learning-wise. It is shown through a deficit of self-affirmation opportunities and participation in the community's life.

possibility to connect the railway lines on the territory of the International Port with Moldova's railway. From an economic point of view, this will ensure for Moldovan economic entities and foreign entrepreneurs a safe and advantageous transportation through the International Port. Overall, the activities carried out in the Giurgiulesti port will open up space for investments both on this territory and in Moldova generally.

Expanding the services sector. The competitiveness of companies targeting domestic markets and those exporting goods on international markets depends on the availability, cost and quality of services on the domestic markets. During 2000-2006, the services sector showed an expansion, increasing as a share of GDP from 48.2% up to 56%, including the constructions sector from 2.7% up to 3.9%, and the transport and communications sector from 9.5% up to 12.1%. The transport services have been characterized by an increased traffick of goods and passengers by 2.4 and 1.5 times, respectively. The financial services sector has been marked in the last six years by an expansion of the supply to population in general and to economic entities in particular (expansion of electronic payments via Internet, development of factoring, establishment of 33 insurance companies, over 100 leasing companies, private pension funds, etc.). Hence, the sustained growth in the share of services within the GDP, alongside the quality of those, will facilitate the operation of enterprises and will favour economic growth.

Expanding the sector of information technologies and communications. Although at an embryonic stage of its development, the information technologies and communications sector reported a growth 6 times higher than the one of GDP starting in 2000. During 2000-2006, the number of fixed telephony lines and mobile telephony subscribers per 100 population increased approximately 1.7 and 6 times, respectively, and the number of personal computers and Internet users per 100 population increased 10 times. The expansion of the IT and communications sector will provide for an accelerated flow of information, assimilation of new technologies, which in turn will have an impact on Moldova's competitiveness.

Cooperation between the Republic of Moldova and regional and international security structures. The advancement of regional mechanisms for conciliation and development of cross-country relations, such as the Stability Pact for South-east Europe and the NATO Partnership for Peace, is the best way for the Republic of Moldova to join to the international efforts meant to create a single security system in the Euro-Atlantic region and consolidate stability in the world. In order to strengthen the border services of Moldova and Ukraine and consolidate the Transnistrian conflict resolution efforts, the EUBAM mission was established. At regional level, an opportunity would be to share information through the Regional Center to Fight Cross-Border Crimes (SECI Centre), which has national contact units in the member states, with a National Virtual Centre SECI/GUAM in the Republic of Moldova to fight terrorism, organized crime, illegal drug smuggling, and other kinds of serious violations.

2. Weaknesses

Skewed structure of production. The economy of the Republic of Moldova did not manage to ensure a balanced operation of all sectors of the economy during transition. It was not possible to revitalize industry, improve the performance of agriculture and set up a sustainable tertiary sector. As a result, the spectrum of products that the Republic of Moldova is providing is very homogeneous and is not meeting the requirements imposed by foreign trade markets. Thus, because of the low competitiveness of Moldovan products, the export geography of the Republic of Moldova is poorly diversified, with about half of the exports heading for CIS markets. Although another half is heading for EU countries and South-

eastern Europe, the range of exported goods is poorly diversified, mostly made up of farming products, alcoholic beverages, and textiles.

Relatively high cost of capital. Although justified by the high inflation over the last couple of years, the high interest rates for loans (18% for loans in national currency and 11% for loans in USD) limit the access of companies, in particular SMEs, to these financial resources.

Growing deficit of skilled labour force, in particular due to outbound migration of manpower. The migration of labour force, which mostly scaled up during the second decade of transition, contributed to the outbound flow of skilled manpower. According to the annual labour force survey conducted by the NBS, approximately 330 thousand citizens of the Republic of Moldova emigrated abroad in 2006. According to some studies¹⁴, 25.7% of emigrants have higher education, 51% are graduates of vocational training institutions, and 23.2% have secondary education. The emigration of a significant part of people with vocational education shows an increased demand for emigrants with certain qualifications and professional skills. Although the unemployment rate is on a downward sloping trend in the Republic of Moldova, the growing number of unemployed youth raises concerns.

Utilization of energy-intensive, morally and physically outdated technologies. Because of the use of equipment and gear with substantial physical and moral wear-out, the energy consumption is intensive in the Republic of Moldova, totalling about 3 times the respective indicators reported in developed countries. Moreover, the heavy reliance of the economy (up to 96%) on imported energy resources and the up-surging price for those is an additional burden for the production sector of the country.

Underdeveloped physical infrastructure. In order to attract investments, it is required that an adequate physical infrastructure be put in place. This primarily refers to roads. 75% of national roads and 79% of local roads are currently dilapidated and in poor condition in the Republic of Moldova. At the same time, merely 34% and 30% of the households have water supply and sewerage, respectively; whereas the social infrastructure is to a great extent outdated and doesn't meet the current demands. This results in high maintenance costs and waste of resources to the detriment of the needs to develop the education, health care and social protection sectors for the population.

Limited capacity of public administration. The existing capacity of public administration is not adequate to provide good-quality public services. Despite quite a few people working in this sector, the low salaries contributed to low motivation and poor productivity. These, as well as the inadequate outlining of attributions and competencies of central and local public administration authorities, and the insufficient financial and economic independence of those, undermine the capacity of public administration to render good-quality public services.

Inefficient judiciary system and persevering corruption. Despite the efforts made to reform the justice system in the Republic of Moldova, it is characterized by judges having limited access to the tools needed to take well-poised decisions, to international law sources, as well as by the poor status of courts that would secure the access of the public to court rooms and trial procedures. Also, a problem characteristic to the current judicial system relates to courts, which examine an excessive amount of cases, also because of a limited use of alternative methods for litigations, such as mediation and probation. These issues, coupled with a large number of judge decisions left unexecuted, appeals to the European Court for Human Rights, and general appeals to justice (while the number of judges is constant over time) are another proof of the judiciary system's inefficiency. Moreover, the limited transparency of relations in certain

¹⁴ Gencea B., Gudumac I. Migration of Labor Force and Remittances in the Republic of Moldova. Moldova Microfinance Alliance and the Soros Foundation, 2004.

sectors, specifically in the health care system and education, result in corruption still being one of the most substantial hurdles to mount for the accomplishment of economic growth and poverty reduction objectives. Even if the Corruption Perception Index done by Transparency International improved, reaching 3.2 compared to 2.6 in 2000, Moldova continues to stay in the second part of the ranking, which includes 163 countries.

Administrative hurdles to business and attracting investments. Despite developing a legislative framework conducive to attracting investments and promoting regulation framework reforms, there are still administrative obstacles hindering the placement of investments in the Republic of Moldova. In this context, as part of the business regulation reform initiated by the Government in 2005, a number of normative acts issued by central authorities, which are burdensome for the operation of economic entities, were found. The reform process continues, and only once it is completed and the Regulatory Impact Assessment of proposed normative acts is fully introduced, these obstacles could be considered reduced.

Poor targeting of social assistance. Social assistance is the way to support the population to avoid poverty and improve its living standards. Although the benefits targeting families with children are reckoned to be one of the most important and efficient social assistance programs, the impact of those payments on the wellbeing of families with children is unsubstantial, because of the small amount payable. As to the nominal compensations paid on a category basis, which represented approximately 38% of social assistance and insurance spending in 2006, these have a number of drawbacks, including: i) nominal compensations are not always targeting the poorest groups of population; ii) the small amounts of nominal compensations don't provide solutions for beneficiaries' problems; iii) impossibility to evaluate the number of cash payments entering one or another family (there could be more two or more individuals within a family entitled to several compensations), thus posing an error threat to the system – over-inclusion and exclusion.

Negative demographic trends. At the beginning of 2007, there were 491 thousand people of 60 years and above in Moldova, two thirds of them located in rural areas. Out of the total number of those who are 60 years and above, every fourth person is aged between 60-64 years, and 12.8% of the total form the age group 80+. Furthermore, during the past 17 years there has been an increase in the population's ageing coefficient, from 12.8% in 1990 up to 13.6% in 2005 and 13.7% at the beginning of 2007. These numbers show a continuous process of ageing, which is more advanced in rural areas (15.2%). This demographic trend causes serious problems, as all the countries that go through population ageing and demographic decline face several issues, among which: adequate retirement age and health care for elderly, ratio of people working and those of retirement age, participation on the labor market.

Social and economic gap between the municipalities of Chisinau and Balti, and other communities. During the transition period, there was a sharp increase in the contrast between urban and rural settlements. The country's development is still polarized, the most developed in all terms being the municipalities of Chisinau and Balti. Because of certain more vulnerable communities, there is a considerable gap across regions including revenues, labour force employment, access to health care and education services, physical and social infrastructure. Thus, the municipality of Chisinau, which concentrates 22% of the country's population, had in 2006 half of the industrial production, 56% of the retail sales, and 58% of investments in fixed capital. The municipality of Balti, with a population of 4% of the country's total, generates 14% of the industrial production, 9% of retail sales, and accumulates 6% of investments in fixed capital. Regarding the pay level, the average salary

in the municipality of Chisinau exceed by approximately 23% the average salary in the country in 2006, and in Balti – by approximately 9%. At the same time, in the districts of Soldanesti, Stefan Voda and Cantemir, the average monthly salary was slightly under 60% of the average monthly salary in the economy.

Certain categories of natural resources are poorly explored and there is unused space. Moldova is holding a rich land patrimony and non-metal mineral reserves that are not used to full capacity. Although land areas sown to agriculture and forests may not be purchased by foreign citizens, there is a legal framework in place to ensure the long-term leasing of those, thus facilitating their use to full capacity.

Adverse impact of development on environment. Even if the impact of economy on the environment is smaller, because of the economic crisis during transition and deindustrialization of the country, the environmental status of the country could not be described as a favourable one. The quality of ground waters, drinking water and facilities for the biologic treatment of residual waters and sewerage systems is not satisfactory. Also, there are more emissions to the atmosphere from mobile sources, whereas the soils deteriorate due to intensive use of soils and utilization of obsolete farming techniques. As the climate change impact grows, the frequency and severity of natural disasters, such as droughts and hail, landslides and soil erosion may increase. The worsening of the environmental situation in the Republic of Moldova has a negative impact on both the health status of people and the agricultural production.

3. Opportunities

Sustainable economic growth in trade partner countries. The Republic of Moldova and other countries are significantly relying on the economic development of partner countries. In 2006, the main trade partner countries in the region had GDP growth: Belarus – 13%, Romania – 7.7%, Ukraine – 7%, Russia – 6.9%. In the main EU trade partner countries (Germany, Italy, Austria, Hungary) economic growth varied between 1 and 3.8%, being smaller than in Moldova's trade partners countries in the region. Nonetheless, even if characterized by small numbers, the growth in developed European countries is sustainable and inclusive. The economic growth in partner countries, which is preceded by growth in the purchasing power and by prodigal development of various branches of economy, will make sure that there is a need for imported raw material and products, which could be supplied by the Republic of Moldova.

Geographic proximity to EU and major trade markets. The vicinity with EU – an important political pole and the biggest trade market in the world, is providing the Republic of Moldova with important advantages. Hence, within the framework of EU expansion to the borders of the Republic of Moldova, there is a possibility to request an EU-associated member state status, and become a plenipotentiary EU member state in the long run. By bordering the EU, the Republic of Moldova benefited from a new system, GSP Plus, which allows the access, at a zero per cent rate customs duty, for about 88% of Moldovan exports to the EU. Moreover, Moldova could benefit from the ATP (autonomous trade preferences) agreement, greater involvement of the EU in sorting out the Transnistrian conflict, an easier visa regime for the citizens of the Republic of Moldova travelling to the EU, as well as assistance provided within the framework of the New European Neighbourhood and Partnership Instrument. Besides, once Romania and Bulgaria joined the the EU, these countries accepted EU norms and standards that are less attractive to investors. The cost of labor force in those countries is growing up at a sustainable pace and is exceeding way off the cost of manpower in the Republic of Moldova. This situation is favourable to attracting investors from those countries to Moldova, specifically making allowance for the geographic

proximity and cultural and language similarities with those countries. At the same time, Moldova is geographically close to Russia, too – one of the most important emerging markets. Any eventual investments made into physical infrastructure, improvement of product competitiveness and better image of the country, could provide the Republic of Moldova with opportunities to turn into a “regional hub” between East and West.

Clear-cut prospects for better access to the EU markets based on ATP. Moldova has a big opportunity to get better access to the EU markets based on ATP (autonomous trade preferences) in 2008. The signing of the ATP agreement would augment the trade advantages that the Republic of Moldova is benefiting from based on the GSP Plus system, and would scale up the free trade facilities over some important products for the economy of Moldova, such as alcoholic beverages, sugar, etc.

Penetration of foreign banks on the domestic banking market. The entrance of several foreign banks on the banking market of the Republic of Moldova (such as *Banco Veneto* of Italy in 2006, *Raiffeisen* of Austria in 2006, *Societe Generale* of France in 2007) will enhance competitiveness within the given sector and will generate a drop in the cost of capital. Therefore, the presence of international banks on the domestic market minimizes the potential risks for foreign investors and stimulates direct foreign investments.

Availability of international financial organizations and donor countries to provide financial and technical assistance for the country’s development. The decision taken by the Consultative Group for the Republic of Moldova to provide financial assistance worth USD1.2 billion for the next three years is an opportunity to support the country’s balance of payments and make investments in physical and social infrastructure, run public administration reforms and regulatory framework reforms, as well as prevent and fight corruption.

4. Threats

Delayed regulation of the Transnistrian conflict. The unsolved Transnistrian conflict is an obstacle to a sustainable and smooth socio-economic and socio-political development of the Republic of Moldova. This being said, smuggling and illegal trafficking are the main factors that influence economic growth and, as a result, the social sector. The barriers to the free movement of citizens, goods and services, as well as the administrative bans hinder trade development between the two banks of Nistru river. Another threat is the serious problem with human rights and operation of democratic institutions in the Transnistrian region. The violation of fundamental human rights by the region’s administration affects not only those 500.000 people living in the region, but also the citizens living on the right bank and the foreign citizens. In terms of security, the main threat is the foreign military presence on the territory of Moldova (left bank) that undermines Moldova’s neutrality status stipulated in the Constitution, as well as the existence of paramilitary groups in the region.

Reliance of national economy on external factors. The economic performance in 2006, going down due to the ban imposed by the Russian Federation on the imports of alcoholic beverages and meat, coupled with skyrocketing prices for energy resources, proved the negative consequences of a country’s reliance on external factors. Any shift in the attitude towards the Republic of Moldova on the side of partner countries may result in severe impacts on the economic and social development of the country.

Increasing prices for energy resources. The recent consecutive increases in prices for imported energy resources have had a serious impact on the economy and the country’s population. The increase in the purchase prices contributed directly to a higher cost of electricity, natural gas and oil products purchased by public institutions at all levels (increasing budget spending by 0.5% of GDP). The increased prices for energy and lack of an

improved social assistance system significantly increased public funding needs to support the system. Any eventual rise in prices of imported energy resources would be an extraordinary blow, both to domestic producers and to the entire population of the country.

Protectionist measures existing on foreign markets. Although the foreign markets to which the Republic of Moldova is exporting its products are liberalized, frequently there are certain protectionist measures imposed to protect the domestic producers. This is relevant specifically to Ukraine and Russia, which are not members of the WTO, and tend to impose certain protectionist measures affecting the foreign trade of the Republic of Moldova.

Unfavorable image of the Republic of Moldova worldwide, and limited global visibility. Being a small-size country, which declared its independence less than two decades ago, the Republic of Moldova is not well-known worldwide. On top of this, globally, information about Moldova has been dominated by negative news and labelling pertinent to certain issues faced by the country, such as poverty, corruption, Transnistrian conflict, and human trafficking. This information has not been consistently offset with positive images of the country. The unfavorable image of Moldova prevents the access of foreign investors to the local market, and sometimes contributes to a discriminatory treatment of Moldovan citizens staying abroad.

5. Conclusions

The social, economic, SWOT, and constraints analyses reveal the existence of some internal and external factors that favour/threaten the development of the country. Hence, the country's development over the last seven years can be characterized by the resumption of economic growth, maintenance of macroeconomic stability, significant reduction of poverty, and initiation of a series of structural reforms in areas of strategic importance. However, these achievements have been attained on the background of a distorted production structure (based on such sectors as agriculture and industry, currently characterized by low productivity and use of outdated and energy-intensive technologies), a low level of internal and external investments, worsening of the trade balance deficit, and massive outflow of qualified labor force.

Generally, Moldova can be characterized as a country with a small sales market, limited capacity for manufacturing competitive products, extremely dependent on several partner countries with respect to both exports and imports, that now has the biggest share in the supply on the domestic market. In addition, the existence of a legal and fiscal framework favourable for the development of private sector and attraction of investments and qualified human potential in some economic areas are not enough if there are gaps in the operation of the public administration and judiciary system.

The positive development aspects in Moldova are conditioned by a combined impact of efforts made by the Government during the analyzed period, donors' assistance and increased purchasing power of population. These allowed to avoid great social disturbances, but were not sufficient to change the structure of economy and the paradigm of economic growth.

In this context, it will be necessary to ensure during 2008-2011 a development track, fully based on the existing peculiarities of the country, efficiently turn to benefit the entire range of indisputable opportunities, and prevent the appearance of any threats. Thus, the removal of drawbacks and achievement of the main objectives of the Republic of Moldova will rely on the capitalization of all existing opportunities, especially those related to the country's proximity to the EU and availability of international financial organizations to provide mid-term financial assistance to the country. Also, it is important to use the country's strengths in order to reduce the exposure to potential risks, particularly those related to the intensification

of state's vulnerability, continuation of labour force outflow, increasing poverty and population inequality.

III. STRATEGIC VISION

1. Overview of the Strategic Vision

The National Development Strategy starts from the *basic objective* derived from the Constitution of the Republic of Moldova and namely, *establishment of adequate conditions for improving the quality of life*. Moreover, the improvement of the quality of life is a polyvalent factor, consisting of a number of closely related dimensions. At a personal level, this means a healthy and educated person, able to exercise his/her fundamental rights and liberties, positive about a decent old age – a person who wishes that he/she and his/her children live in the Republic of Moldova. At country level, this implies a deep transformation and modernization of the country and an effective qualification for accession to the EU.

In the context of the above-mentioned, the Government will make over medium term efforts to recover by 2011 at least 7 p.p. of the income gap in relation to the EU average¹⁵ and reduce the absolute poverty rate down to 24%¹⁶. In the long run, the Government will make efforts to recover by 2015 at least 12 p.p. of the income gap in relation to the EU average and reduce the absolute poverty rate down to 20%.

In the long run, the Strategy aims at changing the Republic of Moldova into:

- a) a reintegrated state that enjoys multilateral security guarantees (integrated into the European security architecture);
- b) a state where the political and election processes are carried out in accordance with the democratic procedures, and where the right to freedom of expression is enforced and accepted by all political forces;
- c) a state that by its modern judiciary system ensures all citizens' equality before the law, whereas corruption is considerably reduced and cannot endanger the development and modernization of the country;
- d) a country where economic growth ensures increased revenues for all social strata and promotes a productive contribution of vulnerable groups to the economic development of the country;
- e) a country free of poverty and vices characteristic to poor societies;
- f) a state that creates conditions for the establishment and attraction of international competitive companies that find niches on the global market, firstly because of the quality of their products;
- g) a country that shows a quick gap recovery in technological development compared to European countries;
- h) a country where the national economy is effectively integrated in the regional economic processes by modern and safe transport arteries;

¹⁵ Estimates were based on the analysis of the GDP per capita to PPP. The simulation showed that a reduction of the income gap in relation to the EU average can be attained by 2011 at a 6% annual growth rate of GDP.

¹⁶ While defining targets for poverty reduction, the relationship between economic growth and poverty reduction was taken into consideration, with a value of -1.4 of the poverty elasticity to economic growth, which is the regional average and is relevant in the context of the Republic of Moldova. Although at a GDP growth rate of 5% the simulations showed that the poverty rate may reach almost 21% by 2011, the target was adjusted by taking into consideration the non-linear correlation between economic growth and poverty reduction.

- i) a state that guarantees qualitative education, health care and social services for all citizens;
- j) a state where the education system ensures the employment of all young people through services adjusted to present-day labour force requirements;
- k) a state where the social insurance system is favourable for the demographic process (secured birth and old age);
- l) a country where economic growth is a process that covers all regions and communities;
- m) a country where the quality of life in rural areas comes close to that in urban areas, while also maintaining the cultural values and traditions;
- n) a country where the model of social and economic development does not endanger nature and environment and that contributes to the preservation of national and cross-border ecosystems;
- o) a country, whose international image improves dynamically and that turns into a welcomed member of the European family.

2. Millennium Development Goals on the Medium- and Long-Term Agenda of the Government

In 2000, the Republic of Moldova along with other 191 countries of the world committed to achieving the Millennium Development Goals (MDGs) by 2015. The achievement of these goals is on the medium- and long-term agenda promoted by the Government through the National Development Strategy. The first adjustment of MDGs to the national context was done in 2004 and resulted in a number of specific targets and indicators. In the following years it was decided that some targets and indicators needed adjustment to the current situation. This is also relevant because of the evolution of MDG indicators over the last years and the results of 2006 intermediary target's accomplishment. The Government will continue to implement the MDG agenda, but to ensure the relevance of the established agenda and its full integration with national policies, the MDG targets and indicators underwent more rigorous adjustment to the specific nature of the country's development, as compared to the initial stage of adjustment.

The MDG targets for 2010 and 2015, revised under a process of consultations both with central public authorities and with a number of national and international organizations, which was conducted in parallel with the Strategy's participatory process, are presented below. The baseline year for establishing the medium- and long-term targets will be the same as in the initial MDG report (2002), except for cases when the estimation methodology was recently modified for some indicators:

Goal 1. Eradicate extreme poverty and hunger¹⁷

- Reduce the proportion of people whose consumption is under \$4.3 a day/person (in PPP terms) from 34.5% in 2006 down to 29% in 2010 and 23% in 2015.

¹⁷ The baseline year for establishing targets under this goal is 2006. This transition is inevitable because the NBS modified the HBS sample this year for the estimation of absolute and extreme poverty rates, and the numbers for 2006 are not comparable to previous years. If 2002 stayed as the baseline years, the series of data calculated according to the previous methodology would have stopped in 2005. Also, to avoid establishing different baseline years for indicators under this goal, for the third indicator "proportion of people whose consumption is under \$4.3 a day/person (in PPP terms)", the estimation of which was done for the first time in 2007, 2006 will also be taken as the baseline year.

- Reduce the proportion of people under the absolute poverty line from 30.2% in 2006 down to 25% in 2010 and 20% in 2015.
- Reduce the proportion of people under the extreme poverty line from 4.5% in 2006 down to 4% in 2010 and 3.5% in 2015.

Goal 2. Achieve universal access to general secondary education

- Ensure opportunities for all children to attend general secondary education. Increase the gross enrollment rate for general secondary education from 94.1% in 2002 up to 95% in 2010 and 98% in 2015.
- Maintain the literacy rate for the 15-24 year-old population at the level of 99.5%.
- Increase the enrollment rate for pre-school programs for 3-6 year-old children from 41.3% in 2002 up to 75% in 2010 and 78% in 2015, and for 6-7 year-old children from 66.5% in 2002 up to 95% in 2010 and 98% in 2015, as well as reduce by less than 5% the discrepancies between rural and urban areas, between disadvantaged and middle-income groups.

Goal 3. Promote gender equality and empower women¹⁸

- Increase women's representation in decisionmaking positions. Increase women's representation at the decisionmaking level from 26.5% in local councils in 2007 up to 40% in 2015, from 13.2% in raional councils in 2007 up to 25% in 2015, from 18% women-mayors in 2007 up to 25% in 2015, and from 22% women-Parliament members in 2005 up to 30% in 2015.
- Reduce gender inequality in employment. Reduce gender inequality on the labor market by reducing the discrepancy between salaries of women and men by at least 10% until 2015 (women's average salary representing 68.1% of men's salary in 2006).

Goal 4. Reduce child mortality¹⁹

- Reduce infant mortality from 18.5 (per 1,000 live births) in 2006 down to 16.3 in 2010 and 13.2 in 2015.
- Reduce the under-5 mortality rate from 20.7 (per 1,000 live births) in 2006 down to 18.6 in 2010 and 15.3 in 2015.
- Maintain the proportion of under-2 children vaccinated against measles at least at 96% by 2010 and 2015.

Goal 5. Improve maternal health

- Reduce the maternal mortality rate from 28.0 (per 100 thousand live births) in 2006 down to 15.5 in 2010 and 13.3 in 2015.

¹⁸ The baseline year for establishing targets under this goal is 2006. This year, for the first time, quantifiable targets on gender equality were set in the context of MDG. To this effect, the data of the latest elections were used, which reflect the current gender situation in Moldova. At the same time, in relation to the difference between the salaries of men and women, the most recent data for this indicator are in place only for 2006.

¹⁹ The baseline year for establishing targets under this goal is 2006. This transition is necessary because of the decision of the Ministry of Health to apply a new methodology for child mortality estimation, recommended by the WHO and established as an objective in the Moldova-EU Action Plan. Hence, starting with 2006, a live birth will be defined as a birth after 22 complete weeks of pregnancy and a child weight above 500 grams. Previously, this indicator was estimated based on a birth considered live after the 30th complete week of pregnancy and a child weight above 1,000 grams.

- Maintain the number of births assisted by qualified medical staff during 2010 and 2015 at 99%.

Goal 6. Combat HIV/AIDS, tuberculosis and other diseases

- Stabilize the spread of HIV/AIDS infection by 2015. Reduce HIV/AIDS incidence per 100,000 population from 10 cases in 2006 down to 9.6 by 2010 and 8 by 2015.
- Reduce HIV/AIDS incidence per 100 thousand population from 13.3 cases in 2006 down to 11.2 by 2010 and 11 by 2015 in the 15-24-year age group.
- Have halted by 2015 and begun to reduce tuberculosis. Reduce the rate of mortality associated with tuberculosis from 16.0 (per 100,000 population) in 2002 down to 15.0 in 2010 and 10.0 in 2015.

Goal 7. Ensure environmental sustainability

- Integrate the principles of sustainable development into country policies and programs and reduce degradation of natural resources. Increase afforestation from 10.3 % in 2002 up to 12.1% in 2010 and 13.2% in 2015.
- Increase the share of protected areas to preserve biological diversity from 1.96% in 2002 up to 4.65% in 2010 and 4.65% in 2015.
- Increase the share of people with permanent access to safe water sources from 38.5% in 2002 up to 59% in 2010 and 65% in 2015.
- Halve the number of people without access to improved sewage and sanitation systems. Increase the share of people with permanent access to safe water sources from 31.3% in 2002 up to 50.3% in 2010 and 65% in 2015. Increase the number of population with access to sanitation systems from 41.7% in 2002 up to 51.3% in 2010 and 71.8% in 2015.

Goal 8. Develop a global partnership for development

- Further develop a transparent, predictable and non-discriminatory trade and financial system based on rules through promoting exports and attracting investments.
- Settle the issues of land lock of the Republic of Moldova through upgrading the transport and customs infrastructure.
- Monitor the external debt issue.
- Develop and implement youth strategies.
- Ensure access of population to major drugs.
- Build an information society.

3. National Medium-Term Priorities as a Way to Meet the Long-Term Vision

It is necessary to meet the MDG targets and indicators, but not sufficient to achieve the long-term vision. The achievement of MDGs and proposed long-term objectives can be accomplished by consolidating the foundation for a solid, sustainable, and inclusive economic growth. Starting with an analysis of the present growth model, the enhancement of local economic competitiveness and, respectively, its role in satisfying the domestic and external demand stays as a main task on the Government's agenda. At the same time, to ensure an inclusive nature of the growth it is necessary to eliminate the regional disparities by

promoting a development that would stimulate the creation of well-paid jobs countrywide, thus raising the incomes of the residents and offering an alternative for emigrants.

The identification of priorities is based on the analysis of socio-economic factors, SWOT analysis, and recognition of the fact that the financial resources, compared to the multitude of needs and opportunities, are scarce; so a high level of their concentration is needed.

In this respect, the Strategy proposes five national mid-term priorities in order to achieve general objectives:

- Strengthen democracy based on the rule of law and respect for human rights principles;
- Settle the Transnistrian conflict and re-integrate the country;
- Raise the national economy's competitiveness;
- Develop human resources, rise the employment level, and promote social inclusion²⁰;
- Regional development.

Ensuring macroeconomic stability and consolidating the capacity of local and central public administration are prerequisites for achieving the five established priorities.

The prerequisites and national priorities identified in the Strategy cannot be approached separately – they are correlated and complement each other. Hence, good-quality human resources contribute to an increase in competitiveness and vice versa. Fighting corruption affects positively both the business environment and the quality of education. The separation by areas aims at rationally organizing the strategy paper, as well as simplifying the implementation, monitoring, and evaluation, and does not represent an essential division. The identified measures will be jointly implemented, and the achievement of an objective will contribute to the achievement of others.

²⁰ Ensure access of vulnerable groups to jobs that can guarantee a decent living, access to social services and participation in the life of the community.

IV. PREREQUISITES FOR ACHIEVING THE PRIORITIES OF THE NATIONAL DEVELOPMENT STRATEGY

1. Ensuring Macroeconomic Stability

An essential prerequisite to sustainable and balanced economic growth is the assurance of a macroeconomic stability by means of steady and foreseeable monetary and fiscal policy. Macroeconomic stability provides for people's and economic entities' confidence in the sustainability of economic growth, thus stimulating them to augment their operation, increase the efficiency of production, make investments, etc. Moreover, macroeconomic stability is an important condition for an efficient implementation of social policies and improvement of people's living standards.

At the same time, the macroeconomic situation is also influenced by that of the real sector. An efficient operation of the real sector contributes to maintaining macroeconomic stability. On the contrary, an unbalanced and rigid structure of internal production, low level of competition in the economy and production can lead to macroeconomic instability.

Ensuring macroeconomic stability is not only about promoting balanced monetary and fiscal policies; it's also about stimulating the domestic supply and level of employment. Complex measures to stimulate the domestic supply and increase employment are described in the Strategy's mid-term priorities, and this chapter focuses narrowly on monetary and fiscal policies as factors contributing to a favorable environment for the achievement of other Strategy goals. To this effect, the Strategy will focus on achieving the following outputs:

- (i) ensure and maintain price stability;
- (ii) promote a flexible exchange rate policy;
- (iii) promote a balanced budgetary-fiscal policy, which would provide for the stability of public funds over medium and long term;
- (iv) reduce the tax burden on economy and prevent public sector expansion;
- (v) improve public financial management.

The provision and maintenance of price stability is the core objective of the National Bank of Moldova (NBM). In this context, the NBM will implement a prudent monetary policy and will use the entire range of tools available to ensure price stability. Over medium term, the implementation of a new monetary policy regime is planned, namely the introduction of the inflation targeting regime. During 2008-2011, measures will be taken to prepare and implement the new system.

The National Bank of Moldova will continue to maintain a floating regime of the exchange rate and will promote a prudent foreign exchange policy consistent with its core objective to ensure and maintain price stability.

Tax policy is another important instrument to ensure macroeconomic stability, economic growth and savings. In the years to come, the tax policy will further supervise support for economic activity and stimulation of investments from domestic and foreign sources. To this effect, starting in 2008, a 0% rate is introduced for reinvested income of legal entities. Also, starting in 2008, VAT reimbursement will be made for material assets, services related to long-term capital investments (spending), except for investments in housing and transportation means.

Increasing citizens' savings can be achieved as a result of modifying the structure and size of taxable annual income scales for natural persons, and gradually increasing the non-taxable income.

Furthering the fiscal administration improving efforts will contribute to a reduction in fiscal pressures by expanding the taxation base and ensuring stability in collecting budget revenues. The medium-term tax administration policy objectives result from the Tax Service Development Strategy for 2006-2010. The Strategy formulates the following major goals: (i) functional and structural strengthening of the State Tax Service; (ii) improving services provided to taxpayers and expanding the spectrum of services provided; (iii) improving fiscal procedures; and (iv) developing information technologies in data and information exchange.

The predictability of state revenues is to be achieved through the enforcement of public spending policies that would prevent a further increase of the public sector as a share of GDP. An important action in this regard is the initiation and implementation of a comprehensive medium-term public service reform, implying an optimization of the number and structure of civil servants. The accomplishment of this reform greatly depends on the advancement of structural reforms in sectors employing the majority of civil servants, and namely in education and health.

The resources needed to increase investment expenditures, other economic growth-related expenditures and reduce poverty are to be mobilized by improving the effectiveness and efficiency of current spending programs, as well as by redirecting allocations from programs having less priority towards programs generating a greater economic and poverty reduction impact, as identified in the Strategy. Generally, ensuring consistency between the priorities of the Strategy, the Medium-Term Expenditure Framework and the annual budget will be one of the major challenges of the medium-term fiscal and budget policies.

The qualitative improvement of public financial management is an inalienable condition for achieving the above-mentioned objectives. In public financial management, efforts will be focused on developing an efficient and sustainable financial management system, based on effective instruments and mechanisms, targeted towards and functional at the level of European standards. The main actions planned for the public financial management area refer to: (i) improving the public financial resource allocation process by applying modern budgeting and budget approval practices; (ii) strengthening of treasury system and improving budget execution procedures; (iii) optimizing fiscal administration and introducing a new system of financial control and internal audit in the public sector; (iv) optimizing budget management through developing an integrated public financial management information system.

Developing standardized, transparent and incorruptible decision making procedures for the use of budget resources, including through the use of public procurements, is one of the main conditions in the medium-term optimization of public financial management.

2. Strengthening Public Administration Capacity

Improvement of central and local governments' performance is yet another important condition for a successful accomplishment of the ambitious agenda set forth in the National Development Strategy. Competitiveness of the national economy can not be ensured under an inefficient public administration, the structure of which is over-sized and the staff is under-skilled. On the contrary, the establishment of conditions to increase competitiveness in an economy, which is seriously unbalanced and has very limited domestic resources, under severe competition in the regional and global markets, is a serious challenge even for a well-trained and efficient public administration.

The need to implement a complex public administration reform derives from three fundamental *reasons*:

- *Economic*. Promoting the reform by rationalizing the number of public institutions and civil servants will contribute to a reduction of administrative costs and their channelling towards better-quality civil services.
- *Social*. The quality of civil services provided to citizens will be improved, while the interaction between the civil society and administrative bodies will be strengthened. Also, a better transparency of the decision making process will enhance the society's confidence in public authorities and will strengthen their cooperation in implementing programs of national importance.
- *Political*. A public administration that was reformed based on the best international practices will contribute to the improvement of Moldova's image both inside the country and abroad. The establishment of an efficient, corruption-free public administration with qualified staff increases the country's chances of cooperation with and integration into European and international structures.

The synergy between the decision making process' efficiency, civil servants' activity, interaction among public institutions and correlation between strategic planning and budgetary process will back and spur the implementation of the entire range of policies and reforms promoted by the Government.

Central Public Administration

The need to build the capacity of the central public administration with a view to improving the general performance of public administration is not something new for the Republic of Moldova. Attempts to improve the institutional structure and build capacity have been made at different stages of the transition period. Yet, these transformations were rather segmented and were not based on well-defined and accepted principles. Despite the results attained in the process of building a functional market economy, the central public administration (CPA) in the Republic of Moldova continues to perform functions that don't exactly correspond to the state's role in such an economy. Moreover, the poor management of human resources and, particularly, the lack of an efficient and competitive incentive scheme, undermines the process of capacity building of public administration staff.

The Central Public Administration Reform launched in 2005 is a systematic and comprehensive effort, and is targeted towards a transparent, predictable, responsible, and efficient public administration, which would meet the society's demands and correspond to the European standards.²¹ The reform process is focused on four key objectives: (a) modernization of public administration based on a functional review and institutional reorganization; (b) improvement of human resource management; (c) optimization of the decision making process; and (d) improvement of public finance management. The regulatory reform is also an integral part of the public administration reform, and is being carried out under close coordination with the other components of the reform process.

To the effect of improving the institutional structure of public, the central public administration reform strategy envisages two tasks: (i) redefining the competences and functions of central specialized public administration authorities; and (ii) reconfiguring the structure of the central executive body, taking into account the Government's priority-driven activities. At its turn, the redefinition of competences and functions was performed in two stages. During the first stage, analysis was performed and recommendations were made to improve the internal processes and delimitate functions of 28 institutions of the central public

²¹ The Central Public Administration Reform in the Republic of Moldova, 2006.

administration. For the second stage, 159 central public authorities were identified and analyzed, as well as 24 deconcentrated services.

Selective organizational reforms, including a reduction of the number of staff, were implemented during the second stage of the functional review. Yet, they were not sufficient for an efficient public administration reform. During the second stage of the functional review, which had a much broader scope, an analysis was made in five major sectors: justice and internal affairs; agriculture and environment; health care, education and culture; economic development; governance and public finance. The functional review at this stage revealed a series of problems, which hinder the efficient operation of the CPA: excessive centralization, redundancy of functions and overlapping of responsibilities, potential conflict of interest determined by insufficient delimitation of functions related to policy development, regulation and provision of services, preservation of functions that do not fall within the Government's competence, and existence of mandates for which no resources are allocated. The lack of efficient systems to coordinate the processes of planning, monitoring and assessment of policies both at strategic and institutional level is another serious challenge.

The implementation of the functional review's recommendations to solve the identified problems is a major task over medium term. Based on these recommendations, before mid-2008, development plans for each ministry will be developed and implemented. The improvement of strategic planning at sector level will be ensured by building capacity for policy analysis, monitoring and evaluation divisions in seven ministries²² and creating similar structures in the remaining ministries. Special attention will be paid to the functional reorganization of the Government Apparatus. To the effect of building the strategic policy planning and coordination capacity, a Policy Analysis Coordination Unit (PACU) was created in the Government Apparatus, the capacity of which will be further strengthened. Over medium term, the PACU will promote and methodologically coordinate the modernization of the entire system of strategic planning of Government activities, the improvement of the decision making process, and will ensure a better correlation between priority actions and available resources.

With a view to defining general principles of organization and operation of central public administration, a draft law on central public administration was developed. This law will provide a unique framework for the operation of central public administration. The draft law envisages that each ministry have a function responsible for the ministry's administrative activity, ensuring the link between the ministry's subdivisions and the sector subdivisions of the Government Apparatus. The introduction of this function will allow to perform a more efficient management of central public administration, as well as to reduce the current excess of ministers' managerial tasks.

The poor performance of central public administration is to a large extent determined by lack of an efficient and competitive incentive system for civil servants. In particular, the low pay level does not allow to attract and retain well-trained specialists in public administration, and creates space for corruption in the system. Low salaries contribute to a high level of staff turnover that undermines the capacity building efforts made until now, in particular through foreign technical assistance projects. Also, the remuneration structure is not transparent enough: the system does not provide a clear-cut connection between performance and level of remuneration. To this effect, reforming the incentive system for civil servants is an important part of CPAR.

²² Policy Analysis, Monitoring and Evaluation Units exist at the Ministry of Education and Youth, Ministry of Health, Ministry of Social Protection, Child and Family, Ministry of Agriculture and Food Industry, Ministry of Industry and Infrastructure, Ministry of Transport and Road Administration, and Ministry of Justice.

The pay system reform was initiated by approval of the Law No. 355-XVI of December 23, 2005 on Budget Sector Pay System for 2006-2010, which envisages a gradual increase of salaries for public sector staff, including civil servants. Thus, during the first two years of implementation, the average monthly salary of civil servants has doubled, making MDL1,614 in 2007²³. Despite this increase, the level of pay in the public sector is still lower than in other branches of economy. On the other hand, the partial implementation of salary increase has already resulted in significant expenses for the budget, and the further growth threatens to reduce the available resources for capital expenditures. Reform implementation only at the central public administration level and saving achieved by streamlining the number of civil servants will not ensure sufficient resources to essentially increase salaries for all public sector staff. Therefore, a comprehensive reform meant to streamline the structures and the number of staff in the whole public sector should be implemented.

The real growth of civil servants' capacity will be ensured by the implementation of a comprehensive reform of the incentive system, which is not limited just to increased salaries. In the short term, the existing practices of classification and ranking of public officers will be put in line with a more efficient remuneration of public officers by ensuring a connection between the level of remuneration, on the one hand, and the employees' efforts, skills, and performance, on the other hand. In the mid-term, a new system of ranking and remuneration will be developed in the following stages: (a) elaboration of job description for each standard positions in the public service, (b) elaboration of the system of position assessment, (c) determination of ranking structure parameters, (d) introduction of standard positions into the ranking structure, (d) determination of the level of remuneration for each standard position, taking into account total available resources for remuneration in the public service, , and (f) elaboration of legislative framework on remuneration system and rules of performance-based carrier development.

In order to streamline the management of human resources, a number of laws stipulating new approaches to staffing policy in public service were drafted: the draft Law on Public Function and Statute of Civil Servants and the Code of Ethics of the Civil Servant. The draft law stipulates: (i) separation of political functions from administrative functions; (ii) competitive employment and merit-based promotion in civil service; and (iii) creation of the central administrative body responsible for civil service management. The improvement and approval of the draft law, and the creation and operationalization of the authority responsible for the management of human resources at central level are immediate goals. The Code of Ethics of the Civil Servant stipulates a number of behavioural standards for public administration. The implementation of this Code will allow for a higher accessibility and transparency of major activities of the public administration.

Capacity building of central public administration is a continuous and long-lasting process. Throughout the implementation of the Strategy, the central public administration will intensify its efforts to implement the initiated activities and to further develop the reform agenda (strategic development plans) for each separate component. The following major objectives will be achieved within this reform, by 2011:

- (i) practical delimitation within the central public administration of policy development functions from policy implementation functions;
- (ii) strengthening the capacity of central public administration for policy analysis, monitoring and evaluation, improving the reporting system and decision making process;

²³ Medium-Term Expenditure Framework (2008-2010).

- (iii) establishing a core of professional civil servants, including the introduction of a new motivation system; and
- (iv) creating an efficient and sustainable interaction system between policy development and budgetary processes.

Local Public Administration

The previous experience with national development programs' implementation demonstrates that the insufficient involvement of local public administration (LPA) in the process of policy development and implementation generates increased territorial gaps in the socio-economic development of the country. To this effect, enhancing the role of local public administration implies both improving its competencies by increasing the degree of decentralization, and building capacity in policy implementation and provision of public services.

The evolution of the role and performance of the LPA have been marked by the territorial-administrative reforms in 1999 and 2003. However, in general, services provided at local level are still largely inadequate and of poor quality. In particular, local public authorities are responsible for providing general education services, ensuring rural infrastructure and, partially, health services. Despite the fact that the share of expenditures for education and health is relatively high in the local budget, the problem of quality and inequitable access to these services still persists. Because resources allocated for maintenance and repairs of rural infrastructure were limited, it has significantly deteriorated.

The problems identified during some studies show reduced and insufficient fiscal capacity of territorial-administrative units, discrepancies between the financial resources of local public administration authorities and competencies envisaged by legislation, as well as the fact that public services' decentralization is not performed in parallel with the transfer of funding. At the same time, public control is weak because the community does not participate in the monitoring of public sector and services provided. Reduced capacity of civil servants at local level, explained by the poor motivation and insufficient training, is another factor determining the poor quality of services provided by the LPA.

Increasing the role and strengthening the capacity of local public administration will be accomplished in the context of the Regional Development Strategy's implementation. To this effect, during the period of NDS implementation, the following objectives will be pursued:

- Improvement of the institutional framework and incorporation of sustainable development principles in local policies;
- Clearer delimitation of functions and responsibilities between central and local public authorities, and increased autonomy of the latter ;
- Strengthened local autonomy of local public administration authorities by continuing the fiscal and financial decentralization process;
- Capacity building for local authorities in participatory planning, budgeting, monitoring and assessment of activities at local level;
- Implementation of the National Strategy for Training of Civil Servants and Locally Elected Authorities and establishment of conditions for improved human resource management.

Given the aforementioned, it is necessary to enhance the autonomy and capacity of local public administration, especially at level I, to ensure localities generate their own revenues, have an efficient management of resources and stimulate the development of localities' economic potential. In the context of administrative decentralization, it is necessary to work out an action plan that would set distinct implementation stages for the administrative decentralization process in the Republic of Moldova. This will allow to avoid ambiguities and

overlaps in delegating competencies, clarifying the transfer of financial and material resources, also addressing the correlation between the transfer of competencies and the necessary resources. After the legislation on local public administration and on administrative decentralization is passed, the revision of the legislation on local public finances will follow, establishing an equitable method to balance the financial possibilities of territorial-administrative units.

To the effect of strengthening the capacity of civil servants, the Government will ensure the implementation of the National Strategy for Training of Civil Servants and Locally Elected Authorities, developed in line with the recommendations of the Council of Europe. This strategy sets out the grounds for a continuous training of civil servants and locally elected persons from the local public administration with a view to increasing their competency, performance and competitiveness.

V. NATIONAL MEDIUM-TERM PRIORITIES

1. Strengthening Democracy Based on the Rule of Law and Respect for Human Rights Principles

Analysis

Protection of human rights

With the declaration of independence in 1991, the Republic of Moldova embarked on a long and complex process of transition towards a democratic regime and market economy, accompanied by important social and economic changes. This transition assumed a fundamental review of the role of the state and of the rights and duties of the population in general and individual human beings in particular. The transition process required the emphasis on human rights as a fundamental factor for national development and, as a consequence, Moldova has undertaken significant efforts to harmonize the national legislation with the international provisions regarding human rights and fundamental freedoms.

Since its independence, all national and local elections, including the recent local elections as of June 3, 2007, have been generally considered as free and fair, although in some cases they did not fully comply with the international obligations regarding democratic elections, especially concerning the pre-election campaign and media independence. In 2006, the Parliament adopted the new Audiovisual Code aimed at fighting political interference within the operation of the National Radio and TV. A great number of non-governmental organizations, mass media sources, as well as the Council of Europe have recognized that the new Code is in accordance with the relevant international standards. Still, the need to ensure a transparent relationship between the authorities on the one hand, and mass media and civil society on the other remain a priority for enabling the functioning of a participatory democracy.

Moldova has acceded to the Universal Human Rights Declaration in 1990 and the majority of international human rights treaties in the following years. The Constitution of the Republic of Moldova of 1994 provides for the observance of human rights and fundamental freedoms, in accordance with universally accepted provisions and international treaties signed by Moldova. Moreover, Article 4 of the Constitution establishes the supremacy of international human rights documents over the national legislation. In order to strengthen the institutional human rights framework, the Republic of Moldova has introduced in 1996 the institution of ombudsman (Parliamentary Advocate) and established the Human Rights Center. The main task of the Parliamentary Advocates is to consider individual recourses from individuals whose rights and freedoms have been violated in the Republic of Moldova.

A significant step in the process of human rights' promotion was the accession to the European Convention of Human Rights and Fundamental Freedoms in 1997, which enabled the citizens of Moldova to have access to the European Court of Human Rights (ECHR), an important international jurisdictional body. During November 1, 1998 – 2006, citizens of Moldova submitted approximately 2,800 recourses, and the Court issued 42 decisions against Moldova. The ECHR decisions against Moldova may be considered as an indicator of flaws within the national judiciary and the human rights protection system in general. At the same time, even in countries with old democratic traditions and a strong judiciary the number of is high, and the increase in the number of from Moldovan citizens points to the fact there is an

increased awareness level by individuals regarding their rights and fundamental freedoms guaranteed by the state and that they adopt an active role in claiming these rights.

Aspiring towards approximation to European values and European integration, the Republic of Moldova has committed to observe human rights and fundamental freedoms and strengthen the stability and efficiency of institutions responsible for safeguarding democracy and the rule of law, including by strengthening its administrative and judicial capacity. These commitments were reflected in the Economic Growth and Poverty Reduction Strategy Paper, the National Action Plan for Human Rights, and the Moldova-EU Action Plan. Although the legal framework for the protection of human rights and fundamental freedoms is in accordance with the international standards, there are certain drawbacks in real life, especially regarding the rights of people in detention, access to justice, prevention of such complex phenomena as domestic violence and trafficking of human beings.

A number of studies and reports by non-governmental organizations point to numerous violations of the rights of people in detention. The existence of serious problems in this field is also confirmed by the analysis of recourse received by the Human Rights Centre. Thus, during 2006, the Centre received 1,913 petitions, of which 53% have been submitted by people in detention. Over 25% of recourse refer to the lack of free access to justice and the right to a fair trial. Among the main factors contributing to the violation of the rights of people in detention is the high level of corruption, abuse of power by the law enforcement bodies, lack of knowledge about their rights, and the poor quality of the ex officio legal assistance.

The Republic of Moldova continues to face multiple negative social phenomena that affect the most vulnerable layers of society, such as domestic violence and trafficking of human beings. There are difficulties in monitoring these phenomena because the victims often avoid reporting or discussing these violations. According to some reports, approximately 41% of the interviewed persons stated that they had been victims of domestic violence at a certain point of their life. Still, the number of official reports to the law enforcement bodies remains low. One of the main reasons to avoid the reporting of domestic violence cases is the lack of a well-defined protection mechanism for the victims of such phenomena.

Domestic violence contributes to increased levels of vulnerability to trafficking of human beings. According to the data of the International Organization for Migration, the majority of assisted victims of trafficking had been subjects of domestic violence and, as a consequence, were ready to face an increased level of risk to avoid the abuse within their families. Although during 2005-2007 the legal framework to prevent and combat trafficking of human beings and domestic violence has been strengthened by adopting the anti-trafficking law, the law on domestic violence, the law on equal gender opportunities, etc., the establishment of an enforcement mechanism is necessary for an efficient implementation of these laws.

The judiciary and independence of justice

The legal and judicial reform in the Republic of Moldova has started in 1994 by introducing a four-tier system – circumscription courts, tribunals, the Court of Appeals, and the Supreme Court of Justice. During 2002-2003, aiming at improving the access to justice, the judiciary has been subjected to a new stage of reform, which has led to the improvement of the system and its organization in a three-tier system – circumscription courts, courts of appeal, and the Supreme Court of Justice. During both periods, the reform of the judiciary has been based on the modernization of the administrative structure as a factor that contributes to the elimination of deficiencies in the operation and administration of justice.

The main administration authority within the judiciary is the Superior Council of Magistrates, an independent body with competencies pertaining to the appointment, promotion, transfer, sanctioning, and dismissal of judges, consideration and submission of draft budgets of courts and reporting on the organization and functioning of the judiciary. To insure the independence of justice, the framework that guarantees impartiality and irrevocability of judges has been strengthened repeatedly, especially by increasing the authority of the Superior Council of Magistrates and increasing its independence in relation to the executive.

However, the efficient functioning of the judiciary and a fair administration of justice continues to be a challenge. The courts of law are faced with a great workload. Thus, during 2006, the judiciary has considered 250 thousand cases; the workload of a single judge is of 73 cases per month. One of the main factors that contributes to the overloading of the judiciary is the limited use of alternative methods of conflict resolution. The implementation of alternative methods, such as mediation and probation, will contribute to the efficient functioning of the judiciary, as well as to the protection of human rights and avoidance of delays in the consideration of cases.

At the same time, the judiciary is facing a number of serious problems, such as inadequate premises, low quality of infrastructure of the courts and equipment, as well as limited practical capacity in the summoning, hearing and disciplining of parties. The lack or limited number of court-rooms may affect certain vulnerable groups such as minors, victims of domestic violence and trafficking of human beings, etc. The majority of these problems that have serious consequences on the image and quality of justice are due to the limited number of resources allocated to the judiciary. Although during the last years the means allocated to the judiciary have been constantly increasing, they are still insufficient to cover the needs. At the same time, the increased budgetary allocations should be accompanied by an increased efficiency in funds' management. An important step in this direction has been the empowerment of courts to independently manage their budgets as of January 1, 2005. Still, for an efficient planning and use of medium-term allocations, the reform of judiciary financing remains a priority.

The quality of justice is also affected by the deficit of qualified human resources and the limited capacity of court staff to match the current requirements (including judges and support staff). To fulfil their tasks professionally, judges need to have access on a free-of-charge and permanent basis to continuous training courses. To accomplish this objective, in 2006 the National Institute of Justice was created, responsible for the continuous training of judges and prosecutors. According to amendments operated to the legislation, following the establishment of the Institute and starting in 2008, judges will have to attend at least 40 hours of continuous training per year, such training being provided for free and being mandatory in accordance with the law. Strengthening the Institute's capacity in relation to its curriculum, management and academic personnel will lead to a high-quality training of the judiciary and, consequently, to the improvement of the administration of justice.

One of the main issues remains to be the lack of enforceability of court decisions. Although during the last years a new legal framework regarding the execution system has been adopted, which includes the Execution Code and the Law on the System of Forced Execution, there is a great number of non-executed decisions. Thus, during 2006, from a total number of 301 thousands of executorial acts and 64 court decisions, more than 26% of the executorial acts and 42% of court decisions have not been enforced. There are a number of reasons that led to this situation, including the incapacity of the debtor to pay the compensation, or the fact that they have left the country, as well as the transfer of assets by the debtor in situations when the applicants do not manage to seal the property of the debtor at the beginning of the

legal proceedings. The insufficient funding of the executorial system, given the fact that its costs are quite high, plays an important role in the accumulation of non-enforced acts and decisions. Under these circumstances it is necessary to reconsider the manner of organization and funding of executorial activities.

Preventing and fighting corruption

Preventing and fighting corruption became an important priority for the Government of the Republic of Moldova and in 2006 the Government adopted the Action Plan for the implementation of the National Strategy for Preventing and Fighting Corruption. The Action Plan is implemented with the support of the civil society and international community. A number of non-governmental organizations created the Anti-corruption Alliance, which collaborates closely with the Center for Combating Economic Crime and Corruption (CCECC) in view of eradicating this phenomenon. An important aspect of the Government's actions in 2007 and nearest future are aimed at preventing corruption are the actions undertaken under the Threshold Program of the „Millennium Challenge” Corporation.

The Government undertook a series of measures to simplify the regulatory framework and the way in which public administration authorities operate to limit the opportunities for corruption, with the main ones following: reform of regulatory framework, introduction of the one-stop shop, optimization of the claims and petitions' processing system within central administration authorities, as well as increased transparency. To avoid the development of some new legislation and regulatory documents creating opportunities for corruption, the CCECC has initiated the project of anti-corruption expertise of legislative and regulatory draft documents. At the same time, public administration authorities, non-government organizations and the international community organized a number of events and public awareness campaigns regarding the consequences of corruption, which aimed at educating intolerance to this phenomenon.

The progress accomplished in preventing and fighting corruption was reflected in the Corruption Perception Index developed by Transparency International, which in 2006 has improved, growing from 2.9 in the previous year to 3.2. However, out of 163 countries included in the study carried out by Transparency International, Moldova is still in the second half of the rating. Furthermore, the surveys prove that corruption is still one of the subjects of major concern for the population of the Republic of Moldova. According to the Global Corruption Barometer developed by Transparency International, sectors and institutions most affected by corruption are (descending): police, judiciary, health services, political parties, the legislative, business community, education system. The surveys carried out by local non-governmental organizations confirm these results.

Given the aforementioned, to reduce corruption and increase the confidence of population in sectors perceived as being the most affected by corruption, regulatory, organizational and practical measures are needed. Such measures have to be focused on increasing transparency of the institution, building capacity of these institutions' staff, revealing and penalizing corruption cases. At the same time, it has to be recognized that such measures can not contribute to breaking away from the vicious circle of corruption unless they are structurally and institutionally supported.

Rationale

The functioning of democratic institutions and enforcement of the rule of law create a favourable environment for a sustainable and inclusive growth. Strengthening democracy based on the rule of law presumes respect for human dignity, human rights and liberties, free development of human personality, justice and political pluralism. This also includes equal

treatment and opportunities for every citizen. The existence of a predictable legal framework and a fair, transparent and efficient judiciary is essential for the protection of citizens against arbitrary abuse of power and illegal acts by individuals and private entities.

The consolidation of the modern democratic state based on the rule of law and respect for human rights will be secured by a continuous increase of the transparency of political decisions and administrative acts, development of the culture of cooperation with the civil society, and promotion of reforms meant to increase the population's confidence in public authorities. Given the increased number of complaints concerning abuses of power on behalf of law enforcement bodies, accompanied by the extremely low level of confidence shown by the civil society in relation to the efficiency, quality and transparency of bodies of interior, a complex reform of the police will be a major medium-term priority.

Strengthening of the judiciary by ensuring its independence, impartiality, credibility, and efficiency is a necessary condition for the rule of law. The measures required for the modernization and streamlining of the judicial system must lead not only to the efficient functioning of the system, but also to the fair practical enforcement of the legal and normative framework.

Preventing and fighting corruption is a requirement both for the functioning of democratic institutions and securing of human rights, as well as for general economic development. As a complex phenomenon, determined by various factors (economic, legal, institutional, social, ethical, etc.), corruption calls for a multidimensional approach and a permanent review of policies aimed at its reduction. The enforcement of restrictive measures only is not enough and a combination of prevention and reaction measures is necessary.

Since Moldova has an open economy, facing important migration flows and exposed to internal and global risks, there is an immediate need for a complex management of borders, both by strengthening own capacity and using cross-border cooperation opportunities.

Overarching goal of priority

Strengthening the operation mechanisms of democratic institutions and implementation practices in relation to the legislative and regulatory framework, with a view to an efficient and fair protection of human rights.

Objectives

- 1.1. Strengthening democracy, respect for fundamental human rights and freedoms**
- 1.2. Modernizing and increasing efficiency of the judiciary**
- 1.3. Preventing and fighting corruption**
- 1.4. State border management**

Programs and measures

1.1. Strengthening democracy, respect for fundamental human rights and freedoms

Rationale

Democracy can only become sustainable when individuals trust the decision making bodies of the state and if the latter are serving the citizens and protect them against abuses. In this context, strengthening the judiciary may only be ensured by strengthening the institutions that protect the rights of citizens, ensure respect for the right to freedom of expression guaranteed

by the Constitution, and by increasing the transparency of the decision making process and implementation of political decisions.

The achievement of favourable conditions for permanent economic and social development in the Republic of Moldova is directly linked to the steadfast combating of crime, maintaining law and order, and ensuring the security of citizens within the community, which is a fundamental element for improving the quality of life. The modernization of police, so that it becomes more effective, democratic and community-focused, is essential for the observance of fundamental human rights, ensuring the rule of law and the country's development. This goal will be accomplished by adopting and implementing a community-based police activity, focused on prevention, precautionary action and partnership. The combating of trafficking of human beings and the prevention of abuse and torture are key-missions of a community-based police activity and are the results of a functional democratic system, in which the citizen is protected by the state.

Programs and measures

1.1.1. Improving the quality of the decisional act:

- (i) Improving the operation framework of participatory democracy, also by ensuring the transparency of administrative acts and political decisions, and the communication with citizens;
- (ii) Involving civil society in the decisional process concerning public interest, also through provision of all decisions of public interest and their drafts for „on-line” public discussions;
- (iii) Ensuring a transparent relationship between authorities and the media, as recommended by the Council of Europe;
- (iv) Ensuring the participation of young people in the decision making process, also through the extension of the local youth councils network at country level and of the models of youth self-governance within educational institutions.

1.1.2. Strengthening non-judicial institutions and mechanisms for protecting and promoting human rights:

- (i) Strengthening the legislative and institutional framework of the Ombudsman institution, with a view to:
 - o Ensuring the independence of parliamentary advocates;
 - o Rendering more effectively the activity of the Center for Human Rights in Moldova.
- (ii) Implementing the law on mediation and creating mediation services;
- (iii) Consolidating cooperation/partnerships between central and local public administration authorities and civil society in the field of education, promotion and protection of human rights.

1.1.3. Modernization of the police, aimed at rendering it more efficient, democratic and at increasing its accountability towards the community:

- (i) Strengthening the capacity of the Ministry of Interior in relation to the implementation of the police reform;
- (ii) Evaluating, jointly with other members of the justice system and the civil society, the actual state of police activity and determining the best ways to render it more efficient, more democratic and increase its accountability towards the community;
- (iii) Developing a strategy for community-based police activity for 2008-2011, focused on efficiency and manner of police activity, role of the community and

its capacity to participate in community-based police activity, structure, transparency and accountability of the police, relations between the police and the public, as well as relations between the police and other components of the justice system;

- (iv) Implementing and monitoring the strategy during 2008-2011, including its testing in a pilot-program in 2008;
- (v) Improving the system of staff training and professional development in the system of the bodies of interior and, in particular, of public order services;
- (vi) Preventing juvenile crimes by applying a set of special measures and programs for minors and their families living in an environment with an increased risk of delinquency, generating drug-consumption or promoting a criminal culture.

1.1.4. Preventing and combating family violence and trafficking of human beings:

- (i) Developing the management of statistical and informational systems in relation to cases of gender discrimination, family violence and trafficking of human beings;
- (ii) Creating and implementing the national system for violence prevention and victim protection, as provided by the Law on prevention and combating of domestic violence;
- (iii) Strengthening the National Committee for Combating Trafficking of Human Beings, expanding the National Referral System for the protection and assistance of victims of trafficking and its integration into the national social protection system;
- (iv) Consolidating the capacity of the Centre for Combating Trafficking of Human Beings in investigating and convicting traffickers, based on the principles of transparency and publicity;
- (v) Regulating migration flows by signing bilateral inter-governmental agreements in the areas of irregular migration, labour migration and social protection of migrant workers, and by promoting circular migration initiatives, in particular with the EU and its member-states.

1.1.5. Ensuring the rights of people in detention, as well as the rights of persons convicted to punishments that are alternative to detention:

- (i) Ensuring decent detention conditions for convicts and persons under preventive or administrative arrest;
- (ii) Improving the quality and diversifying training methods employed by police officers and employees of the penitentiary system in the field of human rights;
- (iii) Expanding and improving the forms of convicts' education and employment;
- (iv) Strengthening the mechanisms of preparing convicts for liberation and social reintegration;
- (v) Improving the legislation on alternatives to detention;
- (vi) Developing the probation service with a view to ensuring the rehabilitation of persons condemned to punishments alternative to detention;
- (vii) Building arrest houses.

1.1.6. Securing free access to justice:

- (i) Reforming the system of legal assistance guaranteed by the state by establishing an efficient mechanism of access to justice for socially vulnerable persons;

- (ii) Creating the National Council for legal assistance guaranteed by the state, with territorial offices;
- (iii) Informing citizens about the forms and conditions for getting legal assistance guaranteed by the state;
- (iv) Creating public attorney offices.

1.2. Modernizing and increasing efficiency of the judiciary

Rationale

An essential component of the state and its development is represented by the judiciary as a totality of structures that contribute to the enforcement of justice. Modernizing and increasing the efficiency of judiciary (development and implementation of reforms based on impartiality of the judiciary, improvement of performance and credibility of judges, increased access to legal services) constitute priority actions that need to be undertaken by the Republic of Moldova in order to reach these objectives.

Programs and measures

1.2.1. Strengthening the judicial system:

- (i) Implementing the Strategy for strengthening the judiciary by:
 - a) Strengthening the legislative framework regarding the judicial system to strengthen judges' independence and creating an efficient mechanism to monitor the enforcement of laws on judiciary strengthening;
 - b) Ensuring the transparency of justice-rendering by improving the dialogue between civil society and justice and ensuring the publicity of judgments and the access of media to the courts;
 - c) Establishing a mechanism for jurisprudence unification to improve the quality of justice rendering;
 - d) Strengthening the institutional capacity of the Superior Council of Magistrates;
 - e) Strengthening the National Justice Institute to accomplish the proper training of judges and other staff within the judicial system;
 - f) Increasing the efficiency and accountability of the judiciary by reducing the duration of legal proceedings and the workload, and by rationally using human resources;
 - g) Continuing the computerization of the judicial system by implementing the Concept of the judicial information system for 2007-2008;
 - h) Reforming justice financing by implementing a transparent mechanism of budget planning and control of the judicial system.

1.2.2. Strengthening the mechanisms for enforcement of judicial decisions:

- (i) Developing a mechanism to finance the spending for enforcement activities;
- (ii) Ensuring computer access of enforcement officers to necessary databases, in order to properly carry out their activity/ responsibilities;
- (iii) Actively involving and distributing responsibilities between creditors and debtors in the process of judicial decisions' enforcement.

1.2.3. Strengthening juvenile justice:

- (i) Appraising the necessary number of staff and premises to carry out judicial proceedings in the best conditions, where minors are involved either as victims or criminals;

- (ii) Improving the legislative framework in the area of minors' rights protection by developing proposals for uniform regulation aimed at streamlining proceedings and increasing the procedural guaranties granted to minors;
- (iii) Creating the infrastructure for the proper functioning of juvenile justice by a specialization of judges and other categories of staff within the judicial system and by creating a documentation and information center accessible to professionals in the area of juvenile justice.

1.3. Preventing and fighting corruption

Rationale

The different manifestations of corruption (excessive bureaucracy, protectionism, nepotism, excessive state controls and regulations, unfair competition, etc.) lead to negative social and economic consequences for the development of the state. Corruption is a multidimensional phenomenon that, in order to be eradicated, requires efforts supported by both public authorities and the entire society.

Activities of preventing and fighting corruption will be implemented through a complex approach, which will improve the regulatory and institutional framework, will increase the transparency of decisions taken by public institutions, and will develop intolerance to corruption within the society. These actions will complement the structural and institutional reforms aimed at reducing corruption opportunities in the future. Corruption prevention and combating measures will be primarily focused on areas perceived as mostly affected by corruption: police, judiciary, health services, political parties, legislative, business environment, educational system.

Programs and measures

1.3.1. Improving the legal framework in the area of fighting corruption in accordance with international standards and good practices:

- (i) Development and approval/adoption of regulatory acts necessary to efficiently implement the provisions of the international conventions in this area, to which the Republic of Moldova is a party (for example, the Criminal Convention regarding Corruption, the Civil Convention regarding Corruption);
- (ii) Continuation of the reform of the regulatory framework.

1.3.2. Strengthening the capacity to prevent and combat corruption:

- (i) Adequate technical endowment of the CCECC and Prosecutor's Office to investigate corruption cases;
- (ii) Increasing the salary level of civil servants in relation to duties fulfilled.

1.3.3. Ensuring transparency of the activity of public institutions, access to information, promotion of ethical standards:

- (i) Creation of web pages for all public authorities and their permanent updating;
- (ii) Approval/adoption of ethical codes for judges, medical staff, etc.;
- (iii) Ensuring fiscal transparency and annual publication of reports on the execution of budgets at the level of each agency and autonomous governmental authorities.

1.3.4. Active involvement of the civil society and private sector in prevention of corruption, creation of an atmosphere of non-tolerance for the corruption phenomenon:

- (i) Developing and adopting the anti-corruption information and communication strategy;
- (ii) Organizing periodic meetings between public authorities and civil society, collaboration on anti-corruption, also by participating in civil society representatives' initiatives;
- (iii) Developing advanced anticorruption practices.

1.3.5. Expanding international collaboration:

- (i) Implementation of GRECO recommendations, developed as part of the second evaluation round (report as of October 13, 2006);
- (ii) Development of an Action Plan to participate in the World Bank initiative in the area of corruption prevention and combating;
- (iii) Conclusion of cooperation agreements with other states regarding different aspects of combating corruption;
- (iv) Accomplishing the Action Plan regarding the implementation of the Threshold Program of the Republic of Moldova in the framework of the "Millennium Challenge" Corporation.

1.4. State border management

Rationale

One indispensable element and a major condition to ensure the security of any country is the supervision and control over the state border. For Moldova, this aspect of national security has acquired a special importance taking into account the international tendencies of proliferation of migration, trans-border organized crime, and international terrorism. Currently, the management of borders of Moldova is organized in accordance with the provisions of bilateral treaties and agreements with neighbouring countries and the internal legislation of the Republic of Moldova. The transition for the border guard troops to the Border Guard Service, which is the professional authority in the field of surveillance and control of the state border, may be considered as a first step in the adjustment of state border management to EU standards.

Programs and measures

1.4.1. Development of the state border management within all border sectors of the Republic of Moldova:

- (i) Harmonization of the national legislation with the *aquis communautaire*, and development and implementation of a national Strategy on integrated management of state borders;
- (ii) Continuation of cooperation with neighbouring countries to complete the process of demarcation of state borders;
- (iii) Development of the check-points' infrastructure and endowment with state-of-the-art technical equipment;
- (iv) Establishment of a professional training system for the human resources involved in border surveillance and control.

1.4.2. Intensifying trans-border cooperation between the Republic of Moldova and the EU members, as well as neighbouring countries:

- (i) Organization of joint controls at the Moldovan-Ukrainian state border crossing points;

- (ii) Development of regional cooperation between relevant law enforcement bodies (police, border guards, and customs).

Monitoring indicators:

Indicator	Source
Number of recourse to ECHR, including recourse that were communicated to the Government, including cases won by applicants.	Ministry of Justice Ministry of Justice
Number of recourse to ECHR lodged by people in detention	Ministry of Justice
Number of decisions issued by judges and not executed (cumulative)	Ministry of Justice
Number of recourse to courts (except for economic courts)	Ministry of Justice
Number of recourse for alternative procedures	Ministry of Justice
Corruption Perception Index	Transparency International
Level of confidence in police, % of interviewed persons who do not trust the police	Barometer of Public Opinion
Number of human trafficking crimes	Prosecutor's Office/Ministry of Interior
Number of reports on slight corporal injury	Ministry of Interior
Number of cases of domestic violence that lead to murder and severe corporal injury	Ministry of Interior

2. Settlement of the Transnistrian Conflict and Reintegration of the Country

Rationale

Solving the Transnistrian conflict on the basis of norms and principles of international law, OECD standards and fundamental approaches in the framework of the external settlement mechanisms stipulate the implementation of the territorial, social and political reintegration of the Republic of Moldova through the reestablishment of economic, legal and social areas, and it represents one of the main conditions for the sustainable development of the country, including in the context of European integration, security in the region, strengthening of democratic institutions, as well as economic and social stability.

The final settlement of the Transnistrian problem, representing one of the priority directions in the development of the Republic of Moldova, is a goal that consolidates the activity of public authorities of Moldova, and requests a maximal concentration of efforts of the entire civil society. While implementing the Strategy, it is important to address this problem in a broader context, with a larger involvement from the international community, and mainly the European Union, including through the European Neighbourhood Policy.

The final and sustainable settlement of the Transnistrian problem involves a focus on two areas:

1. Political dimension:

- (i) Development of the special juridical status of the Transnistrian region of the Republic of Moldova, by respecting the independence, sovereignty and territorial integration in the interaction with the international partners, in the framework of the existing mechanisms and on the basis of a consensus of the actors involved.
- (ii) Approval of the political solution in the negotiation process in the existing formats.

2. Social-economic dimension:

- (i) Reestablishment of the unique economic, legal and social areas, which envisages the concentration of efforts of all central specialized public authorities of the Republic of Moldova and coordination of their activity with the objective to promote a consistent government policy on the reintegration of the country.
- (ii) Development of complex integration policies (economic, social, educational, cultural, etc.) and extension of the programs and existing strategies regarding the involvement of citizens (in a broader sense – inhabitants) from the left bank of the Nistru river and guaranteeing respect for their rights, including social, economic, and cultural, etc.

Thus, the harmonious combination of these two components – of internal and external policy – constitutes the strategy in solving the Transnistrian conflict over medium term. This means that the strategy is based on a consistent and balanced policy of all the branches of state power. In this context, the successful implementation of the internal component and the consistent promotion of the external message in the bilateral and multilateral dialogue requires a consolidation of the positions of the political powers of the Republic of Moldova, with the objective to promote and defend the interests of Moldova, as well as ensure the continuity of the country's reintegration (over medium term). *The statement of the Parliament of the Republic of Moldova regarding the political partnership for the implementation of the objectives for European integration* and the unanimous approval of the

documents from June-July 2005 represent a fundamental decision and constitute the necessary tool for a nation-wide consensus.

Strengthening confidence and security, as well as social protection measures for the Transnistrian population are under the constant eye of the Government. The implementation of initiatives launched to this extent by the President of the Republic of Moldova will contribute to additionally building the foundation for the settlement of the conflict.

Support for the reintegration policy from the part of the civil society plays a key role. The extension of the existing dialogue with Non-Governmental Organisations (NGOs) constitutes one of the major priorities of the Government. The positive experience of cooperation between the governmental institutions and the Parliament of the Republic of Moldova with NGOs will be institutionalised in the framework of NDS implementation. Regarded from this perspective, the mid-term strategy for solving the Transnistrian conflict stipulates the conjunction of the efforts of the Executive and Legislative bodies to accomplish *the final solution of the conflict*.

The final political solution to the Transnistrian conflict will be developed and approved in a multilateral framework of negotiations by involving international parties and actors. The promotion of this solution is a complex process, which presumes a consensus of the actors involved regarding the future statute of the Transnistrian region as part of the Republic of Moldova and the delimitation of competences between the center and the region, as well as a set of guarantees: constitutional guarantees of the Transnistrian statute and legal, economic and social guarantees for the population of the region.

Also, one of the priorities is to create favourable conditions for the settlement of the Transnistrian conflict. Taking into consideration the favourable international conjuncture as a necessary condition, the authorities of the Republic of Moldova suggest the following three objectives, the realisation of which aims at covering *the final political solution*. *These objectives* are in accordance with the stipulations of the Constitution of the Republic of Moldova and are a component part of the current national legal and regulatory framework (Law of the Republic of Moldova No. 173-XVI from July 22, 2005 on basic provisions of the special legal status of settlements on the left bank of Nistru river (Transnistria), Decision of the Parliament of the Republic of Moldova No. 117-XVI from June 10, 2005):

Overarching goal of priority:

Establish favourable conditions for the regulation of the Transnistrian conflict and accomplish the territorial, political and social reintegration of the Republic of Moldova.

Objectives:

- 2.1. Democratisation and development of a civil society based on European values and international norms and standards**
- 2.2. Demilitarisation and provision of security**
- 2.3. Social-economic reintegration**

Programs and measures:

- 2.1. Democratisation and development of a civil society based on European values and international norms and standards**

Rationale

Democratisation and development of the civil society based on European values and international norms and standards must include a range of measures focused on the creation and development of democratic institutions and an integral civil society on both banks of the Nistru river, with the participation of the international community in this process. The actions undertaken by the authorities of the Republic of Moldova for the accomplishment of this objective are based on the stipulations of the Appeal of the Parliament of the Republic of Moldova on the democratisation criteria for the Transnistrian zone of the Republic of Moldova, approved by Parliamentary Resolution No. 117-XVI of June 10, 2005.

Programs and measures:

- (i) Removal of obstacles for the free activity of political parties of the Republic of Moldova in the Transnistrian region;
- (ii) Removal of obstacles for the free activity of national and local mass media in the Transnistrian region;
- (iii) Removal of obstacles for the free activity of NGOs and civil society development in the Transnistrian region.

2.2. Demilitarisation and provision of security

Rationale

Actions undertaken by the Republic of Moldova for the demilitarisation and provision of security, as well as the implementation of a range of confidence-building measures are based on the provisions of the Parliamentary Appeal on the principles and conditions of demilitarization of the Transnistrian zone, approved by Parliamentary Resolution No. 117-XVI of June 10, 2005.

Programs and measures:

- (i) Changing the actual mechanism on peace keeping in a multinational mission with an international mandate;
- (ii) Completing the withdrawal of the troops and ammunition of the Russian Federation from the territory of the Republic of Moldova, according to the decisions of the OECD Summit in Istanbul (1999);
- (iii) Dissolution of the paramilitary groups in the Transnistrian region and creation of military forces and a unified border-guard service on the territory of the Republic of Moldova;
- (iv) Undertaking confidence-building measures to maintain the stability, security and ensure the free movement of the citizens in the security zone and in the region.

2.3. Social-economic reintegration

Rationale

Social-economic reintegration relates to the reestablishment of the unique economic, financial, customs and social system. The progress made in this regard has to be strengthened in accordance with the bilateral and international agreements of the Republic of Moldova.

Programs and measures:

- (i) The implementation of the bilateral Moldovan-Ukrainian agreements and understandings regarding foreign trade and border security;
- (ii) Cooperation with the EU institutions, and mainly through the EU Mission of Assistance at the Moldovan-Ukrainian Border (EUBAM);
- (iii) Development of a flexible and efficient mechanism to offer social assistance according the current legislation for inhabitants of the Transnistrian region of the Republic of Moldova;
- (iv) Creation of favourable conditions for the economic-commercial cooperation between the two banks of the Nistru river and elimination of barriers for a free activity of the economic agents;
- (v) Development and implementation of common projects targeted towards the rehabilitation and development of the infrastructure with the support of foreign donors.

Monitoring indicators

Indicator	Source
Number of persons assisted through programs implemented by the public authorities of the Republic of Moldova	Ministry of Reintegration
Number of projects designed for the rehabilitation, upgrade and development of infrastructure in areas affected by the conflict	Ministry of Reintegration
Number of projects implemented or under implementation for the rehabilitation, upgrade and development of infrastructure in areas affected by the conflict	Ministry of Reintegration

3. Enhancing the Competitiveness of the National Economy

Analysis

Competitiveness of a country is its capacity to create and maintain institutional, economic and infrastructure conditions favourable for the establishment / attraction and development of some companies producing better-quality goods and services and/or at lower prices than external competitors. The competition capacity is demonstrated both on international and national markets, related to imported goods and services.

At present, the competitiveness of the Republic of Moldova is basically assured by low labour costs and some domestic raw materials, and is manifested in sectors with relatively low added value. This model of competitiveness is specific for a number of countries with less advanced economic development. At the same time, taking into account the increased domestic prices, external opening of the country, intense migration, and abundance of cheap labour force abroad, our comparative advantages determined by low costs are increasingly eroded, while the technologic gap compared to other countries is growing.

Currently, the Moldovan economy is characterized by a low level of competitiveness. In 2006, Moldova was ranked 86 among 125 in the international ranking of competitiveness, in conformity with the global competitiveness indicator calculated for the World Economic Forum²⁴. The low level of competitiveness of domestic output is confirmed by a continuous decrease of import- export coverage rate. Between 2000-2006, the volume of imports increased 4.6 times, while the volume of exports - 2.3 times only. Moreover, the narrow structure of exports and geographic concentration contribute to an increase of external vulnerability, along with risks and losses it implies for the real sector of economy. This particular thing happened in 2006, when due to external shocks the rate of economic growth, production outputs and exports dropped, and instability elements appeared at macro level.

In the context of EGPRSP efforts were made, aimed at supporting the development of the production sector of the country and contributing to strengthening the competitiveness of Moldovan businesses both on domestic and external markets. In general, improvements in the production sector during this period were modest. Industry showed robust growth at the beginning of the economic revival period (in 2000-2006 cumulative growth was 73%), however losing its pace lately. The performance of agriculture was unstable and poor: in the same period cumulative growth of agricultural output was 10% only. The services sector showed stable growth, while the balance of external trade with services became positive.

Regulatory and fiscal reform

Ambitious reforms initiated in recent years, aimed at improving the business environment to increase investments in economy (in particular, regulatory and fiscal reforms), have partially achieved their goals.

During 2000-2006, total investments in fixed capital fix were on average less than 16% of the GDP. The dynamics of investments is still encouraging, increasing from 11% in 2000 up to 24.7% in 2006. The services sector is an absolute leader in attracting investments into fixed capital, registering 71.2% (2006) as a total figure. In particular, most investments have been registered in communications and transportation, real estate and trade. At the same time, the agricultural sector is largely avoided by investors, having attracted less than 5% of total

²⁴ Global competitiveness indicator looks into nine groups of factors critical for enhancing productivity and competitiveness: institutions, infrastructure, macro-economy, health and primary education, market efficiency, technologic absorption capacity, business sophistication and innovation.

investors. Processing industry is more attractive, as it accounts for an average annual share of 15.3%, which has been decreasing lately.

Foreign direct investments (FDI), regarded as one of the main indicators confirming the success of policies and economic prospects of a country, have grown 3 times in the past six years (amounting for USD1.3 bil. in 2006), and in the first half of 2007 this indicator increased by USD205 million. As compared to reference countries, the rate of the FDI in the GDP is relatively high. It should be mentioned that FDI are important not as hard currency resources only, but as a combination of experience, knowledge, management practices, marketing innovations and technologic know-how, stimulating investments of domestic capital.²⁵

The first phase of the regulatory reform resulted in the implementation of a number of activities entailing: (a) simplification and enhanced transparency of the regulatory process through reducing a number of regulations governing business activity; (b) reducing the duration and costs of the registration procedure; (c) reducing the cost of authorization issuing procedures; (d) partial simplification and centralization of licensing procedure, (e) optimization of registration procedure and (f) reducing conflicts of interest between the inspection and testing roles of supervision agencies.

The reform's initial results are confirmed by the conclusions of the yearly survey „Costs of business activity regulation by the state”. According to the survey in between 2002-2007, the time needed to register an enterprise has reduced by 6 days, while the costs have shrunk to 50%. Also, the average number of licenses per company has reduced, and the time needed to issue them has reduced to 20 days, while the costs have halved. The procedures of issuing authorizations have become cheaper in terms of money and time, however, the level of unofficial payments to get them has increased. The survey points towards reduced costs for certification of imported products and customs clearance procedures, as well as length of import and export procedures.

Despite positive results described above, the Republic of Moldova failed to advance in the world rating (including the regional one) regarding business environment. Moldova is rated 92 in the World Bank's report „Costs of Doing Business 2008”, showing a loss of three position in rating, compared to the previous year. In the list of reference countries Moldova is rated 10 (of 13, namely: Ukraine, Romania, Albania, Bulgaria, Kyrgyz Republic, Macedonia, Estonia, Latvia, Lithuania, Slovak Republic, and Moldova). For our country the report indicates a high level of difficulty in business regulation in external trade, licensing, obtaining loans. Also, the report indicate a low level of investments protection indicator of 4.7 (on a scale from 0 to 10, where 10 is the highest level of protection). So, the results obtained in improving business environment have to be viewed through comparison with other countries performance, and an important conclusion is that Moldova does not make sufficient efforts in comparison with other countries competing for investments.

Since 2000, significant increase of budget revenues (in particular fiscal revenues), allowed the Government to review the possibility to ease the fiscal pressure in general, and for business environment in particular. To this effect, the rate of the corporate income tax was reduced from 28% in 2001 to 15% in 2006. In 2007, the Government came up with a new initiative of fiscal liberalization meaning introduction of a zero rate corporate income tax, except for the distributed income. Also, the capital legalization procedure for non-declared financial means, material and financial assets under the possession of natural persons and legal entities (residents of the Republic of Moldova both in and outside the country) started in

²⁵ Republic of Moldova: Analysis of economic growth constraints, 2007.

2007, as well as the fiscal amnesty reform, meaning the cancellation of arrears on tax payments as of January 1, 2007.

The biggest share in direct taxes is formed by social and health insurance contributions, the lion's part of which is paid by employers. The share of social insurance contributions has been redistributed between the employer and employee by reducing the share of the first from 31% in 2001 to 25% in 2007. At the same time, starting in 2004, mandatory health insurance was introduced, amounting in 2007 to 5% equally distributed between the employer and employee.

Recent comparative assessments indicate a medium level of taxation in the Republic of Moldova in comparison with other countries in the region. This finding is confirmed by the results of the „Costs of Doing Business 2008” study, where Moldova is rated in the middle among countries under comparison. In 2006 the profit taxation rate was 44%. At the same time, in Moldova labour is taxed relatively high. Social and health insurance contributions, combined with individual income tax, represent a rather high tax on earned income. This is an impediment for job creation, in particular, in the formal sector.

In general, despite the implemented reforms, fiscal pressure determined as fiscal revenues and GDP ratio was continuously increasing. In 2006 fiscal pressure represented 33.4% as compared to 24.7% in 2000. This phenomenon may lead to discouraging investments in economy. Fiscal pressure increase may be stopped by comprehensive efforts focused on reduction of the public sector size, fiscal discipline improvement, tax base expansion and reduction of the informal sector.

Quality infrastructure

Growth of domestic economy competitiveness implies compliance with increasingly growing international markets requirements in terms of quality and performance of products, while conformity with international standards became a de facto condition for market access. To this effect, improving the metrology, standardization, testing and quality (MSTQ) framework is a necessary step towards gaining access on international markets and increasing competitiveness of domestic products.

Currently the national MSTQ system operates with outdated equipment and standards, inadequate for market economy practices and is not fully acknowledged by European organizations, what causes serious problems of compliance with international trade requirements for Moldovan products. Non-acknowledgement of the system is also explained by lack of explicit separation of functions and responsibilities and conflict of interest in standardization, national measuring, verification and accreditation standards between the existent institutions.

The process of MSTQ system reform in Moldova, including transition to a system based on voluntary standards, started in 2001, following Moldova's accession to the WTO. To this effect, the Quality Infrastructure Concept was developed and approved, targeted towards four major objectives: (a) improving the existent MSTQ institutions up to the international level (including international acknowledgement); (b) improving existent services and introducing new MSTQ services (based on Moldovan producers demand); (c) promoting use of MSTQ services by companies aiming at enhancing quality and conformity with international standards; and (d) capacity building for product quality control and consumer protection in conformity with European practices. Also, the relevant legal framework underwent essential improvements. These actions, however, are not sufficient to create a functional system. They have to be accompanied by the reorganization of the institutional framework, investments in equipment and human resources, as well as promoting demand

for these services. Though some exporting Moldovan companies started to implement quality systems, the number of such companies so far is relatively small.

Export promotion

The low level of Moldovan products' competitiveness reflected not only in reduced export volumes, but also in poor diversification by products and their destination countries. From the former economic system Moldova inherited an excessive dependence on the CIS markets. Though this dependence has reduced to a certain extent lately (in 2006, approximately 40% of Moldovan exports were absorbed by the CIS markets, of which 32% by the Russian market, compared to 59% and 45%, respectively, in 2000), still, it is sufficiently strong and implies serious risks. Cessation of Moldovan wines and food product imports on the Russian market in 2006 had a significant impact on the domestic economy. Wine and alcoholic drinks exports dropped from 11% of GDP in 2005 to 6% in 2006, while GDP growth has reduced by approximately 3 p.p.²⁶.

The objective of wider diversification of exports implies maintenance of rather big share of Moldovan products on Eastern markets and increase of this share on Western markets. Penetration into new markets, in particular European, is a complicated and lengthy process. In the past seven years the share of Moldovan exports in UE-15 countries has raised by a little as 4 p.p., making 25.6% of the total exports in 2006. The share of Moldovan exports in UE-25 group was 35%. To this effect, negotiation of more advantageous external trade regimes and participation in regional cooperation initiatives is an important contribution from the part of the state towards supporting exporters' efforts to diversify export destinations and enhance competitiveness.

Starting in 2006, Moldova has been included in the list of countries benefiting from extended commercial preferences („GSP Plus”). The new system allows customs duties free access on the EU market for 7,200 products, of 11,000 existent in the Combined Nomenclature of Commodities. However, this does not include agricultural products strategic for our country, such as sugar, meat, alcoholic drinks, etc. Further, actions are being taken aimed at obtaining a new instrument, Autonomous Trade Preferences (ATP), that will considerably encourage bilateral commercial exchanges and will allow to maintain existent economic relations with recently EU accessed countries - Romania and Bulgaria, under preferential regime. Also, in 2006 the Republic of Moldova, along with other nine European countries, signed a new free trade agreement for Central Europe (CEFTA). CEFTA 2006 Agreement provides for an extended degree of liberalization, in particular for trade with manufactured goods, transparent mechanisms of applying trade protection measures and establishing its own trade disputes resolution mechanism, or use of the WTO's instrument. The membership in CEFTA opens access to EU's structural funds to the Republic of Moldova.

Small and Medium Enterprises

The role of Small and Medium Enterprises (SME) sector for economy is an important one due to multidimensional impact it has both on economic growth, labour force employment, and poverty reduction. In the Republic of Moldova SME sector represents circa 98% of the total number of enterprises, employing 59% of the total number of employees and producing 46% of total revenues per economy. The major part of SME (circa 66%) operate in Chisinau municipality, accomplishing 72% of all SME sector turnover. SME are preponderantly involved in trade (41.6% of the total number of SME). However, the performance of this segment is still poor – in 2006, of the total number of SME only 40% gained profit, 48%

²⁶ Increase of prices for natural gas imported from Russian Federation also contributed to decrease of the GDP growth rate.

suffered losses, and the rest scored at a break even point or declared lack of economic activity.

The Government identified the following major problems faced by the SME in Moldova: reduced access to financial resources, in particular, to long term preferential credits, lack of collateral needed to contract loans, underdeveloped business culture, etc. By approving the SME development support Strategy for 2006-2008, the Government committed to create appropriate conditions for this sector growth, enhancing competitiveness and increasing its contribution to the country's sustainable economic development. More concretely, the Strategy sets forth a number of ambitious tasks: (i) development of a legislative, regulatory and institutional framework favourable to SME development; (ii) facilitation of SME's access to funds by creating necessary conditions for micro-financing system development and launching new financial technologies and instruments; (iii) development of business culture through a general training and vocational training system; (iv) development of modern advisory services; (v) stimulation of innovation culture development aimed towards production process optimization, marketing, enhancing goods and services quality, developing new goods and services; (vi) intensification of consultations and public-private partnership through creation of conditions favourable to SME representation system development and increasing the role of consultations with the business community in the decision making process.

Improving state property administration

In Moldova enterprises with the state's participation in equity still hold an important share in certain sectors of economy, even though in absolute values their number is small. For example, in 2004 these enterprises accounted for 40% of total sales of utilities sector and 10% of total sales in industry.²⁷ Also, they employed about 14% of labour force in industry and 11% in constructions. Recent analysis of performance of enterprises with the state's participation show a lower level of profitability in comparison with private enterprises. In particular, net profit rate is the smallest at enterprises where the state participates with less than 33% of stock. For these enterprises, the state can not influence the enterprise administrative process. At the same time, the state holding a certain share of stock is often an element of mistrust withholding investors from investing in these enterprises. Evolution of financial indicators of enterprises where the state's share is between 33 and 51% also shows inefficient management. Often, administration of these enterprises by authorized bodies is not sufficiently thorough. A better performance is demonstrated by a group of enterprises where the state holds more than 51% of stock. At the same time, the situation for this group is to a great extent determined by Moldtelecom's performance that owns more than 20% of stock and generates circa 20% of the net annual profit²⁸.

Providing conditions for efficient use of all assets becomes a primary task in case of countries with limited resources, like Moldova. To this effect, the Government has initiated a number of actions targeted towards improving public property management. The inventory of the state's assets has been made, and existent management and privatization instruments reviewed. This analysis served as basis for the approval of the Law on state property management and denationalization No. 121-XVI of May 4, 2007, with the following priorities: consolidation of public property accounting and optimization of the public property size, structure and administration methods, in particular through introducing corporate management principles. Imposing the requirement to calculate dividends will contribute to improving the public finance management system and identification of potential resources for

²⁷ Moldova: Faster economic growth opportunities, World Bank, 2005

²⁸ State owned enterprises assessment report, MET 2005

public investments allocated based on priorities. The new law identifies a list of assets that can not be subjected to privatization, all other assets shall be set out for sale.

Infrastructure development

Transport sector

Deficiencies in public infrastructure represent a significant impediment for enhancement of Moldovan economy's competitiveness. Scarce financing of the sector during the entire transition period resulted in significant worsening of roads network, water supply and sewerage systems, heating systems. Despite the requirement to extend and develop infrastructure, public investments continued to be low lately, accounting for less than 3% of the GDP.

Under-developed road infrastructure has an important impact on mobility of goods and people, in particular in rural areas. This also represents an impediment for trade, imposing additional costs for exporters and importers. Currently, transport infrastructure in the Republic of Moldova is much below regional comparisons. Though roads density is approximately at the level of the regional average, the density of paved roads is much under this level. Almost 75% of national and more than 79% of local roads are classified as bad. Approximately 400 km of paved roads have lost their coating and turned into unpaved or country roads. The railroad transport, also playing an important role, is extended, but obsolete.

Stopping of road infrastructure deterioration process and its development implies the need for major long term investments. Reduced availability of resources poses the need to review mechanisms of allocation and use of funds for purposes of existent roads maintenance and construction of new ones. In 2006, the Government initiated the development of the National Transport Program for 2008-2017, comprising the transport sector strategy, as well as a prioritized investments and expenditures plan for the transport sector. Also, the Strategy provides for the creation of an institutional and financial system for the sustainable management and maintenance of road network.

A first result of recent activities in this sector is the signing, at the end of 2006, of a joint financing agreement between the European Investments Bank, the World Bank and the EBRD for the road routes of Moldovan segment of the Pan-European Corridor IX rehabilitation and modernization project: North-South connection (Criva-Chisinau-Comrat) and East-Vest (Chisinau towards Romanian border) with a total value of 60 mil. Euro, providing for the rehabilitation of 500 km of the above-mentioned roads. Also, the Republic of Moldova is in the process of preparing a road rehabilitation project proposal, financing of which will be sought from the Millennium Challenge Corporation.

Energy sector

Rapid increase of world prices for energy, excessive dependence on natural gas imported from one supplier, reduced level of renewable sources use, high rate of losses in electric, energy and thermal power sector, low level of efficiency and poor condition of most energy infrastructure facilities are the factors contributing to reduced competitiveness of Moldovan economy.

Structural reforms implemented in previous years resulted in improved financial situation of the sector and partial rehabilitation of energy infrastructure. Following independence, the gas and electric power distribution sectors have been partially privatized. The state has maintained full ownership in the electric power generation sector, distribution of thermal power, and is partially present in the distribution of electricity and gas. Due to privatization, the energy sector benefited from a larger volume of private investments than other sectors of

infrastructure. Also, important public investments were made in the gas distribution sector (USD100 million), electric power transportation and distribution, heating supply sector.

Despite these achievements, the sector is still has to deal with an advanced level of moral and physical obsolescence of energy facilities and equipment: about 60% of facilities are being used for more than 25 years, and 40% - more than 30 years²⁹. Very low energy efficiency (almost 3 times lower than in European countries) contribute to substantial growth of energy resource costs in the production process. To improve the situation, it is necessary to increase investments through increased public expenditures, promote public-private partnerships, improve management of state-owned enterprises.

Under a total dependence on imported energy sources, diversification of gas and electric energy suppliers, as a measure ensuring energy security, is the major task of the Government. To this effect, Moldova's participation in the South-European energy market is an opportunity. In 2006, the Energy Strategy up to 2020 was approved, providing for the harmonization of the Moldovan legislation and energy policies with those of the European Union. To ensure Moldova's participation in the South-East Europe circuit, electricity and gas transport technical capacity development projects were developed. Implementation of these projects will lead to increased energy supply security in the region.

Rationale

Enhancement of domestic economy competitiveness implies assurance of gradual transition from cost-factor determined competitiveness to a competitiveness determined by efficiency- and quality-factor. Efficiency and quality based competitiveness has to become the main source of sustainable economic development and growth and improvement of life standards for Moldovan population. Enhancing competitiveness of domestic products will allow to increase exports and, as a consequence will reduce external vulnerability, the risk of macroeconomic instability and ultimately, confer sustainability to economic growth.

This competitive transition implies essential improvement of business environment, SME promotion, more efficient use of public assets, productivity growth at company level, modernization of physical infrastructure and investments in human capital. In the short run, this will contribute to the consolidation of technologic and innovation absorption capacities. In the long term, it will lead to consolidation of own technological and innovation development capacities.

Overarching goal of priority

Enhancing competitiveness on internal and external markets through ensuring the country's transition from costs based competitiveness on efficiency and quality-based competitiveness.

Objectives

- 3.1. Improved business environment to intensify investment activity in economy**
- 3.2. SME promotion to offer new opportunities and ensure a better adaptability of the economic system to the current exigencies of the market economy**
- 3.3. Improved efficiency of enterprises to consolidate competitiveness endogenous factors from the core of national economy**
- 3.4. Research and innovation development**

²⁹ Energy Strategy up to 2020, approved by Government Resolution No. 958 of August 21, 2007.

3.5. Physical infrastructure development to reduce production costs

Programs and measures

3.1. Improving the business environment

Rationale

Currently, the Moldovan economy is characterized by a relatively low labour productivity, de-capitalization, focusing on sectors having low added value and slow job creation pace. To overcome this situation, concrete actions in more directions are needed, still the main strategic direction at policy level is improvement of business environment. Being less attractive in terms of natural resources and size of internal market, the Republic of Moldova may attract foreign investments primarily through some more advantageous institutional factors and policies versus other countries. The primary action in this regard is speeding up the regulatory framework reform, which will significantly contribute to an increase of local and foreign investments, to growth and rehabilitation of the economy's stock of capital.

Programs and measures

3.1.1. Continuation and speeding up of the business regulatory framework reform:

- (i) Simplification and further optimization of existent regulations in initiation, running and liquidation of a business;
- (ii) Explore the opportunity to create „one stop” shops in the activity of all public authorities and implementation where justified;
- (iii) Reduction of fiscal burden through further optimization of tax system (particularly, optimization of social taxes), reduction of the public sector size in the business environment and improving fiscal administration;
- (iv) Creation and promoting national electronic payments system, to allow payment of taxes and fees, as well as for goods and services by electronic means;
- (v) Carrying out of the cost-benefit analysis (analysis of the regulatory impact) prior to introduction of additional regulations;
- (vi) Simplification of reporting procedure, including through introduction of on-line reporting;
- (vii) Development and implementation of simplified accounting methods for small and medium commercial entities.

3.1.2. Improving the quality infrastructure:

- (i) Speeding up the process of adjusting the MSTQ system to the European one;
- (ii) Consolidation of institutional capacities in standardization, accreditation, conformity assurance, metrology and market supervision, and integration of relevant institutions in the European structures (EA, CEN, CENELEC and ETSI), as well as creation of conditions for the establishment of the single electronic shop for international trade documents and e-trade;
- (iii) Identification of needs for support in modernization and re-equipment of laboratories for product quality verification;
- (iv) Re-equipping and preparing product testing laboratories for their correspondence with reference European and international standard requirements;
- (v) Support to the National Accreditation Body to sign recognition agreements with the European Cooperation for Accreditation in order to recognize the results of conformity evaluation at European level;

- (vi) Speeding up the process of developing technical regulations for products based on EU directives and regulations;
- (vii) Develop and modernize the national basis of benchmarks compatible with European Union requirements;
- (viii) Develop the consumer protection mechanism and enhance institutional capacity to apply it.

3.1.3. Extension of goods and services export, in particular on EU markets:

- (i) Simplification and further optimization of customs and administrative procedures aimed at reducing the cost and time needed to carry out import–export operations;
- (ii) Development of factoring and other financial instruments to intensify export;
- (iii) Intensification of commercial relations under regional cooperation initiatives (ex. South-East Europe Stability Pact, CEFTA, GUAM, CEMN, etc.), and resuming commercial relations with traditional partners, as well as creation of conditions for the establishment of the single electronic shop for international trade documents and e-trade;
- (iv) Full use of opportunities offered by the GSP+ system, Autonomous Trade Preferences and further, negotiation of an Asymmetric Trade agreement with the EU;
- (v) Strengthening of the legislative and regulatory framework and of specific regulations in informational and communication technologies, aiming at promoting economy and e-trade.

3.1.4. Investments attraction, in particular direct foreign investments:

- (i) Intensification of bilateral activities and direct negotiations for attraction of big companies subsidiaries (strategic investors) in Moldovan economy;
- (ii) Training of the „first line” staff (customs service, border guards, immigration service, etc.) in relations with customers;
- (iii) Promoting investment opportunities by assuring investors’ access to free economic zones, industrial and innovation parks, etc.;
- (iv) Expanding the spectrum of investment facilities that could form investment funds portfolio;
- (v) Adopting the legislative base and encouraging formation of public-private partnerships for investment projects financing, in particular in public utilities area;
- (vi) Drafting a national strategy for electronic business development (eBusiness).

3.1.5. Observance of fair competition principles:

- (i) Development of a fair competition of state support, types of state support (subsidies, subventions, fiscal facilities, etc.) and approval of clear rules of state support policy, limited to evident cases of market deficiencies;
- (ii) Development of a new law on competition in accordance with national norms.

3.1.6. Reform and stimulation of financial market development:

- (i) Application of commonly acceptable principles related to access of foreign banking and non-banking financial institutions which comply with “appropriate and adequate” tests on the financial market of the Republic of Moldova;
- (ii) Reduction of intermediation costs by attracting strategic foreign investments in the banking sector;

- (iii) Adjusting internal legislation on financial market to specialized directives of the European Union and international standards;
- (iv) Building capacity of the National Commission on Financial Market to regulate the entire segment of non-banking financial services, including insurance;
- (v) Ensuring the operation of the financial market by improving regulation of creation, operation and liquidation of investment institutions;
- (vi) Improving capital market infrastructure by stimulation of new investment institution creation, such as: specialized mutual investment funds, non-state pension funds, innovation and venture funds, underwriting companies, financial consultancy organizations, etc.

3.2. Promotion of SMEs

Rationale

Small and medium enterprises constitute an important element in assuring a sustainable economic growth and generation of new jobs, one of the economy viability signs being further diversification and expansion of the sector. The history of SME development in the Republic of Moldova indicates existence of a set of factors hampering adequate development of SME, such as reduced access of starts up to funding sources, underdeveloped business culture and harsh competition on markets in Europe. In this context, the overall objective of this component of the strategy is strengthening of the existent SME' competitiveness, and stimulation of their number increase.

Programs and measures

3.2.1. Facilitating SME access to financial resources:

- (i) Developing a system of credit guarantees for SMEs;
- (ii) Risk capital system development;
- (iii) Encouraging long-term lending schemes for small and medium enterprises, including attraction of credit lines from international financial institutions.

3.2.2. Developing business support infrastructure and fostering entrepreneurial culture:

- (i) Developing the institutional capacities of the Organization for SME Development in regions;
- (ii) Giving informational, consultative, and financial support in starting up a business, in particular for such categories of population as women and youth;
- (iii) Developing the business-consulting network by means of training business-consulting service providers and stimulating the demand for consultancy;
- (iv) Creating and developing business incubators;
- (v) Forming and developing entrepreneurial skills, particularly within secondary and professional education and improving the mechanism for life-long learning.

3.2.3. Building the capacity of SMEs to face competition on the internal and European market:

- (i) Stimulating SMEs to implement international standards for quality management and safety control;
- (ii) Ensuring the transparent access of SMEs to public procurement;
- (iii) Evaluating and comparing the international competitiveness of the Republic of Moldova, including of SMEs, on the basis of a rigorous set of quantitative and qualitative indicators;

- (iv) Encouraging training of SMEs managers in export operations, including through international transfer of knowledge and experience;
- (v) Stimulating the development of clusters.

3.2.4. Strengthening the public-private dialogue:

- (i) Establishing a permanent dialogue between the government and the national associations of entrepreneurs and SMEs;
- (ii) Actively involving SME sector in discussion of regulatory framework under the umbrella of Regulatory Impact Assessment;
- (iii) Identifying, jointly with the private sector, methods and schemes to stimulate the contracting and sub-contracting of SMEs from strategic sectors with a high growth potential by large enterprises.

3.3. Increase enterprise efficiency

Rationale

Efficient companies, capable to resist competition from foreign competitors, both on internal, and external markets, form the core of a competitive economy. The main source of competitiveness is labour productivity, which in its turn depends on a series of factors, the main being: 1) qualification and health of labour force; 2) managerial practices; and 3) absorption capacity, technologic and/or innovation development both at the company, and society level. Special emphasis will be placed on increasing the efficiency of public property use through the continuation of economy's public sector restructuring process, including through privatization of inefficient enterprises.

Programs and measures

3.2.5. Improving employees qualifications and labour conditions:

- (i) Curricula modernization and provision of modern equipment for practical training under vocational and higher education, primarily in technical and technological specialties;
- (ii) Improving labour conditions and safety of employees;
- (iii) Encouraging better employer-employee relations and stimulating higher corporate social responsibility.

3.2.6. Improving managerial practices:

- (i) Promoting quality management principles and stimulation of quality management implementation and certification systems process at the company level, in conformity with requirements of international standards ISO series 9000;
- (ii) Training of staff of local enterprises in the field of quality and productivity management systems (ISO, et al) based on best practices;
- (iii) Development of an operational management system based on best practices in the field quality and productivity management and its implementation in local enterprises;
- (iv) Increasing managerial accountability to stockholders, including the minority stockholders, and partners;
- (v) Promoting and large scale implementation of the modern business culture, including corporate social responsibility principles in business activity.

3.2.7. Improving management of state assets:

- (i) Implementing corporate administration principles at state-owned enterprises;
- (ii) Continuation of the economy's public sector restructuring process, including through privatization of inefficient public companies.

3.4. Research and innovation development

Rationale

Sustainable economic development based on knowledge and innovation can be successful only if supported scientifically in accomplishing national priorities, which, in their turn, imply provision of favourable conditions for expanding scientific research needed to cover economy's needs for specific research, increasing scientific level and efficiency. Because innovation is an underlying factor in assuring competitiveness at any level: enterprise, sector, region, country, building an innovation and technologic transfer infrastructure becomes a must of the national social-economic development. One of the main forms of promoting state policy in science and innovation are the state programs, to be selected and financed on a public competitive basis, based on expert opinion provided by independent experts.

Programs and measures

3.2.8. Capacity building in technologic innovation and modernization:

- (i) Development and promotion of efficient mechanisms of advanced technologies' absorption;
- (ii) Optimization of science and innovation by creating scientific clusters, scientific platforms and focusing the intellectual and technical-experimental potential to achieve priorities;
- (iii) Strengthening of scientific institutions' resource basis;
- (iv) Strengthening of the national system of scientific research by stimulating participation of research and innovation organizations in research and development activities and integration in the main European and international research programs (FP7, EUREKA, COST, GEANT, CRDF, STCU);
- (v) Promoting research and innovation through scientific-technological parks and innovation incubators and implementing national and international scientific and technologic research results in economic activity;
- (vi) Introducing innovation indicators in the national statistic system;
- (vii) Promoting access to financial resources in technologically intensive sectors, in particular through alternative financial instruments („angels investors”, „seminal capital”, micro-credits, etc.);
- (viii) Stabilization and development of innovative scientific and human managerial potential through developing legal and economic mechanisms and increasing motivation of researchers and innovators, depending on the progress made in the achievement of national priorities;
- (ix) Support to and establishment of local academic networks and profesional associations in implementing local and regional ICT research;
- (x) Establishment of an open national database containing data about research institutions and researches.

3.5. Physical infrastructure development

3.5.1 Transport System

Rationale

Existence of a transport structure is crucial for economic growth and free and rapid circulation of goods and people. The liberalized trade regime may be of little value for economic development if access infrastructure is lacking. Sub-developed transport infrastructure considerably reduces international competitiveness of companies and the respective country's attractiveness for potential investors. In order to effectively participate in international trade, Moldovan companies need a safe and modern infrastructure, integrated in the Pan-European circuit, that would provide them sure and competitive advantages (cost and time) in carrying out raw materials and finished products export/import operations. In order to use the geographical positions advantages, it is necessary to modernize the entire transport infrastructure of the Republic of Moldova.

Programs and measures

3.2.8.1. Developing and maintaining a modern automotive system, which is safe and connected to the pan-European circuit:

- (i) Stopping of deterioration and gradual rehabilitation of the existent roads network;
- (ii) Development of a viable and stable roads maintenance financing mechanism;
- (iii) Construction of new roads compliant to European quality standards;
- (iv) Introducing axis weight control system to prevent further degradation of roads;
- (v) Efficient connection of the main automobile roads in the Republic of Moldova to the European and regional economic partners networks (Romania and Ukraine);
- (vi) Implementing measures to ensure enhanced safety of existent and newly constructed automobile roads aiming at reducing the number of road accidents;
- (vii) Adopting the necessary legislative base for and establishing public-private partnerships for transport infrastructure development;
- (viii) Assessment of road transport impact on the environment and lessening its negative ecologic effects;
- (ix) Efficient combating of corruption in state road regulation bodies.

3.2.8.2. Modernization of the railroad transport system:

- (i) Renovation of the existent railroads of major importance;
- (ii) Consideration of the opportunity of building segments of roads with European gauge, to ensure facilitated access of Moldovan exports on Romanian market;
- (iii) Modernization of the rolling stock of passenger and freight aiming at increasing quality, safety and speed of services provided;
- (iv) Assuring effective integration in the European railroad system;
- (v) Transformation of the national railroad system into a regional hub by offering an extended variety of connections and regional transit.

3.2.8.3. Putting in use benefits provided by construction of Giurgiulesti port

3.2.8.4. Increasing safety and quality of services offered to passengers at Chisinau Airport (compliance with ICAO requirements and other international standards)

3.2.8.5. Increasing airport capacity for the cargo segment by modernization and transformation of one/some existent airports into a logistical center

3.5.2 Energy system

Rationale

Recent years have been marked by global increase of prices for energy resources, making access to these resources more difficult for countries in general and for companies in particular. Given the absence of own energy resources, the authorities' mission is to ensure reliable provision of energy at accessible prices to consumers in the Republic of Moldova. To remain/become competitive, the companies in the Republic of Moldova need stability in provision of energy and predictable prices in the short run. At the same time the Republic of Moldova needs to diversify suppliers – the goal that can be achieved through participation in a series of regional energy projects and through a more active cooperation with the European Union. Substantial increase of prices for energy resources implies a higher degree of implementing energy conservation technologies and renewable energy sources. These in their turn, need attraction of new energy conservation technologies and increased investments in research and innovation in this area.

Programs and measures

- 3.2.8.1. Construction of new electric interconnection lines of high voltage with neighbouring countries to ensure energetic safety of the state and increasing electric energy transiting capacity (construction of LEA-400kV Balti-Suceava, LEA-330kV Balti-Novodnestrovk, LEA-110kV Falcu-Gotesti);
- 3.2.8.2. Conducting a cost-benefit analysis for increasing own electric power production capacities (reconstruction and modernization of CET-2, Chisinau municipality, increasing its capacity up to 440 MW, CET-1 up to 90 MW and CET-Nord up to 100 MW);
- 3.2.8.3. Reconstruction and modernization of electric power transport and distribution, to ensure reduction of losses, non-interrupted provision of EDN-s and final consumers with electric energy;
- 3.2.8.4. Increasing and fully using the existent natural gas transiting capacity;
- 3.2.8.5. Integration of the national electricity system into the European one (UCTE);
- 3.2.8.6. Development /full use of own renewable energy resources;
- 3.2.8.7. Attraction of investments for implementation of energy conservation technologies;
- 3.2.8.8. Modernization of thermal power transport and distribution infrastructure;
- 3.2.8.9. Assessment of the economic and social impact of increased prices for imported energy resources and, if needed, development of efficient import and consumption subsidizing mechanisms for socially-vulnerable population, in agreement with international financial institutions;
- 3.2.8.10. Extension of gas networks and developing possibilities for interconnection of the republican gas supply system (construction of the nationally important gas pipeline Balti-Ungheni with ramifications towards Falesti, Singerei and Telenesti rayons).

Monitoring indicators

Indicator

Gross added value, mil. lei, current prices
*agriculture, hunting and forestry; fishing
industry
services*

Population employed in economy, thousands persons
*agriculture, hunting and forestry; fishing
industry
services*

Export of goods, related to GDP,%
Share of exports in total amount: %

Source

National Bureau of Statistics

National Bureau of Statistics

National Bank of Moldova
National Bureau of Statistics

CIS countries

EU countries

other countries

Agricultural and food products export as share in total volume of export, %

Direct Foreign Investments (net), USD mil.

Direct Foreign Investments per capita (stock), USD

Investments in fixed capital related to GDP, %

Ratio of the number of revealed product non-conformities in the total number of controls

Number of approved national standards, identical to international and European standards, annual

Number of technical regulations developed based on EU Directives, annual

Number of enterprises that were granted ISO 9000 and ISO 22000 certificates, annual

Loans provided by commercial banks related to GDP, %

Share of bad credits in the total bank credits provided by commercial banks of the Republic of Moldova, %

Current real exchange rate of the national currency, % (Dec. 2000 = 100%)

Interest rate for loans in lei (annual average, %)

Difference between loans interest rate and deposits interest rate in MDL (annual average), %

Share of life insurance premiums in GDP, %

Credits portfolio of micro-crediting companies related to GDP, %

Credits portfolio of credit and savings associations related to GDP, %

Share of expenditures for research and development in GDP, %

Share of expenditures for scientific applied research carried out by the ASM in total expenditures for research and innovation, %

Funds invested by companies in implementation of domestic innovations in real sector of economy

Patents total/implemented

Share of advanced technologies export in total exports, %

Length of roads, km

– *Reconstructed*

– *Constructed*

Energy resources per capita, thousand kg conventional units
Consumption of energy as a share of GDP, kg conventional units for 1 MDL

Share of losses in electric networks in consumption of electric energy, %

Volume of domestic electric energy related to total

National Bureau of Statistics

National Bureau of Statistics

National Bureau of Statistics

National Bureau of Statistics

Standardization and

Metrology Service

Standardization and

Metrology Service

Standardization and

Metrology Service

Standardization and

Metrology Service

National Bank of Moldova

National Bank of Moldova

National Bank of Moldova

National Bank of Moldova

National Bank of Moldova

National Commission for

Financial Market

National Commission for

Financial Market

National Commission for

Financial Market

Ministry of Finance

Academy of Science of the

Republic of Moldova

Academy of Science of the

Republic of Moldova

Academy of Science of the

Republic of Moldova

World Bank GDI

Ministry of Transport and

Roads

National Bureau of Statistics

National Bureau of Statistics

National Bureau of Statistics

National Bureau of Statistics

consumption, %	
Share of investments in the transport sector in the total public investments, %	Ministry of Finance
Share of investments in the development of air and naval transport in the total public transport investments, %	Ministry of Transport
Number of land telephone lines per 100 residents	Ministry of Information Development
Number of subscribers to mobile telephone networks per 100 residents	Ministry of Information Development
Number of Personal Computers per 100 residents	Ministry of Information Development
Number of Internet users per 100 residents	Ministry of Information Development
National goods' competitiveness indicator	National Bank of Moldova
<i>CIS countries</i>	
<i>EU countries</i>	
<i>Central and Eastern Europe countries</i>	
Duration of import procedures in customs, days	Cost of Doing Business Survey
Duration of customs clearance for goods at import, minutes	Customs Service
<i>Pilot customs points at border</i>	
<i>In-land customs points</i>	
Refund of VAT received as 0-100% of the requested amount, (share of interviewed persons, %)	Cost of Doing Business Survey

4. Developing Human Resources, Providing for Employment Opportunities and Promoting Social Inclusion

Analysis

Education

The reforms promoted so far within education have been primarily aiming at improving the access to all levels of education and at improving the quality of teaching and learning. Consistent efforts have been bent in order to improve the enrolment in primary education. Such actions included among other: reviewing of preschool institution structure and syllabus, implementing education technologies targeting personality development, setting up of 20 community centers for children and socially vulnerable families in areas in which there are no kindergartens, increasing the funding earmarked for defraying the costs for children, etc.

The curricula for grades one to nine has been revised within the framework of the mandatory general education reforms, with new systems in place for teacher evaluation and training, focusing on shifting from mere remembering of things towards one's ability to put his/her knowledge at use in real-life situations. A rental scheme has been developed to ensure make sure all get access to new textbooks. Tools have been developed to perform the mapping of schooling facilities, with a mapping exercise focusing on pre-university education facilities country wide. Local public administration authorities will make use of these mapping tools to identify existing gaps and to develop a plan to streamline the network of education facilities at district level. Moreover, a Concept to evaluate a school's achievements has been developed and approved of, with an Assessment and Examining Agency being established to ensure an efficient, trustworthy and objective national assessment system.

In view of signing up to the Bologna process, the legal and regulatory framework has been reviewed and updated, whereas the structure of higher education was brought in line with that used in Europe, consisting of two university cycles. Provisions have been made in order to have the European System of Transferable Credits implemented in higher education facilities, with an Annex to Diploma of a single-European format being introduced, filled out in both the state official language and in English, issued on a mandatory basis to each graduate, starting in 2005.

Certain measures have been taken in order to improve vocational training, aiming at restructuring the sector, by scaling up the access to applied fields of interest, including agriculture, technical areas, service provision etc., along with reorganizing two vocational schools into vocational upper secondary education schools. Besides, a new roster of occupations has been developed and approved of.

The revival of national economy in early 2000's and increasing budget revenues provided for increasing public expenditure in the sector. Public spending went from 5.7 per cent of the GDP reported in 2000 up to 8.2 per cent in 2006. Education expenditure accounts for the biggest share of spending within the national public budget – 20 per cent. More than half of the education budget is spent for the mandatory general education. Preschool education spending accounts for 16 per cent of the overall education budget, while higher education – for 6.5 per cent. The vocational secondary education takes up 4.7 per cent of the total public funds. Salaries eat up the biggest chunk of all spending, including social and health insurance premiums, reporting an increase of about 4.4 times since 2000.

Trends in education-related indicators varied across various education levels. Following a significant drop throughout 1992–1999, the net preschool education enrollment rates increased from 38.5 per cent in 2000 to 68.5 per cent in 2006. The education enrolment rates have been lower in rural areas due to lacking kindergartens (absent in as many as 280

communities as of 2006), and also owing to low income of rural population there. The mandatory general secondary education enrollment rate has been falling during the same timeframe. The net enrolment rate dropped from 93.5 per cent to 87.6 per cent in primary education (dropping from 95.1 per cent down to 93.3 per cent in urban settlements, and from 92.5 per cent to 84.7 per cent in rural areas), whereas in lower secondary education it went down from 87.0 per cent to 86.1 per cent (decreasing from 92.2 per cent to 90.4 per cent in urban areas, while slightly going up in rural areas – from 83.5 per cent to 83.9 per cent).³⁰ The enrollment rates still are extremely low for vocational secondary education facilities. The poor grades and learning results are indicative of poor quality issues too. This is even more so for vocational secondary education and higher education facilities.

Under-staffing of education facilities is a considerable challenge for the system, specifically in rural areas. Poor working conditions and low wages discouraging young teachers from signing up, while the proportion of elderly teachers of pre-retirement age is increasing (14 per cent of all in 2006). The problem turns out to be particularly burning in rural areas. Also, education quality improvement costs (for teaching materials, textbooks, equipment procurements and repair works, faculty retraining, and building refurbishment) have stayed low.

Hence, with education funds increasingly becoming more readily available, on the one hand, coupled with dropping numbers of school-age children, on the other hand, the system failed to work out its major issues. This points out to the need to streamline the allocation of funds within the system. The persisting decrease in the student-to-teacher ratio is a major obstacle for the efficient use of institutional capacity and financial resources. The low efficiency is, to a great extent, due to keeping up schools, the projected capacity of which is way over the number of students actually attending those, and to further use of a funds-earmarking formula that provides little flexibility to local public authorities and school managers alike in better and more efficiently harnessing those funds. In the same vein, the non-teaching-to-overall-staff ratio still is disproportionately high (at about 37 per cent).

Healthcare

At the turn of the century Moldova has engaged in health system reforms targeting the strengthening of primary health care and restructuring of hospital sector. Reduction in the total number of hospitals subordinate to the Ministry of Health from as many as 290 back in 1996 to 63 by 2006 has resulted in fewer fixed costs within the system. A mandatory health insurance system was created in 2004, thus providing for a single funding system, allowing putting together central government budget moneys and local authority funds in a Health Insurance fund to defray the costs of the Basic Package of Health Services provided to the insured.

There has been a significant growth in the public health expenditure during this timeframe. Public health expenditures accounted for 4.8 per cent of GDP in 2006, whereas public per capita spending on health peaked up since proclaiming independence (about USD 50). Once the mandatory health insurance was in place, there was higher participation of the state budget in the health overall expenditure. Hence, state funds accounted for about 67 per cent of all mandatory health insurance money in 2006, earmarked for groups of citizens for whom Government provides insurance coverage. Despite the funds accrued in the consolidated health budget considerably building up, this does not suffice to meet the needs of people in terms of health care services they have been asking for. Private health expenditure accounted for 42 per cent of the total public health spending in 2005, compared to 23 per cent in the European countries.

³⁰ The methodology employed to compute the net enrolment rate has been developed by UNESCO; in order to include all age groups in the given education stratum one has to calculate the gross enrollment rate within the primary education and lower secondary education.

Implemented reforms, along with more financial means, allowed improving some critical health indicators. The infant mortality rate dropped from 16.3 to 11.8 deaths per 1,000 live births between 2001 and 2006, while under-five mortality rate decreased, respectively, from 20.4 to 14 per 1,000 live births during the same timeframe³¹. Maternal mortality rate has also improved, by decreasing from 43.9 maternal deaths per 100,000 live births reported in 2001 to 16.0 in 2006.

The efforts focusing on fighting infectious diseases have been less successful though. The TB associated death rate has been increasing over the last years (18.6 deaths per 100,000 of population in 2006). More than one-third of all incident TB cases are reported in children and youth. The TB incidence in men is three times that registered with women. Contrary to formulated objectives, the incidence of HIV/AIDS has also increased – reported at 14.65 per 100,000 people in 2006. Moreover, increasingly higher incidence rates have been reported for cardiovascular disorders (by 60 per cent) and for cancer (by 80 per cent). Generally, life expectancy continues to be low when compared against similar indicators in the European countries: 64.6 years for men and 72.2 years for women in 2006.

More recently people have started having better access to health care services. This is in part owing to primary health care reforms and to a mandatory health insurance plan being implemented in the country. According to data from the Household Budget Survey, 97 per cent of households are within a 5 km range from the nearest health center. Another access indicator is the coverage with health insurance: 77.5 per cent of population was insured as of 2006, i.e. by 2.5 pp higher than reported in the previous year. In order to ensure better coverage for vulnerable population groups, the health insurance is free of charge for thirteen categories of people. Besides, the number of emergency calls surged up over the last two years, specifically in rural areas. Nevertheless, access to health care services is still low for certain groups of population, mainly because of high costs.

Despite the public health expenditure significantly increasing, the quality of rendered services has not improved very much. Low compensation of health workers, lacking funds for upgrading the medical equipment in inpatient facilities and for purchasing new state-of-the-art equipment, make up the bulk of issues that most of health care facilities have been experiencing, thus hindering any progress in quality improvement. The efficiency improved only marginally within the sector. The sector still is plagued by overcapacity. Yet, the number of hospital beds almost halved over the last decade (56.6 per 10,000 people), courtesy of public hospital reform efforts, reaching the European Union average value; the hospital bed throughput rates still is below what is desired, hence providing opportunities to further streamline and improve the network of hospital facilities.

Enhancing employment

The robust economic growth in the recent years has not been accompanied by a similar growth in employment rates. On the contrary, employment rates went down by about 7 p.p. in 2006 versus 2000. At the same time, unemployment rates stay level with those reported in the European countries (6.6 per cent in 2006). The unemployment is twice as high for the people aged 15-29, as the average for the country. Average duration of unemployment is high (22 months), with about 41 per cent of the unemployed being out of job for 12 months and longer in 2006.

³¹ Infant mortality rate and under-five infant mortality rate were calculated based on births, which is considered a live-birth after completion of week 28 of pregnancy and with a body weight of 1,000 grams and above. Starting in 2008, the Ministry of Health, pursuant to the World Health Organization recommendations, will shift to a new estimation methodology for these indicators concerning children born after completing week 22 of pregnancy and with body weight from 500 grams and above. Therefore, the targets for these indicators set under the Millennium Development Goals are calculated based upon the new methodology.

Low salary scales is the key reason why labor markets are unattractive in the Republic of Moldova. Despite real salaries rising at a high pace since 2000, substantially surpassing the productivity growth, the compensation of work is poor in most sectors. In particular, the lowest wages are registered in agriculture and public services. Moreover, there is a wage discrepancy in the payments of men and women. Any further increase in wage payments without sufficient investments being made in the country to generate a growth of productivity is a threat to the competitiveness of domestic products.

The large-scale outbound migration is, first of all, due to low salaries rather than by lacking employment opportunities. Labor migration that exploded significantly after the financial crisis in the Russian Federation has carried on at a high pace even during the economic revival times thereafter. According to the data of the National Bureau of Statistics, the number of people reported as having migrated as labor force accounted for about 334,000 in 2006, making up 21.1 per cent of the total working population aged 15 years and above.

The withering numbers of working-age population and the increasingly higher average age of employees in the country may result in complex consequences for the social and economic development, with direct impact on the total supply of labor force, income distribution, public expenditure for welfare, investments, etc. The ongoing aging of population may result in serious shortages of human capital needed for the country's sustainable development.

The main efforts bent by the Government in an attempt to increase employment rates include creation of a Moldovan labor force information system and the sharing of information and mediation services. A National Employment Strategy for the Republic of Moldova for 2007-2015 was approved in 2006, coming up with the following objectives: (i) increase employment rates and actual salary levels; (ii) level discrepancies on the labor markets; (iii) avoid mass layoffs, decrease unemployment rates and increase the number of jobs; and (iv) build human capacity by changing the training and re-training systems, and improve human labor mobility.

Social insurance

The reform of the social insurance system started back in 1998. Actions undertaken in the first phase of the reform (implementing a new formula for pension calculation, delaying the retirement age) allowed, first of all, avert the financial collapse of the system. It resulted in a considerable increase in the amount of premiums paid to the social insurance budget, pension amounts, and paid out in full the pension arrears.

However, the reform agenda has not been fully accomplished. Currently, the process of developing individual records on social insurance premium payers is being finalized. This is a necessary element both for improving the financial stability of the system, and for enforcing the principle of calculating benefits, including for welfare pensions, based on the social insurance premiums paid by the social insurance bearer to the state-owned welfare systems.

However, the pension amounts still are low. The average size of retirement pension was MDL 457.51 in 2006, increasing by 15.2 per cent as compared to 2005. This is very close to the poverty level. The replacement rate (the share of payment as per cent within the last income) continued to decline to reach 26.9 per cent by the year-end in 2006 versus 30.1 per cent in 2005. In the same vein, there is significant discrepancy in the pension amounts payable to various categories of retired people.

A major issue for the financial stability of the system in the medium and long run is low participation of the farming sector. The amount of premiums paid by farmers and self-employed is by and large inferior to a minimal premium amount. Having other social insurance premium payers cover those categories raises serious equity questions. Demographic changes

may put the system's sustainability at another serious risk. Any further increases in outbound migration of working-age population could lead to a worsening of the dependency indicator.

Social assistance

Lately, the spending on welfare and social protection programs has been increasing, accounting for about 9.7 per cent of GDP in 2006 versus 8.5 per cent in 2004³². Nominative compensations are still the most costly social program, eating up 38 per cent of all expenditures earmarked for social assistance from the state budget.

The progress accomplished in reforming the social assistance programs still is lagging behind. The current system is fragmented and inefficiently targeted towards the poor. Available surveys indicate that social assistance equally benefits all income quintiles and is not focused on the poorest. This is particularly true for nominative compensations which account for the biggest share of the whole social assistance budget.

Despite the social assistance budget growing, these payments represent a relatively small source of income for all households, and are only marginally more important in terms of income for the poorest households. According to the Household Budget Survey data, welfare payments rank seven among a household's sources of income (accounting for 2.1 per cent of all the income of all households in 2004, and 5.1 per cent of the income of poor households). So, these payments play a minor role in raising the income of poor population.

In the context of the social assistance system reform, a tool has been developed to assess the income of households and individuals (means testing). A virtual system for testing the eligibility of beneficiaries for getting nominative compensations has been implemented in four pilot districts³³, the findings of which will be used to further carry out the reform process. For the same purposes, a beneficiary assessment survey has been conducted on improving the understanding of the link between the existing social assistance services and the vulnerability of certain segments.

Rationale

People represent the main source for the progress of the Republic of Moldova on its way towards modernization. Educated, healthy human resources, with high physical and intellectual potential, having the ability for a life-long learning and adaptable to economic changes, are essential to an economic growth based on competitiveness, efficiency and quality.

Economic growth directly depends on labor productivity. Although critical, increased capital investments and technologic modernization do not suffice to attain a productivity increase. Another indispensable condition is improved quality of human resources which, ultimately, implies an increase and structural optimization of public and private investments in the key sectors of human development, primarily in education and health.

The offering of well-paid jobs is the key way in which economic growth translates into people's prosperity. The pattern of qualitatively new economic growth pursued by the Republic of Moldova is characterized by multiplying and diversifying economic occupations, accessible and remunerated based upon an individual's qualifications. One intensive factor to speeding up economic growth and ensuring better salaries is an increased number of occupations requiring advanced technologic knowledge and skills. At the same time, the economic growth will also be strengthened extensively, primarily through more employment opportunities.

Poverty and its consequence – social exclusion – are both major challenges for the Republic

³² MTEF 2007-2009.

³³ Government Decision no. 119, as of 27.10.2005.

of Moldova, also playing their role in waning of human potential of the country. These phenomena could be eliminated by ensuring a stable, geographically even, economic growth. At the same time, maintaining a social environment friendly for economic growth implies more efficient policies providing for the social protection of people who, due to objective reasons, could not participate in coming up with value-added in the national economy.

In order to prevent the expansion of public sector with associated implications on economic growth, the human development objectives and the ensuring of an adequate level of social protection will have to be accomplished within the limits of available resources (as share of GDP), by improving the efficiency of ongoing programs and actions, and by re-allocating the saved resources to the new programs. This will allow alleviate fiscal pressure exerted on the productive sector and ensure funding stability for social sectors in the medium and long run.

Overarching goal of priority

Efficient use and improved quality of human resources in the Republic of Moldova to ensure gradual transition from occupations requiring low level of qualification towards occupations requiring advanced knowledge and skills, replication of jobs with decent payments, poverty reduction and social inclusion.

Objectives

- 4.1. Improving quality and enhancing equitable access to education services;**
- 4.2. Strengthening of a healthy society;**
- 4.3. More employment opportunities and improved labor force qualifications;**
- 4.4. Providing for wider inclusion and better social protection.**

Programs and measures

4.1. Improving quality and enhancing equitable access to education services

Rationale

Education plays an essential role in reducing poverty and ensuring sustainable economic growth. However, in order to harness this opportunity, it is necessary to ensure equitable access to and adequate quality of education services. Equitable access is important for the universal inclusion of children and youth in education process, including children with special education needs, thus ensuring equal opportunities for a decent life, adequate employment opportunities and participation in social life. At the same time, an educated society is society with a higher degree of social cohesion.

Quality of education services is also important from a point of view of competitive human capital, capable of dealing with the current pressures of the labor markets on the national, regional or global levels. Despite boasting important progress in the field, there is much that the Republic of Moldova has to do in terms of eliminating social inequities and improving the quality of education services. There is number of factors hampering the achievement of important objectives in this sector: poverty, migration and inefficient management of financial resources. Fighting these adverse phenomena requires new thinking, more efficient education sector by streamlining the school network, reforming the financing system, diversifying funding sources, attracting external funds, actively participating in regional education processes and by maximizing the positive externalities ensued by the implementation of collateral programs (for instance, the development of a network of roads

will allow optimizing the network of rural schools, entailing fast and safe transportation of children from small settlements to schools from larger communities).

4.1.1 Enhancing quality of education in view of strengthening the capacity for applied use of knowledge

Programs and measures

4.1.1.1.Improving efficiency of spending on education:

- (i) Streamline the network of education facilities in mandatory secondary education
- (ii) Reform the funds allocation mechanism within the mandatory secondary education
- (iii) Optimize the staffing ratios by reducing the share of non-teaching staff in the total staff within the education sector

4.1.1.2.Strengthening the management of education facilities:

- (i) Develop the autonomy and flexibility of managers of education facilities in using approved budgets
- (ii) Update the accreditation system for education facilities
- (iii) Develop a universal quality assurance system for education services
- (iv) Develop and make use of mechanisms to involve families, the associations of parents and communities alike in the management of education facilities

4.1.1.3.Development of human resources and retention of teaching staff in the system:

- (i) Update teacher training and certification;
- (ii) Streamline the use of intra-sector costs by making efficient use of resources and channeling of savings towards improving the quality of education services;
- (iii) Develop and implement mechanisms for competitive selection of management staff in education
- (iv) Provide for and increase incentives – financial, housing (including, provision of land parcels for construction of houses), career advancement to encourage young teachers stay in the system

4.1.1.4.Updating of formal and informal curricula. Improve the professional skills of labor to provide for a more competitive economy:

- (i) Implement curricula reform based on age adequate learning outcomes and required skills, as well as the use of objective evaluation, including by having the Republic of Moldova participate in international evaluations, in order to get reliable data about the teaching process;
- (ii) Resuscitate vocational training at all levels by making allowance for the needs of the labor markets, upgrade infrastructure (equipment etc.)
- (iii) Improve teaching tools aimed at streamlining didactic activities and cut down on bureaucratic procedures of formal reporting and documentation of the teaching process;
- (iv) Develop private-public partnerships in view of establishing stronger connections between business agents and vocational training facilities aimed to strengthen the bulk of resources and develop professional skills;
- (v) Promote academic mobility of teaching staff and students;
- (vi) Wider implication of specialized NGOs in formal and informal education;
- (vii) Upgrade the informal education system, also by establishing and operating a National Center for Children and Youth, as well as strengthen and scale up the

- network of centers for children and youth at country level; and
- (viii) Draft ICT curricula, which are mandatory for all levels of education, in particular for primary classes, and implement a unified standard for a minimum of ICT skills.

4.1.1.5.Provision with technical and didactic equipment:

- (i) Improve provision of education institutions with equipment and didactic materials;
- (ii) Ensure the access and promote the use of IT developments at different stages of throughout the education process; and
- (iii) Adopt a national program for digitalization of library resources, as well as for cultural and historic resources, and connection it integrated digital systems and education systems.

4.1.2 Improving access for children from poor families and children with special needs to different levels of the public education system

Programs and measures

4.1.2.1.Mapping the phenomenon of limited access to education :

- (i) Keep records of children with limited access to education. In order to have an overall picture of the issues regarding access to education, cost estimates and administrative efforts, one has to thoroughly identify the number of children facing access problems at various levels of education and map them geographically or by zones;
- (ii) Identify the main reasons of having limited access to education. For one to be able to efficiently work out the issue of equitable access to education services, first it is necessary to clearly understand the reasons underpinning the exclusion of those by categories of factors:
 - health factors (child, parents);
 - family factors (family structure, outbound migration, alcoholism, violence);
 - economic factors (income level, poverty);
 - institutional factors (relationships with classmates, teachers); and
 - community factors (lacking schools, teachers, and access infrastructure).

4.1.2.2.Eliminating child labor as a phenomenon:

- (i) Conduct a representative national survey to understand the nature, scope and consequences of child labor
- (ii) Information and education of various families about economic and social consequences of excessive involvement of children in labor
- (iii) On a periodical basis, the Labor Inspection to run check-ups (in particular in agriculture, backyard labor markets and constructions) aimed at identifying business agents using child labor
- (iv) Tightening of sanctions for child labor use.

4.1.2.3.Direct financial and material support to children from poor families and children with special needs:

- (i) Development and use of direct incentives for poor children in primary education (school lunches, textbooks and other materials, clothes and footwear)
- (ii) Provide direct payments (social scholarships, etc.) to children from poor

families, to increase access to secondary special and higher education

4.1.2.4.Optimizing the network of education facilities and developing of access infrastructure:

- (i) Ensure the transportation of children to circumscribing schools in rural areas; and
- (ii) Develop a system of preschool facilities and alternative education centers for children in rural areas to increase access to preschool education services.

4.1.2.5.Developing a community-based social assistance mechanism:

- (i) Develop school inclusion mechanisms for children with insufficient parental supervision (for example, for the children of migrants; those could be agreements between migrating parents and LPA Units, specifically established for that, and who are partially paid from remittances)
- (ii) Ensure a legal and regulatory framework to promote community services for disadvantaged families and children at risk; and
- (iii) Involve NGOs in providing of professional counseling services.

4.1.2.6.Developing a regulatory framework and mechanism to account for the special funds provided through sponsorship, including contributions of the associations of parents, and targeting the given resources to improving the quality of education.

4.2. Strengthening a healthy society

Rationale

To any human being health is an asset *per se*, a necessary value to accomplish its creative potential throughout the entire life. A healthy nation is more capable of resisting to economic shocks, natural disasters and other various challenges. Improving the health status of a nation has to bear in mind that healthy children are born in healthy and informed families. A healthy nation could result from making investments, primarily in children, with first years of life being crucial. Investing in children from more disadvantaged families is a public policy with double stake, benefiting both the social and economic, thus reducing inequity and ensuring a prosperous future for the country. Recent studies show that timely interventions in case of children from disadvantaged families may prevent further losses of human potential. Besides, health has an intrinsic economic value embedded in it. Firstly, a healthy worker is able to most efficiently harness its professional skills and qualifications and be more competitive when vying for accessible jobs. Secondly, individual time allocated to labor during a year tends to increase once the health status of a person improves. Finally, healthier people have a longer economic life and better contribute to the country's economic development.

4.2.1 Improving the quality of health services by streamlining the infrastructure and making efficient use of resources, improving the management of health facilities and investing the saved resources in cost-efficient technologies, equipment and development of professional skills

Programs and measures

4.2.1.1. Improving the management of human resources with a view to rational utilization of existent personnel, and adequate, diversified and advanced training of employees in the health services system:

- (i) Motivate the health care personnel to join up and work within the sanitary system, specifically in rural areas, by means that ensure fairness and transparency of

- decisions regarding their professional and managerial promotion;
 - (ii) Improve policies regarding the training of staff within the medical and pharmaceutical education system.
- 4.2.1.2. Making health care services more efficient by making those meet the new needs and adapt to new requirements, and by streamlining the expenditures in the public health care facilities at no expense to the quality and access to them:
- (i) Strengthen the role of primary health care through integrated medical assistance, upgrade the secondary health care, create Centers of Excellence, develop community-based health care, home care and palliative care, and increase the role of public-private partnerships in the supply of health care services;
 - (ii) Consolidate the technical and material assets of health care and health education facilities, including by streamlining non-medical costs, allocating more efficiently resources to implementing modern health care technologies, providing facilities with medical equipment and unified informational networks that would provide information, including disaggregated by gender, and by improving the working conditions of staff and attending conditions for patients;
 - (iii) Review the factors underpinning the discrepancy in life-expectancy between men and women, and design policies contributing to reducing such discrepancy;
 - (iv) Develop and implement a quality management system to focus on ensuring safety, respecting the rights of patients and protecting the professional rights of health workers;
 - (v) Strengthen maternal and child health in line with MDGs by providing them with counseling, particularly the patients from socially-vulnerable households with little children, and by more effectively involving communities and local public authorities;
 - (vi) Carry on the consolidation and scaling up of networks of youth-friendly health care services, and ensure the access of youth to information, education, and communication on health issues;
 - (vii) Strengthen control over communicable diseases, particularly through the programs to fight diseases outlined in the MDGs (TB, HIV/AIDS and STIs), with a focus on prevention among adolescents and youth, mother-to-child transmission of HIV, and by launching a national anti-HIV/AIDS campaign; and
 - (viii) Lower the burden of non-communicable diseases, especially by averting conditions caused by lacking micronutrients (iron and iodine), as well as by launching national campaigns against smoking, alcohol abuse, and campaigns to prevent trauma and accidents in children.

4.2.2 Improving the access to health care services through efficient use of financial resources and by expanding coverage with mandatory health insurance

Programs and measures

- 4.2.1.2. Enhancing fairness in financing health services and protecting population against financial risk, and ensuring transparency in earmarking and using financial resources:
- (i) Improve the system of mandatory health insurance through a more flexible mechanism of paying premiums that would make allowance for one's revenues and by through effective transparency of resource allocation for the financial protection of citizens; and
 - (ii) Develop regulations for private insurance systems in financing those additional services that are not covered by the basic package of health services.

4.2.1.3. Expanding coverage with mandatory health insurance in rural areas:

- (i) Develop mechanisms for motivating, including by providing adequate information, the self-employed groups from the rural areas to sign up with the mandatory health insurance scheme.

4.3. Build up employment opportunities by raising the education offers up to the labor market demands

Rationale

Ongoing development of quality human resources is a fundamental pre-condition for long-term economic competitiveness and sustainable development. Negative trends reported in the Republic of Moldova over the past years are indicative mitigation of labor force. This implies increasing social costs and threatens to have become a serious limitation for future economic growth; working out solutions for this challenge is an important task in terms of increasing labor attractiveness in the country and for education system restructuring alike, in order to train the labor force to live up to the demands of labor markets.

Essential programs and measures:

4.2.1. Building up of educated labor force, able to stay competitive throughout their entire active life:

- (i) Ensure equitable universal access to education, regardless of income, residence, sex, ethnic origin, etc.
- (ii) Develop paid internship for youth to facilitate transition from studies to work;
- (iii) Develop and promote a national policy for in-service professional training, including life-long learning in partnership with social stakeholders;
- (iv) Make the vocational education system meet the labor market demands
- (v) Authorize and monitor the training services and informal education qualification assessment centers (including, for adults)

4.3.1. Developing a labor market capable of increasing the chance of labor opportunities / sustainable integration:

- (i) Develop medium- and long-term forecasts for labor markets and bring the education policies in line with anticipating market demands;
- (ii) Identify and make use of all opportunities to get integrated onto the labor markets;
- (iii) Promote sector-wide and geographic mobility of labor force;
- (iv) Strengthen the administrative capacity of the National Employment Agency
- (v) Educate students in view of ongoing learning skills;
- (vi) Scale up and simplify the benefits provided to employers for promoting / motivating internships within companies and for hiring youth;
- (vii) Establish a network of occupation counseling centers for youth, including by developing and providing for partnerships with associations;
- (viii) Improve transition from school to workplace and promote business culture in education and training
- (ix) Facilitate the entering of young people the labor markets by supporting partnerships within education and employment systems in view of providing mediation services on the labor markets; and
- (x) Ensure equitable access to vocational and trade education for youth with disabilities.

4.4. Ensure better inclusion and social protection

Rationale

Poverty and social exclusion are major factors hampering the development of human resources. Chronically poor persons are unable to develop their professional skills, their health is deteriorating rapidly, and they become increasingly less competitive when it comes to getting a job. For this reason the chronically poor get eliminated from economic processes and are socially marginalized, while their economic condition does not improve even if the economy shows serious economic growth. Elimination of discrimination on the labor markets is a necessary condition for ensuring a wider social inclusion. Also, the development of human resources implies a social protection policy, which would efficiently and in a targeted way help disadvantaged people escape from the poverty trap. Taking into account that public funds are scarce, such policies have to be targeted primarily towards really poor and not towards persons with merits to the government or society.

4.4.1. Ensure social inclusion through labor market

Programs and measures

4.4.1.1. Prevention and elimination of discrimination on the labor markets:

- (i) Promote solidarity and social non-discrimination among potential employers;
- (ii) Monitor the observance of equal opportunities in economy and politics;
- (iii) Extend the training and counseling programs of the NEA towards graduates of residential facilities, people with disabilities, people freed from detention, former military, victims of trafficking
- (iv) Promote women in the occupation sector;
- (v) Monitor the observance of equal opportunities in economy and politics
- (vi) Penalize employers for unjustified and discriminatory payment discrepancies (on gender and/or age grounds etc.)
- (vii) Promote access to information and communication technologies and provide equal opportunities to all by adopting national action plans for e-accessibility and e-inclusion (via electronic means of communication)

4.4.2. Offering new economic and social opportunities for disadvantaged groups, including through better efficiency and targeting of resources earmarked for social care

Programs and measures

4.4.2.1. Upgrading of the social assistance system:

- (i) Simplify the social payments system (currently consisting of 18 types of social payments) and transition to a social payment system based on means-testing and income and needs assessment of beneficiaries;
- (ii) Monitor the amount of social aid rendered to beneficiaries and implement “social inspection” principles in order to minimize fraud within the system and quality assurance for community-based social services;
- (iii) Develop a single informational social welfare system by employing information technologies and improve the provision of social care facilities with equipment and methodological materials;
- (iv) Separate rewarding payments for special merits to the state from social care payments
- (v) Consolidate the national network of social workers by establishing a mechanism for baseline and on-site training of social workers, including developing of an

- incentive system for social workers and for LPA to keep them running;
- (vi) Make way to practices of social impact analysis performed on regulatory decisions in the public policy process;
- (vii) Provide for the principle of deinstitutionalization by developing and diversifying social and medical-social services, depending on community needs, and design mechanisms to decentralize, assure and re-channel the funds from residential facilities towards community-based and family-type services;
- (viii) Develop a minimum set of quality standards for social care and develop a tool for social service quality assessment and accreditation based on the National Roster of social services;
- (ix) Build the capacity of decision-makers at all levels and that of service-providers rendering care to vulnerable families and children at risk; and
- (x) Wider involvement of civil society in developing and implementing social care policies (advocacy and provision of social services), including by means of state subsidies or sub-contracting of social services by Government.

4.4.2.2. Mobilization and transparent use of financial resources:

- (i) Ensure the financial transparency of using the funds earmarked for social care by putting out detailed annual public reports on the allocation and use of funds.

4.2.2.3. Reviewing the mechanism for assessing and identifying a disability:

- (i) Develop and use a system assessing a disability degree based on to what extent the working capacity is preserved, following a comprehensive evaluation of one's health status and a person's professional skills.

4.4.3 Improvement of social insurance policies, in particular – pension system

Programs and measures

4.4.3.1. Strengthening the financial stability of social insurance system:

- (i) Base the social insurance policy on medium- and long-term demographic and social-economic forecasts; and
- (ii) Set common terms for retirement for all categories of retirees by:
 - enforcing the principle of proportionality for linking the pension amount to the premiums for each insured person; and
 - reviewing and improving the relevant legal framework.
- (iii) Develop non-government private pension systems.

Monitoring Indicators

Indicator	Source
Net enrolment in primary education, per cent	National Bureau of Statistics
Gross enrolment rate in primary education, per cent	National Bureau of Statistics
Net enrolment in general secondary education, per cent	National Bureau of Statistics
Gross enrolment in general secondary education, per cent	National Bureau of Statistics
Net enrolment in preschool education, per cent	National Bureau of Statistics
Gross enrolment in preschool education, per cent	National Bureau of Statistics
Enrolment in preschool education of 3-6 year-old children, per cent	National Bureau of Statistics
Enrolment in preschool education of 6-7 year-old children, per cent	National Bureau of Statistics
Premature drop-out of education among youth, per cent	National Bureau of Statistics
Education enrolment for population aged 15-24 years (secondary	National Bureau of Statistics

general, upper secondary, secondary vocational, secondary specialized, higher; all forms of education: full attendance, evening, partial attendance), per cent	
Student-to-teacher ratio in education (day schools, general secondary schools , upper secondary schools)	National Bureau of Statistics
Literacy rate for 15-24 year-old persons, per cent	National Bureau of Statistics
Share of people covered with mandatory health insurance, per cent	National Bureau of Statistics
Share of primary health care expenditure in total health care spending and health insurance fund, per cent	Ministry of Health / National Health Insurance Company
Infant mortality rate, per 1,000 live births	Ministry of Health
Under-five infant mortality rate, per 1,000 live births	Ministry of Health
Share of 2 year-old children vaccinated against measles, per cent	National Bureau of Statistics
Maternal mortality rate, per 1,000 live births	Ministry of Health
Share of births assisted by qualified medical staff, per cent	Ministry of Health
HIV/AIDS incidence rate, per 100,000 people, per cent	Ministry of Health
HIV/AIDS prevalence rate in 15-24 year-old, per 100,000 people	Ministry of Health
Overall incidence rate of active tuberculosis (per 100,000 people)	National Bureau of Statistics
TB-associated mortality rate, per 100,000 people	National Bureau of Statistics
Unemployment rate (according to ILO), per cent:	National Bureau of Statistics
– in urban areas	
– in rural areas	
Share of long-term unemployed, ILO, per cent	National Bureau of Statistics
Unemployment rate among young (15-24 years), ILO, per cent	National Bureau of Statistics
Labor migrants related to active population, per cent	Ministry of Economy & Trade
Distribution of social payments (except for pensions) for consumption quintiles I and V per adult equivalent (per cent)	National Bureau of Statistics
– <i>quintile I</i>	
– <i>quintile V</i>	
Average monthly nominal salary, MDL	National Bureau of Statistics
Average monthly pension (at the end of year), MDL	National Social Insurance House
Share of premiums/benefits of farmers in total income and expenditure of social insurance budget, per cent	National Social Insurance House
– <i>Premiums</i>	
– <i>Benefits</i>	
Share of population under the food poverty level (total per country), per cent	National Bureau of Statistics
GINI index by consumption expenditure	National Bureau of Statistics
Extreme poverty depth, per cent	National Bureau of Statistics
Extreme poverty severity, per cent	National Bureau of Statistics
Share of people below poverty line of USD 4.3 / day at PPP (consumption expenditure per capita), per cent	National Bureau of Statistics
Share of poorest quintile in the national consumption, per cent	National Bureau of Statistics
Human Development Index ³⁴	UN Human Development Report
Share of mandates held by women, per cent:	National Bureau of Statistics
- members of Parliament	
- in local councils	

³⁴ The Human Development Index (HDI), published annually by UN, ranks countries rather by the quality of citizens' life than strictly by traditional economic indicators of the country. To calculate this index the following criteria are used: life expectancy, education level and real adjusted income.

- in district councils
- as mayors

Ratio of average salary of women to that of men, per cent

National Bureau of Statistics

5. Regional Development

Analysis

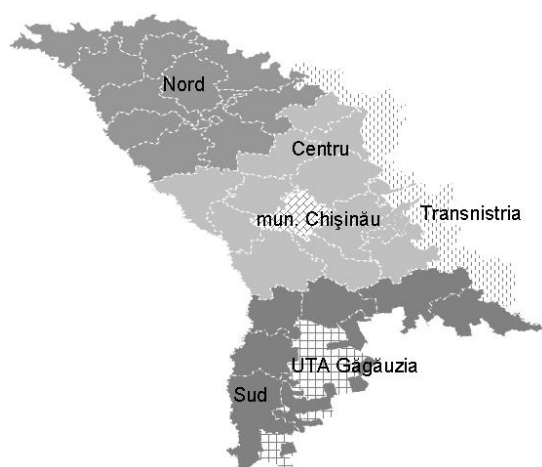
Regional development policy

Moldova's transition to market economy has been accompanied with significant regional imbalances, caused by existing production structure which was characterized by a predominance of the agricultural and the agro-industrial sectors and the dependence of social-economic development of small towns on a limited number of big industrial enterprises. Thus generating economic growth outside the capital city, and especially in rural areas, which suffered from the loss of traditional agricultural markets, has been a major challenge for Moldovan authorities from independence onwards.

The country's development planning framework at sub-national level has been overlapping with the territorial-administrative system. The traditional structure of *districts*, in place till 1999 and reintroduced with amendments in 2003, is characterized by limited financial options and scarce planning capacity. The model of *judets*, which were larger regional units, have been generating more opportunities for strategic planning, exerting a synergic impact on the development efforts. But these proved too small to close on the gaps, and too large for an efficient delivery of public services given the absence of a true decentralization.

The current model of regional development, endorsed by the Law No. 438-XVI on regional development, which was adopted on 28 December 2006, provides for the setting up of bigger, regions, with responsibilities for strategic planning, which would complete the existent territorial-administrative structure. This approach provides the opportunity of cutting down the costs (by achieving economies of scale) and of increasing capacity for strategic planning, while bringing, at the same time, public services delivery closer to citizens – at local and district levels.

Figure 1: Development regions of the Republic of Moldova



The Law on regional development is in line with the Republic of Moldova European integration aspirations and provides for the set-up of two European-type NUTS II regions (North, Center) and four NUTS III regions (South, TAU Gagauzia, Transnistria and the

municipality of Chisinau).

Moldova's regional development policy is planned to be implemented in three stages. During the first stage, starting in 2007 and to be completed by 2010, the Government efforts will be channeled towards capacity building and strengthening of development conditions in the North, Center and South regions. The mechanism of implementation of this stage is stipulated in the National Regional Development Strategy, which will be the framework paper for the establishment of a regional development institutional framework. The next stage (2011-2018) builds upon the expected existence of advantageous conditions for launching development actions in the TAU Gagauzia and Transnistria regions.

Regional development institutional framework

The Law on regional development provides for the creation of two levels of organizing the regional development institutional framework at national and regional levels.

1. National level:

The National Council for the Coordination of Regional Development (NCCRD) was set up to formulate, promote and coordinate regional development policy objectives at the national level. The structure of the NCCRD and its regulations has been defined by the Ministry of Local Public Administration and will be adopted by the Government. The membership of the NCCRD is made up: the minister of local public administration, the minister of economy and trade, the minister of finance, other ministers, the chairpersons of Regional Development Councils and one private sector representative from each Regional Development Council.

Among the main tasks of the NCCRD is to endorse the National Regional Development Strategy, in order to coordinate national sector-wide and regional policies, as well as to approve the financing from the National Regional Development Fund.

The National Regional Development Fund (hereinafter referred to as the *Fund*) is the main tool to finance regional development projects and programs, to be channeled first of all to the most disadvantaged areas in the development regions. The Fund is accrued from the annual allocations from the state budget, as a distinct budget line for the regional development policy, and from other funding sources. The quota of the Fund is set at above 1 per cent of the state budget revenues, approved by the State Budget Law for that relevant year. The Fund could also draw on other financial resources from either the public and private domains, at local, regional, national or international levels, as well as from the resources granted by EU assistance programs.

2. Regional level:

The Regional Development Council is a functional consultative structure at the level of each development region, set up for the coordination and promotion of regional development policy at the local level. The Regional Council consists of district chairpersons, mayors, representatives of private sector and civil society. The chairperson and deputy chairperson of the Regional Council are selected from the council members, representatives of local public administration authorities.

The Regional Council is accountable for the general development in the region and the approval of the regional development strategy and an action plan. Based on criteria defined at national level, the Regional Council identifies disadvantaged areas from the region and approves and promotes regional development projects.

A Regional Development Agency is set up in each development region having the task to

implement the decisions made by the Regional Council. The Agency is a legal entity and carries out its activities in accordance with the regulations approved by the Agency based on a framework regulation, designed and approved by the Government. The Agency carries out social and economic development analyses in its respective development region, as well as it also designs, coordinates, implements, monitors and evaluates the implementation of regional development strategies, plans, programs and projects.

The regional development institutional framework is meant to stimulate initiative and entrepreneurship at local level, to encourage settlements, districts, nongovernmental organizations and business groups to take up a strategic thinking approach and identify new local economy development pathways, so that it would contribute towards implementing the horizontal priorities of the given Strategy all over the country. To this end the regional development policy will focus on the improvement of intra-regional and inter-regional cooperation in order to create institutions capable of identifying priorities and of implementing joint activities.

Inter-regional and intra-regional discrepancies

In spite of a continuous economy resuscitation reported throughout 2000–2007, there are important regional imbalances in Moldova, which prevent a balanced socio-economic development all over the country. Although those discrepancies existed even before the beginning of the transition process to a market economy, those have recently grown in size and intensity. First of all, there are significant imbalances between the municipality of Chisinau (with the municipality of Balti emerging as a close runner-up) and the rest of the country; yet, there is more and more discrepancy across regions and localities in the country.

The municipalities of Chisinau and Balti respectively more than other have the necessary production factors and infrastructure for attracting investments and socio-economic development. In 2006 the municipality of Chisinau, where 22 per cent of the country's population resides, generated half of industrial outputs, 56 per cent of retail trade and 58 per cent of investments made in fixed capital. Second to the capital city in terms of development levels is the municipality of Balti, having a higher growth potential than other of the country's locations. Reporting merely 4 per cent of the country's population, the municipality of Balti generated 14 per cent of industrial outputs, 9 per cent of retail trade and accounted for 6 per cent of fixed capital investments in 2006.

A review of the key development indicators reveals that the municipality of Chisinau has the majority of the country's enterprises, has more human resources and benefits from a relatively developed infrastructure. Thus, about 65 per cent of enterprises reported in Moldova in 2006 are located in the municipality of Chisinau. The capital city has the most developed network of roads and nearly 94 per cent of all households in Chisinau are piped to water supply and sewer systems. This is no different from many European countries, where capital cities are the most developed regions.

There risk persists that other communities in the country would be marginalized or even excluded in view of having most of development factors concentrated in the municipalities of Chisinau and Balti, unless a model to scale up the growth and development process outside the two to the entire country is developed.

A review of key indicators in the development regions reveal a discrepancy not only between the municipality of Chisinau and the regions, but also across the regions *per se*. When cross-

compared, the development regions of North, Center and South, to be targeted by the national development policy in the medium run, one could see that North is the most developed region of all, whereas the development region South is the least developed, with the smallest industrial outputs per capita, lowest level of investments in fixed capital, and the lowest number of reported enterprises. However, in demographic and infrastructure terms, the development region of Center is the least developed of them, indicating the lowest urbanization rate and the poorest coverage with water supply and sewerage.

Table 5: Key indicators by development regions in the Republic of Moldova (2006)³⁵

	North	Center	South	Chisinau	TAU Gagauzia	Total
Residential population, thousand inhabitants	1023	1070	548	780	160	3581
Share of total, per cent	28.6	29.9	15.3	21.8	4.4	100
Urban population, thousand inhabitants	357	206	138	712	65	1478
Share in total, per cent	24.2	13.9	9.3	48.2	4.4	100
Annual average number of people in 2006	1023.9	1073.2	549.0	779.6	159.4	3585.2
Industrial output in current prices, per capita, MDL ³⁶	4891	3094	1684	14736	4880	6002
As per cent of the country's average	81	52	28	246	81	100
Amount of fixed capital investments, in current prices, per capita, MDL	1845	1471	1579	8097	1630	3042
As per cent of the country's average	61	48	52	266	54	100
Share of dwellings with sewerage systems (regional average), per cent	19.7	14.4	21.2	88.9	27.5	30.9
Share of dwellings with water supply system (regional average), per cent	20.7	20.5	26.1	94	27.8	34.8
Number of reporting enterprises, thousand units	5.0	4.8	1.9	24.7	1.0	37.4
Including the share of enterprises reporting loss, per cent	44	42	47	49	51	47
Share of eroded land within total lands (regional average) per cent	30	42	39	38	39	
Share of roads with rigid coating within total public roads, per cent	94	93	84	96	78	91
Waste generation, thousand tons ³⁷	1644.4	759.7	113.3	447.1	30.9	2995.4
Waste utilization, thousand tons ³⁸	325.9	326.4	100.4	166.0	7.5	926.2

In order to thoroughly review the interregional and intraregional imbalances, the Ministry of Economy and Trade drafted a Report on multiple deprivation in the rural areas of Moldova³⁹ in 2005, which evaluates the development level of the country's localities using the Small

³⁵ 2006 data, net of the development region of Transnistria.

³⁶ The average number of people per year in 2006 was used for calculations.

³⁷ 2005 data.

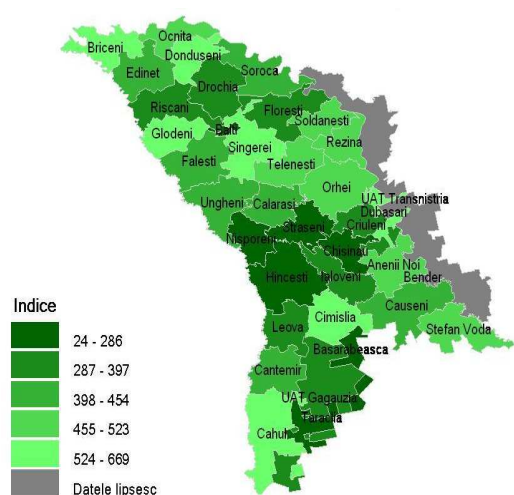
³⁸ 2005 data.

³⁹ Although the Ministry of Economy and Trade drafted the Report on multiple deprivation in rural areas in Moldova for 2006, the final version of the report was not available when the National Strategy was completed.

Areas Indices of Deprivation, which is a complex weighted index, which takes into account administrative data from localities in seven fields: household revenues, economic potential, demographic structure, healthcare, education, living conditions and geographical location.

According to the findings of this report, the districts from the country's Center location are, on average, the most deprived in terms of revenues, both economically and geographically. The region of South is more deprived than the Northern regions in terms of income and from a geographical standpoint. On the one hand, the North and South are more deprived, on average, than other regions, from a demographical structure and healthcare viewpoint. On the other hand, the Central and the South-Eastern districts are more deprived, on average, in terms of education, whereas there is discrepancy in the living conditions between the East and the West of the country.

Figure 2: District deprivation index by revenue



At the same time, even within the regions *per se*, there are certain imbalances between districts and localities. For example, if analyze income deprivation, one could see variations within districts and across them. In the district of Briceni there are local rural communities with the highest and the lowest income deprivation level by income, but on average and based on the population weight, the district of Briceni is the least deprived district in terms of income. Nisporeni and Taraclia are the most deprived districts. The districts of Nisporeni and Taraclia report 10 per cent of all the most deprived communities (22 and 12 respectively, in absolute figures). The population residing in the district of Nisporeni accounts for 26 per cent of all people from the most deprived communities, with Gagauzia running up second, with 15 per cent.

In general, there is a wide variation in the multiple deprivation index of rural communities across and within districts, although the deprivation levels vary depending on the analyzed field. Comparing the levels weighted by the population average weighted level, a district may turn out to be extremely deprived on one indicator, yet at the same time be ranking high in other areas of interest. That is why the participation of authorities at all levels – be it local, district or regional – is clinical in identifying regional development priorities.

Economic development sustainability in regions, specifically in rural areas, continues to be significantly influenced by their performance in agriculture. Today Moldova's agriculture continues to be the sector with the lowest productivity and remuneration reported in the country. Although, this sector provides employment to almost 33 per cent of the country's labor force, and is the main source for food processing industry, the long-term economic development

cannot be based almost entirely on agriculture, while agricultural production has to be reoriented to competitive goods with higher value added, such as fruits, vegetables and walnuts.

In spite of lacking studies on the causes for regional imbalances, among the main factors which generate and exacerbate these are the following:

- Concentration of production and growth factors in the municipality of Chisinau;
- Decline of small towns and, consequently, the exodus of labor force;
- Mono-structural occupational structure of regions and reliance on agriculture; and
- Limited capacity of local public authorities to manage the development process.

Environment and use of natural resources

The Republic of Moldova has a density of 118 inhabitants / sq. km, twice the average reported in European countries, thus exercising high pressure on the country's environment and natural resources. The issues faced during the transition period have had a significant anthropogenic impact on environment and have contributed to emerging of a discrepancy in the eco-balance, as well as have deteriorated the quality and biodiversity of natural resources.

Moldova's soil is the main natural asset of the country, with 75 per cent of its land area being lands used in agriculture. The deficiencies reported over the last several years in implementing the land reform and use of soil, situation in which advanced technologies have not been observed, due to farmers' limited knowledge about the best practices used in the sector and because of the limited access to chemical and biological fertilizers, have not led to the necessary conditions to prevent soil degradation and increase its fertility. The soil erosion is main factor contributing to soil degradation, exerting a negative impact on aquatic resources. The surface of eroded lands has been increasing by 0.9 per cent each year, with agricultural lands registering the loss of about 26 million tons of fertile soil each year. The annual damage that soil degradation inflicted to the national economy is estimated at about MDL 3.1 billion, including: MDL 1.5 billion in losses caused by erosion; MDL 0.2 billion – losses caused by landslides and rifts; MDL 1.4 billion – estimative value of agricultural production that was foregone due to the decline in land productivity.

Waste management is an important issued related to environment protection. Recent years saw an increase in the activities of centralized storing and destruction of useless and banned pesticides, including those pertaining to the category of persistent organic pollutants (POP), which were financed chiefly with foreign funds. There have been 3,000 tons of pesticides overall estimated while running the above activities, compared to 1,712 tons estimated initially. Thus, it is necessary to carry on these activities during the implementation phase of the National Development Strategy.

Despite the stock of solid household wastes being relatively small, Moldova still is facing issues with controlled storage and separate collection of household wastes. In 2006 an inventory roster of all solid household waste sites has been completed, indicating 2,667 waste sites, of which around 60 per cent were unauthorized. Yet, even authorized waste sites do not always meet the environment protection norms. Although a significant number of unauthorized waste sites have been closed down in recent years, there is a high risk of those emerging again unless local public authorities bend sustained efforts to create authorized waste sites instead.

The quality of air in Moldova is substantially influenced by external air polluting sources. Vehicles are the single most important internal source of air pollution, accounting for 90 per cent of total amount of exhaust emissions and in large cities, e.g. the municipalities of

Chisinau and Balti, even higher – up to 95 per cent. The main cause of high transport-driven exhaust gas emissions is the relatively big number of used vehicles.

Water is the single most important environment factor with highest impact on health. The pollution levels reported in Moldovan rivers vary from moderate (Dniester and Prut rivers) to high (smaller rivers). Underground waters are the main source of drinking water for about 70 per cent of population, yet many wells do not meet the health and epidemiological standards. At the same time, despite the ever increasing number of households piped into the centralized water supply system, it accounts for merely 40 per cent of all households, with the majority of these systems being located in urban areas. Although the water supply situation has improved, the building of new water supply networks has not been accompanied with the building of residual water purification stations and sewerage systems. This situation results in a high risk of water pollution.

The quality of water varies across the main rivers of the country, ranging from moderately pollutant (Dniester, Prut) to polluted (Raut, Bic). Most of underground water resources do not meet the drinking water quality norms and standards, because of higher concentration of harmful chemicals (fluorides, iron, sulphureous hydrogen, chlorides, sulphates, excessive mineralization). The situation is extremely unfavorable in rural areas, where by and large people use water from the phreatic waterbeds (132,000 water wells, water collectors, and springs) and merely 17 per cent of families use the water from centralized water supply sources.

Thus, in the medium run it is important to have the country use economic development and harness its natural capital based upon environment protection technologies. The main challenges plaguing Moldova, such as the efficient management of waste, the prevention of water and air pollution, and the prevention of soil erosion, could not be worked out unless the local public authorities provide support and get involved.

Rationale

One of the main objectives of the National Development Strategy is ensuring a balanced regional development. Regional development implies planning and implementing a balanced territorial socio-economic development all over the country. This refers not only to developing policies for the underdeveloped regions, but also policies focusing on reducing the pressure put on urban infrastructure, addressing the level of rural and urban poverty, as well as, in the longer run, more efficient integration of land development processes with economic planning, mainly through more efficient use of land resources.

The National Development Strategy will support regional development under a coordinated, coherent and mutually beneficial framework of policies. At national level, policy implementation actions will focus on the following areas: infrastructure, public services, business environment, travel services, environment, agriculture, and rural development.

In view of ensuring an efficient development and social-economic growth in regions, there is *sine qua non* condition to come up with a detailed and comprehensive public investment program, as part of the MTEF. In this regard, the Republic of Moldova will initiate the process of coordinating the financial resources with the expected outcomes. At regional level, activities directed towards competitiveness enhancement and attractiveness of development regions will be identified within the framework of regional development strategies.

Building regional capacity is an imminent prerequisite for a sustainable regional development. Given the above, special attention will be paid to institutional strengthening, improving absorption capacity in development regions, non-government sector specialization, as well as to building the planning and implementation capacity of local public authorities.

Overarching goal of priority

Implementing a balanced and sustainable social and economic development all over the country by coordinating efforts within development regions

Objectives

- 5.1. Balanced participation of all regions in the socio-economic development of the country, with a primary target on the regions North, Center and South;**
- 5.2. Accelerate the development of small towns as regional “growth buds”;**
- 5.3. Develop rural economy and improve productivity in agriculture;**
- 5.4. Develop and upgrade regional infrastructure and promote public-private partnerships; and**
- 5.5. Avert environment pollution and promote efficient use of natural resources in view of improving the quality of life**

Programs and actions

- 5.1. Balanced participation of all regions in the socio-economic development of the country, with a primary focus on the regions North, Center and South**

Rationale

The Ministry of Local Public Administration will develop the National Regional Development Strategy and an Action Plan, which will identify the way, place and time of creation for the regional development facilities set under the Law on Regional Development. The purpose of the National Regional Development Strategy will be boiling down to creating and keeping up a framework for the management, implementation, financing, monitoring, and evaluation of regional development, without further elaborating on the contents of regional development strategies or on the way the regions will contrive respective development.

The main tool when implementing the regional development policy will be the Regional Development Strategies, which ought to be formulated with the participation of public authorities, nongovernmental organizations and private sector, at local and regional levels and coordinated by Regional Development Councils and the Agencies for Regional Development. The Strategies will identify the main social-economic issues in the regions, will set up development priorities and will guide regional medium-term investments. In order to support investments in identified areas and communities, the Agencies for Regional Development will encourage the setting up of horizontal partnerships between communities and private sector groups.

Regional development ensues from the national development priorities and enforces the fulfillment of those at territorial level, both local and regional. Hence, the analyzed priorities identified within the Regional Development Strategies have to be debated and coordinated with sector-wide policies at the national level. Policy coordination will be provided by reviewing Regional Development Strategies and by endorsing the financing decisions within the NCCRD, as well as by establishing other coordination mechanisms.

Programs and measures

- 5.1.1. Capacity building for regional development facilities in management of development processes**
 - (i) Set up and guarantee the operation of a Regional Development Division of the Ministry of Public Administration;**

- (ii) Complete and endorse the National Regional Development Strategy;
- (iii) Set up and guarantee the operation of Regional Development Councils and Regional Development Agencies in the regions of North, Center and South;
- (iv) Design and approve Regional Development Strategies, with participation of level-one and level-two local public authorities, nongovernmental organizations and private sector representatives in each of the three regions;
- (v) Establish a harmonized financing mechanism to channel the funds of Government and international donors to investment projects as identified within the regional development strategies;
- (vi) Delineate competences for the relevant central authorities of public authorities and local public authorities, in line with Law on Administrative Decentralization, no. 435-XVI, as of 28.12.2006;
- (vii) Ensure financial decentralization and the improvement of inter-budgetary relations in order to strengthen financial capacities of local public authorities in managing public services and investment projects;
- (viii) Implement the National Strategy on public servants and locally elected officials training and creation of conditions for a new management of human resources;
- (ix) Promote women to LPA decision-making positions;
- (x) Design a transparent and efficient monitoring and evaluation tool for regional development; and
- (xi) Establish a strong participatory process to maximize the impact of investments in regional development on the poor, socially excluded and on women.

5.1.2. Capacity building for interregional and cross-border cooperation in order to harness effective investments in regions:

- (i) Encourage the creation of horizontal partnerships between groups of communities, districts, nongovernmental organizations and private enterprises in view of accomplishing joint regional development projects;
- (ii) Ensure common and coordinated planning (between regions and cross-border) of physical, economical, social and environmental infrastructure;
- (iii) Joint management of investments made in shared rivers;
- (iv) Improve cross-border connectivity (adjust the railway connections at the Romanian border); and
- (v) Promote cultural exchanges with neighboring countries and put up common travel destinations of interest.

5.2. Speeding up the development of small towns as “growth buds” for the regions

Rationale

The selection of locations that, through targeted development, would be turned into regional centers, has to be based on their potential to stimulate economic growth in the small towns and villages under their territorial purview and on the quality of transport networks with other regions of the country. Pursuant to the role suggested for the regional centers, only a limited number of communities will be selected for this role, in order to ensure the appropriate level of concentration of resources and investments.

Although the creation and development of regional centers will be the key element of the regional development policy during the Strategy implementation, this does not mean that development will be limited to these centers and adjacent areas. This approach will contribute to reaching a critical mass to spur up economic growth in other target towns and in their larger zones of

influence. Within these zones there will be need for setting up a network of development hubs of regional and/or local importance. As a result, in each region, a number of small towns – smaller in size than the regional center – will start developing and which in turn will further economic growth and will support the development of villages and adjacent rural areas.

The accomplishing of a balanced regional development through development hubs will be complimented by multi-sector policies meant to provide for the economic growth of these centers and ensure conditions that through local economic activities in those areas would offer enough opportunities to local communities to generate jobs with decent payments.

Programs and measures

5.2.1. Promoting efficient tools to facilitate convergence, economic growth and development of towns, as well as the consolidation of networks of small town:

- (i) Design and endorse a national strategy for land development, to set up indicative policies regarding the location of industrial facilities, residential buildings, agricultural lands, national tourist/travel routes, and cultural assets;
- (ii) Provide attractive conditions for investors in unfavorable areas;
- (iii) Develop economic infrastructure (free economic zones, industrial parks, logistical centers) in key locations;
- (iv) Promote marketing of regional capacity for foreign investments (informational centers, structured services);
- (v) Restructure and upgrade the industrial sector as to allow for the creation of clusters;
- (vi) Create networks of towns based upon common development interests and potential; and
- (vii) Promote the marketing of brands and success stories of towns.

5.3. Rural development and growth of agriculture productivity

Rationale

The high proportion of rural population and the considerable rural areas make the rural development agenda a matter of national importance in the Republic of Moldova. The issue of rural economy development is complex and requires a cross-sector and territorial (regional) approach. Agriculture will continue to be critical for Moldova's rural economic development, and in many communities still it is the main available economic activity. The future of agriculture is incomprehensible without a diversification and renewal of rural economy as a whole, because agriculture could be efficient only within the context of rural development.

Structural reforms over recent years have contributed to the creation of a large private agricultural sector. The biggest part of private enterprises has not managed to adjust to the new market environment. The tendency of agricultural production to self-consumption and the lack of economic viability in the case of many enterprises operating in the sector is due to many constraints, both at the demand and supply ends of it. The inadequate supply of quality farming products is the main reason for the poor trade opportunities, which in turn, is closely linked to the failures at the demand end, such as the underdevelopment of value chains coordinated vertically, the role of which is to generate and shape demand and to set the standards for the farming products based on market demands. The insufficient use of the research and innovation potential, the low level of management skills, also contribute to low competitiveness of farming and food products.

The increase in the performance of agriculture implies changes in two directions: firstly, an improving of performance and competitiveness in agriculture, and secondly, a decreasing in the number of people working in agriculture. High productivity levels in agriculture could be attained by employing modern technologies, leading to higher outputs, better quality, economic efficiency and, ultimately, competitiveness of Moldovan products on international markets. This implies actions focused on setting up a favorable investment climate for farming and processing enterprises, attracting domestic and foreign financial resources to develop the production and trade infrastructure, development of human resources, development of the country's research and innovation potential, better risk management, preservation and efficient use of natural resources.

Once structural reforms advance and modern technologies are applied, the number of people employed in agriculture will go down. Shifting labor force working in agriculture to non-farming occupations requires that an assessment of training, qualifications and skills be conducted, as well as provide for the need of on-site training. Another set of actions should target education of labor force from rural areas, improving their qualifications, so that they would be able to get jobs in non-farming areas. In this context, there is need for a sustained and determined effort to create and develop improved conditions to develop business skills, and bring in investments in new businesses in rural areas, which not only will sort out the social problems, but would also increase the productivity in rural economy, in particular, and the competitiveness of national economy, in general.

Programs and measures

5.3.1. Improving the performance of agriculture and the competitiveness of farming and food products

- (i) Improve the management of farming lands and soil protection;
- (ii) Improve natural hazard risk management, preservation and efficient use of natural resources;
- (iii) Upgrade the production and development infrastructure for the farming and food product market infrastructure;
- (iv) Reorganize veterinary and phytosanitary services in line with EU norms to secure food safety and promote exports;
- (v) Improve the quality of education in agriculture, by means of in-service training;
- (vi) Strengthen rural development services (information and consultation services in agriculture and rural development);
- (vii) Reform and consolidate the system for research and technological development in agriculture and food processing industry; and
- (viii) Set up an efficient partnership between research, education and development in agriculture.

5.3.2. Developing a climate favorable for strengthening SMEs and business skills in rural areas:

- (i) Strengthen entrepreneurship in small towns and villages by facilitating access to services (one-stop shops at the LPA, business information centers, networks for product trading and distribution);
- (ii) Develop a business culture in rural areas through education programs, business incubators etc.
- (iii) Develop support services for rural business;
- (iv) Develop rural non-farming activities, in particular within SMEs, including within farming enterprises, through sector-wide programs and projects (services, telecommunications, transport, etc.); and

- (v) Build capacity for harnessing the tourism/travel potential by identifying and promoting a limited number of very competitive products and services (niche approach) and consolidate the cooperation in the area of tourism with neighboring countries.

5.4. Developing and upgrading regional infrastructure and promoting public-private partnerships

Rationale

Although Moldova has all the necessary infrastructure elements, the distribution of those is uneven. In certain regions the low-quality infrastructure puts up significant obstacles to social and economic development, makes the region less attractive for investments and is not living up to the demands of modern development. This situation is common for all components of regional infrastructure (roads, gas, water, electricity supply systems, social and environment infrastructures etc.)

At the same time, without having significantly improved the regional infrastructure, one could not count on cutting down discrepancies in regional development and could not enhance the competitiveness of regions. Regions can position themselves as attractive economic entities only once an infrastructure is set up in line with modern economy demands.

Each development region will define the main development gaps and priorities in their own infrastructure, drawing upon the appraisal of its status and role in sustainable social-economic development. When identifying their priorities, regions will also rely and make use of interregional and cross-border cooperation opportunities.

At the same time, the experience of European countries proves that the most efficient regional policy combines the efforts of central and local authorities alike, the private sector and nongovernmental organizations. Public-private partnerships could also be an efficient tool for delivering public services where substantial investments are necessary and the state is not able to guarantee those.

Programs and measures:

5.4.1. Concentrating financial capacities and resources for the implementation of projects in the social area, transport, public services and environment protection:

- (i) Enhance the capacity of regions to design and implement infrastructure development projects;
- (ii) Study the current situation and status of infrastructure and:
 - the need for investments;
 - the capacity to absorb investments;
 - feasibility of investments; and
 - obstacles (financial, legal etc.) to implementing investment projects.
- (iii) Implement efficient tools and mechanisms to promote public-private partnerships in the regions.

5.4.2. Creating an information system to support an efficient and transparent governing:

- (i) Implement the National Strategy for Edifying the Information Society – “e-Moldova”;
- (ii) Establish an Infrastructure of Spatial Geographic Data for the Republic of Moldova and integrate in international community; and
- (iii) Improve the quality of decision-making through by having the consumers of

created information services get involved.

5.5. Preventing environmental pollution and promoting the efficient use of natural resources aimed at improving the quality of life

Rationale

The sustainable development of the county and its society is only possible by ensuring certain quality environmental factors, which contribute to keeping up good health and quality of life. The quality of environment is directly linked to the country's economic performance, too, thus impacting on the farming products and rural economic development.

Water is the single environmental factor with the highest impact on the health. In this vein, there is need for actions to be taken to subdue the negative impact that the drinkable water of poor quality exerts on the health of population. The degradation of environment caused by accumulation of all types of wastes is the most aggressive factor contributing towards declining quality of health and life expectancy alike. The amount of household and production solid wastes disposed of into environment has significantly increased over the last decades, due to lacking techniques for waste processing, neutralization and replacement, thus negatively impacting on both the environment and the health of population.

The environmental policy will be implemented by actively involving local public authorities in the management of natural resources. To do so, efforts will be bent to delineate the competences of relevant central and local public authorities, build the capacity of authorized relevant public authorities, as well as to raise the public awareness about the negative effects of certain activities on the quality of environment.

Implementation environmental policy is costly and will require contributions from the state and local budgets, the National Environment Fund and from foreign financing sources. To this end, actions that encourage the participation of private sector in environment protection are critical (such as endorsing environment quality standards), alongside the decentralization of certain measures to community level (such as the creation of autonomous systems for water supply in locations where piping into a central water supply is far too costly).

Programs and measures

5.5.1 Efficient harnessing of natural resources, maintaining the quality of environment as a factor that ensures the keeping up of health and better quality of life:

- (i) Avert and reduce the degrading of natural resources and promote the efficient harnessing of those, emphasizing soil erosion prevention measures;
- (ii) Improve the waste management system to reduce the impact and quantity of wastes, including by means of creating the infrastructure for waste storage and processing;
- (iii) Management, controlled storage and destruction of toxic chemicals and persistent organic pollutants;
- (iv) Expand the water supply and sewerage networks, including by encouraging providing decentralized options where piping to a central network is too costly;
- (v) Multilateral collaboration on monitoring and protection of waterbeds of the rivers Prut and Dniester (including, water management, fishing and irrigation);
- (vi) Streamline the efficiency of power consumption, promote the use of renewable sources of power and purer production;
- (vii) Upgrade and improve efficiency of the national monitoring system for the status and evolution of Hydrometeorological conditions, including natural hazards and

- quality of environment;
- (viii) Expand the protected natural areas, and flora and fauna protection;
- (ix) Scale up afforestation, including by planning forests on degraded farming lands, by planting and reviving the protection forest fences along the farming lands, by using new funding opportunities for afforestation with carbon credit money; and
- (x) Improve the state control over enforcement of environment protection legislation and sustainable use of natural resources.

Progress indicators

Indicator (all indicators should be disaggregated by region)	Source
Share of urban population in total population in the region, per cent	National Bureau of Statistics
Share of households with sewer (regional average), per cent	National Bureau of Statistics
Share of households with water supply (regional average), per cent	National Bureau of Statistics
Investments in fixed capital, million MDL	National Bureau of Statistics
Volume of industrial output, million MDL	National Bureau of Statistics
Investments in fixed capital per capita, thousand MDL	National Bureau of Statistics
Volume of industrial output per capita, thousand MDL	National Bureau of Statistics
Number of reporting enterprises per regions	National Bureau of Statistics
Number of wagers, thousands	National Bureau of Statistics
Average monthly salary in the region as share of average national monthly salary, per cent	National Bureau of Statistics
Share of irrigated land in total farming lands (regional average), per cent	
Share of eroded lands in total farming lands (regional average), per cent	
Total public roads at the end of the year, km including paved roads, km	National Bureau of Statistics
Waste generation, thousand tons	National Bureau of Statistics
Waste management, thousand tons	National Bureau of Statistics
Share of afforested lands, per cent	Moldsilva
Share of protected areas designated for preserving biodiversity, per cent	Ministry of Environment and Natural Resources
Share of people with sustainable access to better water sources, per cent	NSPCPM
Share of people with access to improved sanitation, per cent	ACTD
Share of people with access to improved sewerage, per cent	National Bureau of Statistics

VI. MONITORING AND EVALUATION OF THE NATIONAL DEVELOPMENT STRATEGY

1. Background

The progress in carrying out actions and the achieved results will be subject to an ongoing monitoring process all throughout the implementation of the National Development Strategy, so that adequate policy and action changes are made, if needed.

Monitoring aims at bringing the priorities, objectives and targets of the Strategy in line with the results of implementing the given plan, so that subsequently carry out an evaluation of the way the Strategy has been implemented, with highest degree of accuracy attainable, as well as the impact it has had on the economic development and the living standards of people. Specifically, the monitoring and evaluation process will contribute to:

- i) Review of current situation and trends in achieving the Strategy objectives;
- ii) Review of the way the action plan has been implemented for Strategy fulfillment; and
- iii) Adequate evaluation of resulting final outcomes.

Institutional framework for the monitoring and evaluation of the Strategy

The supervision over strategic planning and activities carried out in the field of social and economic policies aiming at sustainable development of the country and at improving people's quality of life will be handed over to the National Council for Sustainable Development, chaired by the President of the Republic of Moldova. The National Council for Sustainable Development will carry the following duties:

- i) Oversee Strategy implementation, monitoring and evaluation;
- ii) Evaluate the Strategy outputs and outcomes;
- iii) Approve the annual plans of actions for the Strategy implementation and annual reports on Strategy implementation; and
- iv) Develop recommendations on social and economic development policies for sustainable development.

The whole process of monitoring and evaluating the outcomes of Strategy implementation will be coordinated by the Inter-ministerial Committee charged with coordinating the design, implementation, monitoring and evaluation of the Strategy (hereinafter referred to as Inter-ministerial Committee), consisting of heads of the central public authorities, and chaired by the First Deputy Prime Minister. The Inter-ministerial Committee will call on meetings at least twice a year, benefiting from the logistical support of the Ministry of Economy and Trade. The core duties of the Inter-ministerial Committee are as follows:

- i) Develop and approve the agenda of activities for the monitoring, evaluation and reporting on the Strategy implementation;
- ii) Evaluate the progress in achieving the objectives and targets of the Strategy based on monitoring data;
- iii) Review and approve semi-annual and annual reports on the Strategy implementation;
- iv) Review proposals of implementing partners and of the Participation Council on improving the monitoring and the entire process of the Strategy implementation; and
- v) Formulate recommendations to the Government to improve the Strategy implementation.

The Participation Council will support the Government efforts in implementing the Strategy, by interacting as facilitator of participation of all stakeholders, both governmental and non-governmental, at central and local levels. The Participation Council consists of representatives of various stakeholder groups, in particular, central and local public authorities, NGOs, private sector, trade unions and donors. In order to improve the dialogue with stakeholders, the central public authorities will strengthen partnerships by sectors, including by designating, within the policy analysis, monitoring and evaluation units, of a person responsible for participation.

In the monitoring and evaluation of the Strategy implementation, the Participation Council will bear the following tasks:

- (i) ensure the transparency of Strategy implementation;
- (ii) mobilize and facilitate the participation of civil society and other stakeholders in the implementation of strategic paper;
- (iii) establish a favorable environment for a ongoing dialogue open to participation of stakeholders in tackling problems and challenges emerging during implementation;
- (iv) strengthen the institutional framework for ongoing interaction between public authorities and civil society;
- (v) facilitate an independent monitoring and evaluation of Strategy implementation and the impact of public policies under the Strategy;
- (vi) provide for developing and implementing an efficient strategy for communication, wide and rapid dissemination of relevant information to partners, etc.
- (vii) review and submit recommendations for semi-annual and annual reports on the Strategy implementation; and
- (viii) prepare and submit recommendations during the updating of the Strategy Action Plan based on official reports and independent evaluations.

The Ministry of Economy and Trade will act as a technical coordinator of the implementation and monitoring process, which is carried out by central and local public authorities. The Ministry of Economy and Trade will have the following tasks:

- i) coordinate the monitoring process at inter-ministerial and inter-regional levels; and
- ii) conduct a comprehensive review of the policy impact on the achievement of the Strategy objectives at national level.

The Ministry of Economy and Trade will be responsible for the inter-ministerial and interregional coordination, and will fulfill the following duties:

- i) review and assess the current situation and economic and social trends;
- ii) ongoing monitoring of outputs and outcomes at national level;
- iii) evaluate the progress in achieving the objectives and targets of the Strategy;
- iv) assess the impact of policies formulated in the Strategy;
- v) consult central and local public authorities in monitoring, collection of data, review and drafting of reports;
- vi) design and turn in with the central and local public authorities the standard report forms and requirements for the contents of semi-annual and annual reports;
- vii) act as the Inter-ministerial Committee Secretariat;
- viii) submit to the Government and Inter-ministerial Committee proposals and recommendations for amending the policies and the Action Plan for the Strategy implementation;
- ix) prepare aggregated semi-annual and annual reports on the Strategy implementation;
- x) share the monitoring results and reports with the relevant stakeholders

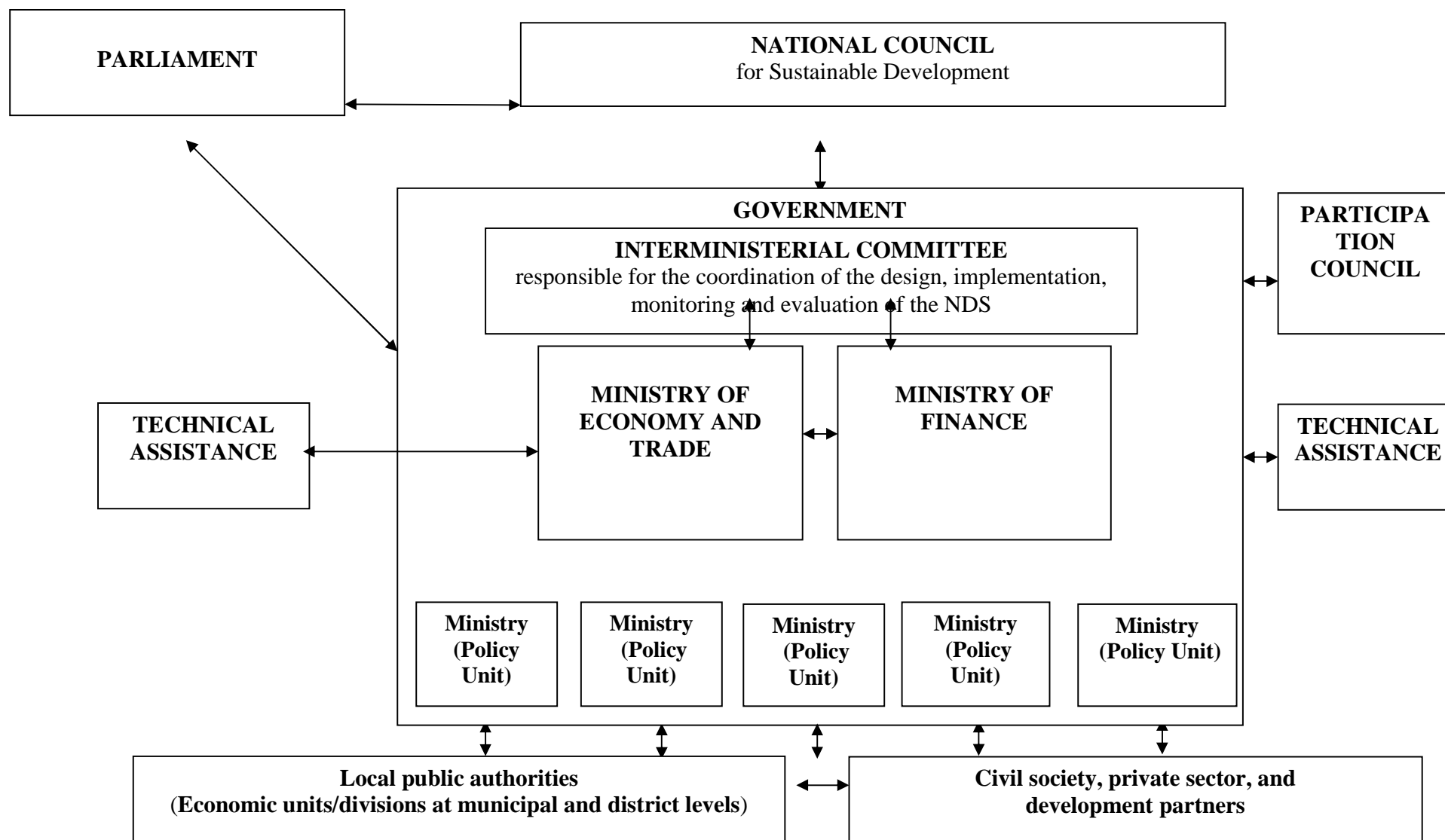
Within the central public authorities, monitoring will be done by policy analysis, monitoring and evaluation units or – should there be none – by other subdivisions, designated as being responsible for monitoring, pursuant to the ordinance of the head of that respective authority. Subdivisions responsible for monitoring and evaluation will have the following main duties:

- i) collect data and act as the administrator of the database, required for monitoring;
- ii) conduct the analysis of situation and trends in areas of their competence, which fall within the scope of the Strategy;
- iii) monitor the implementation of the action plan for the Strategy implementation and the results of implemented policies;
- iv) assess the impact of policies and actions taken towards achieving the set objectives and targets;
- v) formulate suggestions on how to improve the implementation plan and policies, based on the outcomes of monitoring; and
- vi) draft semi-annual and annual reports

The economic divisions / units of the district, municipal councils, and TAU Gagauzia will take care of monitoring at local level. The Monitoring and evaluation of the Strategy implementation at regional level will be conducted by the Ministry of Local Public Administration, in cooperation with the National Council for Coordination of Regional Development (NCCRD), created pursuant to the Law on Regional Development, with a view to approving, promoting and coordinating the objectives of the regional development policy at national level. Involved facilities will benefit from the relevant advisory support that the Ministry of Economy and Trade will provide throughout the entire process in matters relating to data collection, selection of monitoring indicators, reviewing and drafting of reports.

The Ministry of Finance will provide the Ministry of Economy and Trade, and other public authorities, including the local ones – which are involved in the monitoring and evaluation process – with the relevant consultative support, in particular, in the context of evaluating the financial impact of policies and how those fit in the Medium-Term Expenditure Framework.

Figure 9: Institutional framework for the monitoring and evaluation of the National Development Strategy for 2008-2010



2. Strategy Monitoring and Evaluation Tools

In order to monitor and evaluate the outcomes of the Strategy implementation, statistical data from both the National Bureau of Statistics and the National Bank of Moldova will be used, alongside the administrative data compiled by the central public administration authorities.

The Strategy monitoring process will make use of a number of indicators measuring the overall outcomes of implementing the set targets based on priorities (Annex no.1). These are, by and large, indicators measuring the most significant overall outcomes of the Strategy implementation. At the same time, if one is to get more detailed data about the current situation and implementation outcomes, the responsible central and local public administration authorities will use a larger set of indicators, broken down by areas of competency for monitoring purposes. To make the overall picture complete on the Strategy implementation in each area, the authorities in question will also use the results from studies, reviews and national and international comparative surveys during the monitoring and evaluation process.

The interaction with the National Bureau of Statistics will be strengthened to improve the quality of information used by central and local public administration authorities in the Strategy implementation monitoring. An assessment will be conducted to reveal the additional needs of public administration authorities in terms of measuring the outcome indicators, to afterwards be discussed and endorsed by the specialists from the National Bureau of Statistics, and will be suggested for inclusion into the statistics software. In the medium run, some of the indicators computed by the National Bureau of Statistics will be adjusted to the Strategy requirements, while also initiating an assessment of a new set of indicators, specifically in such areas, as regional development, SME competitiveness, research and innovation, and gender statistics. In particular, any improvement of the Strategy monitoring and evaluation tools will target:

- i) improving the system of indicators and calculation methodologies;
- ii) improving the way the statistical data are collected, abiding by international standards, specifically the EU norms;
- iii) improving the statistical research system, in particular by eliminating statistic reports with low information value, thus easing the information burden on economic agents, allowing for a more efficient use of human and budget resources;
- iv) improving information technologies by:
 - developing the concept of an information system for the National Bureau of Statistics and its gradual implementation;
 - ensuring access to sources of administrative data belonging to the central and local public administration authorities;
- v) higher quality of publications, dissemination of statistic information and promoting a better use of statistical information by users; and
- vi) capacity building of formal statistics entities and central and local public authorities in view of developing relevant statistic and administrative information, thus ensuring an efficient output and use of it.

3. Strategy Monitoring and Evaluation Timeframe

The monitoring and evaluation, as well as the presentation of preliminary reports, will be brought in line with that of other strategies and national programs, as well as with the MTEF.

Each year, the Ministry of Economy and Trade, with the support of the central and local public administration authorities involved in the process, will develop an Evaluation Report

on the implementation of the National Development Strategy of the Republic of Moldova for 2008-2011.

At the same time with the review of the progress in implementing the Strategy priorities, there will be a monitoring of the Action Plan for Strategy implementation. The given Plan will include specific actions supporting one of the two key conditions and five priorities of the Strategy. Actions will be developed by the public administration authorities responsible for their onwards implementation, in line with the Guidelines for developing, evaluation and selection of proposals for the Strategy Action Plan. Each action will be accompanied by data on implementation costs, indicators and targets for monitoring and evaluation purposes. The annual Action Plan for the Strategy will be updated and adjusted pursuant to the current situation, and endorsed by the Government before December 31st.

The Ministry of Economy and Trade will follow up on the implementation of the Strategy Action Plan, and jointly with the respective public administration authorities, will develop semi-annual reports on the implementation of planned actions.

Findings and conclusions of semi-annual and annual reports will lay the foundation for further improving and annual updating of the Strategy Action Plan, contributing to the harmonization of strategic planning with the budgeting process (MTEF).

Each year the results of Strategy implementation will be debated at national forums to inform the public at large, get feedback, suggestions and recommendations on how to improve the policies and action plans in order to fulfill the Strategy objectives and targets. These suggestions and recommendation will be taken into account when finalizing the annual reports on the Strategy implementation. Following their finalization based on public debate and suggestions, the Government will approve the annual reports.

Risks Associated with National Development Strategy Implementation

The implementation of the Strategy is, to a great extent, contingent on the Government's capacity to fully commit to the proposed policy agenda and ensure its consistent implementation by all relevant institutions. The implementation of previous strategic papers, EGPRSP and MEUAP in particular, provides eloquent experience in terms of possible risks that may affect the implementation of Government programs.

Hence, considering the previous experience with strategic program implementation, as well as the recent macroeconomic trends, one could conclude that the Strategy implementation is associated with the following risks:

- i) the emergence of certain external shocks that may endanger the accomplishment of macroeconomic objectives, also resulting in subduing the work at microeconomic level;
- ii) an eventual cessation or reduction in allocations previously endorsed and agreed for the financing of certain programs and policies;
- iii) poor supervision over the use of resources earmarked for action implementation;
- iv) the country's low absorption capacity for funds endorsed under the action plan; and
- v) an eventual change in policy, contrary to the reforms set under the Strategy

Besides these major risks, the Government is aware of a possible emergence of other issues that might undermine the consistent implementation of the National Development Strategy. Therefore, the broad range of issues that the Government is trying to address through the National Development Strategy will require the full commitment of all stakeholders (civil society, academia, private sector, donors, etc.) in implementing and monitoring the Strategy. The participatory process is also associated with certain risks, such as authorities lacking capacity to reach consensus with third parties, unjustified actions etc., which could be minimized by building the capacity of public authorities.

The Government will bend every necessary effort to avert the emergence of these risks, yet should those occur – it will take up measures to reduce the negative impact on the country, in general, and on the population, in particular. In this vein, the Government will build its capacity for efficient management and use of resources to implement the Strategy actions.

ANNEXES

ANNEX 1: Indicators for monitoring and evaluation of the National Development Strategy implementation

Monitoring indicators	Source	2000	2001	2002	2003	2004	2005	2006	2007, sem.I
1	2	3	4	5	6	7	8	9	10
Main objective: Ensure a better quality of people's life by consolidating the basis for a robust, sustainable and inclusive economic growth									
GDP per capita, USD	NBS	354	408	459	548	721	831	936	...
Share of population under the absolute poverty line, %	NBS	67.8	54.6	40.4	29	26.5	29.1	30.2 ¹	X
Prerequisite I. Ensure macroeconomic stability									
Nominal GDP, million MDL	NBS	16020	19052	22556	27619	32032	37652	44069	23843
GDP growth rate, % vs. previous year	NBS	2.1	6.1	7.8	6.6	7.4	7.5	4	8.0

¹ Starting with 2006 the HBS sample was completely changed. Main changes were made to: a) the sampling frame; b) improvement of the data collection tools (questionnaires) and c) the establishment of a unified data collection network for surveys in the social sector. The new survey, unlike the old one, does not use the method of substitution of households in case of non-response. Such practice showed that in case of refusal of the household to take part in the survey, it was replaced with another household from the back-up list, while elderly persons or those without an occupation were most willing to participate in the survey. As a result there was an overrepresentation of households with elderly persons in the sample, which lead to errors in the final estimations of the survey. The substantial increase in the number of PSU where households are selected from for the HBS ensures a much better coverage of all the settlements of the Republic of Moldova. Thus, for 2006 the absolute poverty line was 747 MDL, as compared with 353 MDL in 2005.

1	2	3	4	5	6	7	8	9	10
Inflation rate (annual average), %	NBS	31.1	9.6	5.2	11.6	12.4	11.9	12.7	11.3
Inflation rate at the end of year, %	NBS	18.4	6.3	4.4	15.7	12.5	10.0	14.1	3.9 ¹
Official exchange rate of the national currency versus US dollar, annual average, MDL / USD	NBM	12.43	12.87	13.57	13.94	12.33	12.6	13.13	12.6
Dolarisation of deposits, %	NBM	48.8	44.8	47.2	50.1	44.7	41.8	49.1	47.3
Total external debt as a share of GDP, %	NBM	133.1	113.5	109.6	97.7	73.0	69.6	74.0	77.4 ²
Public and publicly guaranteed external debt as a share of GDP, %	MF	60.4	48.1	44.4	36.0	25.7	22.4	21.0 ³	X
Foreign debt servicing in relation to the fiscal revenues of the state budget, %	MF	30.4	48.2	27.7	18.1	24.0	9.5	10.0	6.7
National public budget deficit (-) / surplus (+) as a share of GDP, %	MF	-2.5	0.6	-1.7	1.0	0.2	1.5	-0.3	-0.2
Balance of trade with goods (FOB prices) and services as a share of GDP, %	NBM	-25.7	-23.8	-25.2	-33.8	-30.0	-40.6	-47.6	-54.2 *
Current account balance as a share of GDP, %	NBM	-7.6	-1.8	-1.2	-6.8	-2.2	-8.1	-11.9	-21.1 *
Official foreign exchange reserves, in months of import	NBM	2.75	2.52	2.49	2.10	2.67	2.63	2.97	2.58
Income of Moldovan residents working abroad and transfers from abroad of wage-earners as a share of GDP (inputs), %	NBM	13.8	16.4	19.4	24.4	27.0	30.6	35	34 *

¹ As compared to December 2006.

² Trimestrul II al anului 2007.

³ Starting 2005, the structure of foreign debt also includes active guarantees to adjust the keeping of public debt according to the legislation in effect.

* Quarter I of 2007.

1	2	3	4	5	6	7	8	9	10
Prerequisite II. Strengthen capacities of public administration									
Number of civil servants at central level ¹ (at the end of year), persons	NBS	9232	9716	12450	11706	12401	12634	13140	13203
Number of civil servants at local level ² (at the end of year), persons	NBS	5077	6767	7950	7881	7928	8015	8012	7988
Ratio of the number of civil servants at central level to the total number of wage-earners (at the beginning of year), %	NBS	1.2	1.3	1.6	1.5	1.6	1.6	1.7	1.8
Ratio of the number of civil servants at local level to the total number of wage-earners (at the beginning of year), %	NBS	0.6	0.9	1.0	1.0	1.0	1.0	1.0	1.1
Ratio of average monthly salary in public administration to the average nominal monthly salary in the economy, %	NBS	126.9	136.5	142.9	117.9	109.2	103.4	127.5	121.5
Priority I. Strengthen a modern democratic state, based on the principle of rule of law									
Number of recourse to ECHR,	MJ		44	253	357	441	632	621	...
including recourse that were communicated to the Government,	MJ		7	4	64	53	46	99	15
including cases won by applicants	MJ		1	0	0	10	13	19	20
Number of recourse to ECHR lodged by detainees	MJ								
Number of court decisions submitted for enforcement	MJ				106041	116840	106597	43866	24499...
including those that were not enforced	MJ				32661	44587	41547	11268	12814

¹ The indicator includes the civil servants comprised under the Law on civil servants #433-XIII from May 4th 1995, with the exception of military employees. Note that teachers, doctors and cultural employees are not public servants.

1	2	3	4	5	6	7	8	9	10
Number of recourse to courts (civil and administrative cases) (except economic courts)	MJ	50674	56214	55512	58138	56402	56264	62179	34312
Number of recourse for alternative procedures	MJ								
Corruption Perception Index ¹	Transparency International	2.6	3.1	2.1	2.4	2.3	2.9	3.2	X
Level of confidence in police, % of interviewed persons who do not have confidence in police	Barometer of public opinion	-	-	-	63.1	63.1	58.6	60.0	
Number of crimes related to human trafficking	Prosecutor's office /MIA			91	260	382	397	468	287
Number of cases of domestic violence which lead to murders and severe injures	MIA	177	85	133	100	63	39	50	13
Number of minutes drafted for light injures	MIA	3673	3454	3028	3204	3440	2551	2121	824
Priority II. Settle the Transnistrian conflict and country reintegration									
Number of persons assisted through programmes implemented by public authorities of the Republic of Moldova	MR								
Number of projects designed for the rehabilitation, upgrade and development of infrastructure in areas affected by the	MR								

¹ The index is compiled by Transparency International on the basis of annual surveys measuring the degree to which corruption is perceived to exist among a country's public officials and politicians. It is a composite index, drawing on 12 different polls and surveys from 9 independent institutions. The scores range from 10 to 0 with the latter signifying a highly corrupt environment. The CPI 2006 ranks 163 countries. In 2005, the CPI included 159 countries. Surveys are carried out among business people and country analysts. The surveys used in the CPI use two types of samples, both non-resident and resident.

1	2	3	4	5	6	7	8	9	10
conflict									
Number of projects implemented or under implementation for the rehabilitation, upgrade and development of infrastructure in areas affected by the conflict	MR								
Priority III. Enhancing the competitiveness of the national economy									
Gross value added, million MDL, current prices	NBS	14022	16773	19689	23523	27518	31616	36669	19885.1
<i>agriculture, hunting and forestry; fishing</i>		4071	4271	4742	5062	5633	6175	6636	1567.3
<i>industry</i>		2614	3564	3901	4860	5468	5936	6327	3526.6
<i>services</i>		7717	9370	11510	14248	17146	20262	24699	15536.4
Population employed in economy, thousand persons	NBS	1515	1499	1505	1356	1316	1319	1271	1326.1 ¹
<i>agriculture, hunting and forestry; fishing</i>		766	764	747	583	533	537	415	485.9
<i>industry</i>		161	165	171	164	162	159	160	161.5
<i>services</i>		588	570	587	609	621	623	696	678.7
Export of goods as a share of GDP,%	NBM	36.6	38.2	38.7	39.9	37.9	36.5	31.3	33.4 *
Share of exports in the total amount: %	NBS								
<i>CIS countries</i>		58.6	60.9	54.4	53.6	51.0	50.5	40.3	38.8
<i>EU countries</i> ²		26.3	24.9	26.6	26.7	26.8	29.7	35.0	50.4
<i>other countries</i>		1.7	3.3	5.2	4.0	8.2	8.7	8.2	10.0

¹ Quarter II of 2007.

² In 2000-2004 the European Union consisted of 15 countries, in 2005-2006 – 25 countries, since 01.01.2007 - 27 countries.

1	2	3	4	5	6	7	8	9	10
Share of food exports in total amount of exports, %	NBS	63.2	64.0	65.6	63.3	60.4	59.0	45.1	38.1
Foreign direct investments (net), million USD	NBM	127.5	103.4	84.1	73.8	148.9	198.7	222.3	70.4 *
Foreign direct investments per capita (stock), USD	NBM	123.5	151.4	176.7	198.4	241.5	295.4	358.6	384.6 ¹
Fixed capital investments as a share of GDP, %	NBS	11	12.2	12.4	13.1	16	20.7	24.7	17.7
Ratio of the number of revealed product non-conformities in the total number of controls	SMS	58	55	61	56	52	64	62	68
Number of approved national standards, identical to international and European standards, annual	SMS	45	62	117	255	162	235	175	172
Number of technical regulations developed based on EU Directives, annual	SSM						10	31	14
Number of enterprises that took ISO 9000 and ISO 22000 certificates, annual	SSM	6	13	13	25	14	17	12	8
Number of reference measurement standards /national measurement standards of the Republic of Moldova traceable to the international measurement standards	SSM	63	63	63/1	63/1	63/1	63/1	60/1	60/2
Credits provided by commercial banks in the economy as a share of GDP,%	NBM	14.3	16.3	18.5	21.9	23.1	26.5	31.2	

¹ At the end of quarter I of 2007.

* Quarter I of 2007.

1	2	3	4	5	6	7	8	9	10
Share of unfavourable credits in total banking credits provided by commercial banks in Moldova, %	NBM	20.6	10.4	7.6	6.4	6.9	5.3	4.4	3.8
Real effective exchange rate, % (Dec. 2000 = 100%)	NBM	100	94.4	85.5	89.1	92.5	94.7	91.5	95.4
Interest rate of credits in MDL (annual average), %	NBM	33.29	28.46	23.14	19.18	20.96	18.93	18.18	18.69
Interest rate spread (annual average), %	NBM	8.7	7.9	8.8	6.5	5.8	5.9	6.3	3.9
Share of insurance premiums in GDP, %	NCFM	0.83	0.84	1.02	1.05	1.18	1.1	1.27	1.35
Credit portfolio of micro crediting companies as a share of GDP, %	NCFM						1.16	1.75	3.88
Credit portfolio of savings and loan associations as a share of GDP, %	NCFM					0.36	0.47	0.57	1.93
Expenditure on research and development as a share of GDP, %	MF	0.22	0.21	0.24	0.24	0.26	0.37	0.5	0.41
Share of expenditure for applied scientific researches conducted by the ASM in total expenditure for research and development, %	ASM			47.2	21.7	28.4	26.7	41.4	48.5
Funds invested by companies in implementation of domestic innovations in real sector of economy, million MDL	ASM							4.6	5.5
Patents total/implemented	ASM								
Exports of high-technologies as a share of total exports, %	World Bank GDI		3.05	5.46	3.23	3.71	2.70
Length of roads, km	MTRM	9378	9433	9461	9462	9464	9467	9467	...

1	2	3	4	5	6	7	8	9	10
– <i>rehabilitated</i>									
– <i>constructed</i>									
Energy resources per capita , thousand kg conventional units	NBS	0.727	0.683	0.746	0.782	0.851	0.905	0.904	X
Consumption of energy as a share of GDP, %, kg conventional units for 1 MDL	NBS	0.165	0.130	0.120	0.102	0.096	0.087	0.074	X
Share of electric power losses in total energy consumption, %	NBS	26.8	25.9	10.9	8.0	12.5	12.7	12.7	X
Volume of domestic electric energy as a share of total consumption, %	NBS	26.7	37.1	31.1	22.6	23.3	29.2	29.2	X
Share of investments in the transport sector in the total public investments, %	MF								
Share of investments in the development of air and naval transport in the total public transport investments, %	MF								
Number of land telephone lines per 100 residents	MID	...	17.7	19.9	21.9	25.2	27.4	29.7	...
Number of subscribers to the mobile telephone network per 100 residents	MID	...	6.6	10.0	13.9	23.2	32.3	39.6	
Number of Personal Computers per 100 residents	MID	...	2.0	3.3	8.0	12.0	16.2	21.2	...
Number of Internet users per 100 residents	MID	...	1.5	1.8	2.6	3.4	10.3	15.3	...
Competitiveness Index for domestic goods ¹	NBM								
– <i>CIS countries</i>		107.3	100.7	83.9	69.9	64.2	59.1	40.1	37.3

¹ The Competitiveness Index is drawn by the NBM and incorporated in the balance of payments. The index is computed as the ratio of exports of goods and services of the Republic of Moldova to the countries of the respective region to imports of goods and services from the countries of the same region. The analyzed countries are CIS, EU and Central and Eastern Europe and other countries.

1	2	3	4	5	6	7	8	9	10
– <i>EU¹</i>		46.3	49.7	55.3	51.7	62.8	48.7	45.9	46.8
– <i>Central and Eastern Europe²</i>		28.5	26.4	34.0	35.0	30.8	31.4	35.0	32.2
Duration of import customs procedures, days	Cost of Doing Business Survey, WB			4.3	2.7	3	3	1.8	1.9
Duration of customs procedures for imported goods, minutes	SV								
– border customs points		107.3	100.7	83.9	69.9	64.2	59.1	40.1	37.3
– in-land customs points		107.3	100.7	83.9	69.9	64.2	59.1	40.1	37.3
VAT refund received 0-100% of the requested amount, (share of interviewed, %)	Cost of Doing Business Survey, WB				95	78	13	37	43
Priority IV. Develop human resources, increasing employment and promoting social inclusion									
Net rate of enrolment in primary education, %, total	NBS	93.5	92.4	92.7	92.4	91.0	87.8	87.6	X
Gross rate of enrolment in primary education, % total	NBS	99.4	99.5	99.5	99.8	97.9	96.7	94.4	X
Net rate of enrolment in secondary education, % total	NBS	87.0	86.8	87.9	87.5	88.5	86.8	86.1	X
Gross rate of enrolment in secondary education, % total	NBS	90.2	91.1	92.3	92.2	92.5	93.0	90.5	X
Net rate of enrolment in preschool education, %	NBS	38.5	42.4	52.4	58.7	63.7	68.6	68.5	X

¹ In 2000-2004 the European Union consisted of 15 countries, in 2005-2006 – 25 countries, since 01.01.2007 - 27 countries.

² In 2000-2004 the Central and Eastern Europe consisted of 15 countries, in 2005-2006 – 7 countries, since 01.01.2007 - 5 countries.

1	2	3	4	5	6	7	8	9	10
Gross rate of enrolment in preschool education, %	NBS	44.1	47.6	57.0	61.1	66.1	70.7	70.1	X
Rate of enrolment in preschool education of 3-6 year-old children, %	NBS	37.9	39.3	41.3	43.1	45.8	49.2	53.0	...
Rate of enrolment in preschool education of 6-7 year-old children, %	NBS	56.8	68.8	66.5	78.8	69.1	75.6	81.7	...
Rate of early drop-out of education among youth, %	NBS	-	-	-	-	21.8	22.6	23.6	22.1
Rate of enrolment in education of 15-24 year old persons, (gymnasium, lyceum, secondary vocational, secondary special, higher; all types of education: day, evening and part-time), %	NBS	34.2	35.4	37.5	38.7	40.5	42.1	42.6	X
Pupil/Teacher ratio in education (daytime schools, gymnasiums, lyceums)	NBS	15	15	14	14	13	13	12	X
Teaching/Non-teaching staff ratio in education (schools, gymnasiums, lyceums)	BNS								
Literacy rate for 15-24 year-old persons, %	NBS							99.5	
Rate of population covered by the mandatory health insurance, %	NBS					70	75	75	77
Share of expenditures for primary care in total health care expenditures and health insurance fund, %	MH/NHIC		18.6	16.7	17.0	18.0/25.0	20.8/30.0	/31.0	/31.0
Infant mortality rate, per 1000 live born	MH	18.3	16.3	14.7	14.4	12.2	12.4	11.8	12.3

1	2	3	4	5	6	7	8	9	10
Under five mortality rate, per 1000 live born	MH	23.2	20.4	18.2	17.8	15.3	15.6	14.0	15.6
Share of 2 year-old children vaccinated against measles, %	NBS (based on data provided by MH)	98.6	99.4	98.6	98.6	99.2	99.1	99.4	...
Maternal mortality rate, per 100000 live born	MH	27.1	43.9	28.0	21.9	23.5	18.6	16.0	27.4
Share of births assisted by qualified medical staff, %	MH	98	99	99		98.2			
HIV/AIDS incidence per 100,000 persons, %	MH	4.06	5.46	4.66	4.73	6.2 ¹	8.53	9.95	-
HIV/AIDS incidence among 15-24 year-old people per 100,000 persons	MH	11.9	10.9	9.7	6.1	9.7	11.7	13.3	
Overall incidence of active tuberculosis (per 100000 persons)	MH	73.0	93.2	101.3	111.2	119.0	130.9	128.4	65.9
TB-associated mortality rate per 100000 persons	MH	16.9	15.0	15.9	16.4	16.8	18.9	18.6	...
Unemployment rate, ILO, %:	NBS	8.5	7.3	6.8	7.9	8.1	7.3	5.6	4.2
– in urban areas	NBS	15.7	13.8	12.1	12.2	11.9	11.2	9.2	5.9
– in rural areas	NBS	3.4	2.7	3.0	4.5	5.0	4.0	5.8	2.8
Long term unemployment rate, ILO, %	NBS	60.4	58	59.6	48.3	44.8	48.9	38.1	38.4
Unemployment rate among the young (15-24 years), ILO, %	NBS	15.8	16.3	15.2	18.1	19.7	18.7	17.1	10.6
Labour migrants as a share of active population, %	NBS	8.3	10.6	14.3	19.7	24.1	27.7	22.8	24.9

¹ As of 2003, the HIV/AIDS incidence indicator is set only for the right banks of Nistru river.

1	2	3	4	5	6	7	8	9	10
Distribution of social benefits (without pensions) for consumption quintiles I and V per adult equivalent (%)	NBS								
– <i>Quintile I</i>				8.0	13.1	13.7	19.7
– <i>Quintile V</i>				37.3	24.8	24.8	23.9
Average nominal monthly salary in the economy, MDL	NBS	407.9	543.7	691.5	890.8	1103.1	1319.0	1697.0	1926.0
Average monthly pension (at the end of year), MDL	NSIH	85.1	135.8	161	210.6	325.3	383.2	442.3	532.9 ¹
Contributions/benefits of agricultural workers as a share of total revenues and expenditures of the social insurance budget, %	NSIH								
– <i>Contributions</i>				12.2	7.3	6.8	6.6	7.7	7.4
– <i>Benefits</i>				45.6	45.0	53.3	49.6	48.2	42.9
Share of population under the food poverty line (total per country), %	NBS	52.2	38.0	26.2	15.0	14.7	16.1	4.5 ²	X
Gini coefficient by consumption expenditures	NBS	0.37	0.38	0.37	0.35	0.36	0.37	0.32	X
Extreme poverty gap, %	NBS	17.6	11.6	6.6	3.1	3.2	4.0	1.0	X
Extreme poverty severity, %	NBS	8.2	5.1	2.4	1.0	1.1	1.5	0.4	X
Share of people below the poverty line of 4.3 USD/day at PPP (consumption expenditures per capita), %	NBS							34.5	

¹ As of July 1.

² Poverty indicators for 2006 are not comparable to the ones from previous years.

1	2	3	4	5	6	7	8	9	10
Share of the poorest quintile in the national consumption, %	NBS	6.8	6.5	6.8	7.5	7.2	6.7	8.2	
Human Development Index ¹	UN, Human Development Report	0.679	0.707	0.709	0.671	0.694
Share of mandates held by women, %:	NBS								22
Members of the Parliament									
in local councils									26.5
in rayon councils									13.2
as mayors									18.0
Ratio of the average women's salary to the average men's salary, %								68.1	
Priority V. Regional development²									
Share of urban population in the total population of the region, %	NBS								
<i>North</i>				34.8	34.9	34.7	34.9	34.8	34.9
<i>Centre</i>				19.7	19.7	19.7	19.7	19.7	19.2
<i>South</i>				25.8	25.8	25.7	25.7	25.6	25.2
<i>Chisinau</i>				91.3	91.3	91.5	91.4	91.2	91.3
<i>TAU Gagauzia</i>				40.3	40.8	40.7	40.6	40.6	40.9

¹ The Human Development Index (HDI), published annually by the UN, ranks nations according to their citizens' quality of life rather than strictly by a nation's traditional economic figures. The criteria for calculating rankings include life expectancy, educational attainment, and adjusted real income

² Indicators are disaggregated by development regions, with the exception of Transnistria region

1	2	3	4	5	6	7	8	9	10
Share of housing with sewerage, (average per region) %	NBS								
North					19.1	19.3	19.5	19.7	X
– urban					65.8	65.7	65.7	65.8	X
– rural					2.5	2.7	2.9	3.1	X
Centre					14.1	14.0	14.2	14.4	X
– urban					62.0	61.8	62.7	63.1	X
– rural					4.4	4.4	4.4	4.5	X
South					19.1	20.7	21.0	21.2	X
– urban					57.5	57.7	58.1	58.2	X
– rural					9.0	11.0	11.2	11.3	X
Chisinau					89.4	89.3	89.1	88.9	X
– urban					96.9	96.9	96.9	96.7	X
– rural					15.8	16.8	18.2	19.6	X
TAU Gagauzia					26.4	26.5	26.5	27.5	X
– urban					38.9	38.7	38.9	39.0	X
– rural					19.6	19.6	19.6	21.1	X
Share of housing with water supply, (average per region) %	NBS								
North					20.2	20.4	20.5	20.7	X
– urban					66.8	66.9	66.7	66.8	X
– rural					3.7	3.9	3.9	4.1	X
Centre					19.5	19.7	20.2	20.5	X
– urban					63.7	64.9	65.8	66.0	X
– rural					10.5	10.6	10.9	11.1	X

1	2	3	4	5	6	7	8	9	10
<i>South</i>					23.4	25.1	25.6	26.1	X
– urban					58.6	58.9	59.2	59.4	X
– rural					14.2	16.2	16.7	17.2	X
<i>Chisinau</i>					94.0	94.3	94.1	94.0	X
– urban					97.5	97.5	97.5	97.4	X
– rural					59.6	63.3	63.0	63.2	X
<i>TAU Gagauzia</i>					26.6	26.5	26.7	27.8	X
– urban					39.3	39.1	39.4	39.6	X
– rural					19.7	19.7	19.7	21.2	X
Fixed capital investments, million MDL	NBS	1759.3	2315.1	2804.2	3621.7	5140.0	7796.6	10906.8	4223.8 ¹
<i>North</i>					743.6	883.6	1269.7	1889.1	645.0
<i>Centre</i>					465.9	709.6	1126.8	1579.2	637.0
<i>South</i>					373.8	559.2	793.1	866.6	309.2
<i>Chisinau</i>					1889.7	2822.2	4289.0	6312.1	2195.6
<i>TAU Gagauzia</i>					148.7	165.4	318.0	259.8	58.7
Industrial output ² , million MDL	NBS	8167.7	10427.6	12624.1	15963.1	17591.1	20770.2	22370.7	11770.9
<i>North</i>					3240.8	3472.0	4221.0	5008.6	1951.5
<i>Centre</i>					1977.2	2240.6	3082.1	3320.6	1312.8
<i>South</i>					1117.5	1187.4	1171.5	924.5	230
<i>Chisinau</i>					8555.6	9314.8	10807.7	11488.0	4867.2
<i>TAU Gagauzia</i>					536.8	725.5	865.8	777.9	226.1
Fixed capital investments per capita, thousand MDL	NBS	483.5	637.6	774.1	1002.6	1426.4	2169.0	3042.2	1179.5

¹ Conform calculelor suplimentare fără repartizarea pe zone.

² This indicator includes the industrial output, calculated for individual enterprises

1	2	3	4	5	6	7	8	9	10
<i>North</i>					716.0	855.5	1235.5	1844.9	630.4
<i>Centre</i>					430.7	657.2	1045.9	1471.4	595.1
<i>South</i>					675.7	1013.2	1439.4	1578.5	564.7
<i>Chisinau</i>					2422.8	3618.2	5502.2	8096.6	2813.8
<i>TAU Gagauzia</i>					936.7	1041.6	2000.0	1629.9	367.3
Industrial output per capita, thousand MDL	NBS	2.2	2.9	3.5	4.3	4.7	5.6	6.0	2.4
<i>North</i>					3.1	3.4	4.1	4.9	1.9
<i>Centre</i>					1.8	2.1	2.9	3.1	1.2
<i>South</i>					2.0	2.2	2.1	1.7	0.4
<i>Chisinau</i>					11.0	11.9	13.9	14.7	6.2
<i>TAU Gagauzia</i>					3.4	4.6	5.4	4.9	1.4
Number of reporting enterprises	NBS	21423	22962	24685	25667	30355	33141	36158	37444
<i>North, including</i>					3280	4159	4489	4909	4972
– profit					1540	2161	2401	2537	2385
– losses					1543	1822	1876	2127	2225
<i>South, including</i>					1350	1662	1749	1905	1912
– profit					588	767	779	816	785
– losses					637	766	822	919	911
<i>Centre, including</i>					3024	4010	4362	4766	4829
– profit					1266	1753	1872	1983	1961
– losses					1287	1673	1858	2131	2014
<i>Chisinau, including</i>					17323	19672	21640	23594	24718
– profit					6808	7453	8137	8751	8544
– losses					8115	9403	10373	11511	12103
<i>TAU Gagauzia, including</i>					690	852	901	984	1013

1	2	3	4	5	6	7	8	9	10
– <i>profit</i>					281	384	400	416	421
– <i>losses</i>					365	423	448	507	488
Number of wage-earners ¹ , thousand:	NBS	713.9	704.5	690.4	667.4	667.2	662.8	648.7	623.2
<i>North</i>					178.1	170.4	165.3	156.8	146.1
<i>Centre</i>					131.0	124.9	123.4	117.8	112.7
<i>South</i>					88.8	84.8	82.4	77.2	72.0
<i>Chisinau</i>					233.9	243.6	250.8	257.3	255.5
<i>TAU Gagauzia</i>					34.7	32.3	30.8	29.2	26.9
Regional average monthly salary as a share of national average monthly salary ² , %	NBS								
<i>North</i>					80.5	80.7	81.4	81.9	81.3
<i>Centre</i>					71.6	72.8	74.3	75.2	74.6
<i>South</i>					73.2	72.6	70.7	70.4	68.6
<i>Chisinau</i>					138.9	136.3	134.7	130.8	130.2
<i>TAU Gagauzia</i>					69.6	72.6	72.3	70.7	68.8
Share of irrigated land in total agricultural land, (average per region) %	ALRC								
<i>North</i>							2.64	2.65	X
<i>Centre</i>							8.24	8.29	X
<i>South</i>							8.8	8.9	X
<i>Chisinau</i>							3.4	3.5	X
<i>TAU Gagauzia</i>							4.29	4.31	X
Share of eroded land in total land, (average per region)%	ALRC								

¹ Economic and social units with 20 and more employees

² Data per region do not include power ministries

1	2	3	4	5	6	7	8	9	10
<i>North</i>							29.08	30.38	X
<i>Centre</i>							41.11	41.57	X
<i>South</i>							37.14	38.8	X
<i>Chisinau</i>							37.17	38.33	X
<i>TAU Gagauzia</i>							38.8	39.0	X
Total local public roads at the end of year, km	NBS	6565.6	6105.0	6137.0	6136.7	6138.1	6138.1	6138.1	X
including with rigid surface		5970.2	5511.6	5558.4	5558.5	5560.4	5559.3	5563.3	X
<i>North, total local public roads,</i>				2418.5	2418.4	2418.5	2418.5	2418.5	X
including with rigid surface				2268.5	2268.5	2269.1	2269.0	2269.0	X
<i>Centre, total local public roads,</i>				2146.9	2146.8	2148.1	2148.1	2148.1	X
including with rigid surface,				1983.6	1983.7	1985.0	1984.0	1988.0	X
<i>South, total local public roads,</i>				1316.4	1316.3	1316.3	1316.3	1316.3	X
including with rigid surface				1101.4	1101.4	1101.4	1101.4	1101.4	X
<i>Chisinau, total local public roads,</i>				32.2	32.2	32.2	32.2	32.2	X
including with rigid surface				30.8	30.8	30.8	30.8	30.8	X
<i>TAU Gagauzia, total local roads,</i>				223.0	223.0	223.0	223.0	223.0	X
including with rigid surface				174.1	174.1	174.1	174.1	174.1	X
Waste generation, thousand tons	NBS	2226.4	2039.8	2753.4	2537.2	3142.2	2995.4	...	X
<i>North</i>					804.0	1328.0	1644.4	...	X
<i>Centre</i>					373.4	545.6	759.7	...	X
<i>South</i>					187.6	223.4	113.3	...	X
<i>Chisinau</i>					1131.3	975.8	447.1	...	X
<i>TAU Gagauzia</i>					40.9	69.4	30.9	...	X
Waste utilisation, thousand tons	NBS	1117.4	836.9	1746.0	455.0	745.1	926.2	...	X

1	2	3	4	5	6	7	8	9	10
<i>North</i>					157.6	240.8	325.9	...	X
<i>Centre</i>					150.9	265.3	326.4	...	X
<i>South</i>					62.2	72.6	100.4	...	X
<i>Chisinau</i>					77.8	154.2	166.0	...	X
<i>TAU Gagauzia</i>					6.5	12.2	7.5	...	X
Share of protected areas to preserve biodiversity, %	MENR	9.9	10.1	10.3	10.5	10.6	10.7	10.8	...
Share of people with sustainable access to improved water sources, %	NSPCPM	1.96	1.96	1.96	1.96	1.96	1.96	4.65	...
Share of protected areas to preserve biodiversity, %	MENR	37.8	38.1	38.5	39.7	44.5	45.0	46.0	...
Share of people with access to improved sanitation, %	ACTD	41.4	40.0	41.7	41.5	43.6	44.0	45.0	...
Share of people with access to improved sewerage, %	NBS	31.8	32.4	31.1	31.7	32.8	43.8	44.0	...

... – data are missing

X - indicator is not calculated for this period

ANNEX 2: Millenium Development Goals: revised targets and indicators

Revised target (RT)	Revised indicator (RI)
Revised Goal 1. Eradicate extreme poverty and hunger	
<p>RT1. Reduce the proportion of people whose consumption is under \$4.3 a day/person (in PPP terms) from 34.5% in 2006 down to 29% in 2010 and 23% in 2015.</p> <p>RT2. Reduce the proportion of people under the absolute poverty line from 30.2% in 2006 down to 25% in 2010 and 20% in 2015.</p>	<p>RI1. Proportion of people under the \$4.3 a day in PPP terms (consumption expenditure per person).</p> <p>RI2. Proportion of people under the national absolute poverty line (absolute poverty rate).</p> <p>RI3. Poverty depth index.</p> <p>RI4. Proportion of the poorest quintile in national consumption.</p>
<p>RT3. Reduce the proportion of people under the extreme poverty line from 4.5% in 2006 down to 4% in 2010 and 3.5% in 2015.</p>	<p>RI1. Malnutrition incidence for under-5 children.</p> <p>RI2. Proportion of people living under the minimal food consumption basket, expressed in energy value (2,282 kcal/day) (extreme poverty rate).</p>
Revised Goal 2. Achieve universal access to general secondary education (grades 1-9)	
<p>RG1. Ensure opportunities for all children to attend general secondary education</p> <p>RT1. Increase the gross enrolment rate for general secondary education from 94.1% in 2002 up to 95% in 2010 and 98% in 2015.</p> <p>RT2. Increase the enrolment rate for pre-school programs for 3-6 year-old children from 41.3% in 2002 up to 75% in 2010 and 78% in 2015, and for 6-7 year-old children from 66.5% in 2002 up to 95% in 2010 and 98% in 2015, as well as reduce by less than 5% the discrepancies between rural and urban areas, between disadvantaged and middle-income groups.</p>	<p>RI1. Gross enrolment rate for general secondary education.</p> <p>RI2. School drop-out rate.</p> <p>RI3. Proportion of children who are enrolled in the first grade and complete the general secondary education cycle.</p> <p>RI4. Degree of children's participation in pre-school institutions.</p> <p>RI5. Rate of children enrolled in the first grade with previous participation in pre-school education programs.</p>
<p>RG2. Maintain the literacy rate for the 15-24 year-old population at 99.5%.</p>	<p>RI1. Literacy rate</p>
Revised Goal 3. Promote gender equality and empower women	
<p>RG1. Increase women's representation in decision-making positions.</p> <p>RT1. Increase women's representation in decisionmaking positions. Increase women's representation at the decisionmaking level from 26.5% in local councils in 2007 up to 40% in 2015, from 13.2% in raional councils in 2007 up to 25% in 2015, from 18% women-mayors in 2007 up to 25% in 2015, and from 22% women-Parliament members in 2005 up to 30% in 2015.</p>	<p>RI1. Share of mandates held by women in the Parliament.</p> <p>RI2. Number of women elected to local public administration bodies.</p> <p>RI3. Share of women's representation at the decision making level.</p>
<p>RG2. Reduce gender inequality in employment.</p> <p>RT2. Reduce gender inequality in employment. Reduce gender inequality on the labor market by reducing the discrepancy between salaries of women and men by at least 10% until 2015 (women's average salary representing 68.1% of men's salary in 2006).</p>	<p>RI1. Proportion of women employed in economy by types of economic activity.</p> <p>RI2. Share of the average salary of women in the average salary of men.</p>

Revised target (RT)	Revised indicator (RI)
Revised Goal 4. Reduce child mortality	
<p>RT1. Reduce infant mortality from 18.5 (per 1,000 live births) in 2006 down to 16.3 in 2010 and 13.2 in 2015.</p> <p>RT3. Reduce the under-5 mortality rate from 20.7 (per 1,000 live births) in 2006 down to 18.6 in 2010 and 15.3 in 2015.</p> <p>RT5. Maintain the proportion of under-2 children vaccinated against measles at least at 96% by 2010 and 2015.</p>	<p>RI1. Under-5 mortality rate.</p> <p>RI2. Infant mortality rate.</p> <p>RI3. Proportion of 2 year-old children vaccinated against measles.</p>
Revised Goal 5. Improve maternal health	
<p>RT1. Reduce the maternal mortality rate from 28 (per 1,000 live births) in 2002 down to 15.5 in 2010 and 13.3 in 2015.</p> <p>RT2. Maintain the number of births assisted by qualified medical staff during 2010 and 2015 at 99%.</p>	<p>RI1. Maternal mortality rate.</p> <p>RI2. Rate of births assisted by qualified medical staff.</p>
Revised Goal 6. Combat HIV/AIDS, tuberculosis and other diseases	
<p>RG1. Stabilize the spread of HIV/AIDS by 2015</p> <p>RT1. Reduce HIV/AIDS incidence per 100 thousand population from 10 in 2006 down to 9.6 by 2010 and 8 by 2015.</p> <p>RT2. Reduce HIV/AIDS incidence from 13.3 in 2006 down to 11.2 cases per 100 thousand population by 2010 and 11 cases by 2015 in the 15-24-year age group.</p>	<p>RI1. HIV/AIDS incidence.</p> <p>RI2. HIV/AIDS incidence among the 15-24-year age group.</p>
<p>RG1. Have halted by 2015 and begun to reduce tuberculosis.</p> <p>RT1. Reduce the rate of mortality associated with tuberculosis from 15.9 (per 100,000 population) in 2002 down to 15 in 2010 and 10 in 2015.</p>	<p>RI1. Mortality rate associated with tuberculosis.</p>
Revised Goal 7. Ensure environmental sustainability	
<p>RG1. Integrate the principles of sustainable development in country policies and programs and reverse the loss of environmental resources.</p> <p>RT1. Increase afforestation from 10.3% in 2002 up to 11% in 2006, 12.1% in 2010, and 13.2% in 2015.</p> <p>RT2. Increase the share of protected areas to preserve biological diversity from 1.96% in 2002 to 4.65% in 2010 and maintain it at 4.65% in 2015.</p>	<p>RI1. Share of afforested land.</p> <p>RI2. Share of protected areas to preserve biodiversity.</p> <p>RI3. GDP per one kg of domestically consumed conventional fuel, MDL, current prices.</p> <p>RI4. Carbon dioxide emissions from fixed and mobile stations, tons, per capita.</p> <p>RI5. Emissions of chlorofluorocarbons, tons per capita.</p>

Revised target (RT)	Revised indicator (RI)
RT1. Increase the share of population with permanent access to safe water sources from 38.5% in 2002 up to 59% in 2010 and 65% in 2015.	RI1. Share of people with sustainable access to improved water sources.
RG2. Halve by 2015 the number of people without access to improved sewerage systems. RT2. Increase the share of population with access to improved sewerage from 31.3% in 2002 up to 50.3% in 2010 and 65% in 2015. Increase the share of population with access to sanitation systems from 41.7% in 2002 up to 51.3% in 2010 and 71.8% in 2015.	RI1. Share of people with access to improved sanitation. RI2. Share of people with access to improved sewerage.
<i>Revised Goal 8. Develop a global partnership for development</i>	
RG1. Further develop a transparent, predictable and non-discriminatory trade and financial system based on rules through promoting exports and attracting investments.	RI1. High added value exports. RI2. Imports of machinery, technologies and equipment. RI3. Share of international trade transactions based on free-trade agreements. RI4. Share of trade balance deficit in GDP. RI5. Share of foreign enterprises in the local business environment. RI6. Stock of foreign direct investments. RI7. Turnaround of enterprises established „de novo” with foreign capital. RI8. Share of direct official assistance for main social services.
RG2. Settle the issues of land lock of the Republic of Moldova through upgrading the transport and customs infrastructure.	RI1. Traffic capacity of international road arteries. RI2. Share of investments in the transport sector out of the total public investments. RI3. Share of investments in air and naval transport development. RI4. Traffic capacity of customs points.
RG3. Monitor the external debt issue.	RI1. Foreign state debt. RI2. Foreign state debt servicing in relation to the state budget's fiscal revenues.
RG4. Develop and implement youth strategies.	RI1. Unemployment rate among the 15-24-year age group.
RG5. Ensure access to major drugs at reasonable prices to the population	RI1. Number of settlements with primary health care institutions, but without pharmaceutical services.
RG6. Build and information society.	RI1. Fixed telephony lines and subscribers of mobile networks per 100 population. RI2. Personal computers per 100 population. RI3. Internet users per 100 population.

ANNEX 3: Poverty Measurement Note

Introduction

This note describes in detail the methodology for poverty measurement, adopted by the National Bureau of Statistics in consultation with the Ministry of Economy and Trade. For a more detailed note, including technical annexes, see the Informative Note on poverty measurement in 2006, on www.statistica.md.

Previously, poverty measurement and analysis were both carried out by the Ministry of Economy and Trade, however, since 2006 these responsibilities were migrated to the NBS, which has the responsibility to calculate the poverty line and the main welfare indicators. This methodology was revised in light of international best practices, taking into consideration national specifics, in particular changes in the HBS.

Poverty indicators and the HBS database are to be provided annually to the Ministry of Economy and Trade, which in turn will concentrate its efforts on poverty analysis and provision of explanations on poverty trends.

Poverty measurement can be divided in three main stages:

- 1) Modelling the main welfare indicator: consumption aggregate for welfare analysis;
- 2) Determining the poverty line, and
- 3) Calculation of poverty indicators.

The present Note follows the above algorithm and provides four tables.

(i) I. Consumption aggregate for welfare analysis

Poverty in Moldova is measured using a ‘basic needs’ approach and uses consumption expenditure as an indicator of life standards (see, for example, the Ministry of Economy and Trade report on “Poverty and Policy Impact”). The same approach was also applied by the World Bank, and the same broad approach is consequently used in the present methodology⁶¹.

However, consumption expenditure can be calculated using different methods depending on the purpose and use of the aggregate. It is important to be aware of the difference between the consumption aggregate of the national accounts and the one used for welfare analysis. Indeed, when using consumption expenditure for poverty measurement the objective is to make inter-household comparisons, which requires the following adjustments:

- 1) For items which are purchased infrequently, but more often than once a year, data collected through the appropriate retrospective module shall be used. For example, apparel expenditure is both recorded during the month of the interview (in the household diary), as well as the six months preceding the interview. The six month retrospective expenditure should be used and adjusted on a monthly basis;
- 2) Expenses for items generally purchased within intervals longer than one year (namely durable items) shall be excluded from the consumption aggregate. If possible, include the annual consumption flow derived from the use of durable items;
- 3) Rental costs shall be excluded, or otherwise include the attributed rent of the dwelling for all households;
- 4) Adjust services-related expenditure, taking into account the compensations received by the households;
- 5) Adjust for price differences over time and across different regions of the country (namely urban and rural areas);
- 6) Household expenditure shall be calculated at the household level to determine individual consumption level.

⁶¹ The estimation of basic needs cost is one of the objective approaches in poverty measurement. Objective approaches try to determine the poverty threshold by taking into account normative criteria, which guarantee the achievement of some basic requirements. These approaches differ in terms of the degree of normative criteria used in determining basic needs. There are also subjective approaches to poverty measurement. These do not imply the identification of some objective minimum living standards, but consider people’s perception of the minimum income levels (minimum spending or minimum social needs) necessary to conduct a decent life.

1. Expenditure adjustment for items purchased infrequently

Households were asked to recall their expenditure at the first interview for a number of items⁶² (clothes, footwear, textile items, seasonal expenditure for utilities, education, etc.). This information was transformed in monthly figures and factored in the consumption aggregate. Whereas, there are cases when households can indicate expenditure for the same goods both in the household register and the retrospective module, only expenditure recorded in the module was used.

2. Durable items and imputed rents

Both the computation of the consumption flow from durable items and the calculation of imputed rents involve certain difficulties related to the complex calculation of these indicators. In particular, given that the housing rental market is basically inexistent in rural areas of the country, estimates appear to be very arbitrary. Therefore, both expenditure for durable items and actual rent payments have been excluded from the consumption aggregate.

3. Compensations

Since August 2006 households connected to central gas received a subsidy for gas consumption equivalent to 50% of the price increase in gas for the first 30 cubic metres of consumption (the Government paid directly the utility companies, whereas households saw their bills reduced). However, those households which use bottled gas paid the full price. Similarly, municipalities providing central heating also introduced a compensation. In Chisinau, households paid only half of the central heating bill. These price distortions were corrected to account for the actual benefit that the household received.

4. Price difference adjustment

Nominal expenditure has been adjusted against inflation and regional price differences through the Paasche price index, constructed using data collected in the survey, as well as data from the official Consumer Price Index. The index is modelled at the level of primary sampling unit for each month, and implies a time and region-based price difference.

5. Equivalence scale

In adjusting household expenditure to individual expenditure it is important to take into consideration the different needs of household members. It is natural to expect that there are economies of size that make consumption 'cheaper' for large households, and some 'quasi public goods', whose costs tend to be very similar regardless of the number of members in the household (such goods are generally durable items and housing related services). For instance, heating costs for an apartment of a fixed size are the same regardless of the number of people living in it. Therefore, simply adjusting household expenditure to the number of household members is inappropriate. Although these arguments are widely accepted, it is more complicated to establish what should be the parameters used in making correct adjustments. For international comparisons in OECD countries there are some established equivalence scales, and such scales have been adopted also for poverty analysis in Moldova⁶³. These scales take into account both the economies of size, as well as different needs of children and adults. The same scales were used in the past by the Ministry of Economy and Trade.

II. Determining the poverty line

If the 2006 HBS data was comparable with previous HBS data (see the "Informative note on the 2006 Household Budget Survey", available on the NBS website -www.statistica.md- for explanations on comparability issues), we could have used the poverty line computed in 2005 and simply adjust it to inflation. However, since we have a new dataset which is not fully comparable with the previous one, it is essential to compute a new poverty line, which would correspond to the collected data.

The method used to determine the poverty line is the 'cost of basic needs' methodology, which is widely recognised and used in many countries (see Ravallion M. (1998): "Poverty lines in theory and practice", LSMS Working Paper 133). This methodology should identify a poverty line that is linked to a notion of "minimum necessity" consistent with the standards existing in Moldova. This approach identifies the consumption bundle believed to be adequate for basic consumption needs based on nutritional requirements. In particular, according to this methodology, the poverty line is calculated in two stages: 1) first we estimate the food component and 2) the non-food component is calculated based on the cost of meeting food requirements.

⁶² Trials were performed in previous HBS surveys to identify appropriate recall periods.

⁶³ To be precise we use the old OECD scales: 1 for the first household member, 0.7 for any other adult and 0.5 for children less than 15 years of age. The modified and currently applied scales in OECD countries are respectively 1, 0.5 and 0.3. However, old equivalence scales do adapt better than the modified ones to the situation of Moldova, since food consumption still accounts for a relatively high share of total consumption.

The food component of the poverty line is based on the need to meet certain minimum nutritional requirements. The Academy of Sciences provides some recommendations on what should be the calorie intake for people of different age, sex and type of performed activity. These calorie-intake levels were used to set a minimum **per capita average** requirement of 2282 calories per day (this was the requirement used by the Ministry of Economy and Trade in previous calculations). However, if instead of considering average per capita requirement we consider the average **per adult equivalent** requirement, the minimum calorie requirement per adult equivalent would be 3004 calories per day.

Recommended daily calorie intake (Kcal)

age group	Minimum calorie intake		Population breakdown		Calories
	male	female	male	female	
0		593		0.01	5
1-6		1536		0.07	107
7-16		2201		0.18	390
17-54	2721	2334	0.24	0.27	1276
55-59	2721	2042	0.03	0.03	143
60+		2042		0.18	362
Overall			1		2282

Source: Academy of Sciences and 2006 HBS.

However, calories intake per person is not a criterion for people's welfare assesment, instead such nutritional requirements are used to set the minimum expenditure that would allow people to reach the respective nutritional intake. In other words what is relevant is the cost of buying such calories. It would also be possible to follow further the recommendations of the Academy of Sciences and consider the recommended food bundle that people should consume in order to guarantee the minimum calorie intake, although such normative approach is often too different from actual consumption habits. Indeed, an infinite variety of food baskets, differing in price, could be consistent with attaining a certain level of calories, but choosing which items to include in the basket would be extremely arbitrary.

Therefore, we use the HBS data and include all the items consumed in the food basket by a specific population group. Their relative weights are also based on actual consumption patterns observed in the data.

We consider the reference population to be the lower layer of the distribution, **from the second to the fourth deciles**. In fact, focusing on the population located at the lower end of the welfare distribution, we are more likely to reflect the preferences of the poor as well as the costs/prices they must bear.

HBS data contains information on both quantity and cost of about 100 different food items, thus making it possible to calculate the implicit prices by dividing costs to quantity. Quantities consumed were used to compute the per capita average food basket (total quantities consumed by the reference population have been divided by the respective population) and the cost of such basket was obtained by multiplying quantities with median implicit prices observed in the reference population (as recommended by Bidani B. and Ravallion M. (1994): How robust is a poverty profile?; *The World Bank Economic Review*, Vol. 8, No. 1, pp. 75-102). Afterwards, caloric conversion factors were used to transform the identified food bundle into calorie-intake⁶⁴. Cost and calorie intake were then adjusted to meet the per adult equivalent requirement implicit in the recommendations of table 3.1.

The **extreme poverty line was 404 Lei per month** per adult equivalent. Table 3.2 shows the composition of the food basket that ensures the minimum per capita calorie intake as well as the cost of this basket, which in fact represents the extreme poverty line⁶⁵.

Composition of extreme poverty line (value and calories of the minimum per adult food basket equivalent)

⁶⁴ Alcoholic drinks and tobacco as well as meals in restaurants were excluded from this calculation, but expenditure for food consumed outside of home was later included as food expenditure that can provide the required calorie intake.

⁶⁵ A more detailed table with all the food items is provided in the statistical annex.

	quantities	calories		expenditure	
	Monthly (Kg, Lt)	Calories per day	% calories	Lei per month	%
Cereals and cereal-based products	15.4	1510	50.3	78	19.2
Meat and meat products	2.8	182	6.1	92	22.6
Fish	1.0	22	0.7	18	4.5
Milk and milk products	4.5	150	5.0	43	10.6
Eggs	0.3	6	0.2	2	0.5
Fats and oils	18.9	473	15.7	39	9.7
Fruits	1.9	94	3.1	14	3.5
Vegetables	18.6	324	10.8	86	21.4
Sugar and sugar products	1.7	201	6.7	23	5.6
Seasonings, coffee, tea and beverages	21.9	42	1.4	10	2.4
Total		3004	100.0	404	100.0

The costs for meeting nutritional needs alone cannot constitute the poverty line since it would ignore other fundamental basic needs: being healthy and able to participate in society requires spending on shelter, clothing, health care, recreation, etc. This is why it is essential to consider a non-food component in determining the poverty line. However, identifying the non-food items to be included in the minimum consumption basket and their amount is generally a controversial issue. One way to avoid the appreciation of the non-food items is to link the non-food component with the normative judgment involved in the extreme poverty line. The advantage of this method is that the non-food component can be based on the actual consumption behaviour of a reference group and not by a pre-determined non-food and services bundle.

Common practice is to determine the absolute poverty line by dividing the extreme poverty line to the proportion of total consumption devoted to food expenditure by those households that spend for food consumption an amount approximately equivalent to the extreme poverty line. The argument is that, if these households do not spend more on food consumption, it is because also the non-food expenditure must be an essential part of their consumption.

A more strict approach is to consider the food share of households, whose total expenditure is equal to the extreme poverty line, arguing that in such case people substitute basic food needs in order to satisfy some non-food needs. This second approach was used in the past by the Ministry of Economy and Trade and will be applied in the present methodology by the NBS.

We used the non-parametric method proposed by Ravallion (1998 already quoted) to compute the relevant multiplier (the inverse of the food share expenditure). The method requires computing **the mean multiplier among households whose total expenditure lies within a close interval of the extreme poverty line**.

The method is the following: it calculates the average multiplier among households whose expenditure varies between plus and minus one percent of the extreme poverty line, plus and minus two percent, three percent, up to ten percent, and then it takes the average of the ten mean multipliers. Such method identifies a multiplier of 1.85, equivalent to a food share of 54%. Therefore the **overall poverty line is 747 Lei per month**.

The calculation of the poverty line has been conducted in **per adult equivalent** terms, but it can also be expressed in per capita terms. Per capita poverty lines would be respectively 310 and 574 for the extreme poverty line and the absolute poverty line⁶⁶. However, we need to remember that per capita medium poverty lines are more relevant for households of average size and composition, whereas they tend to underestimate the poverty line for small households and to overestimate the needs of large households. For instance, the average calorie intake is lower than the actual requirements in the case of an adult, whereas it is overestimated for those households with many children since individual calorie requirements vary by age and sex. Therefore, per adult equivalent adjustments provide a better assessment of people's needs.

Using the OECD equivalence scales it is possible to express household size as a number of 'equivalent adult members'. For instance, a household of four members made up of a husband, a wife and two children, is made of 2.7 equivalent members ($1+0.7+2*0.5$). Table 3.3 shows poverty lines for different household members and provides some examples of overall poverty lines for households with different compositions.

Poverty lines in 2006 (Lei per month, at January 2006 prices)

⁶⁶ Considering these lines and per capita consumption levels would generate approximately the same poverty measures, but a different poverty profile.

	Extreme poverty line	Poverty line	Member equivalent size
One adult	404	747	1
Other adult	283	523	0.7
Child (<15)	202	374	0.5
Average per capita	310	574	
<i>Examples</i>			
Two adult household	687	1270	1.7
Two adults and one child	889	1643	2.2
Four adult household	1252	2316	3.1
Two adults and two children	1091	2017	2.7

III. Calculation of poverty indicators

The poverty line is an instrument of poverty measurement, and is used to determine the poor categories as well as various poverty measures. People's poverty status is judged on whether they have the means that would have allowed them to consume the minimum consumption basket. Therefore, poor people are considered those who, regardless of how they spend their money, have consumption expenditure below the poverty line.

A set of poverty measurements often used in the specialised literature are those proposed by Foster, Greer and Thorbecke (1984)⁶⁷. This set of measures is summarized by the following formula:

$$P_{\alpha} = (1/n) \sum_{i=1}^q \left(\frac{z - y_i}{z} \right)^{\alpha}$$

where α is a positive number, z - the poverty line, y - consumption, i - individual persons, n - total number of individual persons, and q - number of individuals with consumption below the poverty line.

The most common poverty measures are three, where α takes the value of zero, one or two. When $\alpha=0$, we get the poverty rate, or the percentage of population whose consumption is below the poverty line. This is the most widely used poverty indicator, mainly because it is very simple to understand and easy to interpret. However, it has some limitations. It does not take into account how close or far the consumption levels of the poor are with respect to the poverty line or the distribution among the poor.

The poverty depth ($\alpha=1$) is the average consumption deficit of the population relative to the poverty line. The greater the deficit, the deeper the poverty, thus accounting for the limitations of poverty rates.

The severity of poverty ($\alpha=2$) represents the distribution of consumption among the poor, thus transfers among the poor will not affect the poverty rate or poverty depth.

Note: Only the aggregate use of these three indices can offer an adequate description of poverty and satisfy two famous axioms of poverty measurement (Sen 1976):

1. even if the number of poor is the same, but there is a welfare reduction in one poor household, an indicator of poverty should reflect an increase of poverty (this increase would be captured by the poverty depth index);
2. even if the average welfare of the poor is the same, if there is a transfer from one poor household to another poor household, relatively better off, a measure of poverty should reflect an increase of poverty (this would be captured by an increase of the severity of poverty).

Furthermore, these poverty measures satisfy two convenient features necessary for aggregation and decomposition. In fact, it is possible to generate the absolute poverty indicators by summing up individual poverty indicators, therefore it is possible to decompose these indicators for various subgroups of population and obtaining the overall indicator by aggregating the poverty indicators of the subgroups under analysis. For instance, it is possible to compute the poverty depth in different areas of the country (North, South and Centre) and the sum of these weighted indicators will be equal to the poverty depth for Moldova.

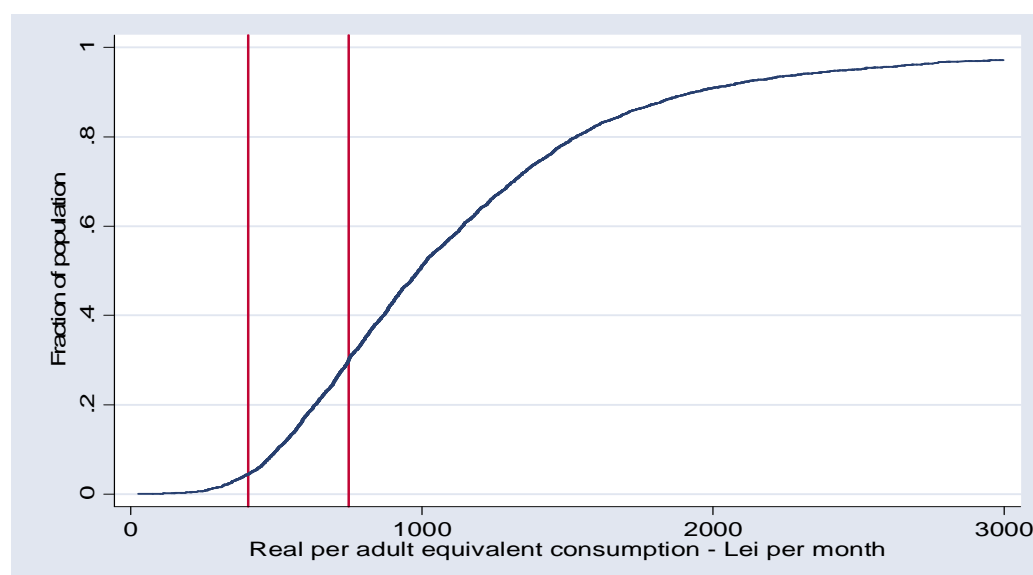
⁶⁷ Foster J, Greer J., and Thorbecke E. (1984): "A class of decomposable poverty measures"; *Econometrica*, Vol. 52, pp. 761-765.

Table 4.3 displays the poverty indicators for 2006, taking into account the extreme and absolute poverty lines.
Poverty indicators, 2006

	Absolute poverty			Extreme poverty		
	Poverty rate (P0)	Poverty depth (P1)	Severity of poverty (P2)	Poverty rate (P0)	Poverty depth (P1)	Severity of poverty
Cities	20.6	5.6	2.2	3.5	0.8	0.3
Towns	30.1	7.9	3.1	5.0	1.2	0.5
Villages	34.1	8.8	3.3	4.7	1.1	0.4
Total	30.2	7.9	3.0	4.5	1.0	0.4

To determine the extent to which poverty measurements are sensitive to the level of poverty line, we produced the cumulative distribution function of monthly consumption per equivalent adult (see figure). For a given consumption level on the horizontal axis, the curve indicates the percent of the population with an equal or lower level of consumption on the vertical axis. If one thinks of the chosen consumption level as the poverty line, the curve will show the associated poverty rate (headcount), and hence it can be seen as a “poverty incidence curve”. It is then simple to assess how much the poverty rate will change when the poverty line is shifted upwards or downwards. The vertical lines in the figure represent the value of the extreme poverty line and the absolute poverty line. The steeper is the curve where the poverty line intersects the cumulative distribution function the more sensitive are poverty measurements to the level of the poverty line.

Cumulative distribution consumption function and poverty line, 2006



ANNEX 4: Forecast of Macroeconomic Indicators for 2008-2010 (basic scenario)

Indicators	M.U.	2003	2004	2005	2006	2007	2008	2009	2010
		De facto				Estimated	Forecasted		
Nominal Gross domestic product	bln. MDL	27.6	32.0	37.7	44.1	50.0	56.8	62.7	68.5
vs. previous year in comparable prices	%	106.6	107.4	107.5	104.0	105	106	105	105
Consumer Price Index									
annual average	%	111.6	112.4	111.9	112.7	110.6	109.3	107.5	105.5
end of year	%	115.7	112.5	110.0	114.1	110.0	108.0	107.0	105.0
Foreign trade									
Export	million USD	790	985	1091	1052	1250	1440	1595	1755
vs. previous year	%	122.7	124.7	110.8	96.4	119	115	111	110
Import	million USD	1402	1769	2292	2693	3150	3620	3990	4320
vs. previous year	%	135.1	126.1	129.6	117.5	117	115	110	108
Trade balance	million USD	-612	-784	-1201	-1641	-1900	-2180	-2395	-2565
Industrial Production	bln. MDL	16.0	17.6	20.8	22.2	25.3	27.6	29.5	31.6
in current prices vs. previous year in comparable prices	%	115.6	108.2	107	93.1	108.5	107.5	107.5	107
Agricultural Production	bln. MDL	10.4	11.8	12.7	13.7	12.8	14.7	15.6	16.3
in current prices vs. previous year in comparable prices	%	86.4	120.8	100.8	98.9	91	115	104	103
Fixed capital investments	bln. MDL	3.6	5.1	7.8	10.9	13.5	15.4	18.0	20.6
vs. previous year in comparable prices	%	107	108	121	123	115	112	111	110

ANNEX 5: Trends in the National Public Budget, 2004-2010, % of GDP

	Executed			Approved	Estimated		
	2004	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7	8
A. Revenues, total	35.3	38.6	40.5	41.6	41.4	40.4	39.9
<i>Revenues, total, no grants</i>	<i>35.0</i>	<i>37.4</i>	<i>39.8</i>	<i>39.8</i>	<i>39.3</i>	<i>39.8</i>	<i>39.4</i>
<i>Revenues, total (no grants, transfers, funds and special proceeds)</i>	<i>31.7</i>	<i>34.1</i>	<i>36.4</i>	<i>37.2</i>	<i>37.0</i>	<i>37.8</i>	<i>37.5</i>
<i>except for SSIB and MHIF</i>	<i>22.9</i>	<i>25.0</i>	<i>26.8</i>	<i>26.7</i>	<i>25.7</i>	<i>26.0</i>	<i>25.5</i>
<i>1. Current revenues</i>	<i>35.0</i>	<i>37.4</i>	<i>39.8</i>	<i>39.8</i>	<i>39.3</i>	<i>39.8</i>	<i>39.4</i>
1.1 Tax revenues	29.4	31.2	33.4	34.6	34.5	35.2	35.0
1.1.1 Direct taxes	14.3	14.0	15.0	15.5	14.9	15.2	15.2
<i>except for SSIB and MHIF</i>	<i>5.6</i>	<i>5.1</i>	<i>5.5</i>	<i>5.1</i>	<i>3.5</i>	<i>3.4</i>	<i>3.2</i>
1.1.1.1 Income tax for entrepreneur activity	2.4	2.1	2.4	2.2	0.8	0.7	0.7
1.1.1.2 Income tax for natural persons	2.5	2.3	2.6	2.4	2.3	2.3	2.2
1.1.1.3 Land tax	0.6	0.5	0.4	0.4	0.4	0.3	0.3
1.1.1.4 Real estate tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1
1.1.1.5 Insurance premiums MHIF	1.0	1.1	1.2	1.6	2.1	2.4	2.5
1.1.1.6 Contributions to SSIB	7.7	7.8	8.3	8.9	9.3	9.4	9.4
1.1.2 Indirect taxes	15.1	17.2	18.4	19.1	19.6	20.0	19.8
1.1.2.1 VAT	10.7	12.3	14.1	14.9	15.6	16.2	16.2
1.1.2.1.1 levied on the territory of the republic	4.5	4.2	4.7	4.8	5.3	5.5	5.5
1.1.2.1.2 refunded	-3.1	-2.7	-2.5	-2.4	-2.6	-2.3	-2.3
1.1.2.1.3 levied by customs	9.3	10.8	11.8	12.4	12.9	13.0	12.9
1.1.2.2 Excise tax	2.8	3.1	2.4	2.6	2.4	2.4	2.3
1.1.2.2.1 levied	3.2	3.4	2.6	2.9	2.6	2.6	2.5
1.1.2.2.2 refunded	-0.3	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2
1.1.2.3 Taxes on foreign trade	1.5	1.8	1.9	1.6	1.6	1.4	1.4
1.2 Non-tax Revenues	2.3	2.8	3.0	2.6	2.6	2.6	2.5
1.2.1 Net revenue of the National Bank	0.0	0.5	0.4	0.3	0.0	0.3	0.3
1.2.2 Other revenues of the state budget	1.2	1.3	1.7	1.7	1.9	1.7	1.7
1.2.3 Other revenues of UAT budgets	1.0	0.9	0.9	0.6	0.6	0.5	0.5
1.2.4 Other revenues -SSIB	0.1	0.1	0.1	0.0	0.0	0.0	0.0
1.2.5 Other revenues - MHIF	0.0	0.0	0.1	0.0	0.0	0.0	0.0
1.3 Special funds and proceeds	3.2	3.3	3.4	2.6	2.3	2.0	1.9
1.3.1. Special funds	0.3	0.4	0.5	0.3	0.3	0.3	0.3
1.3.2. Special proceeds	2.9	2.9	2.9	2.3	2.0	1.7	1.6
2. Grants	0.4	1.2	0.7	1.8	2.1	0.6	0.5
2.1 Budget support grants	0.1	0.8	0.1	1.1	1.3	0.2	0.2
2.2 Grants for externally-funded projects	0.3	0.5	0.6	0.7	0.8	0.4	0.4

				0.0	0.0	0.0	0.0
B. Expenditures, total	35.1	37.0	40.8	42.1	41.9	40.9	40.4
<i>Expenditures, except for net lending</i>	<i>35.3</i>	<i>37.2</i>	<i>40.9</i>	<i>42.3</i>	<i>42.0</i>	<i>41.0</i>	<i>40.5</i>
<i>Expenditures, except for state debt servicing</i>	<i>32.7</i>	<i>35.8</i>	<i>39.8</i>	<i>40.9</i>	<i>40.7</i>	<i>39.8</i>	<i>39.5</i>
1. General state services	2.3	2.4	2.4	2.5	2.4	2.3	2.1
<i>of which Customs Service</i>	<i>0.4</i>	<i>0.4</i>	<i>0.3</i>	<i>0.4</i>	<i>0.5</i>	<i>0.4</i>	<i>0.4</i>
2. External activity	0.5	0.7	0.5	0.6	0.5	0.4	0.4
3. Justice system and constitutional justice	0.3	0.3	0.4	0.5	0.5	0.4	0.5
4. Maintaining public order, defence and state security	2.5	2.4	2.7	2.9	2.6	2.8	2.8
National defence	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Maintaining public order and state security	2.0	2.0	2.2	2.5	2.1	2.3	2.2
5. Social expenditures	22.0	23.4	25.8	27.6	28.7	28.0	28.1
Education	6.8	7.2	8.2	8.5	8.7	7.9	7.7
Culture, art, sports and youth actions	0.8	0.8	1.1	0.9	0.9	0.9	0.8
Healthcare	4.2	4.2	4.8	5.4	5.8	6.1	6.0
Social assistance and insurance	10.2	11.3	11.7	12.8	13.2	13.1	13.5
6. Science and innovation *	0.3	0.4	0.5	0.6	0.7	0.5	0.5
7. Economic expenditures	4.2	5.2	6.2	5.5	4.9	4.5	4.2
Agriculture, forestry, pisciculture and water management	0.8	1.5	1.5	1.7	1.5	1.3	1.5
<i>including the Fund for the establishment of wine plantations</i>	<i>0.1</i>	<i>0.2</i>	<i>0.1</i>	<i>0.2</i>	<i>0.2</i>	<i>0.1</i>	<i>0.3</i>
Industry and constructions	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transportation, road management, communications and information technology	0.6	0.6	1.2	1.0	1.3	1.4	1.2
<i>including Road Fund</i>	<i>0.4</i>	<i>0.4</i>	<i>0.4</i>	<i>0.4</i>	<i>0.4</i>	<i>0.4</i>	<i>0.4</i>
Utilities and housing	1.6	1.8	2.3	1.7	1.3	1.3	1.1
Fuel and energy sector	0.7	0.9	0.9	0.7	0.4	0.2	0.1
Other economic activity related services	0.4	0.3	0.2	0.3	0.3	0.2	0.1
8. Environmental protection and hydro-meteorology	0.2	0.1	0.2	0.3	0.2	0.2	0.2
9. Public debt servicing	2.4	1.2	1.0	1.3	1.1	1.1	0.9
- domestic	1.2	0.5	0.4	0.7	0.8	0.6	0.5
- foreign	1.2	0.7	0.5	0.5	0.3	0.5	0.4
10. Other areas	0.7	0.8	1.2	0.6	0.4	0.7	0.9
Supplementing state reserves	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Expenditures not distributed to main groups of expenditure	0.5	0.7	1.1	0.5	0.3	0.6	0.9
11. Net lending	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
C. General balance (deficit - ; surplus +)	0.2	1.5	-0.3	-0.5	-0.5	-0.5	-0.5
D. Primary (cash) surplus	2.6	2.8	0.7	0.8	0.7	0.6	0.4
D. Public sector financing	-0.2	-1.5	0.3	0.5	0.5	0.5	0.5
<i>Net internal</i>	<i>2.6</i>	<i>0.4</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.0</i>	<i>0.0</i>
NBM	1.9	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2

Net commercial banks	0.8	0.7	0.4	0.4	0.3	0.2	0.1
Direct lending	0.2	0.1	0.2	0.0	0.0	0.0	0.0
State securities	0.6	0.5	0.3	0.4	0.3	0.2	0.1
Net non-banking	-0.1	0.1	0.0	0.0	0.0	0.0	0.0
<i>Net external</i>	-1.9	-0.1	-0.5	0.7	0.6	0.6	0.0
Disbursements	0.9	0.9	0.9	1.8	1.4	1.7	0.9
to investment projects	0.9	0.9	0.9	1.5	1.2	1.5	0.9
budget support	0.0	0.0	0.0	0.3	0.2	0.2	0.0
Amortization	2.7	1.0	1.5	1.2	0.8	1.1	0.9
<i>Funds from selling and privatizing public property</i>	0.3	0.5	0.9	0.4	0.2	0.2	0.2
Privatization according to individual projects	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other revenues from privatization and sale	0.2	0.5	0.9	0.4	0.2	0.2	0.2
Changes in account balances	1.2	2.3	0.2	0.7	-0.4	0.2	-0.4

* Expenditures for science and innovation will be updated annually in the State Budget Law to reach the following shares of GDP: 0.7% in 2008, 0.8% in 2009, and 0.9 in 2010.

Source: MTEF (2008-2010), except for 2008, the source of which is the draft state budget for 2008.

ANNEX 6: Participation in the Design of the National Development Strategy

Due to the importance of the National Development Strategy – a medium-term strategic planning document, and to the participation experience of the stakeholders in the development and completion of other documents important for the whole society, the Participation Council developed and approved the Strategy Development Participation Concept.

1. OBJECTIVES AND PRINCIPLES OF THE PARTICIPATION PROCESS

The Government of the Republic of Moldova and the civil society established the following objectives in the process of Strategy development:

- 1) reaching an agreement on the country's development priorities for the immediately following period;
- 2) ownership by the whole society regarding the medium-term objectives and priorities of the country's development through an open and continuous dialogue;
- 3) permanent and timely notification of stakeholders about the document development progress;
- 4) establishment of participatory conditions for all stakeholders during document completion for increased cohesiveness within the society.

While implementing these objectives, the Government of the Republic of Moldova and the civil society were guided by the following principles:

1) **Transparency** of all document development stages – the stakeholders will have the possibility to monitor and/or participate in the paper's development;

3.1.1.1. **Institutional and informational accessibility** – the stakeholders will have access to the institutions, commissions, work groups in charge of document development. The public authorities will provide to stakeholders information of public interest (draft laws, strategies, analysis reports, statistical data, etc.).

3.1.1.2. **Equidistance / Impartiality** – all participants in the process will benefit from equal, non-discriminatory treatment, observing the right to opinion, access to information, etc.

3.1.1.3. **Responsibility**. The Government, together with the civil society, will show maximum responsibility for the decisions taken, actions and recommendations, as well as for the quality of performed work.

3.1.1.4. **Continuity**. The joint actions of the Government and civil society will ensure the continuity of the initial reforms and will contribute to their efficient implementation.

2. INSTITUTIONAL FRAMEWORK

Given the experience acquired in the development and implementation of EGPRSP (Economic Growth and Poverty Reduction Strategy Paper) and MEUAP (Moldova-EU Action Plan), the establishment of the Participation Council was proposed to ensure the continuity and guarantee the observance of principles mentioned above.

Thus, the Government Resolution No. 1495, of 12.28.2006 provides that „the Participation Council shall ensure the involvement of the civil society in the process of development, monitoring and evaluation of the National Development Strategy of the Republic of Moldova for 2008-2011. In order to improve the dialogue with the stakeholders, the central public authorities will strengthen partnership by areas, including by appointing within policy analysis, monitoring and evaluation units a person in charge of participation”. The Council is

composed of representatives of the Government, Presidency, Parliament, civil society, academia, business environment, and development partners.

3. STAGES OF THE PARTICIPATION PROCESS

The participation of stakeholders in the process of NDS development was structured under two distinct stages.

Stage I. Identification and coordination of priorities and overall vision of the Strategy with stakeholders (June 26 - July 30).

The aim of the first stage was to collect the contributions of stakeholders to the draft NDS (strategy document) through:

- 1) Organizing the launching event – NDS National Forum;
- 2) Organizing 15 public discussions at national level in order to identify the stakeholders' understanding of the strategic vision, medium-term development priorities and the primary conditions for the realization of the Strategy;
- 3) Organization of 9 public discussions at regional level, involving the stakeholders, in order to emphasize their understanding of the priorities proposed for the national level and ensure the linkage to the regional problems and priorities.

The 25 public discussions involved the participation of representatives of CPA, LPA, academia, private sector, NGOs, mass media, development partners, embassies, other public institutions, altogether accounting for 1,486 participants. The highest level of activity was manifested by NGOs operating in relevant fields (27%), followed by central public administration authorities – 24.6%, local public administration authorities – 12.4%, development partners – 11.3%, various public institutions – 7.8%, private sector representatives – 6.8%, mass media – 4.6%, academia – 4.5%, and representatives of the legislative authority – 1%.

Of the 25 public discussions organized during June 26 – July 30, 2007, 11 events took place in the country (the towns of Basarabeasca, Floresti, Soldanesti, Rezina, Comrat, Ungheni, Cahul, Balti, Causeni, Nisporeni and Criuleni). Approximately 485 persons from 27 districts of the country participated in the regional public discussions.

During the first stage, the NDS strategy document benefited of a significant number of comments and recommendations, altogether 82 contributions⁶⁸, from NGOs, development partners, academia, private sector, and citizens. The degree of particularization and consistency of the recommendations is heterogeneous, some of these having a general character, others referring to particular provisions from the draft document. All the contributions were placed on the official site www.pnd.md, thus each stakeholder can visualize his/her own contribution, as well as the contributions sent by other stakeholders. The Ministry of Economy and Trade, jointly with the relevant central public administration authorities, analyzed the contributions received during the first stage and will submit a detailed report, specifying the accepted proposals and providing arguments for non-acceptance of others.

Communication in the process of NDS development was a key element for ensuring the participation of stakeholders. Therefore, the communication strategy for the NDS

⁶⁸ Contributions – written comments and/or proposals regarding the draft NDS were received by the Ministry of Economy and Trade and to the Secretariat of the Participation Council following the public discussions and dissemination of the draft document.

development was designed and approved by the Inter-ministerial Committee and the Participation Council. The objectives of the strategy are:

- Promotion of the Strategy as the leading medium-term strategic document;
- Increasing the interest towards the Strategy and raising the level of awareness;
- Encouraging the debate process and creating a framework for an efficient dialogue between the stakeholders;
- Ensuring the collection of proposals through communication within the process of NDS development.

The public discussions form the first stage of the NDS were continuously monitored by the mass media through press-releases, publication of articles and interviews with civil servants responsible for document development and independent experts. In the context of the above-mentioned strategy, the identity of the NDS was determined by organizing a qualitative study and developing the website www.pnd.md.

Stage II. Development and consultation of the NDS Action Plan (September – November, 2007)”

The aim of the second stage was to collect the contributions to the draft action plan, the analysis of these, ways of stakeholder participation in the implementation of the Strategy. In this vein, the following actions were proposed:

- 1) Organization of the process of consultation of stakeholders on the draft NDS action plan under 7 *Committees for evaluation and selection of proposals*, entitled to provide recommendations on the proposals presented by line ministries. The committees were created in line with the number of priorities and prerequisites.
- 2) Organization and realization of public discussions at both national and regional level for the discussion of the draft action plan in view of implementing the following primary conditions and priorities: i) Macroeconomic stability; ii) Public administration capacity building; iii) Consolidation of a modern democratic state based on the rule of law; iv) Regulation of the Transnistrian conflict and reintegration of the country; v) Increasing the competitiveness of the national economy; vi) Development of human resources, reducing the unemployment rate and promotion of social integration; and vii) Regional development.
- 3) Organization of a public debate on the initiative of adjusting the indicators of the Millennium Development Goals and setting (revising) the intermediate and final targets, involving the active participation of academia, development partners and civil society.
- 4) Organization of the summary event of the process of NDS development and completion at national level, involving the active participation of stakeholders and decision makers.

In order to ensure the participation of the representatives of civil society in the meetings of the Analysis Committees, the Participation Council submitted to the Ministry of Economy and Trade a list of experts from the civil society, relevant for the 2 prerequisites and the 5 priorities.

The communication within the second stage ended with the launching of a set of 5 TV broadcasts according to the number of priorities, on Moldova 1, involving the participation of official decision makers, relevant experts, local public administration representatives, etc.

Another communication tool is the set of radio broadcasts dedicated to the process of NDS development and EGPRSP implementation. The broadcasts take place weekly on 100.5 FM or 873 AM at Radio Moldova. For dissemination at national and regional levels, information is published in the NDS newsletter, which informs the public about the provisions of the strategic document, treats issues of critical importance, and presents opinions of the civil society, private sector, etc.