

INTRODUCTION

During the last 6 years, the Republic of Moldova has passed through a period of important changes on its way to becoming a democratic society. Although the political, economic, social and cultural isolation of the country (characteristic of the old totalitarian, centralized regime) has not been totally overcome, important successes have, nonetheless, been achieved, such as the establishment of a multi-party system, the free parliamentary and presidential elections, the adoption of new laws, and the appearance of the market economy, among many others.

The changes in the political, economic and social life have inevitably led to significant changes in people's mentality and imposed new forms of social relationships and new principles of social integration, which have very much influenced the overall process of human development in the country. This influence has, however, not always been positive. Thus, the Table below shows that the Human Development Index (HDI) for the Republic of Moldova has been steadily decreasing. This has led to the decline of the rating of Moldova among the 185 countries monitored by the UN from 81 to 110:

Year	HDI	HDI Rank	
		among the 185 countries - members of the UN	among the countries with medium level of human development
1992	0.757	81	18
1993	0.663	98	41
1994	0.612	110	46

According to the latest Human Development Report, the Republic of Moldova has the lowest, but one, rating, among the republics of the former Soviet Union, with only Tajikistan having a lower rank (115). Lack of information on the purchasing power of the national currency per capita does not allow yet to calculate the Human Development Index for the years of 1995 and 1996, though the data available gives grounds to assume that it has not improved, or even declined.

In order to improve the situation in the Republic, in terms of human development, it is crucial for the state to urgently develop a consolidated and coherent programme of action aimed at remodeling the present social system, in order to change substantially not only the present status, but also the future status of sustainable human development.

Theme of the 1997 NHDR. The theme of the 1997 National Human Development Report has been defined as social cohesion. In line with this, the Report analyses conditions necessary for the achievement of social aggregation and democratic organization of the society in the Republic of Moldova as a country in transition, with this analysis reflecting the situation in 1996.

Structure of the 1997 NHDR. The 1997 National Human Development Report consists of 5 Chapters.

Chapter I of the Report analyzes the theory of "social cohesion" as an important factor for successful human development, with special attention being given to the peculiarities of the transformation process taking place in Moldova.

Chapter II illustrates the process of political transformation to a democratic society, including the current status of the development of civil society. Special attention is given to the sources of tension in the Republic of Moldova which could undermine the process of social cohesion.

Chapter III presents an analysis of the legal system of the Republic of Moldova, of the realization of the principle of separation of powers, observance of human rights, access to information and public security, from the point of view of social cohesion.

Chapter IV analyzes economic development in the Republic of Moldova and the social changes brought about by the process of economic transformation.

Chapter V is focused on the analysis of state policies in such fields as social protection, labor market, public health, status of women, system of education, environmental protection - all of them being extremely important for the deepening of the process of sustainable human development.

The Annex "Human Development Indicators for Moldova" contains basic information pertaining to the process of human development in the Republic of Moldova.

Sources of Information. The present Report has been formulated in accordance with UNDP guidelines and deals with the analysis of social cohesion in the Republic of Moldova, which is approached from the point of view of the most important factors determining the process of integration in Moldovan society.

For the sake of making the analysis and interpretation of problems related to the theme of the Report as objective as possible, the 1997 NHDR covers independent viewpoints expressed by experts, members of various research institutions, international organizations and NGOs. It also contains an analysis of officially adopted programmes pertaining to various aspects of political, economic and social life, some of these programmes having been already implemented. Finally, the Report provides suggestions and recommendations which could assist the decision makers and the society at large to improve present policies and initiate new programmes and projects aimed at ensuring sustainable human development. In this context, it needs to be highlighted that independent opinions expressed by the authors, experts and consultants do not always coincide with those of the Government and UNDP Moldova, which under the conditions of democracy and pluralism is considered to be very acceptable.

Regarding the statistics used in the Report, these were provided, in most cases, by the Department of Statistics for the years 1990-1996. Additional data was also received from various Ministries, Departments, research institutions and international organizations. Results of independent, and, thus, non-biased, opinion polls were also cited in the Report.

Speaking on the sources of statistical information, it is important to stress that the system of data collection presently used in Moldova is undergoing a process of change in order to be in line with the respective UN standards. Since this process will be completed no earlier than on 1998-1999, the data presented in the Report should be interpreted very carefully and might not always correspond to the data developed by various international organizations, including the UN.

To be also noted is that if data for 1996 was not available, data for 1995 was used. In some cases the data received from the Department of Statistics was not complete, due either to the lack of information on the activities of the informal sector or to the lack of information on the self-proclaimed "republic" of Transnistria, which stopped providing statistical reports to the Department of Statistics as of 1992 (with the exception of those on demographic situation, healthcare and activity of the Moldovan Thermo-Electric Power Station).

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TABLE OF CONTENTS

Chapter 1. The theory of social cohesion in the republic of moldova

Chapter 2. Transition to a democratic society: Achievements and problem

- 2.1) Political pluralism
- 2.2) Sources of social tension in the republic
- 2.3) Credibility of state institution
- 2.4) Civil society and ngo

Chapter 3. Creation of the rule of law

- 3.1) Establishment of the rule of law as a priority objective of the state
 - 3.1.1) Transformation to the rule of law
 - 3.1.2) Separation and collaboration of powers
 - 3.1.3) Accountability of the executive
 - 3.1.4) Local governments
- 3.2) Human rights
 - 3.2.1) The right to elect and to be elected
 - 3.2.2) The right and access to information

- 3.2.3) The right to free movement
- 3.2.4) The rights of ethnic minorities
- 3.3) Public security and order
- 3.4) Legislative inconsistencies

Chapter 4. Economic development and social transformations

- 4.1) Economic policy
 - 4.1.1) Reforms as a basic condition for successful economic development
 - 4.1.2) Evolution of macroeconomic indicators
 - 4.1.3) Sectoral changes
 - 4.1.4) Financial sector
 - 4.1.5) Foreign assistance and loans
 - 4.1.6) Foreign trade
- 4.2) Social transformations
 - 4.2.1) Analysis of the population's income
 - 4.2.2) Social stratification
 - 4.2.3) Social partnership

Chapter 5. Policies of the government aimed at the promotion of human development and achievement of social cohesion

- 5.1) Social protection
- 5.2) Poverty - the basic factor affecting social cohesion
- 5.3) Labor market
- 5.4) Status of women
- 5.5) Public health
- 5.6) Education system
- 5.7) Environmental protection
 - 5.7.1) Present state of the environment
 - 5.7.2) Environmental policy reform
 - 5.7.3) Working environment protection

Conclusions

Annex "Human development indicators for Moldova"

Human Development Index
 Profile on Human Development
 Profile of Human Deprivation
 Trends in Human Development
 Rural-Urban Gaps
 Child Survival and Development
 Health Profile
 Food Security
 Education Imbalances
 Employment
 Welfare, Poverty and Social Investment
 Resource Flow Imbalances
 Disproportion between the military expenditures and resources usage
 Urbanization Growth
 Demographic Profile
 Natural Resources Balance Sheet
 Energy Consumption
 National Accounts
 Trends in Economic Performance

Abbreviations

Bibliography

List of tables

List of charts

CHAPTER 1.

THE THEORY OF SOCIAL COHESION IN THE REPUBLIC OF MOLDOVA

The Republic of Moldova emerged on the world map as a legal successor of the Moldavian Soviet Socialist Republic, following the failure of the communist regime and the disintegration of the former USSR. As a consequence of this, its people do not have experience with political, economic or social freedoms and, therefore, the establishment of new social relations and new principles of social cohesion is required.

The degree of social cohesion is actually an indicator of the maturity and equilibrium of a community. Sociologists distinguish two classical types of social cohesion: mechanic and organic. Mechanic cohesion is based on constraint, suppression of rights and on recognizing only one paradigm of thinking and behavior, a single religion or ideology. This is exactly what the Moldovan human community suffered from during the last 50 years. Organic cohesion is based on the democratic organization of society, and sustained, among others, by the exercise of freedom, by diversity of initiatives, and by freedom of opinion, thought and actions. The equilibrium of such a society, in which social relationships are founded on mutually accepted rights and obligations, is usually longer-lasting, and leads to better results, since it is based on a consensus and social control. This is precisely what Moldova wishes to achieve today.

Certainly, the transition to a democratic (organic) social cohesion still remains one of the country's most difficult and long-term problems. Although in the eyes of public opinion, the current crisis of social cohesion is associated with the transition to a market economy, which receives the entire 'blame' for the social costs the people of the Republic have to pay, the issue is, in reality, much broader. The crisis is comprehensive and has more profound roots, being the expression of the failure of a mechanical (totalitarian) system of social organization. The transition costs are, however, small in comparison with those which Moldova, as well as other former republics of the former USSR, would have had to pay if the transition had not taken place and people had continued to live in a community in which all the social energies were suffocated, any initiative from below was suppressed, civil society as such was absent, and the state had monopolized and managed all forms of human expressions. Experts believe, however, that such a situation could only have continued as long as social inertia had lasted. Indeed, once this inertia was exhausted, the symptoms of social decline would have become apparent, resulting in a process of transformations, such as that which began during the late 1980s and early 1990s.

To be specially highlighted is that in the opinion of some sociological research institutions, based on the opinion of some scientists in this field (Bestujev-Lada in Russia and Alvin Toffler in the USA), the transformation process in all the former communist countries took place at least 15-20 years too late. As a result of this, the weakening of the state as a political institution, the economic crisis, the social disorganization, the behavioral decline, and other forms of social apathy are presently much more pronounced and dramatic.

The Republic of Moldova is not, unfortunately, an exception to the above, with the main characteristics of the situation in the country being, generally, as follows:

- The state as a political and administrative institution and as a source of social organization, is unable as yet to achieve the effective and democratic coordination of national interests; nor is it able to handle adequately the crisis, characteristic of the transformation to a market economy and a democratic society; state institutions are still frail and lack efficiency.
- The economic crisis has reached an even more devastating scale than in other transition countries. Efficient alternatives to the disintegrating structures and to the lack of resources (in particular energy resources, markets, investments and foreign trade) have yet to be found.
- The social market economy still remains elusive, unemployment, in one way or another, has affected about 50% of Moldovan families, pauperization covers almost 80% of the population and living standards have declined to the point where they affect even basic requirements.
- Inconsistency of political, legislative and economic reforms generate unsatisfactory patterns of behavior, such as: growth of an informal economy, ideological tensions, demoralization, social apathy, crime (including organized crime), corruption, prostitution, juvenile delinquency, suicide, alcoholism, drug addiction, etc.
- Individual interests have begun to take precedence over those of the community. Laws and rules are being replaced by subjective perceptions, by individual or corporate interests, thus leading to disorder. Civil society is still at a formative stage and isn't being sufficiently supported by the authorities.
- The opportunities to achieve economic well-being tend to be more and more unequal, often unfairly. Some groups, which have accumulated illicit capital and occupy spheres of economic influence, affect

justice and social equity;

— In this turmoil, social confusion inevitably emerges, weakening the capacity of resistance of the community in supporting the difficult transformation to a democratic society and market economy. The society remains divided along different lines.

— The way of thinking of the public as a whole has gone through considerable evolution. However, it cannot yet be affirmed that there is unreserved readiness to accept the democratic restructuring of society. The mentality of the people is still seduced by frequently deceptive totalitarian clichés, which can be explained, among others, by the lack of a proper information system.

— The prevalent way of thinking prevents the emergence of a correct interpretation of changes and of appropriate behavioral reactions, at all levels, and in all social strata. In the majority of cases, people do not have a vision of the process of change and reform. They relate their perceptions to persons (whom they know) rather than to the reform process. They equally relate sources of welfare basically to the search for a 'savior' rather than to their own efforts.

Social equilibrium during crises and transition is always frail. Moreover, there is no such a thing as a perfectly organized or a totally disorganized society. Even advanced societies are in constant need of supplementary measures to sustain social cohesion. Thus, Moldova's objective is to find the pillars on which social stability and solidarity, with its potential to "cells and tissues" of society established. Indeed, any society if it has a reorganization.

Although economic development may be the most important driving force in the evolution of society, it can not be an end in itself, nor can other aspects of human development be described as subsidiary (secondary), given that, in the last instance, the development of people is the most important objective.

In line with the above, the yardstick against which human development is assessed should not be the quantity of goods produced in the country. Rather it should be the quality of life.

Economic growth is important, but by itself does not assure the solution of all problems, since the quality of life can remain low even amidst opulence. Thus, the key problem today for Moldova is the subordination of economic growth to the interests of long-term human development.

The 1997 National Human Development Report is devoted to the analysis of social cohesion. In the following chapters an analysis is made of the political, economic and social conditions which influence the achievement of the democratic organization of society and social cohesion, producing a new type of social aggregation which, instead of conformism and rigidity, is based on such factors as mobility, flexibility and fluidity.

CHAPTER II.

TRANSITION TO A DEMOCRATIC SOCIETY: ACHIEVEMENTS AND PROBLEMS

In a democratic state, the internal consistency of the society, i.e. social cohesion, is considered a consequence of the existence of and observance of human rights and as an indicator of the maturity of the state.

The historical and geopolitical factors which have influenced the development of the Republic of Moldova, have, unfortunately, not favored the normal evolution of social organization. Although the indigenous population of the Republic, in particular from rural areas, has preserved certain traditions, customs and moral norms, the dramatic changes which have taken place in the Moldovan society during the present century have substantially affected the social psychology, morale, mentality and civic behavior of Moldovans, which hampers the process of transformations in the country.

The democratization of society is, thus, not only about the formation of a sound legal framework (which will be discussed in Chapter 3 of the present Report), but also about a change in public mentality and morale as well as in citizens' behavior.

2.1 POLITICAL PLURALISM

The Constitution of the Republic of Moldova was adopted and came into force on July 29, 1994. This brought about a significant redistribution of functions in the political system of the Republic, leading to the weakening of the former semi-presidential system and the establishment of a more Parliamentary political system. It established a system of institutional pluralism, reflected in the following institutions: the popular (elections and referenda), the legislative (the Parliament), the executive (basically the Government, and the President), and the judiciary (the Supreme Court of Justice, the Court of Appeal, tribunals and courts of law).

Furthermore, according to the Constitution, no ideology can be imposed in Moldova as the official ideology of the state. It nonetheless states that the freedom of expression cannot be abused in such a way as to infringe the honor, dignity and rights of other persons to hold their own views. Also forbidden and punished by the Constitution are: defamation of the state and of the nation, calls to war and aggression, to inter-ethnic, racial or religious hatred, incitement to discrimination, to territorial separatism, to public violence, as well as many other types of attack on the constitutional regime.

Institutional pluralism is complemented by the political pluralism. Thus Article 1 of the Constitution stipulates that the Republic of Moldova is a democratic state governed by the rule of law and political pluralism is considered to be one of its supreme values. Indeed, real democracy is exercised under the conditions of political pluralism incompatible with dictatorship and totalitarianism. In line with the general principle of pluralism, the Constitution establishes the freedom to set up political parties and the freedom for these to pursue their activities. In line with this provision of the Constitution, all citizens can freely join political parties and other sociopolitical organizations, all of which are equal before the law. Moreover, the state has assumed the obligation to assure the observance of the rights and legal interests of all political parties and other socio-political organizations. At the same time political parties which, in word or in deed, oppose political pluralism, the principles of the state governed by law, sovereignty and independence, or territorial integrity of the Republic of Moldova, are to be declared unconstitutional. Secret activity by associations and political parties constituted by foreign citizens are also forbidden.

In line with the above-mentioned liberty guaranteed by the Constitution, a large number of political parties were set up in Moldova and, at the moment, the registered ones number 50.

At the parliamentary polls held on February 1994, 1,038 candidates were nominated with 1,018 of them representing 13 parties and socio-political organizations and 20 of them being independents. The results of the elections have proved that only four political parties and electoral alliances achieved the threshold of 4% of the total valid votes, namely the Agrarian Democratic Party of Moldova (ADPM), Socialist Party of Moldova and the Unity-Edinstvo Movement, the Peasants and Intellectuals' Bloc and the Alliance of the Christian Popular Democratic Front.

The above testifies that except for some of the political parties and socio-political organizations represented in the Parliament, the majority of parties have a shadowy existence, with many of them not even having socio-economic programmes. Indeed, compared to the minimum requirements defining a modern political party, very few of them really comply with these, with many parties having yet to define their identity in a conceptual sense. The standard criterion for defining the nature and political orientation of parties, on an axis from extreme right to extreme left, is so far inoperative in the political spectrum of the Republic of Moldova, regardless of the frequently misleading use which is made of those terms.

The issues which, at this stage divide the parties, are, in general, the following: whether or not to join the CIS;

the unity and integrity of the state of the Republic of Moldova; the correct definition of the nation in the Republic of Moldova; and the administrative-territorial structure of the country.

Apart from the above, many political parties have no stable social basis of their own. Despite the large number of parties, the citizens' adherence to them is still passive or based on transitory and ephemeral considerations. The explanations for this are numerous, including the lack of clarity of the programmes of many of the political parties and the confusion produced by the large number of parties professing the same objectives, among others.

2.2 SOURCES OF SOCIAL TENSION IN THE REPUBLIC

Real democracy assumes that those who hold the legitimate exercise of power avoid its abuse. Additional assumptions are: a fair division of power based on the limitations imposed by the legislature on the executive and judicial bodies; tolerance towards opposition forces, which have the right to express their opinion on public affairs; and the acceptance of mass media, separated from the state and political parties and exercising not only theoretical, but also real independence. The non-implementation of the above principles might, understandably, generate tensions.

Other powerful sources of social tension which very much affect the process of social cohesion are the ambiguous wording of some passages in the text of the Constitution and the discrepancy between some of the constitutional provisions and reality. It is not very clear, for instance, who represents the supreme executive authority. Another example refers to the limits of the "territorial autonomies" allowed by the Constitution and how compatible these are with the territorial "integrity" of the Republic of Moldova.

Given the importance of the problem of language for the social cohesion of the Moldovan society, it is justified to dwell in a bit more detail on the issue of the state language. It is widely recognized that national language is the first of the most important characteristics of a nation and is the condition for elementary exchange of information in human relationships.

However, the non-Moldovan-speaking population of the Republic has not always accepted the Law on the Official Language of the Republic of Moldova. This causes the emergence of enclaves and of what is called "communicational isolation" of some groups of the population which considerably reduces chances of social cohesion. Moreover, the public disputes unleashed by the definition of the official language in the Constitution (Moldovan vs. Romanian), provoked confusions among the population by propagating various, sometimes mistaken, ideas about the origin and the name of the official language. Views in this regard were on several occasions expressed by those who do not know the language, with the language problem becoming, thus, an arena for political disputes and an artificial source of unease in society. In this context, highlighted should be that some people in and outside of Moldova believe that the notion of a "Moldovan language," as specified in Article 13 of the Constitution, is founded more on a political than a scientific basis and that is why, after the adoption of the Constitution, the issue of the correct name of the official language remains a source of animosity.

Another important issue that needs to be mentioned in the context of analyzing sources of tension in the Republic is the issue of the indivisibility of Moldova. Indeed, the Republic of Moldova, as proclaimed in Article 1 of the Constitution, is a sovereign, independent, unitary and indivisible state. However, the de facto existence of the self-proclaimed "republic" of Transnistria wherein the public authorities, assigned to exercise the sovereignty in the entire territory of country, hardly have any influence, makes the sovereignty and indivisibility of the Moldovan state relative. The presence in Transnistria of the Russian 14th Army in the territory of Moldova contradicts another provision of the Moldovan Constitution, namely the prohibition to deploy other states' armed forces in the territory of Moldova.

The state structure of the Republic of Moldova does not strictly correspond to the Constitution also because of the existence of the Gagauzian enclave. According to the respective law, Gagauz Eri represents an "autonomous territorial unit with a special status, which, being a form of Gagauzians' self-determination, is part of the Republic of Moldova". This law was adopted according to Article 111 of the Constitution which provides that special forms of autonomy can be given to localities on the left bank of the Nistru river as well as other localities in the southern part of the Republic of Moldova, in accordance with their special statuses fixed by the respective organic laws.

As mentioned above, the purpose of the Gagauzian autonomy has been to preserve the identity of the Gagauzians. The absence, up to now, in the autonomous territory, of schools teaching in the Gagauzian dialect or in Turkish, as well as the absence of a concrete programme of national and cultural recovery, suggests that the idea of ethnic autonomy was perhaps proposed to a community whose leaders were in reality concerned with something quite different from ethnic preservation in the usually accepted sense.

Regional autonomy on ethnic principles, which has been rejected as a form of decentralization by many

states of the world, has been accepted in Moldova as a "specific", "local" solution and, thus, some ethnic communities with separatist options might conceive this solution as a precedent. In this context, the Council of Europe criticized the establishment of internal borders within Moldova and pointed out, that the chosen form of autonomy might imperil the rights of other ethnic groups living in the area and serve as a precedent for other areas populated by minorities in Europe, thus afflicting the social cohesion processes in the region.

2.3 CREDIBILITY OF STATE INSTITUTIONS.

The non-participation by citizens in public life and the lack of attention to the opinions of non-governmental organizations, among others, has led to the perpetuation and extension of an atmosphere of distrust among citizens in the capacity of the democratic system to solve social problems.

The results of an opinion poll carried out in 1996 by the association "Flux Opinion Polls" show that 82% of those questioned are not satisfied by the level of democracy in the Republic of Moldova.

Comparing the results of opinion polls over a five year period (1992-1996), a stable decline is observed in the level of trust in the state institutions. Prior to the conflict in 1996, between the President, on the one hand, and the Government and Parliament, on the other hand, generated by the attempt of the ex-President Mircea Snegur to dismiss the Minister of Defense, the National Army was the sole state institution in which the population expressed an increasing degree of trust. In the second half of 1996, opinions about the army were almost equally divided between positive and negative, with a slight bias towards the latter.

Regarding the President, a considerable part of respondents, irrespective of the social group they represented, considered his performance to be not good (45.6%). Although the number of those who were satisfied with the activities of the President can not be ignored, the share of such people did not exceed 28.5% in any of the social groups.

Distrust of Parliament accounted for 67% of the respondents' options in the sociological poll carried out in May 1996, and for 76% in the poll carried out in September 1996. In this context to be highlighted is the enormous mistrust towards the governing party (the Agrarian Democratic Party of Moldova) observed in all social groups of the population.

Opinions regarding the Government are even more negative as compared with those regarding the Parliament. 34.8% of the respondents consider that the Government acted poorly and 44.4% have a very negative opinion of the Government's performance - a number which increases with the educational level of the respondents. This negative attitude towards the Government was expressed very clearly during the presidential elections on November 17, 1996, when the Prime Minister Andrei Sangheli received only 9.4% of the votes.

The Judiciary does not enjoy a very high rating on the part of the population either. 34% of the respondents rate its activity as not good while only 15% have a positive opinion of the work of judicial institutions.

Regarding local governments, the results of the poll carried out by "Moldova Moderna", on behalf of the "Viitorul" (Future) Foundation and IFES Moldova, show that the measures undertaken so far to improve public administration have achieved little and this is why neither the population nor local government officials are satisfied with the results of the reforms. Only 5.5% of the respondents are satisfied by the performance of the current public administration system in the Republic of Moldova.

According to the results of the same poll, most experts consider that the legislation in force regarding local governments has not been adjusted to the constitutional provisions and has not contributed to the improvement of local governments.

A predominantly negative picture emerges with respect to trust in mayor's offices. Thus, 42.3% of the respondents have a negative opinion of mayors, 29% have a very bad opinion and only 17% a good opinion. Among the respondents the opinion persists that mayors and local councilors do not enjoy due authority over co-citizens (48.2%).

The increasing lack of confidence in the government, judges and police is explained by the activities of the respective institutions which frustrate people on a daily basis. It is these institutions, according to the views expressed by the citizens, that are responsible for the current chaotic situation in society.

The question asking which of the central power institutions could contribute most efficiently to the settlement of the political, economic and social problems which society was facing, created many difficulties for the respondents. 42% of those questioned could not mention any institutions at all. In general, the greatest hope was deposited in the President (28.2%), other opinions being distributed as follows: Government -16% and the Parliament 13%.

It is evident that the above-mentioned results of the opinion poll characterize not only the performance of the main state institutions (certain drawbacks have always been and will always be there) but also the general level of

"political culture" of the respondents, the mentality and moods of the people of the Republic who believe that a change for the better could happen immediately and should result solely from the activities of the upper echelons of power.

2.4 CIVIL SOCIETY AND NGOS

"Civism" or "good citizenship" is a multidimensional phenomenon - political, social, economic and moral - which is characteristic of human development in developed societies with democratic traditions. Authentic civism in the Republic of Moldova is considered to be only emerging and still unstable. Nevertheless, the years of transformations have been marked by certain successes. There have emerged some civil associations which have concrete objectives and which are facilitating the democratic integration of the Moldovan society.

Non-Governmental and Non-Profit Organizations

Table 2.1 Non-Governmental Organizations, as of January 4, 1997

Public Associations for Teenagers	32
Public Associations for Health Improvement	44
Physical Culture and Sports Societies	101
Scientific, Technical-Scientific Societies	62
Unions of Artists as well as Culture, Education and Leisure Organizations	130
Charitable Public Associations and Public Funds	59
Peace Organizations	59
Veterans' Organizations	11
Invalids' Organizations	8
Human Rights Protection Organizations	22
Ecological Organizations	24
Economic Collaboration Organizations	15
Children's Organizations	13
Friendship Organizations	27
Professional Organizations	58
Communities	32
Other	45
TOTAL	742

Although NGOs, which emerged in the Republic of Moldova shortly after the declaration of independence haven't yet integrated themselves into the process of social cohesion, it can, nevertheless, be stated that these organizations have laid a foundation for the effective development of one of the most important parts of a democratic system - civil society.

According to the Ministry of Justice, the body charged, as of 4 January 1997, with the registration and monitoring of NGOs, the total number of NGOs is 742, with a growing trend being clearly observed.

Although the growth of the number of NGOs does not always correspond to the quality of these organizations, it should be stated that under the present circumstances, the increasing number of non-governmental, non-political, non-profit organizations can be considered as the main success on the way of building-up an active and viable civil society.

Specially highlighted should be that despite the material difficulties and lack of advanced managerial know-how in organizing and managing NGOs, the latter have already carried out important activities. Studies and opinion polls carried out by the TACIS project "National Center for Assistance and Training for NGOs" among the leaders and members of NGOs as well as other citizens interested in NGOs' activities have demonstrated that the reason why citizens join NGOs and other similar organizations, have various explanations. However, possibly the most important reason is that people consider NGOs as a way to satisfy their needs and

aspirations which are not satisfied either by official institutions or by political parties and trade unions.

From the viewpoint of self-expression, NGOs are most welcome, given that people have the need to build their own identity, to reject the status of "silent executor", which has been their lot during the totalitarian regime. They now want to be active participants of the changes taking place around them; they want their opinions to be taken into account when decisions are taken which affect their lives; they wish to manifest, in various ways, their human and professional qualities and to demonstrate their communal spirit and human solidarity.

The principles on which NGOs carry out their activities are the non-engagement in direct political life, the encouragement of a conscious attitude by individuals towards collective initiatives and the promotion of partnerships and collaboration. It is usually emphasized that NGOs are open to collaboration with all citizens, representatives of state authorities, members of the Parliament, political parties, trade unions, enterprises and international institutions, with the main values promoted by them being democracy, human rights and liberties, the rule of law, transparency and free access to information, tolerance and human solidarity, equality and responsibility before the law.

One can notice that, at least at the conceptual level, NGOs provide good opportunities for the achievement of social cohesion. Indeed, members of these organizations prove to be willing to identify problems both at an individual as well as at a global level and to try to solve them and to make their communities more sensitive in terms of building a democratic and economic developed state.

It is very important that the above described values and principles of the activities of the non-government organizations be applied as efficiently as possible. For this, however, a solid legal framework would indeed be a strong requirement. In this context, mention should be made of the recently adopted Law on Public Organizations, which can be considered as an important step, as compared to the legislative and normative acts that were previously used in order to regulate the activities of NGOs. However, it still does not provide for one essential condition - namely the opportunity for NGOs to establish a clear and well-defined identity, with respect to the other two sectors of society - state and private. Indeed, the third (non-profit) sector is in no way mentioned in the legislation of the Republic of Moldova. The ambiguity of the term "public" keeps NGOs in a state of uncertainty. Through its totalitarian essence, the term "public" (applied as in the case of "collective (public) ownership") leaves much room for interpretations and manipulations. The notion "voluntary" has not found legal expression either.

To be also noted is that the Law regarding public associations does not stipulate exactly the criteria of non-profit activities, thus preventing NGOs from achieving economic independence.

An important problem refers to the extent of NGOs' involvement in Moldovan society, which is, regrettably, at present, not significant. NGOs cannot influence any decision taken by the Government or the Parliament. An exception might be constituted by those NGOs which enjoy financial and logistic support from international organizations and foundations. To be highlighted is that when the promulgation of the Law on Public Associations was stopped, the intervention of the WB, USAID, ISAR, Soros Foundation, Save the Children, among other foreign institutions, was required.

Commenting on the relations between NGOs and the Government, noted should be that once the constitutional right for free association has been recognized, the state also needs to recognize and accept the reality that its citizens will form public opinion and will direct their efforts to consolidating democracy and strengthening civil society, rejecting the paternalism of the state. However, although this constitutional right exists, a well grounded governmental programme and a balanced policy in the state's relationship with NGOs are missing.

To be also noted is that the Government has different treatment for different NGOs. Thus, there exist 32 non-governmental organizations representing ethnic minorities which have been placed under the tutelage of the State Department for National Relationships, which has set up the "House of Nationalities", where premises are made available to each of these organizations for their activities. The gesture is welcome, in fact, but it contrasts with "nonprotected" organizations, which have occasionally been compelled to suspend their activities due to lack of office premises and support from the Government.

To be further highlighted is that the Government provides financial support only at a general level. It cannot meet all the requests for services put forward by the heterogeneous population, thus leaving many people without this support. On the other hand, the non-governmental sector, being constituted by citizens representing a variety of communities, knows the requirements of the public for whose benefit it has been set up and for which it acts 'on the ground'. Thus, it is very important, that NGOs be utilized by the Government, thus facilitating the achievement of social cohesion in Moldova. In other words, the Government should conclude collaboration agreements with NGOs for rendering such services as: information, assistance to persons with specific needs, education in non-traditional fields, labor market development for professions with restricted markets, among

others. More exactly, NGOs can and should be perceived as partners and supporters of the Government, especially nowadays, in these difficult times of transformation.

CHAPTER III. CREATION OF THE RULE OF LAW

3.1 ESTABLISHMENT OF THE RULE OF LAW AS A PRIORITY OBJECTIVE OF THE STATE

3.1.1 Transformation to the Rule of Law

The medieval hardship, the tzarist imperial oppression, and more recently the totalitarian communist regime, have all caused an almost irreparable damage to the national culture of the Republic of Moldova, especially to its democratic traditions. Thus upon proclaiming independence, Moldova had to re-create these traditions and establish a new political structure. An important step towards democratization was the adoption of the Constitution of the Republic of Moldova on July 29, 1994, which defined the Republic of Moldova as a democratic state governed by law, in which human dignity, rights, liberties, the free development of all persons, justice and political pluralism, represent supreme values which are guaranteed by the Constitution (Article 1).

Yet, the adoption of the Constitution, with all its undoubted, though sometimes controversial, qualities and advantages, does not in itself lead to an immediate solution of all the problems of the country or of the structures and institutions to which the supreme law has been delegated. In order to become efficient and viable, the Constitution needs to be enforced, with its provisions being effectively implementable in practice. Also required is the continuous improvement of the legislative framework. It is true that this work began after the adoption of the Constitution; however, even though a notable contribution to the creation of a legislative framework has been already made, this process is still far from being complete. A substantial number of new laws (at least 200) are still required in order to bring Moldova's legislation in line with European and international standards.

The setting up of a solid legislative framework also requires various actions in order to consolidate the constitutional regime. Amongst these, an important advance was made with the setting up, in 1995, of the Constitutional Court, which "guarantees the supremacy of the Constitution, assures the division of powers into: legislative, executive and judiciary, and guarantees the responsibility of the state to the citizen and of the citizen to the state" (Article 134).

Another article of the Constitution to be highlighted is Article 2, which states: "national sovereignty belongs to the nation of the Republic of Moldova, which exercises it both directly and through its representative bodies", so that no individual or person, nor any part of the nation, nor any social group, nor any political party or other public structure can exercise state power in its own name. The usurpation of state power constitutes the most severe of all offenses against the nation".

3.1.2 Separation and Collaboration of Powers

According to the Constitution (Article 6): "In the Republic of Moldova the legislative, executive and judicial powers are separated and collaborate in order to exercise the prerogatives which they have, in accordance with the Constitution". This separation presumes an inter-dependence of powers and an equilibrium among them. Each "power" is vested in specific bodies, (Chapter m, "Public Authorities") regulating, in accordance with the Constitution, the functions, authority and relationships among them.

Legislative power is exercised by the Parliament. Executive power at the central level is exercised by the President of the Republic and the Government, and at the local level by the district, town, and communal executives and by mayors. Regarding judicial power, it is implemented through the Supreme Court of Justice, the Court of Appeals, the Tribunals and the Courts of Law.

Role and Functioning of the Parliament.

"The Parliament of Moldova is the supreme representative body of the Republic of Moldova and the sole legislative authority of the sjate" (Constitution, Article 69). Members of the Parliament are elected via universal, equal, direct, secret and freely exercised vote.

To be noted is that the level of participation of the electorate in elections is rather high. At the recent parliamentary elections (February 24, 1994) some 79% of the electorate voted.

The mandate of the Parliament usually lasts for 4 years, though it can be prolonged, through an organic law, in case of war or catastrophe. Parliamentary elections can also be held ahead of schedule, if the Parliament is dissolved by the President, or in case of its self-dissolution.

The main functions of the Parliament are the adoption and the amendment of legislation, appointment of Ministers and control over the activities of the executive body. The Parliament also plays a decisive role in

determining and controlling public expenditure and in approving and monitoring the state budget.

The current Parliament of the Republic is described as the Parliament of the 13th legislature. However, the Republic of Moldova emerged as a sovereign and independent state on August 27, 1991, and the first parliamentary elections took place only in February 1994. It might, therefore, be more appropriate to describe the current Parliament as the Parliament of the 1st legislature.

The Role and Functioning of the President.

The President of the Republic of Moldova is "the Head of State" who "represents the state and guarantees the sovereignty, national independence, unity and territorial integrity of the country" (Constitution, Article 77) and acts as one of the two subjects of the executive power, the other being the Government.

The President of the country "is elected through universal, equal, direct, secret and freely expressed vote" (Constitution, Article 78), with a mandate of 4 years. The last presidential elections took place on 17 November - 1 December, 1996. The Mandate of the President, like that of the Parliament, can also be prolonged, by an organic law, in case of war or catastrophe. Presidential elections can equally be held ahead of schedule in case of the President's resignation, dismissal, or incapacity to exercise his or her duties. Parliamentary and presidential elections are held separately. Except in the case of extraordinary circumstances stipulated by the Constitution, the next parliamentary elections are scheduled to take place in February 1998, and the next Presidential elections - in December 2000.

In exercising his or her duties, the President of the Republic issues decrees, the execution of which is obligatory throughout the territory of the state. The decrees can be regulatory or applicative in nature, with the number of the latter ones being much larger. Regulatory decrees are issued only on the basis of the Constitution and of ordinary and organic laws. This latter condition is considered to reduce the effectiveness of the decrees. Noteworthy is that Presidential decrees cannot regulate issues pertaining to domestic or foreign policy of the state, since these constitute a prerogative of the Parliament. Furthermore, some of the Decrees of the President also need to be signed by the Prime Minister. These are the Decrees by which the President (1) accredits official representatives of Moldova to other countries or recalls them back, (2) establishes a diplomatic mission abroad or changes its status; (3) introduces the emergency state in the country in the event of an external invasion; among others. The constitutionality of presidential Decrees is examined by the Constitutional Court.

Finally, as regards the implementation of the Decrees issued by the President, the effectiveness of these does not exceed, in general terms, that of the legislative acts adopted by the Parliament.

The Role and Functioning of the Government.

The Government of Moldova is responsible for the implementation of the domestic and external policy of the state and for the general management of public administration. Regarding the activities it intends to carry out, it should be noted that its Programme of Action has to be accepted by the Parliament.

The composition of the Government is to a high degree determined by the parliamentary elections. According to constitutional provisions, the Government exercises its mandate until the date when the results of the new elections for the Parliament are confirmed. Following the parliamentary elections, the President of the Republic appoints the Prime Minister. The candidate will request, within 15 days of appointment, a vote of confidence of the Parliament on the Programme of Action and the entire list of members of the Government. After the vote of confidence is passed, the President appoints the Government.

The Government is responsible to the Parliament. On the proposal of at least a quarter of the parliamentarians, the Parliament can take a vote of no confidence in the Government, which to be effective, would need to be passed by a majority vote.

Presidential elections should not normally influence, the Government in the exercise of its duties. Presidential elections in the Republic of Moldova in 1996 have, nevertheless, led to the resignation of the Government, due to the fact, that one of the candidates for the presidential post was the incumbent Prime Minister. By giving him only some 10% of votes, the electorate passed the equivalent to a vote of no confidence.

The current Government, formed in January 1997, comprises 17 ministries: Ministry of Economy and Reforms; Ministry of Finance; Ministry of Privatization and Administration of State Property; Ministry of Industry; Ministry of Agriculture and Food; Ministry of Communications and Informatics; Ministry of Labor, Social Protection and the Family; Ministry of Health; Ministry of Education; Ministry of Culture; Ministry of Justice; Ministry of Defense; Ministry of Internal Affairs; Ministry of National Security; Ministry of Foreign Affairs; Ministry of Transport and Road Administration; Ministry of Community Services and Housing. In addition there are also Departments in the Government.

To be noted that a clear and coherent separation of the functions of the various ministries and departments has yet to be established.

The Role and Functioning of the Judiciary.

According to the Constitution, every person in Moldova has the right to the effective protection by competent judicial instances, against acts which violate his or her rights, liberties or legitimate interests. In line with this, the judiciary guarantees the effective exercise of civic rights and freedoms.

As mentioned above, justice in the Republic of Moldova is administered through the Supreme Court of Justice, the Court of Appeals, the Tribunals and the Courts of Law. For certain types of cases, the law provides specialized courts (economic, military, administrative courts, etc.)

The judicial system was created on the basis of the legal reform adopted by the Parliament in 1994, in compliance with the Constitution. The new system was supposed to enter into force in August 1996. However, this has still not happened. Due to financial constraints, the Court of Appeals still does not carry out its role and the staffing of the tribunals and courts is not complete.

The judicial system in Moldova comprises 375 judges. The President and members of the Supreme Court are appointed by the Parliament on the recommendation of the Supreme Council of the Magistracy. Other judges are appointed by the President of the Republic on the recommendation of the Supreme Council of the Magistracy and can be nominated for life after five years of appointment.

Judges must be independent and impartial. Promotion and transfer of judges can only take place subject to their prior consent. Analysis shows, however, that the independence of judges is, so far, relative. Thus, the above-mentioned provision regarding the initial five-year appointment is seen as limiting the security of tenure of judges, as irreparably damaging this independence and, furthermore, as directly infringing the principle of separation of powers within the state.

The above issue has been raised, in fact, by the Council of Europe, when the Republic of Moldova was granted the status of plenipotentiary member of this important organization.

3.1.3 Accountability of the Executive

The Courts of Law are meant to ensure the equality of all people before the law. In line with this, the current legislative code allows these courts to decide whether the executive bodies operate in conformity with the law. The President of the Republic is not exempt from this; he can also be impeached by the Parliament, in which case a vote of at least two thirds of the parliamentarians is required. The final judgment rests, however, with the Supreme Court of Justice. The President is deprived of the rights of his office on the date when a definitive resolution in which he is condemned is passed.

In accordance with the Constitution, all other members of the executive, i.e. members of the Government, are equally obliged to obey the law. The executive authority cannot interrupt any court proceedings, hinder the course of justice or oppose the execution of a court's decision. Thus, Article 120 of the Constitution reads that "the observance of sentences and other definitive decisions of a judicial instance is obligatory, as is any cooperation required by them during a trial as well as in the execution of a sentence."

An important contribution to ensuring that the executive authorities act in accordance with the law can be made by the Constitutional Court. When requested, it exercises oversight of constitutionality of Presidential Decrees, and of the decisions and regulations of the Government. The acts of the executive authorities become invalid from the moment when the respective decision of the Constitutional Court is announced. To be noted is that the decisions of the Constitutional Court are final and that there is no appeal against them.

The role of the Constitutional Court is, however, quite limited: it acts only at request and cannot exercise its authority on its own initiative. In this context, it would seem that a People's Prosecutor, who would act in the public interest, is missing. Even though the current legislation stipulates the setting up of specialized judicial bodies, such as the People's Prosecutor's office, nothing has been done to speed up its creation. This fact affects the legitimacy of the executive bodies.

3.1.4 Local Governments

The authority of the state depends to a great extent on the organization of power at the local level. Both the Constitution and the organic legislation establish fundamental norms as regards the principles constituting the basis of local public administration: autonomy, decentralization of public services, management of public affairs under their own authority, eligibility of local authorities and consultations with citizens as regards issues of particular local interest.

In accordance with the Constitution, local governments constitute the representative local authority for

dealing with local issues and are created in cities, villages and districts. Noteworthy is that local councils act as local representative bodies, while the executive bodies are the executive committees and mayor's offices.

The powers vested by law in local authorities are full and complete. However, the reality shows that this is not what it should be, as can be seen below:

- the existence of 40 districts, in a territory of only 33.7 thousand sq. km. represents an anachronism which suffocates society's creative potential. Unfortunately, the draft laws prepared by the Government in 1991-1992 regarding the reform of territorial administration have not been yet approved by the Parliament;
- the principles of autonomy and decentralization of public services are not implemented on a plenary basis, with central authorities still retaining many prerogatives, both in the economic as well as in the financial fields;
- local authorities are unable to effectively exercise their rights since they are not financially independent. Equally, they lack the tools to efficiently handle the settlement of problems;
- many local authorities do not operate in conformity with the Constitutional provision that states: "public authorities, through which local autonomy is exercised in villages and towns, are the elected councils and elected mayors". In fact there are 100 appointed, rather than elected, mayors;
- the special status granted to Gagauzia, as well as the draft special status that is proposed for the Transnistrian region of Moldova contain provisions which go well beyond the definition of a standard territorial-administrative unit. They resemble political units rather than subordinate autonomous ones, a fact which may be harmful to the unitary character of the Moldovan state.

3.2 HUMAN RIGHTS

Among the problems currently faced by the mankind the issue of human rights and freedoms is indeed a central one.

A changing approach to the place and role of the man in various economic, political, social and cultural structures is reflected in the Constitution of Moldova. It confirms that human rights in Moldova are based on the international norms adopted since the creation of the UN more than 50 years ago: namely, the Universal Declaration on Human Rights (1948), the International Pact Regarding Civil And Political Rights (1966), the International Pact on Economic, Social and Cultural Rights (1966), the Final Act of the Conference on Security and Cooperation in Europe (Helsinki, 1975), the Paris Charter for a New Europe (1991), and other documents to which Moldova adhered.

In this context, it is important to recall that Article 4 of the Constitution of the Republic of Moldova includes the Principle of the Priority of International Regulations, which expresses a modern approach towards the relationship between the international and national law - the Principle of the Priority of International Regulations, entailing the following consequences:

- Constitutional provisions regarding human rights and liberties are in conformity with the Universal Declaration on Human Rights, and with other pacts and agreements to which the Republic of Moldova is party. Through this, Moldova has committed itself to observing international standards in human rights.
- According to the Constitution (Article 4, Paragraph 2), "if there are any disagreements between the pacts and treaties regarding fundamental human rights to which the Republic of Moldova is a signatory and its national laws, international regulations take precedence".
- The Republic of Moldova pledges itself to observe international standards and to accept in the future all changes in this field.

It is important to stress is that the abolition of the doctrine according to which human rights were seen as being "conceded", rather than "protected", by the state, and which constituted the dominant mentality during the years of communist dictatorship is a significant step.

In order to evaluate compliance in the field of human rights, it is not enough to simply ascertain the general principles of human rights protection embodied in the supreme law. It is more important to analyze the development of legislation which would allow to effectively address concrete issues, which will, in turn, influence the overall process of human development in the country. Thus, each liberty, recognized constitutionally, requires the subsequent adoption of a legislation, which will specify the mechanism whereby this liberty can be translated into legally enforceable provisions.

3.2.1 The Right to Elect and to be Elected

The participation of citizens in public life and in resolving the most important problems of society and the

state, constitutes a fundamental political right. In reality, it is exemplified by the right to elect and to be elected.

The right to elect is expressed in the Constitution under the right to vote (Article 38). The vote is universal, equal, direct, secret and freely expressed. It is necessary, though, to be 21 years of age before the date, of elections.

The right to be elected (Article 38) means that a person can be elected as local councilor, Member of the Parliament, President or other eligible positions provided he or she has the right to vote and fulfills all other conditions established by law.

The latter point refers to the fact that each elective public function, requires certain conditions to be met. For example, persons on active military service, judges, employees of the prosecutor's office, members of the police and other national security bodies, cannot be elected to Parliament. In order to be a candidate for elections such categories of citizens need to resign from their positions during the electoral campaign. A further but important example deals with the post of President of the Republic, which is eligible only for persons who have reached the age of 35 and have lived in the Republic of Moldova for at least 10 years. Equally, it is compulsory for the candidate to have good command of the state language.

3.2.2 The Right and Access to Information

This is a new right for Moldovans, which is drawn from international norms. It is a fundamental right which comprises: the right to be informed promptly, accurately and clearly, as regards both the anticipated actions of the public authorities as well as the actions already undertaken by them; free access to sources of public, scientific and technical, social, cultural and spiritual information; •freedom to receive radio and TV broadcasts; and the commitment by the public authorities to create the necessary legal conditions for the free and ample dissemination of any kind of information.

In assuring the right to information, the Constitution establishes the corresponding obligations of public authorities: namely to provide accurate information on matters of public and private interest.

Even though many measures have been taken with the aim of assuring the right to information, the mechanisms of implementation of this right have so far been inadequate. The state-controlled press continues to be maintained and promoted, despite expressions of disapproval by private mass media and individual journalists, and by European and international bodies supporting the process of democratization.

The emergence and continuity of independent periodicals and publications reflecting a broad range of opinions is hindered by two serious obstacles:

the insufficient income of the population makes impossible the emergence of a stable readership which could subscribe regularly;

- the lack of financial resources of the associations of journalists, willing to maintain the principles of democratic press;

- lack of access to first-hand information pertaining to actions of the authorities.

Despite the above, some new press agencies were registered in 1996, but only 5 of them had any impact: namely Moldpress, Basa-Press, Infotag, Interlic, and Flux. Equally, it should be noted that in 1996, there were 174 periodicals and 9 (registered) press agencies, which is a very positive sign.

An important role used to be played by the local press. In the early 90s, it emerged as the most advanced, from the viewpoint of liberalization and democratization, sector of the press and the first post-totalitarian Parliament created favorable conditions for its development. Nowadays, however, it is passing through a difficult period. The statements of V. Saharneanu, Chairman of the Union of Journalists of Moldova (UJM), are instructive in this regard.

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"Today, at the end of 1996, the situation of the local press is grievous in all aspects: the editors, appointed by the district level executive bodies, dictate the editorial policy and in their great majority impose censorship and oppressive measures, transforming editorial boards into subdivisions of local executive bodies, into docile instruments for promoting the ambitions of district managers and municipalities, who do not honor their liabilities in terms of funding the press. Due to this fact, the local press has returned to the situation which prevailed in the Soviet period - it doesn't serve the purpose of informing people... but rather is obliged to propagate the ideas of the officials at the top of the pyramid of power".

Valeriu Saharneanu
Chairman of the UJM
Report to the Xth Congress
of the UJM, May, 1997.

Regarding radio and television, the State Company "Tele-Radio Moldova" has not yet managed to define its operations, in accordance with the Law on Audio-Visual Media, adopted by the Parliament. Due to this, this institution continues to pursue an information policy which is sometimes far from the principles of impartiality and of respect for the rights of citizens to objective information. As a result, it lacks credibility.

Private radio and TV stations have also lost credibility, since the owners tend to make their journalists present information in a subjective manner, with those refusing being dismissed. All such cases are fully analyzed in the Preliminary Report on Mass-Media Monitoring Mission in Elections, from the European Institute for Mass-Media.

In the above context, the only source able to present to the citizens a real picture of the socio-economic situation is the State Department for Statistics, an autonomous central body, subordinated to the Parliament.

Since the declaration of Moldova's independence in 1991, this institution has gone through a period of radical transformations, aimed at the improvement of organizational and managerial patterns, and at achieving a higher level of transparency and democratization. It has adopted international accounting and statistical systems, and has become involved in the Comparability Programme of the European Community. Through the Department's own publishing house "Statistica", it has issued its statistical publication - the "Quarterly Statistical Report", in an edition of 200 copies; the bilingual English-Romanian publication "Moldova: Summary Selection of Statistical Data", also in an edition of 200 copies; and the "Statistical Yearbook of the Republic of Moldova" in Romanian and Russian - in an edition of 300 copies. It has also published the periodical "Public Information Bulletin", and a quarterly Official Communications series, in an edition of 750 copies. However, the access of citizens to these publications is constrained by the very limited number of copies published. Statistical information thus remains, as during the Soviet period, accessible only to central governmental institutions. A further problem is that if put up for sale, the price would be too expensive for the average wage-earner.

Apart from the information gathered by the Department of Statistics, statistical information is also collected by Ministries, Departments, the National Bank, among others. Unfortunately, this information is also far from being freely accessible by the public at large.

3.2.3 The Right to Free Movement

Another right embodied in the international norms on civil and political rights, and provided for in the Constitution of the Republic of Moldova, is the right to free movement (Article 27).

In Moldova, any citizen has the right to live or reside in any locality, to leave it, to emigrate and to return to the country. However, this right is not as yet fully assured. One restriction on the right of free movement arises from the current identity card (registration) regime which is still practiced, even though judicially it can be contested. Hopefully, this regime will be abolished, for it contradicts the provisions of a series of

international documents to which the Republic of Moldova has adhered.

The right of free movement is also affected by the Law of the Republic of Moldova on Migration, dated 19 October 1990, which regulates the policy and administration of immigration and emigration. The number of persons allowed to settle as residents in Moldova must be below a stipulated quota (maximum number of immigrants), established by this Law, taking into account proposal of local authorities. The immigration quota is fixed by the Parliament at the proposal of the Government, on a yearly basis, per district and town, concurrently with the approval of the state budget. It cannot exceed 0.05% of the total permanent population of the Republic of Moldova, i.e. approximately 2,200 persons. In principle, the established figure has been respected.

As of to date, the Republic of Moldova does not encounter problems with refugees from other countries. Instead, due to the discriminatory policy of separatist leaders in the Transnistrian region, large numbers of citizens have been compelled to leave their homes and escape to the right bank of the Nistru river.

3.2.4 The Rights of Ethnic Minorities

One of the most difficult issues pertains to the rights and liberties of citizens from ethnic minorities.

To be stressed is that the foundation of any state resides in the unity of the ingenious population and the citizens of "other" ethnic origins. In line with this, all citizens, irrespective of their ethnic origin, should enjoy the whole spectrum of rights and obligations.

In line with this, Article 10 of the Moldovan Constitution stipulates, that the state has as its foundation the unity of the nation. It states that "the Republic of Moldova is a common and indivisible motherland of all its citizens." It, moreover, stresses that "the state recognizes and guarantees the right of all citizens to the preservation, development and expression of their ethnic, cultural, linguistic and religious identity". The attempts to argue that the omission of the terms "national minority" or "ethnic group" constitutes evidence of a breach of international agreements pertaining to this issue are absolutely groundless. On the contrary, the Constitution proves, once again, the intention of taking all citizens into the bosom of the state, in order not to divide them into "indigenous" and "non-indigenous", "majority" and "minority".

Even though the ethnic structure of the people of the Republic of Moldova is not homogeneous, (64.5% are indigenous Romanians (Moldovans), 13.8% Ukrainians, 13% Russians, 3.5% Gagauzians, 2% Bulgarians, and 1.5% Jewish), there are no explicit ethnic tensions registered in the Republic. More than 35 ethnic-cultural associations have been formed under the provisions of the legislation in force.

3.3 PUBLIC SECURITY AND ORDER

The responsibility for social stability and order lies with the Ministry of Internal Affairs. The organizational structure of the Ministry comprises the police (some 10,000 employees) and the "carabineers" (some 2.000 employees).

Table 3.1 Offenses Recorded in 1996 (Without Transnistria and the city of Bender)

Category	Number	Offenses solved	
		Number	% of the total
TOTAL	34,822	20,440	58.7
of which grave offenses:	20,815	10,826	52.0
Murders	396	293	74.0
Assaults	509	382	75.0
Rapes	276	234	84.8
Robberies /Thefts	797	299	37.5
Swindling	1,854	813	43.8
House-breakings	12,289	5,399	43.9
Larcenies and hijacking of vehicles	1,170	172	14.7
Blackmail	101	82	81.2
Drugs-related crimes	726	710	97.8
Economic crimes	2,697	2,442	90.5

Source: Ministry of Internal Affairs of Moldova

The police is an armed body of the state, whose purpose is "to enforce respect for the law." Just as in all other countries of the world, the police and the carabinieri are supposed to safeguard, on the basis of the law, the life, health, liberties and property of the citizens, and interests of the society and the state, against criminal and other illegal threats. Unfortunately, instead of enjoying personal security and protection against law-breaking, the Moldovan society is at present suffering from an unprecedented crime rate, with respective institutions being unable to guarantee the security of citizens.

According to the statistics provided by the Central Board of Information of the Ministry of Internal Affairs, 34,822 offenses were recorded in 1996. Out of the total number of offenses, 20,440 offenses or 58.7% were solved.

Out of the total number of offenses, 317 involved the use of firearms and 43 the use of explosives, mines and grenades, with a number of crimes per 10,000 citizens being approximately 91. According to unofficial data from the Ministry of the Internal Affairs, more than 100 organized criminal groups presently operate in the territory of the Republic of Moldova. In many cases, they are much better endowed with resources and equipment than the police.

Another phenomenon that is having an increasingly destabilizing effect on social relationships is corruption. Unfortunately, state bodies do not react either consistently or aggressively to this problem.

Parliament has debated how to fight against organized crime and corruption, but no conclusion has been drawn and no decision taken. At the same time, the standing of public servants, in particular of those concerned with public order, has suffered in the eyes of public opinion. Having lost confidence in the police and in the system of justice, some citizens appeal to mafia-like organizations for "help" in settling certain types of problems.

This situation requires energetic measures by the state, to "unleash a war" against corruption, trafficking, smuggling of guns, etc. (after the armed conflict in Transnistria, numerous firearms fell into the hands of the population).

Recently, a Department for Fighting Corruption, Protectionism and Organized Crime was set up, by a Presidential Decree (1997), within the Ministry of Internal Affairs. It will be administratively under the President, and operationally under the Ministry of Internal Affairs. According to the regulations, it will investigate serious crimes, contract killings, organized criminal groups, large-scale thefts, bribes, etc. It is too early to assess the efficiency of the operations of this Department; however, through its establishment, recognition has been granted to the presence of corruption and organized crime, as phenomena which very much threaten social cohesion.

An urgent re-organization is also required of the penitentiary system. As of 1 January 1997, there were 18 penitentiary institutions with 9,826 detainees (some 0.2% of the entire population), including 232 women and 199 young people. Half of those detained have been sentenced to terms of more than 5 years. In 1996, the average detention term constituted 6.6 years.

To make the civil security system more effective, more drastic interventions are needed as regards the improvement and adaptation of the legislation (Penal Code, Laws against corruption and racketeering, etc.) to the present conditions and the upgrading of necessary institutions, especially at a local level.

3.4 LEGISLATIVE INCONSISTENCIES

The adoption of the Constitution imposed a radical reform on the entire legislative system. Thus, laws and other regulatory provisions adopted earlier, remain valid to the extent that they do not contradict the Constitution.

For this purpose, the Constitution provided that permanent commissions of the Parliament and of the Government should examine within one year of its entry into force the extent to which existing legislation conformed to the Constitution and submit to the Parliament the resulting proposals. Almost three years have passed since the Constitution came into force, but nothing has been done to bring previous legislation in line with the Constitution. Consequently, a series of obsolete laws remain in force, often in contradiction with the provisions of the Constitution.

It is also significant that fundamental laws, such as the Penal Code, the Administrative Offenses Code, the Labor Code, etc., passed some ten years ago in accordance with the norms and principles of the totalitarian communist regime, still remain in force and although they have undergone certain changes, their outdated concepts are the same.

Bearing in mind that the consistency between laws constitute a condition and a guarantee that the constitutional regime is strictly observed, legal experts have not once remarked on the inconsistency of some principles underlying the legal system in Moldova. While some laws have been adopted in accordance with the Roman Law (such as the civil law system), others follow the common law tradition, and yet others

bear the stamp of the totalitarian legal system. Thus, the corpus of laws contains repetitions, contradictions, inaccuracies, ambiguities in terminology (for instance: terms such as "collective property", "public property", "public organization" etc.) as well as other ambiguities which open the way for a great diversity of interpretations.

In order to avoid such problems, many countries have created judicial institutions, usually under the Parliament, charged with the review and approval of draft laws and ensuring consistency of legislation, and have made them responsible for the systematization, codification, unification and coordination, as well as for the wording and providing comments on proposed laws, etc. A similar institution in Moldova is required (a Legislative Council, for example) which would keep formal records and be responsible for providing expert judicial information to public officials at various levels and to the population.

Furthermore, since unexpected problems may appear, there is a need to establish (in accordance with the Constitution) flexible mechanisms which would allow quick decisions to be taken on the most urgent issues of internal and external policy. Many countries choose to delegate the authority to take such urgent decisions, especially as regards various legislative matters, to the Government or other executive bodies for a limited period of time. Unfortunately, the Constitution of the Republic of Moldova does not allow for such delegation of legislative authority, as a result of which many problems do not encounter adequate and timely solutions.

An additional problem is that opportunities (political, economic, and administrative) are often missed owing to missing, or imperfect legislation. In similar cases, other countries provide for special legislative procedures. Usually, a procedure for simplified or priority treatment is provided for in Parliamentary Regulations. The right to initiate such a procedure is usually reserved to Parliament and to the Government. As of to date, the Parliament of the Republic of Moldova does not have such procedures - a lack which has had a negative impact on the reform of regulations pertaining to specific problems of the transition period. The lack of such procedures hampers the implementation of the Constitution and slows down democratization and the transition to the rule of law.

CHAPTER IV.

ECONOMIC DEVELOPMENT AND SOCIAL TRANSFORMATIONS

Effective economic development is one of the principal conditions of the creation and consolidation of a democratic society. Although there isn't always a direct and automatic correlation between the level of economic development and that of social cohesion, it can nonetheless be observed that countries with developed economies are characterized by a higher level of cohesion. This is, of course, all the more so in countries like Hungary and the Czech Republic, where social cohesion has historical roots, and which can therefore easier withstand economic transformations.

An essential condition for the successful reforms is the emergence of the population's new mentality and creative behavior, the establishment of their new social psychology. It is important to remember, therefore, that the success of economic policies and of the process of transformation is very much dependent on the attitude of people towards them and their readiness to harmonize their individual interests and aspirations with those of the country.

4.1 ECONOMIC POLICY

4.1.1 Reforms as a Basic Condition for Successful Economic Development

The process of establishing a legal framework for the implementation of economic reforms in Moldova began in 1990, after the first democratic elections. The first official document establishing new economic, judicial and institutional instruments, was the Resolution of the Parliament "Concerning the Concept of the Transition to a Market Economy in the Republic of Moldova" (1990).

Thus far, the Parliament has emitted more than 1,000 laws and resolutions concerning the reform, reorganization and democratization of the national economy, with laws dealing with economic issues accounting for 40-50% of these. Among the most important are the laws and resolutions pertaining to: forms of property, privatization of state property, the banking system, small and medium business development, competition, bankruptcy, taxation, foreign investment, foreign trade, the reform of agriculture, the protection of small business, and the environment. Apart from the above, the Government and the Ministries have issued thousands of regulatory instruments in the form of decisions, resolutions, regulations, instructions, etc.

Regarding the reform as such, several stages of the reform of the national economy after 1990, can be clearly observed. These were as follows:

- the first stage (1990-1992), was dominated by the political and socio-economic collapse of the former USSR, with all the repercussions to be expected in a peripheral area which had been integrated into a centrally planned system. The break-up of the USSR as a political and economic system led to the disintegration of all the former regulatory mechanisms, to the rupture of economic ties between the former republics and, consequently, to a sharp decline of production in all sectors of the national economy, to galloping inflation and to the substantial reduction of living standards of the population. During this period, the strategy for the transformation to a social-market economy was developed and gained broad acceptance. The creation of a legal framework for the functioning of the new economic system was also started during this period.

- the second stage (1993-1994) was characterized by more forceful and wide-ranging actions to propel the transformation to a market economy. This was specially the case regarding the completion of the legal framework for the institutional and organizational transformations to privatize state property.

External trade relations with many countries were started, as was also close cooperation with the international institutions. With the assistance of these international institutions (mostly the World Bank and the International Monetary Fund), macro-economic stability was achieved (mostly through the implementation of monetary and financial policies) and the necessary infrastructure for the operation of financial markets was established (i.e. a banking sector). As a result, the currency (Moldovan Leu) has stabilized and inflation has fallen substantially.

However, none of the above succeeded in halting the process of economic decline. Production continued to fall, and although inflation fell, it continued to outpace money incomes by an ever-increasing margin. The rate of unemployment continued to grow. Living standards further declined.

- the third stage (1995-1996), was one of deepening of the reform process in all sectors of the national economy. The privatization of state-owned property in exchange for National Patrimonial Bonds was completed, the sale of state property for cash began and the reform of agriculture continued. The share of the private sector in GDP increased, with the following sectors, however, still remaining in state

ownership: energy, transport and telecommunications as well as social infrastructure. The state still owns a part of the industrial sector.

As might be seen from the above, privatization has been at the heart of economic reforms in Moldova. By the end of 1996, one third of the state property, excluding land, had been privatized in exchange for National Patrimonial Bonds. Small, medium and large enterprises totaling 2,335 had become Joint Stock companies.

Despite the above, the real effects of privatization are quite negligible, in particular in promoting an increase in production, mostly because the National Patrimonial Bonds are not really convertible securities, since they represent notional accounting values rather than the real market value of the privatized assets.

Another problem pertaining to privatization is the lack of a legal, organizational and economic basis for entrepreneurial activity, although, logically, this should have been the first step in the process. As a result, there are lengthy delays in the legalization of the transfer of property rights to new enterprises, with the institutions entrusted by the state with the oversight of the process of privatization not being able to fulfill their supervisory obligations.

The first six years of intentions, efforts and actions, geared towards the transformation of the Moldovan economy into a market one, often lacked consistency, necessary for the creation of a stable and secure economic environment in the country. The reforms, which have been launched and which have been only partially completed, cannot yet put in motion the mechanisms and new forms of economic development as well as the new models of social integration.

From the WB Report on Agricultural Policy in the Republic of Moldova (1996)

Agricultural privatization in the Republic of Moldova has been chaotic and contradictory, causing confusion both among farmers and their leaders.

The increasingly restrictive legislation has had the effect of blocking farmers' exit from larger agricultural units, and has discouraged them from attempting to do so in the future.

Working conditions and management practices on privatized large-scale farms are no different from those used in kolkhozes and sovkhozes that they replaced.

New agricultural units (especially joint-stock companies and agro-businesses) are actually kolkhpzes disguised behind a new name. The old structures, wage scales, restricted access to information, and lack of participation in decision-making, remain unchanged.

Individual private farmers have no support structures to rely on. They lack agricultural equipment, fuel, seeds, fertilizers and other inputs, and have no access to credit, marketing information, or education. Despite these difficulties, small independent farms are proving to be economically viable and more efficient than large-scale farms.

Efforts to get private farmers to join cooperatives have not been well thought-out or well received. Efforts that have been made, in this respect, have been motivated more by the farmers' desire for equipment than marketing or other potential advantages. In fact, legal requirements forcing farmers to form cooperatives before they can have title to the land, has de facto held back privatization efforts.

The Government shows no real desire to support independent and associated private farmers, while it continues to support the state agro-processing monopoly by forcing farmers to accept less than the free market price for products sold to the processing plants;

Both state and municipal authorities, have still to address the issue of agriculture sector unemployment, particularly among rural youth; and

Local authorities lack supervision or pressure from the central government or constituents to enforce laws pertaining to agricultural reform. They are thus susceptible to corruption and interpret the laws as they see fit.

Furthermore, the enterprises continue to be managed, usually, by the old managers with their old fashioned mentality and with the managerial and behavioral habits earned over from the old order. As a consequence, production of non-competitive goods continues and indebtedness is increasing. Hence, it is clear that in order to revive local enterprises a complex of urgent measures needs to be carried out, including restructuring, an increase in liquidity, and maybe most of all, managerial professionalism.

Regarding the privatization of land, it should be highlighted that in an agricultural country such as the Republic of Moldova, the privatization of land would necessarily involve the vast majority of the rural

population and affect their daily life. However, as of to date, the privatization of land, including that of private plots attached to collective and state farms, is not taking place due to the complicated procedure for the transfer of ownership.

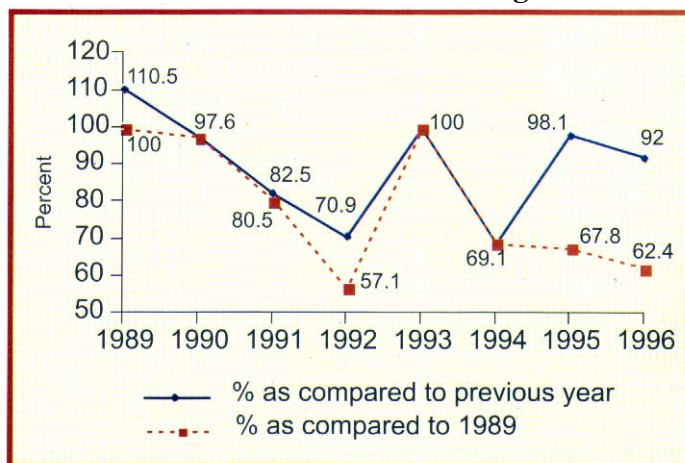
Thus, the true reform of agricultural property is still a long way from completion, and this delay damages the entire productive potential of Moldova's agriculture: land, fixed assets', and labor force. As of 1 January 1997, land titles and property share certificates have been given respectively to 91% and 47% of new owners.

Despite the legality of private ownership, there is no real private economy, either in industry or agriculture, and the official data regarding the share of the private sector in the GDP, needs to be taken with many reservations. Privatization for cash or securities started only in 1996, without any remarkable success. At the auctions or tenders there were bids for only 10-20% of the assets put up for sale.

During the next stage of the privatization process, all problems need to be handled transparently, since transparency constitutes one of the primary aims of the reform process. This is, however, more than a mere technical or operational matter, this is a matter of political will. The approach which has been taken so far (which is characterized by lack of strict regulations, absence of certain essential regulatory provisions, lack of clear laws, improper procedures, insufficient information to the population and no provision by the state of support services or of technical assistance for the new proprietors) leaves too much room for irresponsibility, abuses, corruption, misappropriation, direct embezzlement, and criminal actions.

To be specially noted is that the success of the privatization programme is also jeopardized by the attitude of the managers and the lack of interest and experience among the workers, in industry and in former kolkhozes, in assuming any responsibilities in the newly established joint-stock companies.

Chart 4.1 Evolution of GDP during 1989-1996



Summing up, it needs to be mentioned that many laws passed to regulate the economy are fundamentally flawed. Some of them still have to be brought in line with the Constitution of the Republic. Others are principally rhetorical in character and have no real effect (such as the laws pertaining to bankruptcy, anti-trust, protection of consumers, etc.). The effective mechanisms for implementing these laws are also missing.

4.1.2 Evolution of Macroeconomic Indicators

According to the forecasts of the Government and independent experts, 1996 was expected to mark the recovery of the national economy and the growth of GDP. However, the economic indicators for 1996 show that GDP again dropped in 1996, as compared to 1995.

According to preliminary data, in 1996 GDP declined by 8% (as compared to 1995), and amounted to only 62% of the GDP figure for 1993. Similar unfavorable trends are observed in both manufacture and trade. The share of production in GDP decreased from 86% (1993) to 69% (1995). The share of services, however, grew from 13% (1993) to 20% (1995).

The statistics on GDP consumption also illustrate a worrying trend: a decrease in consumption continues, foreign trade balance remains negative, the share of gross capital decreases, thus leading to a critical situation as regards capital accumulation.

**Table 4.1 Structure of GDP by Components of Final Consumption (in %)
1991 -1992 - Republic of Moldova, total 1993-1996 - without Transnistria**

Elements of GDP	Years					
	1991	1992	1993	1994	1995	1996
Expenditure on final consumption	72.7	57.5	55.9	75.4	83.7	92.1
of which: households	54.6	41.2	40.0	52.5	57.0	65.1
public administration	18.1	16.3	15.9	22.9	26.7	27.0
Gross capital	29.1	59.8	55.8	28.8	25.3	25.3
of which : fixed capital	17.1	16.3	15.5	19.3	16.2	...
changes in stocks	12.0	43.5	40.3	9.5	9.1	...
Foreign trade balance	-1.8	-17.3	-11.7	-4.2	-9.0	-
GDP -Total	100.	100.	100.	100.	100.	100.

Source: Department of Statistics

4.1.3 Sectoral Changes

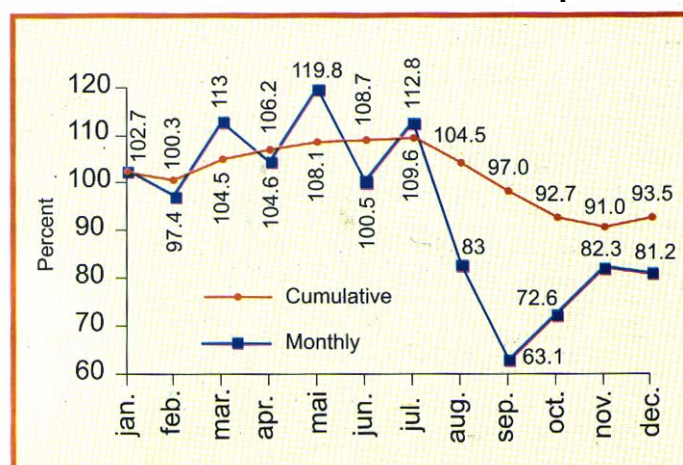
With the aim of speeding up the reforms and normalizing the functioning of the main sectors of the national economy, the Government embarked in 1996, on certain organizational, political and regulatory changes, in order to support and stimulate production. The analysis of these is done by sector in the following pages.

4.1.3.1 Industry

Industry is the sector which requires a thorough restructuring in order to meet the requirements of the domestic and the export market. Given these requirements, a document entitled "Bases of Industrial Policy of the Republic of Moldova for 1996-2000" has been adopted, which covers the priorities for this sector, the key branches, and the products, especially those oriented to exports. Apart from this, the necessary institutional, organizational and economic mechanisms have been put in place in order to encourage the formation of investment funds, to attract foreign direct investment and to promote technological innovation, among others.

Similarly, initiatives have been undertaken to increase the share of the private sector and to improve the management of Joint-Stock Companies, as well as to reorganize and re-structure enterprises on the basis of the "Law on the Restructuring of Enterprises". With a view of providing support for this restructuring, the Agency for Industry Restructuring Assistance (ARIA) was set up in 1995, with the support of the World Bank, USAID and other international bodies.

Chart 4.1 Evolution of Industrial Output 1996



As regards the effectiveness of the industrial sector in Moldova, an increase in industrial production was expected in 1996 and the first half-year results seemed to be very encouraging.

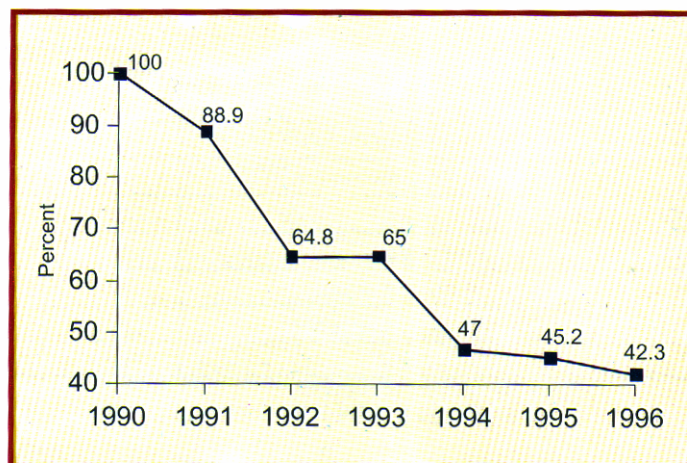
However, the second half of 1996 was marked by a sudden decrease in production, which led to an overall drop of 6.5% (as Chart 4.3 Evolution of Industrial Output, 1990-1996 compared to 1995, in prices of 1995) and 57.7% (as compared to 1990, in prices of 1990).

It is widely recognized that one of the main causes for this decline was the drop in the food industry, which constitutes a large share of the industrial sector and whose performance is dependent on variations in weather conditions. This was not, however, the sole reason for the poor performance over the year. The fact

that in December of 1996 (as compared to December 1995), production declined by 18.8% points to something else: the bulk of the industrial enterprises turned to be simply unable to cope with new competitive conditions.

Indeed, the restructuring, re-organization and re-equipment of state and privatized enterprises has barely started and is being carried out in a somewhat chaotic manner. Non-competitive goods continue to be produced. The majority of external markets have been lost while the demand in the domestic market is very low. Consequently, debts between enterprises have increased, and depression has set in. As a result, very few enterprises have the badly needed capital for investments, while loans are inaccessible due to the relatively very high interest rates and the low creditworthiness of companies.

Chart 4.1 Evolution of Industrial Output 1990-1996



Furthermore, the economic crisis has led to a loss of equilibrium in the industrial sector, as shown by the changes which are taking place in the structure of the industrial. One example is the dramatic decline in the share of light industry and machine construction. Moreover, Moldovan industrial products do not hold out much prospect for becoming competitive in foreign markets.

Also to be noted is a drop in the rate of profitability in industry in 1996, which was of 4.5%, as compared to 5.7% in 1995, and a consequent increase in the number of unprofitable enterprises. This factor reflects the inability to manage enterprises, even those restructured, under the new conditions.

Table 4.2 Changes of Industrial Output Structure by Branch (in %)

	1990	1991	1992	1993	1994	1995	1996
Industry - total	100	100	100	100	100	100	100
of which: - electrical energy	2.8	1.8	4.4	11.1	17.8	18.2	13.6
- chemical	3.3	2.7	1.0	0.6	0.6	0.3	0.6
- machine-building	20.9	15.6	15.0	14.4	10.7	8.7	8.0
- forestry, woodworking	3.5	3.4	4.0	4.4	4.3	4.3	3.4
- construction materials	4.1	4.1	4.4	3.6	4.5	3.2	3.9
- light	22.6	22.3	10.6	7.9	6.2	6.1	5.7
- foodstuffs industry	38.2	45.4	53.5	51.6	46.2	54.4	57.5
- glass	0.5	0.6	1.1	1.5	2.1	3.0	2.1
- polygraphic	1.0	1.0	0.5	0.6	0.8	1.1	1.0
other	3.1	3.1	5.5	4.3	6.8	0.7	4.2

without Transnistria, Bender and Dnestrovsk

The overall situation in the industrial sector has, of course, affected the situation of people working in industry. Thus wages in industry are still low, and many jobs have de facto disappeared. An interesting statistic, in this context, is that wages, as a percentage of total costs, are of only 5% to 6%. Furthermore, due to lack of liquidity, wages have begun to be paid in kind (i.e. in goods produced by the respective enterprise).

To be finally noted is that with a very few exceptions, industrial enterprises have not managed to find appropriate ways of restructuring, which has led to a decrease in the intellectual potential which existed in the priority industrial sectors (machine construction, electronic machinery and food industry). In general, the industrial potential of the country has deteriorated. A decrease in the outputs of the light industry and machine

construction contributes to the general destabilization of the production process and leads to a reduction of the capacity to absorb labor force.

4.1.3.2 Energy Sector

Energy is the most vulnerable sector of the Moldovan economy: since the country is almost entirely (98%) dependent on imported energy resources. At present this sector is basically in the hands of the state monopoly, which is in the throes of crisis. Moreover, since Moldovan companies depend exclusively on energy resources from the ex-Soviet area, the energy sector of Moldova is influenced more by political than by economic factors. Thus, the Hydro-Electric Power Station of Moldova (HEPS), located in the self-proclaimed "republic" of Transnistria, is not even under the control of the legal authorities of Moldova.

One basic issue, that needs to be highlighted as part of the analysis of the energy sector, is that it is now burdened with the non-payments of consumers and with the debts to energy suppliers. For this reason, the maintaining, or upgrading, of the presently used equipment, and more so the installation of new networks for the whole system are completely blocked. As a result, equipment is obsolete, and has a low level of reliability: 60% of it has been in operation for more than 21 years, and 40% for more than 26 years.

The shortage of funds, for maintaining the existing installations in a normal operating status, has seriously reduced the input/output ratio of the energy sector. Thus, energy losses in the electrical networks in 1995 reached 19.1%, as compared to 10.7% in 1990.

All these factors have led to an increase in the cost of electricity and, consequently, to an increase in the tariffs for electricity. In order to alleviate the pressure for prices on consumers, the state has been subsidizing the production of electrical energy, through cross-subsidies, whereby electric energy costs are charged to the accounts of other sectors. This cannot, of course, last for ever. Tariffs have to increase, in accordance with real costs. In line with this, a double tariff increase has already been announced for 1997. This, however, is not socially acceptable, more so given that no wage or pension increases are foreseen. A more equitable solution, at present, might therefore be the establishment of differentiated tariffs, according to the category of consumers.

All the above testifies to the fact that in a non-competitive environment, the effects of natural monopolies are immediately felt, with the main social problem being the quality of services provided by these natural monopolies, namely the fact that state enterprises and organizations are in no way responsible to consumers for the quality of their services. Equally, attempts of citizens to find out what they are really paying for become bogged down in the bureaucratic machinery.

Realizing the complexity of the situation in the energy sector, the World Bank in its 1996 Memorandum suggested a restructuring of the electrical system through the privatization of electricity generation, transmission, distribution and supply. Presumably, this would lead to the exclusion of the state from the relationship between suppliers and consumers, thus opening the way to competition in this field, with consequent positive effects for consumers. However, in order to restructure the energy sector in Moldova as a whole, with existing electric power stations being modernized as well as with new ones being constructed, large investments are needed (according to some estimates, at least US\$ 400 million is needed for the period up to 2005). Without these, the Republic of Moldova risks finding itself without the necessary electrical energy.

4.1.3.3 Agriculture

The Republic of Moldova is basically an agrarian country. 54% of its population lives in rural areas, and 50% of the labor force is employed in agriculture. The agricultural sector produces more than 30% of GDP, with the output, however, steadily declining. Thus in 1996, production declined by 13% (as compared to 1995).

Table 4.3 Evolution of Agricultural Output, %

Year	1991	1992	1993	1994	1995	1996
<i>as compared to previous year</i>						
Agricultural	-10.1	-16.5	+ 9.9	- 24.3	+ 2.7	-13
<i>as compared to 1990</i>						
Agricultural	89.9	75.1	82.6	62.5	64.2	57

Highlighted should be that the economic crisis presently underway in Moldova is possibly more severe in agriculture than in other sectors of the national economy. This, however, cannot be explained solely by unfavorable weather or natural calamities. Other important considerations in this context are the degradation of soils, the destruction of forest shelter-belts, agricultural technologies and misguided principles of land use

remaining unchanged, and information regarding environmental norms, cultivation and exploitation of arable land practices being very insufficient. Delays in the reform of agriculture have, in the meantime, paralyzed initiatives in rural areas and engendered undesirable patterns of behavior, such as bureaucratic obstacles, the appropriation of common assets, absence of proper land records, and other harmful phenomena.

The financial situation of the overwhelming majority of farms is alarming, with the average profitability in agriculture being estimated in 1996 at -10.3%. About 50% of all the collective farms (co-operatives) are presently bankrupt. A further consideration is that the systems of purchase, storage transport, and marketing of output are disorganized, leading to substantial losses. There is a shortage, or total absence, of funds for the purchase of agricultural machinery, fertilizers, seeds, and pesticides. This latter point forces agricultural producers to accept barter deals on terms that are far from being fair or favorable.

The recently established private agricultural sector is very fragile and is not receiving sufficient support. On the contrary, it faces innumerable obstacles. Expertise of the new owners in the field of agricultural technology and land management is still lacking, with agricultural associations employing old organizational methods and remuneration patterns.

To be finally highlighted is that the current situation in the basic branches of the national economy attests to the fact that in the Republic of Moldova there has not been yet created a clear sustainable development strategy based on innovative ideas (technological, political, economic, etc.).

4.1.4 Financial Sector

4.1.4.1 Status of the Budget

Reflecting and responding to the evolution of the economic and social sectors, budgetary flows have been insufficient and unstable. The fiscal deficit has grown rapidly, with the consequent need for this to be financed through loans.

Table 4.4 Status of the Budget

	1995	1996
<i>Realized budget, million lei.</i>		
income	2,002	2,074
expenditure	2,376	2,827
deficit	374	753
<i>% as compared with forecasts</i>		
income	90.4	85.1
expenditure	91.5	98.6
deficit	97.6	175.1
<i>% of GDP</i>		
income	31.4	28.3
expenditure	37.3	38.6
deficit:		
planned	6.0	5.9
realized	5.9	10.3

Another issue to be highlighted is that during the last three years the structure of income and expenditure has changed fundamentally. The share of indirect taxes (excise taxes, VAT) has increased by approximately one third, and in 1996 made up 43.6% of overall income, while the share of direct taxes (on incomes of enterprises and individuals) has declined in the same proportion.

Table 4.5 Structure of the Consolidated Budget Incomes during 1994-1996

Year	1994	1995	1996
Direct	38.1	35.2	34.2
Indirect	30.1	40.9	43.6
Other	31.8	23.9	22.2

Source: Department of Statistics

Regarding the structure of budget expenditure, the share of the social sector is decreasing (from 60.9%

in 1993 to 48.3% in 1996). The share of expenditure on the economic sectors has also been reduced -from 31% in 1992 to 7% in 1995. The third component is that of general government expenditures, whose share has increased (specially in the case of expenditures for foreign relations and debt service payments).

Regarding the distribution of financial resources between the central and local governments, the state budget in 1995, accounted for 64.7% of the total income and 70.2% of the total expenditure, while local budgets accounted for 35.3% of all incomes and 29.8% of all expenditures. In comparison with the previous year, the share of the central state budget has decreased compared to that of the local authorities' budget.

In pursuing its policy of controlling the budget deficit by non-inflationary means (internal and external loans, including the issue and sale of securities), the Government of Moldova operates in consultation with the World Bank and IMF. However, the control of the budget deficit, fixed by the respective law at a level of 3-3.5% of GDP has not been successful. The indicator has been exceeded, 1.7 times in 1995 and 3 times in 1996.

4.1.4.2 Taxation System

According to the laws of the Republic of Moldova, citizens of Moldova as well as registered foreign residents, with sources of income, are liable for the payment of taxes. Corporations are subject to income tax at a rate of 32%, and individuals at a rate of

almost 20% of income.

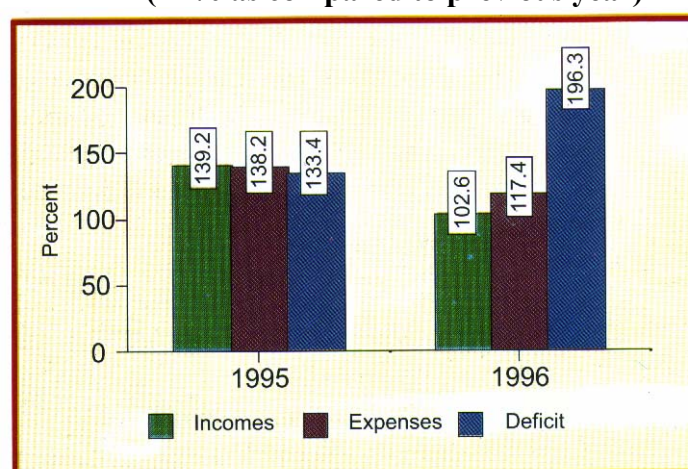
Taxes and other tax-related payments, collected and handled by the state, constituted 28.4% of GDP in 1995. This figure reaches 31.4% when the tax on the profits of the National Bank of Moldova (3%) is added. The shares of direct and indirect taxes in GDP were 11% and 12.8% respectively, with other taxes accounting for 7.6%. Disbursements to the Social Fund constituted 6.1%. Interesting is that in 1995, the share of GDP being under the control of the state was 32.1%, with 85% of GDP being subject to taxation.

One of the main problems that the state is currently facing regarding taxation, is the problem of tax evasion. Data received from the Fiscal Inspectorate show that about 40-50% of taxpayers do not pay taxes, some of them being engaged in the informal sector (unfortunately, there are no exact records of corporations and individuals not paying taxes).

The inability of the state to solve the problem of tax evasion has many objective and subjective reasons, the most important of them being:

- *an imperfect fiscal system and legislation, which makes it possible to evade tax without breaching the law or legally committing fraud;*
- *insufficient professional training of the staff of fiscal institutions;*
- *basic inadequacies of the taxation system, which pursues only the maximization of government incomes rather than taking into account the implications for the promotion of production. Social considerations are not taken into account either.*

**Chart 4.4 Growth of Incomes and Expenses of the Consolidated Budget
(in % as compared to previous year)**



Source: Department of Statistics

Indeed, the tax rates presently established in the country are extremely high. However, in order to be applicable, taxes need to be socially acceptable. Indeed, in full recognition of the importance of taxes in providing for current public needs, it should be noted that an excessively high tax burden has never encouraged

economic growth. Instead, it stimulates fiscal evasion, the informal sector, corruption, and mafia-type structures. All these have taken root in Moldova, and have eroded the credibility of the process of transformation to a democratic society. According to the estimates which were made by the Center for Studies of the Market of the Ministry of Economy and by the Academy of Sciences of the Republic of Moldova and which are based on standard international methods, the underground economy constitutes about 30% of GDP, with approximately 15-20% of the informal sector being accounted for by the criminal economy. According to the studies carried out by this same institution, raising the tax rate (including disbursements to the Social Fund) by only 1 % could increase tax evasion by 2-3%.

One more important reason for tax evasion is that basic legislation and normative acts regarding taxation are presently developed exclusively by the Ministry of Finance on the advice of international financial institutions. Tax payers are completely excluded from this process, and this absence of transparency is also seen as contributing to the perpetuation of tax evasion.

As part of the efforts to remedy this situation, a new Fiscal Code will be adopted in 1997. Among the most important proposed changes, the following ones deserve special mention: setting up a new tax monitoring system for individual tax payers; introduction of special income and tax 'declaration' forms; and computerized registration of individuals by the Fiscal Inspectorate.

As regards the collection of taxes from corporations, after checking and establishing the causes of non-payment, the respective fiscal bodies will, in cases of deliberate nonpayment, resort to compulsory collection of taxes through the banking system. In all cases of non-payment, the Fiscal Inspectorate will notify respective individuals or corporations, and in cases that the tax payments are not made, will proceed subsequently to temporary closure of their bank accounts, then to sequestration of assets (depending on the size of the tax debt), and, if necessary, to the sale of those assets.

One more important issue which will be dealt with in the new Fiscal Code is the development of mechanisms for income redistribution, namely the development of a system of progressive taxation of incomes, with the tax rate being dependent on the size of the income; as well as the promotion of budgetary compensations and exemptions from payment of communal services, electricity, and urban and inter-urban transport for pensioners, handicapped persons, schoolchildren, students and other vulnerable groups.

4.1.4.3 Monetary and Credit Policy

The National Bank of Moldova, an institution independent of the Government and responsible directly to the Parliament, has as one of its main functions, the formulation (together with the Government - mainly the Ministry of Finance) and the implementation of monetary and credit policy. During 1996, this policy was carried out on the basis of the Memorandum of Understanding between Moldova, the World Bank and the International Monetary Fund (for 2-3 years), which established conditions on economic and financial policy (specially on the level of inflation, the budget deficit, the money supply, and others) and which regulated the provision of financial assistance and loans to the Republic. In this context, highlighted should be that the role of international institutions in the elaboration of the legislative framework for the implementation of Moldova's financial policy was and continues to be substantial. As regards the role of the European Union, however, it is rather limited, since Moldova is neither a member nor an associate member of the EU.

Speaking of the present monetary policy of the Republic of Moldova, one can not but mention some obvious successes. For example, the currency reserves of the National Bank of Moldova, as of 1 January 1997, totaled US\$ 314 million, with the nominal exchange rate of the Moldovan Leu having decreased by 3.1%. Noted should be, however, that if calculated on the basis of the consumer price index, this nominal exchange rose by 11.7%, which makes the results of the state monetary policy be seen less optimistically.

According to some leading experts, the inflation rate in Moldova is kept down, strictly by monetary methods, in particular by keeping the real incomes of the population and the of corporate sector at a reduced level.

Apart from the above, due to the greater velocity of the circulation of the money supply in the Republic, the inflation' rate exceeded the growth of money supply, which in 1996 was rather moderate, constituting 12.8% as compared to 65% in 1995. Interesting is that, as of 1 January 1996, the money supply in circulation was estimated at 1.4 billion lei.

Regarding credit policy, the National Bank of Moldova regularly conducted auctions of loans to commercial banks which accounted for 447 million lei, or 82.3% of the overall loan portfolio. The total amount loaned to enterprises in 1996 made up 543 million lei, 22.8% more than in 1995. Of this 74% was lent to various economic enterprises, including 45.1% lent to private companies. In this context, to be highlighted is that during 1996, the re-financing rate went down from 21% to 18%, while interest rates declined from 41.9%

(as of January 1996) to 35.5% (as of January 1997).

As for investment credits, as of 1 January 1997, they totaled 1.35 billion lei, with overdue debts on these credits having reached 8.4%. To be highlighted is that the overall amount of defaults on bank loans and various suppliers' credits in the national economy is estimated at 3.43 billion lei.

The issue of investments is presently viewed as one of the most important ones in the monetary policy of the state. However, as of today, there is no coherent investment policy. The "Law on Foreign Investments", which provides for generous concessions on taxation, as well as for the repatriation of profits earned by foreign investors can not satisfy all the needs. Other laws in the field only exist in draft form. As a result, the share of investment in GDP is inadequate, constituting 10% (in 1995, it was around 13%). Foreign investments making up approximately 5-6% of the overall investment. According to data from the UN Economic Commission for Europe, in 1996, the amount of foreign direct investments per capita constituted US\$ 20.1, which is 12 times higher than in 1994. This amount was higher than in Ukraine (US\$ 17.3), but lower than in Romania (US\$ 70.5), Russia (US\$ 39.7) and (Belarus - US\$ 32.1), and much lower than in Hungary (US\$ 1,346), Slovenia (US\$ 1,387), Czechia (US\$ 541) and Estonia (US\$ 438).

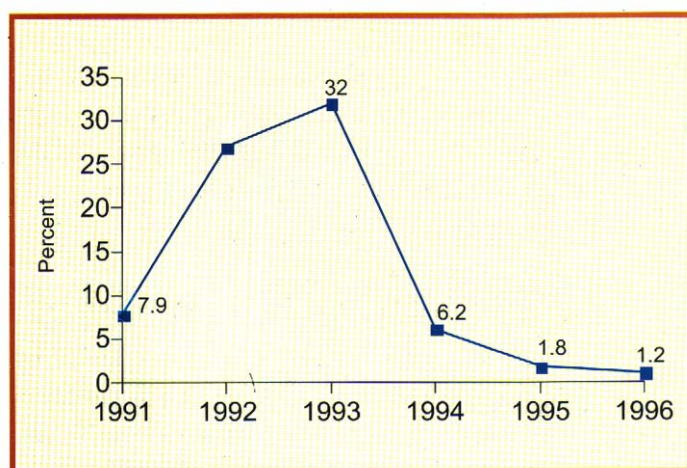
Having analyzed the present situation in the country, the main factors discouraging foreign investments from the West can be summarized as follows:

the small size of the domestic market;

- the incoherence and ambiguity of the legislation;
- and a risk factor due to geopolitical instability.

All of these factors are equally important and the state should take some very urgent measures in order to alleviate at least some of them.

Chart 4.5 Average Monthly Rate of Inflation



4.1.5 Foreign Assistance and Loans

Since 1992, together with joining the IMF, World Bank and EBRD, Moldova has received many hard currency loans both from these international financial institutions as well as from the European Union and a number of donor countries such as the USA, Germany, China, Japan, Romania, among others. According to the Ministry of Economy and Reforms, as of 31 December 1996, the foreign debt of the Republic was estimated at US\$ 824 million, which constituted about 50% of GDP and was 21 % higher than in December 1995.

So far, more than 30 foreign loans have been negotiated (US\$ 900 million), most of these on concessionary terms, with low interest rates and grace periods. Noteworthy is the fact that interest rates for internal loans (from commercial banks of the Moldova) dropped during the period from 1992 until 1997, from 37.7% to 22%, while the "cost" of foreign loans varied between only 5.5% and 8-9%. Moreover, some loans (from the US Government or from Romania), have been effectively interest-free or with an interest rate equivalent to the annual devaluation of the US dollar. Furthermore, the loans from abroad have been for the medium and long term, while those of the local banks were only short term.

Apart from loans, substantial grant technical assistance has been received by Moldova from international organizations and donor countries, mainly from the UN Specialized Agencies and from the European Union. The receipt and registration of this technical assistance is being done by the Ministry of Economy and Reforms.

The overall process of loans and grants, however, lacks transparency, which leads to confusion on the part of the population at large, as to what all the foreign assistance is used for and how effective the utilization of

funds coming from abroad is.

Regarding the efficiency of the use of foreign assistance, this is, regrettably, very low. Around 60-75% of all loans are channeled annually into meeting the current needs of the country (import of energy resources, wheat, food stuffs, medicines, clothes, etc.), and covering the budget deficit and balance of payments. In other words, the search for a permanent solution of the fundamental economic problems (promotion of investment, recovery of production, restructuring of productive capacity, etc.) is constantly postponed, in favor of the temporary alleviation of social problems (unmet pension obligations and unpaid public sector wages etc.). To be stressed, however, is that such use of loans will very much limit the country's ability to repay them within the agreed period: already in 1998-99 re-negotiation will be needed to extend repayment periods, especially because grace periods on a series of loans came to an end in 1996.

4.1.6 Foreign Trade

Until 1990, more than 90% of all foreign trade of the Republic of Moldova was with other ex-communist countries, and was managed centrally by the Government of the USSR. More than two thirds of this foreign trade, by volume, was with the Russian Federation and one fifth with the Ukraine.

After 1991, the geographical direction and the structure of foreign trade started to change, with this process still continuing. The number of trading partners grew from 50 in 1990, to 94 in 1996. The Republic of Moldova concluded short and long term bilateral trade agreements with more than 30 states. The share of previously dominant partners has consequently declined in favor of other countries. For instance, the share of Russia, declined from about 48% in 1991 to 39% in 1996. This trend which, among others, resulted from the institution of a new legislative framework in the Republic of Moldova which treats all trade partners, be they from the CIS or other countries, on the same contractual basis, will inevitably continue in the coming years, by virtue of the laws of the market. Indeed, unilateral dependence in terms of supplies of certain goods on one single country is very risky and can at any moment succumb to political pressure, as the events of 1992 demonstrated (the military conflict in Transnistria and the interruption of exports to Moldova of natural gas).

The dramatic decline of production has very much affected Moldova's foreign trade. Equally, substantial changes have been registered both in the volume and the structure of imports: the share of energy resources has increased sizably. Other important imports in 1996 were of mineral products, which constituted 37% (including 11.5% of gas); machines, electronic devices and equipment - 14.5%, chemicals - 7%, plastic and plastic articles - about 10% and agricultural products - 13%, among others.

Regarding exports, food products continue to constitute the basis of Moldovan exports. Together with alcoholic drinks and tobacco they account for 57% of exports, with animal and vegetal food stuffs constituting, respectively, 7.5% and 8.5%.

Coming back to the issue of trade partners, highlighted should be that in 1996, trade with the CIS increased by 17%, as compared to 1995, and constituted 68% of total exports and 61.5% of total imports. Despite this, trade relations with some of the CIS countries have not always conformed to the classic forms of reciprocity. Among the more important deviations, it is important to mention the following:

- The lack of liquidity increasingly favors barter transactions, which have reached 40-45% of total trade. In this type of transaction, exports from Moldova are under-valued. Highlighted should be, however, that the share of barter deals in total exports decreased from 26% in 1995 to 19% in 1996.
- In trade with CIS countries, non-payment by debtors to their Moldovan suppliers are growing. Many suppliers from Moldova are therefore, in fact, compelled, by the insolvency of their partners from soft currency regions, to grant commercial loans to them.
- The economic area of the CIS has been and continues to be a zone of instability and unpredictable situations, in both legal and economic terms. In recent years, CIS countries have adopted a series of protectionist measures to the detriment of Moldova: by increasing or establishing taxes or tariffs on goods supplied by Moldova, by politicizing commercial relationships with Moldova, etc.

Table 4.6 Foreign Trade in 1995-1996 (excluding services), million US dollars

	Export		Import	
	1995	1996	1995	1996
Total, US\$ million	745.50	801.60	840.70	1,079.20
Including CIS:	466.90	546.10	568.90	664.10
of which: Russia	360.1	430.1	278.0	295.3
Ukraine	58.9	47.6	228.5	297.1
Belarus	26.5	34.4	50.7	61.1
Others	21.4	34.0	11.7	10.6
Bulgaria	21.4	12.8	31.9	58.4
Germany	45.4	29.9	45.6	66.0
Romania	103.7	74.9	56.0	72.1
Italy	15.6	21.1	19.3	33.9
USA	7.9	11.0	10.7	12.1
Turkey	11.5	9.5	6.8	11.9
Other countries	73.1	96.3	101.5	160.7

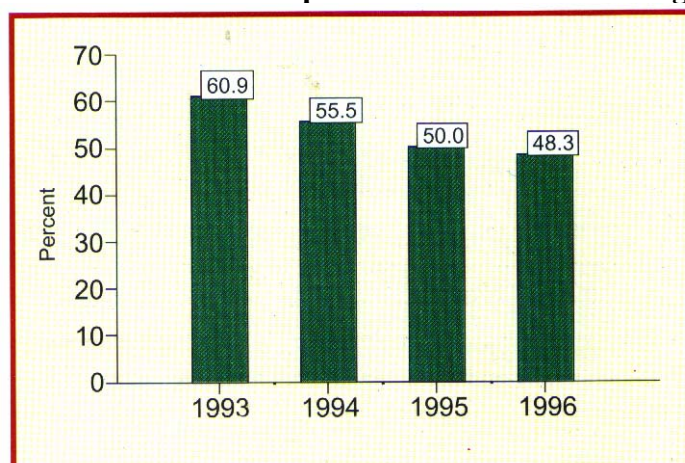
Given the lack of funds of Moldova to pay for its imports of fuel, a new form of commercial relationship has emerged during the last two years, namely the mortgaging of Moldovan assets against fuel imports. It is evident that this form of relationship is disadvantageous to Moldova, especially because an unrealistically low price is placed on the respective assets.

The need to develop a proper strategy in international economic relations, including in trade, transportation, borrowing, etc., becomes evident. The lack of such a strategy may have dramatic and long-term consequences for the Republic of Moldova.

4.2 SOCIAL TRANSFORMATIONS

The efforts made in the Republic of Moldova to adjust the economy of the country to a free market one have had major effects on the social sector. Lack of essential reforms at the microeconomic level (in enterprises, farms, etc.) have led to an accelerating economic decline and, consequently to a massive increase in social costs, which have to be supported by the population.

Under such conditions the need for a strong social security system has increased substantially. However, due to, among others, lack of adequate funding, the current system of social security can not meet all requirements and satisfy all needs. Indeed, even though the share of funds allocated in the budget to the social sector remains comparable, in percentage terms, to that of western countries, in reality, this share is highly insufficient, more so since capital investment in the social sector in 1996 amounted to only 136 million lei (which makes 68% of the envisaged amount).

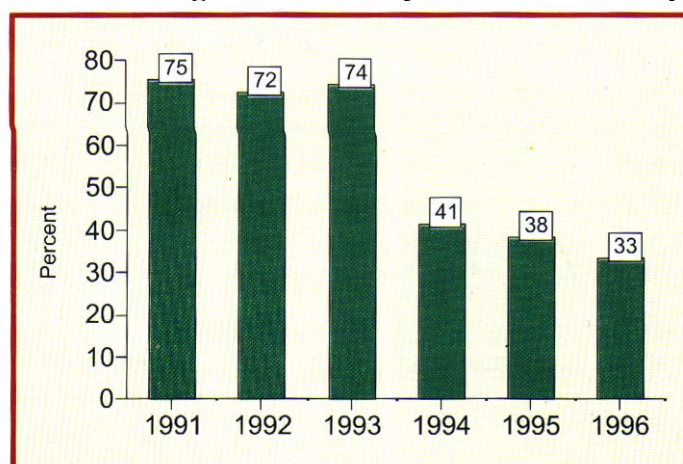
Chart 4.6 Share of Social Expenditures in the State Budget, %

Source: Ministry of Economy

The above-described shortage of funds has had an immediate impact on the number of social projects undertaken. Moreover, it has reduced considerably the capacity of the social sector to offer accessible services to

the population: more than 1,200 kindergartens have had to be closed (at present schools have the capacity to meet only two thirds of the demand, and the supply of schoolbooks is only 50% of that required).

Chart 4.7 Share of Wages in the Money Incomes of the Population



Source: Department of Statistics

Medical services have also deteriorated. Public medical institutions are no longer able to provide the population with good quality services at affordable rates, while the services rendered by the private medical sector, are too expensive. This results in a declining birth rate, a rise in the death rate, and, in general, in declining living standards of the population, and thus a deterioration of the country's human potential. All the above factors have led to the polarization of the population of the country, thus impinging directly on the process of social integration of the society. At this stage, an urgent state intervention is required, but one which should be in accordance with the principles of a market economy. Special attention should also be given to the need to carry out a restructuring of the social sector, to balance social commitments with the funds available, and to increase transparency and accountability, among others.

Table 4.7 New Social Projects (in % as compared with the previous year)

	1991	1992	1993	1994	1995	1996
Primary schools	96	41	61	83	16	22
Secondary	84	37	38	92	8	98
Housing	80	84	81	78	61	73
Kindergartens	96	41	61	83	16	22
Hospitals	46	95	98	33	45	57
Polyclinics	38	67	33	67	70	72

Table 4.8 Demographic Situation in Moldova

Indicators	1991	1992	1993	1994	1995	1996
Total population, thousands	4,366	4,359	4,348	4,353	4,348	4,334
Birth rate (per 1,000)	16.5	16.0	15.2	14.3	13.0	12.0
Death rate (per 1,000)	10.5	10.2	10.7	11.8	12.2	11.5
Infant mortality (per 1,000 newly born)	19.8	18.4	21.5	22.6	21.2	20.2
Children born, thousands	72.0	69.7	66.2	62.1	56.4	51.9
Deceased, in thousands	45.8	44.5	46.6	51.5	53.0	49.7
Life expectancy	67.7	68.0	67.5	66.1	65.8	66.7

4.2.1 ANALYSIS OF THE POPULATION'S INCOME

In 1996, the annual income of the population of the Republic of Moldova grew from 1,419 lei (US\$ 303) in 1995 to 1,815 lei (US\$ 338) in 1996. Consequently, the total money income of the population in 1996 totaled 0,543.0 million lei (US\$ 1,398.0 million), which was 27.9% more than in 1995.

Table 4.9 Changes in the Structure of Money Incomes

Categories of incomes	Lei million		1996 in % compared to 1	Structure, %	
	1995	1996		1995	1996
Total income	5,114.3	6,543.0	127.9	100.0	100.0
including: - wage fund	1,926.2	2,132.1	110.7	37.7	32.6
- sale of agricultural products	427.9	545.2	127.4	8.4	8.3
- pensions and compensations	653.8	732.1	120.0	12.8	11.2
- stipends	16.2	25.7	158.6	0.3	0.4
- profits from financial transactions	78.1	137.2	175.7	1.5	2.1
- profits from the sale of foreign	838.1	1,112.0	132.7	16.4	17.0
- transfers	6.6	6.4	97.0	0.1	0.1

Although the principal source of this income in Moldova has always been constituted by wages and salaries, the share of wages in money incomes has declined over the last few years, dropping to 32.6% in 1996 (as compared for example to 37.7% in 1995). Such a situation contradicts the role usually played by the paid labour in the development of the national economy. Furthermore, given that wage-earners constitute 85% of the overall employed population of the country, such a steep decline of incomes from wages and salaries is very alarming. To be noted is that in the developed countries the share of wages in money incomes is at least 60%, which is viewed as a factor encouraging motivation and the growth of labor productivity, and leading to an efficient labor market.

In 1996, the average monthly wage increased by 30.6% and reached 187 lei (US\$ 40). This, However, continues to remain one of the lowest average wages in all the CIS countries (Compare: in Uzbekistan the average monthly wage in 1996 was US\$ 53, Ukraine - US\$ 84, Belarus - US\$ 89, Kazakhstan - US\$ 103, Russian Federation - US\$ 156, Romania (December 1996)-US\$ 131).

**Table 4.10 Average Wage in the Republic of Moldova
(as compared with some CIS countries, %)**

States	Years	
	1990	1996
Republic of	100	100
Belarus	113.5	222.5
Kazakhstan	113.9	257.5
Russia	127.4	390.0
Uzbekistan	92.4	132.5
Ukraine	106.6	210.0

Source: Department of Statistics

The Moldova average monthly wage only covers 48% of the minimum consumption budget (estimated in 1996 at 388 lei per month).

Table 4.11 Average Wages and the Minimum Consumption Budget

	1993	1994	1995	1996
Average monthly wage, lei	31.2	108.0	143.0	187.0
Minimum consumption budget, lei	49.0	271.0	311.0	388.0
Average wage as a proportion of the minimum consumption budget (%)	63.6	40.0	47.0	48.0

Source: Department of Statistics

Also to be stressed is that, according to the Institute of Economics of the Academy of Sciences, the purchasing power of this 1996 average wage was equal to that of about thirty years ago (in 1967). Similarly, the purchasing power of wages provided in healthcare, culture and the arts was equal to that of 1958. The real value of the average monthly wage becomes even more clear if one recalls that in 1958 and 1967, social protection

offered by the state played a far more significant role than at present, covering expenditure on education, healthcare, indemnities, low-priced sanatorium treatment, holiday vouchers and a substantial proportion of housing expenses, among others.

Reduction in the real value of money incomes is naturally very closely correlated to the decline in consumption, both quantitative and qualitative, with the consumption of some goods having regressed by several decades. In more precise terms, the decline of per capita consumption of certain items between 1990 and 1996 was as follows: meat - 57%, milk and dairy products - 48%, eggs - 47%, sugar -60%, bread and flour-based foods - 21%, vegetables - 48% and fruit - 27%.

Similar trends have been recorded in other economies in transition, except that consumption in Moldova which (excluding fruit and vegetables) had always been lower, has fallen even more. Meat consumption per capita in Moldova in 1990 as a proportion of consumption per capita in other countries was as follows: Russia and Belarus - 77.3%, Ukraine - 85.3%, Romania - 95.1%. In 1995, the figures were, respectively, 41.8%, 39.7%, 59.7%, and 48.1%.

Table 4.12.a Purchasing Power of the Monthly Average Wage in 1995-1996

	A monthly average wage could buy a single product from the following foodstuffs (Kg, L, Pieces)	
	1995	1996
Wheat bread	103	109
Wheat flower	136	129
Corn flower	159	178
Rice	46	46
Pasta	48	49
Vegetables	96	105
Beef	21	24
Pork	17	18
Mutton	38	40
Fowl	18	19
Lard	29	34
Sausages	9	11
Milk	121	121
Sour cream, cream	21	26
Cottage cheese	38	41
Processed cheese	16	17
Butter	10	13
Fresh fish	30	29
Salted fish	15	20
Canned Herring	13	18
Oil	34	39
Sugar	57	61
Eggs (tens)	43	43
Potatoes	109	124
Cabbage	143	180
Beets	130	237
Carrot	80	169
Tomatoes	31	51
Cucumbers	41	64
Onion	90	142
Fruits (apples, plums, quinces)	56	65
Fruits (plums, peaches, apricots)	72	197
Grapes	63	82

Regarding the structure of consumption, it bears an imprint of crisis. Thus, currently, people spend approximately 5 times more on food as compared to 1993, with the share of food in the gross consumption per capita having reached (in 1996) 65% and in money expenses - 48.6%. In terms of volume, however, food consumption has declined on average by 40%, except for potatoes (+3%) and bakery products (+15%).

Table 4.12.b Purchasing Power of the Monthly Average Wage in 1995-1996

	In order to purchase one of the named goods one needs to work, in terms of months	
	1995	1996
Winter coat	1.38	1.15
Trench coat	1.0	0.9
Jacket	0.9	0.8
Sports suite	0.4	0.4
Fur cap	0.3	0.2
Boots (adults)	1.05	0.96
Boots (children)	0.3	0.27
Shoes	0.47	0.4
Summer, sports lace-up shoes	0.28	0.24
Clothes closet	3.3	3.0
Kitchen cupboard	1.6	1.3
Book shelf	1.7	1.5
Armchair	3.1	2.8
Children's bed	1.9	1.8
Refrigerator	11.2	9.5
TV-set	7.7	6.7
Washing machine	5.0	4.5
Gas stove	3.3	3.1
Personal Computer	46.0 (3.8)	40.0 (3.3)
Car	162.0(13.5)	138.0(11.5)
Two rooms flat	468.0 (39)	427.0 (36.6)

Source: Department of Statistics

This decline in consumption has been caused not only by the low real value of salaries and wages but also by the huge wage arrears which have been registered in all sectors of the national economy of Moldova. As of 1 January 1997, wage arrears amounted to 360 million lei, with the disparity between the legal and the de facto date of wage payment -continuing to increase. Noteworthy is that during 1993-1996, the share of wage arrears in the annual wage fund (total amount of wages to be paid by the state) multiplied by 5.

All the above shows that, as of today, the wage policy of the state lacks effectiveness, coherence and flexibility, which is illustrated, among others, by the method of calculation and utilization of the "minimum wage".

Table 4.13 Wage Arrears

	Arrears as a percentage of the annual wage fund			
	1993	1994	1995	1996
National Economy (overall)	3.2	9.0	12.1	16.2
- industry	1.6	5.8	6.0	9.2
- agriculture	8.6	22.1	25.5	29.1
- forestry	12.0	12.4	14.2	n.a.
- constructions	1.3	7.3	13.9	19.2

Table 4.14 Distribution of Households by Income, 1995-1996, %

Monthly money income per capita, Lei:	1995			1996		
	All households	urban	rural	All households	urban	rural
up to 18	2.4	0.3	4.5	1.1	0.5	1.7
18-36	12.2	3.6	20.7	8.0	2.7	13.5
36-54	15.4	12.6	18.1	12.8	8.3	17.5
54-72	14.7	12.8	16.7	15.0	10.1	20.0
72-90	11.9	12.4	11.4	11.0	8.5	13.7
90- 108	10.4	12.8	8.1	9.8	10.2	9.3
108 - 126	7.6	9.2	5.9	7.8	9.1	6.5
126- 144	6.5	9.2	3.9	7.0	9.1	4.7
144- 162	4.5	5.7	3.1	6.2	8.1	4.1
162 - 180	3.6	5.7	1.4	4.5	6.1	2.8
180- 198	2.7	3.1	2.3	3.6	5.8	1.4
198-216	1.8	3.1	0.3	2.7	4.5	0.8
216-234	1.7	1.8	1.6	1.9	2.9	0.9
234 - 252	1.2	1.8	0.6	1.5	2.2	0.8
252 - 270	1.1	1.8	0.5	1.1	1.6	0.6
270 - 288	0.7	1.3	0.2	1.1	1.4	0.8
288 - 306	0.2	0.3	0.2	0.6	1.0	0.3
306 - 324	0.3	0.5	0.2	0.5	1.0	0.0
Over 324	1.1	1.0	0.3	3.8	6.9	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Department of Statistics

The Republic of Moldova has one of the lowest minimum wages in the CIS. The minimum wage, officially established through a Resolution of the Government, dated 6 January 1994, stands at 18 lei (US\$ 4) per month. Since 1994, the value of the minimum wage has been revised several times in all the countries of the CIS. In Moldova, however, the level of the minimum wage has remained unchanged. Furthermore, in 1996, it was worth only 9.6% of the average wage.

The existing minimum wage (18 lei) cannot possibly be a viable basis for a general wage policy. By utilizing the minimum wage, as a benchmark for establishing wages and salaries in the public sector, under-pricing of labor has become a standard practice. As a result, payment of employees is done at rates which fall well below the real cost of labor, without taking into account the principles which are central to the functioning of a free market, thus causing many distortions and deviations, with chain effects for the stability and cohesion of the whole society: decline of labor productivity, corruption, underground labor market, lack of interest in self-improvement, etc. Consequently, a review of wage and salary norms is a matter of great urgency.

Speaking of the minimum salary, it should be highlighted that although officially, the minimum wage in the Republic of Moldova, as a normative indicator, remains at the level established in 1994 (18 lei), the agreement between social partners in the Republic has led to this figure having in reality increased, in the public sector, up to 65.45 lei (US\$ 14).

Another important issue which arises while analyzing the wage policy of the state is the absence of a relationship between wages and the contributions of employees, which favors abuses on the part of employees and employers and violates the international norms and principles contained in the conventions of the International Labor Organization (ratified by the Parliament of Moldova) which stipulate "equal pay for equal work".

Thus employees of large state monopolies are relatively well paid. These companies can ensure their profits, usually at the expense of consumers, by constantly raising the tariffs charged for their products and services and can, therefore, pay their employees well. In contrast, companies which have a reduced income, or are running at a loss, pay their employees very low wages, often worth no more than social security benefits.

The above occurs as a result of the inconsistent application by the state of the market reforms. Indeed, instead of forcing enterprises into necessary, albeit painful, bankruptcy, followed by appropriate assistance to the staff in re-training and measures to provide productive employment, temporary palliatives are preferred, such as low wages, which are a poor and discouraging reward for work performed, compulsory leaves, etc.

This is exemplified by the Regulation approved through the Resolution of the Government No. 173 dated 10 March 1995. In Chapter n (Measures for Providing Jobs to Citizens under the Conditions of Mass Dismissal), the Resolution provides for the reduction of working hours as well as for paid or unpaid leaves "in order to avoid dismissal." (Noteworthy is that the share of "laid off in 1994 was 16.4% of the total number of employees, in 1995 - 17.4%, and in 1996 -16.3%).

To be highlighted is that such practices not only violate the Labor Code. When they become normal practice, the labor force is no longer encouraged to undergo occupational retraining, to improve their qualifications, or to adopt a more flexible approach in accordance with the new labor market environment. As a result, serious obstacles are placed in the way of a normal labor market, of the mobility of labor, and thus of their adaptation to a true market economy.

Given all the above, the respective bodies have to urgently develop institutions and mechanisms consistent with the basic norms of the market, including in the field of ensuring proper wage relationships.

4.2.2 Social Stratification

Unequal opportunities for the production or for the accumulation of goods also lead to a polarization of the society due to substantial differences of incomes and negatively effects the process of social cohesion. In Moldova, even using official statistical data which underestimates income distribution (because it does not take into account people with high and very high income), the index of inequality is very high. This is confirmed by the research on household disposable income.

In 1996, the income of the top 10% of the population was 10 times higher than that of the poorest 10%, as compared with 9.3 times in 1995. In light of this, it is worth recalling the widely accepted view that if the ratio between the poorest and the richest 10% of the population goes above 10, society is considered to be passing through a period of social instability (in western developed countries this ratio varies between 5 and 8).

The accentuation of income inequality in Moldova is confirmed by the use of the Lorenz Curve, which represents the distribution of income among the population. The Gini coefficient, which measures the degree of income inequality, represented by the Lorenz Curve, increased in Moldova from 0.341 in 1995 to 0.386 in 1996. Noted should be that this inequality was especially evident in the rural areas, with substantial differentiation of incomes being accompanied by inequality in access to health care, education, housing and other essential services.

One safety valve which permits the appearance of social inequities is the informal economy, in particular informal trade, which allows some social groups to substantially increase their incomes. But the bulk of the population, due to their behavioral inertia, passively bear the burden of failure.

The above-described state of affairs undermines social cohesion and threatens to compromise the very idea of a transition to a market economy. For these reasons, a completely new policy approach to maintaining social balance, and to the management of socio-economic processes is called for, with a view to improving employment, participation, security and social equity.

4.2.3 Social Partnership

Since 1990 various organizational, legislative and institutional provisions have been set up to facilitate social dialogue and partnership. The following laws have been adopted to regulate these: the Law on Wages, the Law on Collective Labor Agreements, the Law on Collective Labor Disputes, the Presidential Decree on the Rights in the Field of Social Partnership, among others.

As a result, since 1993, annual collective labor agreements have been concluded between the Government, the Trusteeship Council and Trade Unions which specify agreed commitments and guarantees by all parties as regards labor organization, wages, and the rights and obligations of the parties in respect of the entirety of their social relations. However, the implementation of these agreements has not always been successful, with the role of Trade Unions and the Trusteeship Council being frequently ignored.

The reality is that an effective dialogue between various social partners has not advanced sufficiently, and has a long way to go before a Socio-Economic Pact can be drawn up, let alone implemented. Yet such a Pact or Agreement is desperately needed if the country is to overcome the difficulties of the transition period.

Speaking on the development of social partnerships in the country, one can not overlook the role of the Trade Unions in this process.

At present there is one national Trade Union Federation in the Republic of Moldova - the General Federation of Independent Trade Unions of Moldova - and 26 sectoral trade unions at the national level. Their number is constantly changing as the existing unions merge and divide or as new organizations are formed. Each national Trade Union coordinates several smaller (local) unions in different regions of the Republic. Noted should be that although several years have already passed since the initiation of social-economic reforms in Moldova, no law on the functioning of trade unions has been developed and although they have been proclaimed independent this independence is not translated into reality, at either local or national level.

So far one of the main functions of the General Federation of Independent Trade Unions has been to manage the social security of workers, which contradicts the constitutional norm that the function of Trade Unions consists in safeguarding the social and economic interests of workers, but not in managing their social security. This function, left over from the old regime, is in contradiction with the accepted international practice and hinders, therefore, the development of a democratic and transparent social dialogue.

Regarding current membership in Trade Unions, highlighted should be that no records are kept of the exact number of workers-members of the Trade Unions, though independent estimates show that in state institutions and enterprises the membership level is high, as compared to joint-stock companies, where it is very low. In the private sector, especially in small enterprises, trade unions are practically non-existent. This uneven involvement of employees in trade unions is considered detrimental to social equity.

One of the reasons for the steadily decreasing membership in Trade Unions is the lack of trust on the part of individual workers regarding the possibility of receiving real support from the trade unions in problems they face, due to the very limited rights of these trade unions and to their own bureaucratic approach.

4.2.4 Future Policies

At the current stage of the reform process, the problems of human development in Moldova need to be approached in terms not only of the proper functioning of the economic system, but also in terms of the impact which economic transformations may have on the population at large. Policy makers should keep in mind that in order for the process of transformation to a market economy be successful, it should be carried out in such a way that the social costs of this transformation be kept at the minimum level, which requires the establishment of a highly diversified set of political, judicial, economic, educational, institutional, and even moral instruments, which would ensure an increase in resources to cover social costs and in investments in the development of human potential.

Given the above, setting up an effective social security system is crucial for the country, where, according to some estimates, the situation is getting close to the limits of human tolerance and could lead to social unrest.

Being fully aware of the complex situation in the Republic, the Government of Moldova, with the support of many international organizations such as UNDP, WB, UNICEF, WHO etc., have developed various projects with a view to restructuring Moldova's social sector and improving the life of Moldovans. After all, economic prosperity of the country depends directly on the prosperity of the people of the country.

In order to achieve the above objective, in future years the policy of the state will need to pursue the following objectives:

To take measures to alleviate poverty:

- To increase real incomes of the population and reduce unjustified polarization between them;
- To stimulate domestic and foreign investment, so as to create productive and profitable jobs;
- To provide full and productive employment for the entire labor force in accordance with ILO convention 122/1964, taking into account current international experience and norms;
- To set up employment services to help workers looking for a job;
- To speed up the transfer of property to the private sector, providing effective legal, economic, and informational support for entrepreneurship;
- To eliminate all the barriers for the development of small and medium scale enterprises;
- To extend access to opportunities for professional re-training for all categories of the unemployed, in order to help them to compete in the labor market;

To improve and to provide flexibility to labor remuneration and social security, and to establish (which will soon be done) a minimum wage bearing a real relation to the cost of the subsistence minimum. The minimum wage and the procedures whereby it is revised should be fixed by law;

To pursue a macroeconomic balance between nominal incomes growth and the rising trend of consumer prices, by taking into account the need for a gradual and moderate increase in the nominal incomes of all groups so as to enable them to keep ahead of price rises. Solvent and stable demand favors the normal development of the market, and, in our conditions, also of domestic production.

CHAPTER V.

POLICIES OF THE GOVERNMENT AIMED AT THE PROMOTION OF HUMAN DEVELOPMENT AND ACHIEVEMENT OF SOCIAL COHESION

The human development policies of the Government are very much determining the establishment and consolidation of social cohesion in Moldovan society. In line with this, such policies are being directed primarily towards ensuring that all citizens of the Republic have more or less equal opportunities as regards their development. Among others, this is being done both through the promotion of laws as well as through the establishment of a system of social protection, aiming at the fair redistribution of incomes in order to meet the requirements of all population groups. However, the lack of financial resources is a major problem, as will be seen below.

5.1 SOCIAL PROTECTION

The current social protection system of the Republic of Moldova, inherited from the former Soviet Union, displays the same deficiencies and shortcomings common to almost all the countries of the CIS. It continues to be centralized, with a rigid structure and, in general, inefficient management. Furthermore, due to the attempts of the Government to cover a vast range of social services, this system is presently burdened with enormous commitments without, however, adequate financing. Thus, according to preliminary estimates, the funding available for social security purposes only covers two thirds of what is required. As a result, various social programmes initiated by the state and aimed at ensuring adequate social security of the population are rather fragmentary and incoherent. In many cases, they have not been able to forestall the negative consequences of the economic crisis at either the macro or the micro levels and, hence, have failed to alleviate the situation of the majority of the people in the Republic.

At present the funding for social security programmes is derived from three main sources: compulsory contributions from economic agents (30% of the wage-fund), contributions from wage-earners (1%) and allocations from the central and local budgets. The share, in 1996, of each of these sources in the incomes of the social security budget was as follows: economic agents - 87.7%, state and local budgets - 7%, wage-earners - 2.5%, other sources (grants, loans, credits, humanitarian assistance) - 2.8%. In this context, it should be mentioned that over the last several years the share of social security expenditure in GDP has been rising. However, taking into account the steady decline of GDP, the funds allocated, in absolute amounts, have not increased all that much.

The social protection system established in Moldova envisages the provision of a wide range of benefits, the main of them being as follows:

- pensions;
- compensations to families with children and pensioners with low incomes;
- social welfare benefits;
- and unemployment benefits.

Indemnities and benefits make part of the most elaborate and controversial system established to assist different vulnerable groups of the population. Thus, in 1996, 178 million lei were allocated by the state for indemnities and benefits. However these did not have much influence on the living conditions of the vulnerable groups. In general, various benefits granted are considered to compensate no more than 20% of the burden imposed on the Moldovan people by the economic crisis.

Social assistant in Moldova is provided in two principal ways: "institutional" and "at home." Institutional assistance is provided through social institutions (elderly people homes, asylums, special schools for physically and mentally handicapped children, and various kinds of sanatoria). 2,400 persons benefit annually from these services which are maintained (with food, medical care, etc.) with funds provided from the state budget.

"At home" social assistance is provided by 1,930 social workers working in all the districts of Moldova. In 1996, they looked after 17,200 people, including elderly people living on their own, and 1st and 2nd grade invalids. They provided food, meals, medicines, as well as helped in obtaining wood for heating, medical assistance, communal services and other facilities. Total expenditure on "at home" assistance amounted to 2.5 million lei, covered entirely by local government budgets. Apart from the above, the elderly and the handicapped benefit from special funds for mobility, prosthetic and orthopedic aids. They obtain this equipment free or on favorable terms (depending on the degree of invalidity).

Pensioners-invalids and children-invalids under 16 years old are entitled to free wheelchairs or motorized carts. In 1996, 5.2 million lei were allocated for this purpose although the total amount required was of around 14 million. War wounded and victims of industrial accidents are also entitled to specialized cars, free of charge, or at a low price. Funds for these purposes are allocated from the state budget. In 1994-1996, such allocation amounted to 179.2 million lei, which covered, however, only 7% of all requirements.

In addition to the benefits they receive from the social fund (pensions, compensation, other assistance) representatives of the vulnerable groups are entitled to social assistance from the social assistance fund. During 1996, almost 345,000 persons (pensioners over 75 years old, living on their own, invalids and families with many children) received financial assistance totaling 8.7 million lei.

Despite some important but extremely rare successes, the present social security system has less and less relevance to the requirements of the population, specially under the conditions when social problems are becoming worse. Actually, the limited social insurance budget and transfer of responsibility for social protection to the Social Fund, without adequate financial cover, is also leading to mounting arrears.

Thus, according to the data of the Ministry of Labour, Social Protection and Family, in 1995-1996, debts of various economic agents to the Social Fund reached the level of 50-51%, which inevitably led to an increase in pension and compensation arrears.

With a view of partially alleviating the problem of arrears in 1996, payments of pensions were made partly in kind. About 20% of pensioners received such payments amounting to 109.4 million lei (mostly sugar, vegetable oil and household items).

It is evident that the social security system in Moldova is in dire need of a thorough reform, which should address the following problems:

- *the large imbalance between social commitments of the state and its limited financial means;*
- *the large burden of social contributions imposed on income earners, which in practice encourages tax evasion and leads to an increasing shortfall in contributions to the Social Fund;*
- *an excessive range of incoherent and inefficient social benefits;*
- *an irrational distribution of social expenditure, which does not allow a targeting of scarce resources to protect the most vulnerable;*
- *a rigid, obsolete and inefficient structure and management of the social security system;*
- *the large operational and overhead costs.*

All of the deficiencies of the present social security system can, nonetheless, be reduced through the implementation of a series of short-term and medium-term actions.

Short-term actions are designed to solve the problem of arrears in wages, pensions, indemnities and compensations. These would involve:

- *settlement of debts owed to the Social Fund by improving the collection of social contributions;*
- *gradual reduction of the arrears in wages, pensions and assistance accumulated during the last 2 years;*
- *timely payment of pensions, wages and indemnities;*
- *use of "means-testing", so as to ensure that resources reach the most vulnerable strata of the population;*
- *reduction of those benefits which constitute more of a privilege than actual aid;*
- *reduction of overhead costs by improving operations and de-centralizing management.*

Medium-term actions aim to adapt the social security system to the market economy. The actions should include:

- *re-distribution of the financial burden, by reducing gradually the taxes due from the corporate sector in general and increasing the contributions from employees;*
- *diversification of the social protection system by establishing complementary private insurance arrangements, financed by the beneficiaries;*
- *development of a legal framework for the establishment of private pension funds, voluntary schemes of social insurance and chargeable social services;*
- *introduction of a system of personal registration of social contributions;*
- *gradual increase of the retirement age.*

The main problem is, however, that the accumulated social problems are so severe that delays in facing them could very much imperil the cohesion of society and the success of the reforms as a whole.

Social Security of Pensioners. Payment of pensions constitutes one of the principal objectives of the social protection system of the Republic of Moldova, and accounts for about 87% of the social security budget expenditures.

As of January 1, 1996, pensioners comprised about one fifth of the population: 218 pensioners per 1,000 persons. In 1996, their number rose by 3,000 persons, reaching 784,000 (including 29,400 pensioners funded from the budget). The average monthly pension (as of January 1, 1997) is 79 lei (US\$ 17), with the minimum pension being 62 lei (US\$ 13) and the maximum - 164 lei (US\$ 35). Thus, the average pension covers only 20%, and the minimum one only 16% of the minimum consumption budget.

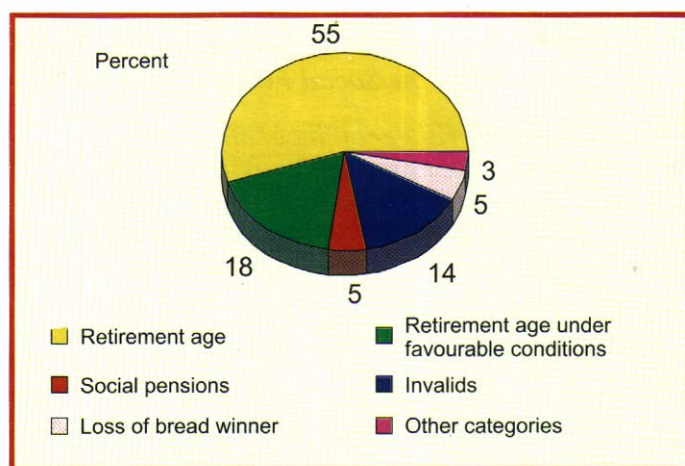
In this context, it should be mentioned *Chart 5.1 Categories of Pensioners (1 January 1997)*

that although the nominal value of pensions has increased in recent years, their real value has declined dramatically, due to inflation. Thus, in December 1996, the real value of the average monthly pension was 71.8% less than in 1990, having returned to the level of some 30-40 years ago:

In evaluating the effectiveness of the state social policy in securing a decent standard of living for pensioners, it is important to compare the average wage with the average pension. In this context, it is generally believed that living standards can be considered appropriate, when the average pension is at least 75% of the average salary. In Moldova however, this proportion stood at 60.4% in 1993, and at only 42.0% in 1996.

All the above attests to the fact that the elderly carry a disproportionate share of the costs of the transformation process.

Chart 5.1 Categories of Pensioners (1 January 1997)



Source: Department of Statistics

Degradation of the social status of pensioners results not only from their low monetary incomes. This population category is most exposed to the shocks arising from the failure of the old regime and from the economic crisis. Among these, the following should be highlighted:

- *devaluation of bank deposits (although the post-soviet state cannot be held responsible for this). For pensioners these losses have a particular significance, since they now depend entirely on their current pensions;*
- *the delayed indexation of incomes, which, even under conditions of low inflation, impacts first of all those with fixed incomes;*
- *lengthy delays in the payment of pensions, which have become a standard feature. This forces the pensioners to put up with unacceptable deprivations. To be noted is that during 1996, the arrears of the social fund on pension payments were as follows: 1 January - 127.9 million lei, 1 June: - 224.9 million lei, 1 October - 265 million lei, and 1 January, 1997 - 324.1 million lei;*
- *the increase of rents and the cost of communal services, which reduces the amount of money available to buy food;*
- *the rising cost of different services: hairdressers, workshops, repairs, travel, concerts, theatre, exhibitions, etc., which make some of these inaccessible;*
- *dismantling of social services due to the reduction of state budgetary allocations;*

Table 5.1 Evolution of the Average Monthly Pension, 1991 -1996

	December						1996, times as compared to 1991
	1991	1992	1993	1994	1995	1996	
Average monthly pension established by the social protection authorities, lei	0.42	2.09	18.83	55.15	64.30	78.67	187.3
<i>by type of pension:</i> - old age	0.44	2.21	19.94	57.94	66.90	81.56	185.4
- disability benefit	0.43	2.03	18.43	53.96	63.25	78.39	182.3
- for length of service	0.22	1.82	24.18	63.76	69.96	80.43	365.6
- social	0.28	1.25	10.51	32.38	38.07	47.05	168.0
- for ex-military servicemen and their family members	0.50	2.07	17.12	49.01	73.80	90.24	180.5
For comparison - old age pension minimum	0.40	1.70	13.50	42.80	50.00	62.09	155.2
maximum	0.80	3.40	68.35	126.55	133.75	164.15	205.2
- average monthly wage	0.43	3.50	31.20	108.40	143.20	187.10	435.1
Comparative data:							
- maximum pension compared to average (average pension = 1 00)	190.5	162.7	363.0	229.4	208.0	208.7	-
- average compared to minimum (minimum pension = 100)	105.0	122.9	139.5	128.9	128.6	126.7	-
- minimum compared to maximum (maximum pension = 100)	50.0	50.0	19.7	33.8	37.4	36.6	-
- average compared to average salary (salary = 100)	97.7	59.7	60.4	50.9	44.9	42.0	-

Source: Department of Statistics

- *payment for medical services, which makes medical treatment and the purchase of drugs absolutely inaccessible to the bulk of the pensioners, whose need of it is the greatest of all;*
- *the critical labour market situation, where pensioners have almost no hope of finding stable or normal employment.*

To be highlighted is that although in the past pensioners had a lower standard of living than employed people, today they have become outcasts, even real beggars. In social-demographic - terms, the situation of pensioners reflects an overall imbalance in the distribution of social assets - away from the older generation, and to the benefit of the younger generation.

There are a multitude of reasons for the above, all of them being linked to the inequalities which have arisen due to the economic crisis. Pension entitlements increase in accordance with the cost of living and not in accordance with the growth of capital in the Social Fund. Thus, with the decline in the number of wage-earners and, therefore, of contributors to the pension fund, the financial resources of the Social Fund continue to fall.

Another important problem is that the employees of many insolvent enterprises are not made redundant, and, therefore, are not registered as unemployed, yet their employers do not make corresponding Social Fund contributions.

An additional problem refers to the financial probity of tax payers, which also leads to the contributions to the Social Fund not being fully complied with or often even ignored.

In order to improve the social protection of pensioners, the following measures are considered necessary to be undertaken by the state in the nearest future:

- tightening up the collection procedures for contributions;
- reform of the state pension allocation system (creating two levels: a guaranteed basic pension, and a pension, depending on the number of years spent in employment);
- setting up private pension funds, financed by voluntary contributions, as a complement to state pensions.

5.2 POVERTY - THE BASIC FACTOR AFFECTING SOCIAL COHESION

The market economy which has emerged in the Republic of Moldova is characterized by being heterogeneous, underdeveloped and disorganized with insufficient freely accessible information. These negative aspects have, in large part, led to a severe, excessive, and, in most cases, unjustified polarization of the population. In this process, 10% of the population have substantially enriched themselves and about 80% of the population have slipped into poverty. The problem of poverty, hence, has become one of the acutest problems Moldova is at present facing.

According to some sociological researches, about three-quarters of the population receive less than it is necessary to meet a minimum consumption budget. Only 5.5% of those employed have an income above such a minimum, while some 60% of them earn only 46% or less of this same minimum. Almost 135,000 persons have monthly incomes of less than 18 lei. It should be highlighted that in 1993, the co-relation between the incomes of the richest and poorest groups of the population in Moldova was of 1:7, in 1996, this proportion increased to 1:11.

In the past, the low income population, who were eligible for social benefits, consisted of young families, families with many children elderly and sick people living on their own. As of today, new categories of the poor have emerged, stretching across the entire social spectrum: farmers, intellectuals (e.g. teachers, civil servants, medical staff including doctors, engineers, writers, actors, painters and many others), the young, the handicapped, pensioners, etc. The number of beggars -mainly elderly people, women and children -has also substantially increased.

The unexpected loss of a low but secure living standard which used to be a characteristic of the former Soviet Union, has given rise in Moldova to nostalgia and to a distrust of current and forthcoming reforms. For these reasons the poorer strata of the population have a rather conservative attitude to the transformations the country is presently undergoing, and look upon them with fear and suspicion rather than with hope and anticipation. Being ignored by society, their persistent poverty becomes a serious obstacle to further change, and a factor in social instability.

It should be further stressed that poverty is far more than an economic problem. It could, in reality, bring about a variety of serious reactions, such as: disenchantment with the new principles and forms of social organization and stratification; hostility towards the entrepreneurial spirit and towards the "cleverness" of private enterprise which allow only a few to become wealthy; an indulgent attitude to the mishandling of "goods", a preference for various egalitarian systems in the labor market, various forms of indolence, among others.

In view of the above, it is regrettable that the issue of poverty was only recently approached by the state in a spirit of political and social responsibility. It is also regrettable that there has been insufficient debate on the subject in the past, with responsible institutions not having provided timely information on poverty, and not having identified the seriousness and extent of it, and, thus, not having analyzed the factors leading to poverty.

There is no legislative framework for the social protection of the poor. Equally, an official poverty line has not been established, and information regarding the numbers of people in need, is not available. In this context, noteworthy is the initiative of the Government to develop (in 1996) and implement, in collaboration with the United Nations Development Programme and the World Bank, a Poverty Alleviation Project aimed at the formulation of the National Strategy for Poverty Alleviation.

The above-mentioned Project is expected, among others, to estimate and define the terms: "subsistence minimum" and "poverty line." It is known that the terms "subsistence minimum" (SM) and "poverty line" (PL) are very unstable. They differ in time and from one country to the other, being classified into several subcategories, usually two: a "decent living minimum" and a "subsistence minimum proper", and a "relative poverty line" and an "absolute poverty line." In 1985, the WB experts established a universal absolute poverty line. The SM is established analytically in accordance with a minimum "basket" of *goods and services that a person needs on average*. PL is the indicator used to determine the incidence of poverty, in other words, to identify the poorest people from the poor population, and represents only part of SM.

According to some experts, the "subsistence minimum" in the Republic of Moldova is estimated at 230 lei/month, while the "poverty line" is probably between 30 and 40% of this SM. It is obvious that the living standards of the majority of the population are very much under the "subsistence minimum", while the of poverty dimensions still have to be identified.

5.3 LABOR MARKET

The problem of poverty is very closely connected to, with that of the labor market. However, although the transition to a market economy has now been underway in the Republic of Moldova for almost 6 years, the problem of creating a flexible and efficient labor market has not been solved though it has constantly been worked upon by the state and trade unions, with several state Programmes on the Utilization of Labor Force having been elaborated __ and envisaging measures to improve the situation both at the national as well as at the local levels.

The implementation of various legal-institutional regulations have equally not led to substantial advances in establishing and promoting an adequate labor market, with its functioning being continuously distorted by the degradation of economic capacities and a drastic fall in investments.

According to the official data, in 1996, the economically active population of the Republic of Moldova numbered 1,681,000 individuals, with employment constituting about 98.45% of the labor force (unofficial estimates consider this figure to be overvalued by approximately 15%). It should be noted that the share of public sector employment has decreased, while the share of the private sector has increased, as can be observed from the Table below.

Table 5.3 Distribution of Employment

Sectors	Number of employed			
	1993	1994	1995	1996
Total employed, thousands	1,688 (100%)	1,681 (100%)	1,673 (100%)	1,655 (100%)
inclusive:				
public sector, %	46.0	40.5	33.9	28.8
private sector, %	53.7	59.2	59.6	63.3
mixed sector (public and private), %	—	—	6.1	7.4
mixed sector (with foreign capital), %	0.3	0.3	0.4	0.5

Source: Department of Statistics

Highlighted should be, however, that by the end of 1996, overall employment had declined by 5.2% (in the construction sector -by 12.7%; in the food processing industry - by 10.7%; in commerce and repair services - by 7.1%; in health care - by 2.3%; in education -by 2.6%; and in communal, social and personal services - by 2.9%).

One of the main reasons for such a decline in employment (more than 50%) was the staff reductions caused by the closing or restructuring of enterprises and other institutions, the trend towards which became more accentuated during the period 1993 -1996. This reduction occurred in practically all sectors of the national economy being especially noteworthy in the public sector (-39%). A growth, however, has been recorded in the private and the informal sectors. Employees of the latter two sectors comprise at present some 14% of the total labor force.

The inability, however, of the informal sector to absorb all "free" labor, has led individuals to adopt rather desperate strategies. Thus, 85% of those who have lost their jobs are involved in unorganized trade or other, sometimes illegal, activities. In this context, mentioned should be a growing migrant labor phenomenon: many workers are leaving to work abroad (in particular to Greece, Israel, Germany, and Russia). One negative issue is that they are not insured against work-related risks.

Estimates show that in 1996, out of 10 people who lost their jobs, only one went to a Labor Market Office. Thus, the number of registered unemployed in 1996, amounted to about 26,000 individuals (1.55% of the economically active population). More realistic estimates, formulated by the Institute of Economics of the Academy of Sciences of Moldova, put the figure at 256,700 persons, which is more than 10 times the number of officially registered unemployed. Thus, the actual unemployment rate in Moldova in 1996 was about 15-17%. These estimates do not take due account of seasonal unemployment in agriculture (the share of employees involved in agriculture is 49%)

Given all the above, it is clear that although the official unemployment rate as well as other officially available data may reflect the overall trend, it does not reflect the true proportions of unemployment in the country.

In order to understand why the official figures on unemployment differed so much from the real situation in the country, it is important to analyze the current labor-related legislation.

Labor protection is presently regulated in Moldova by the " Law on the Use of the Labor Force" adopted by the Parliament of the Republic in 1992 and amended in 1994. This Law establishes legal, economic and administrative mechanisms for the use of labor, lays down the criteria of unemployment, conditions for the professional re-training of the unemployed, their rights, guidelines for the calculation and duration of payment of unemployment benefits, etc. The Law defines employment as any kind of activity, which is not in violation of the legislation in force, which contributes to meeting citizens' individual and social requirements, and which usually generates income.

Regarding unemployment, unemployed persons are defined as "citizens of the "working " age able to work, who for reasons beyond their control, do not have a job, or other legal income and who are registered in the job information center in their place of residence as persons looking for work and showing willingness to receive a job."

The existing definition of unemployment does not correspond to international standards including those used by the International Labor Organization, according to which "the unemployed are individuals who have lost their jobs, are looking for work and are ready to accept an offer of a freely chosen job. " This leads to inadequate calculation of the unemployed, and consequently offers a misleading picture of unemployment, which cannot serve as a basis for any sort of programme, policies and actions.

Thus, if Moldova's statistical offices had taken into account the large number of the unregistered unemployed, the official unemployment rate would have been much higher. The fact that the level of unemployment in Moldova, which is an agrarian country, varies seasonally should equally not be overlooked when analyzing the level of unemployment in the Republic.

Another important issue which needs to be discussed in the context of unemployment is that of underemployment and of precarious employment (part-time jobs, reduced number of working hours, temporary, unsure, fortuitous, less productive employment), leading to social unrest and threatening the

Table 5.4 Dynamics of Concealed Unemployment (% of total staff)

As of 1 January	Number of "concealed" unemployed		
	Total	of which	
		on	work part time
1994	19.0	16.4	2.6
1995	20.3	17.4	2.9
1996	18.6	16.3	2.3

Source: Department of Statistics

Among the reasons for "concealed" or "hidden" unemployment the most important are: the irregular work schedules of enterprises due to shortages of raw materials, difficulties in disposing production, absence of mutual guarantees in dealing with business partners; inconsistencies in the application of legislation on privatization, bankruptcy, etc.; compulsory unpaid leaves and the hope of employees on these compulsory leaves that the enterprise (institution, organization) where they work will ultimately recover; the inertia of the "socialist mentality" - the psychological resistance to accepting the status of being unemployed; distrust of the state services as regards the payment of unemployment benefit or compensation, or as regards support in finding advantageous or successful employment; fear of change; the desire among employers to hold on to skilled staff who may be useful in the future, or their wish to avoid compensation which they might be legally obliged to pay in case of bankruptcy, among others. To be noted is that in 1996, compulsory unpaid leaves lasted on average 77 days as compared to 64 days in 1994.

Regarding the age of the population affected by unemployment, 70% of them represent the most productive categories (30-40 years old) and the youth (16-24 years old). Noteworthy is the fact that one fifth of the total number of registered unemployed have higher or special secondary education, which constitutes a serious waste of human resources.

Table 5.5 Structure of the Unemployed by Age and Education, 1996

Categories of Unemployed	Total	Women
Registered during the year, %	100.0	100.0
<i>by age (%)</i> :		
16-24	34.8	36.0
25-29	13.1	13.3
30-44	36.3	36.5
45-59	15.8	14.2
60-64	0.0	0.0
<i>by education (%)</i> :		
higher education	7.2	7.8
pre-university education	13.9	16.1
vocational school	24.2	20.2
secondary and incomplete education	54.7	55.9

Source: Department of Statistics

The harmful effects of unemployment arise not only from the number of unemployed, but even more, from long-term inactivity. Long-term unemployment (meaning, in the standard international classification, a period of unemployment longer than one year) is rapidly growing in Moldova. In 1996, those unemployed for more than 6 months accounted for 39.1 % of the total unemployed with the number of those unemployed for more than 1 year also increasing, having reached 15.1% of the unemployed.

Although the situation in the Republic is very difficult, it would be unfair to say that the state makes no attempts to assist the unemployed. Indeed, during 1996, there were various re-training courses, attended by 8,900 persons and about 700 of these were re-employed in public sector jobs and 42% of the registered unemployed did eventually find employment.

Unemployment benefits, provided by the state, are nonetheless insufficient and irregular. The benefits are usually paid during 9 months, with those seeking jobs for the first time receiving them for only 6 months. Following are the categories of individuals eligible to receive unemployment benefits:

- 18 year old graduates of training institutions, who cannot find jobs in their field of qualification; army reservists, who were not employed before and can not obtain employment after army service; and individuals released from penitentiaries and social rehabilitation centers. All these people can receive benefits only in case registered at the local Employment Center within 90 days from the date of graduation, demobilization or release;
 - those who have terminated their employment contracts for reasons beyond their control; or for reasons of incompetence, lack of skills, poor health; or on their own initiative for a - legally recognized good reason (change of residence, care for a sick family member, etc.). Benefits can be received only in case an unemployed person worked for at least 6 months during the 12 months before the date of his/her registration at the local Employment Center;
 - women unemployed after taking a maternity leave (up to 3 years), if registered at the local Employment Center within 30 days after the end of this leave;
 - those who have reached the end of a fixed-term contract.
- Noted should be that in 1996, only one third of the registered unemployed received unemployment benefits, with the average monthly benefit being 64 lei, or 34% of the average wage. This amount covered only 17% of the minimum consumption budget (388 lei).

Table 5.6 Unemployed by Time Out of Work, %

Duration	1993		1994		1995		1996	
	total	of which women	total	of which women	total	of which women	total	of which women
up to 3 months	57.8	55.1	37.9	34.6	35.0	29.7	39.7	33.2
3-6 months	28.3	30.5	34.0	34.0	24.4	24.2	21.2	20.6
6-12 months	12.6	13.1	18.8	20.2	29.1	31.5	24.0	26.2
more than 1 year	1.3	1.3	9.3	11.2	11.5	14.6	15.1	20
average period out of work (months)	3.2	3.4	5.3	5.8	6.2	6.9	6.3	7.3

Source: Department of Statistics

As a social and economic phenomenon, the level of employment very much influences the status of social equilibrium (or disequilibrium) in the country. Thus, with the unemployment rate in the Republic having reached a threatening level (which, undoubtedly, affects the social integration of the Moldovan society), the present Government needs to be more active and should concentrate on the implementation of the following measures:

- *transfer of state property to the private sector and effective support of entrepreneurship;*
- *removal of all possible barriers to the development of small and medium enterprises;*
- *attraction and promotion of domestic and foreign investments, with such factors as location and job creation being taken into account;*
- *extension of opportunities and access to re-training courses for the unemployed and underemployed to enable them to compete in the labor market;*
- *the establishment and development of employment services;*
- *the creation of an economic environment that encourages legal (formal sector) productive activities;*
- *a planned, gradual evolution towards full and productive employment, in*
- *conformity with ILO Convention No. 122/1964, to which the Republic of Moldova has adhered.*

5.4 STATUS OF WOMEN

Due to their very particular role in society, women bear the main part of the social costs of reforms and suffer most from the negative side-effects of the transformation process.

This section deals briefly with some of the key issues arising from the current situation of women and their role in maintaining social cohesion of the Moldovan society. The data presented here should be interpreted in combination with that presented in other parts of the present Report as well as with the ample statistical information contained in the 1995 National on Human Development Report, Chapter 4, pages 18-20, making due allowance for some comments in that Report which might be judged excessively subjective.

Unfortunately, the overwhelming majority of the statistical data which in 1995 pointed to the lack of development and decline of women's authority in the Moldovan society, still remain valid today. Indeed, in some spheres the situation is that of an explicit crisis. Examples abound, starting with the fact that even though women presently account for 52% of the population of Moldova, there are only 5 women Members of Parliament, women hold no Ministries, only 3 Vice Ministries, 2 Directors of Departments, and one single Ambassadorship. Such a discrimination against women and the absence of conditions for the improvement of women's economic position, is yet another obstacle to social harmony.

Regarding the employment of women, in 1996, women in Moldova accounted for 52% of the overall number of wage-earners. At the same time, women constituted 65.5% of the registered unemployed in 1995 and 67.8% in 1996.

In the context of poverty, women are over-represented in all of the most vulnerable groups. Thus, in one-parent families, women are parents, bread winners and educators of their children. Although there is widespread awareness of the constantly declining situation of such families, at present there is, unfortunately, no thorough analysis of this problem in relation to such issues as unemployment, defective social welfare and insurance systems, moral decline, etc.

Another group at serious risk are elderly women, especially in the countryside. They have very small incomes (in most cases coming from help from relatives), and their pensions often remain unpaid for months on

end. The absence of any state protection for them has led to the recent emergence of a deplorable phenomenon - an increasing number of elderly women coming from the countryside to the cities, mostly to the capital, in order to beg for money, which they do with much embarrassment, given that the traditions of Moldovan peasants have never included this practice.

On the positive side, noted should be that in order to deal with issues of women, maternity and childhood, a General Department has been set up, with the support of international organizations, within the Ministry of Labor, Social Protection and Family. Having existed only for a very short time, this Department has yet to develop a strategy for dealing with the very serious problems mentioned above and for discovering the reasons for the particular difficulties affecting the female population during the transition period.

5.5 PUBLIC HEALTH

All crises are normally accompanied by a deterioration of the state of health of the population (for example, excessive pollution, hereditary diseases, and a declining standard of living, all lead to increasing morbidity and mortality rate). In the case of Moldova, particularly frequent are infectious respiratory, and cardio-vascular diseases, malignant tumors, hepatitis, cirrhoses and child dystrophy. Equally, tuberculosis has increased by 7% in 1996 (2,372 persons), as well as syphilis, by 15%. There is also an alarming increase in the number of HIV-positive cases (during the period from 1987 until 1995, 40 cases of AIDS were recorded; in 1996, 55 cases were registered, with this number having increased in the first eight months of 1997 up to 204 cases). The number of drug-addicts, and of the mentally ill, has also increased. Poor sanitary-epidemiological conditions have favored the spread of scabies and pediculosis, while the absence of any food regulations has led to intestinal infections.

As a consequence of all the above, between 1990 and 1996, mortality rose from 9.7 to 11.5 individuals per 1,000 inhabitants, with the infant mortality indicators being respectively 19.0 and 20.2. Mortality in rural areas was 46% higher than in urban areas.

According to the legislation in force, the state guarantees health care and a minimum of medical services to each citizen, free of charge, but inadequate funding renders these rights almost inoperative. In recent years, however, a network of medical institutions has emerged offering services for payment. As of 1 January 1997, there were 270 registered private medical firms, which received no subsidies. The reality is, however, that due to the high costs of the medical services in these private medical firms, a large part of the Moldovan population has almost no access to adequate medical care.

In order to improve the health situation in the country, the state has to develop an effective health policy, the efficiency of which will depend on the coherence and flexibility of the systems (legal, economic, social and educational) for the management of public health. However, given the high cost and low efficiency of curative medicine, the emphasis should be more on preventive medicine, meaning the whole range of factors affecting human health: lifestyles, food consumption habits, family hygiene, safety at work, awareness of health issues and personal interest in health care, among others.

So far, the top priority accorded to public health, in government policy, has far been purely rhetorical. This is testified by the fact that the share of GDP allocated to health care has shown a stationary trend (6.2% in 1994; 5.9% in 1995; 7.1% in 1996) which, when the decline in GDP is taken into account, shows that the real value of the allocation has dropped substantially.

Apart from the above, the amounts allocated are used with decreasing efficiency. Due to the increased costs and to the rise of the charges for various services (communal services, construction, etc.), the structure of maintenance costs for medical institutions has changed substantially. The share of staff salaries and medicines has decreased, while that of administration and nutrition has risen. Medical instruments, apparatuses, accessories for taking care of the sick and medicines are utterly inadequate and conditions in the majority of hospitals are unsanitary. More than 50% of district hospitals do not have regular water supply, and some 50% of children's and maternity hospitals are without warm water.

Although the Republic of Moldova has 40 physicians and 100 medical assistants per 10,000 persons, which is more than some developed countries, the organization and functioning of health care structures is not always efficient. Salaries of doctors and assistants are very low and insufficiently differentiated by skill and qualification (average salary - 160.1 lei (US\$ 36), or 86% of the national average salary), thus discouraging the professional development of the medical practitioners. Thus long term prospects for the improvement of public health care and technological progress in the state medical sector are undermined.

A different problem is a substantial degree of inequality in access to medical services between different districts, towns and villages. To be noted is that with the process of decentralization of the government, these differences are expected to widen.

Presently, the Government of Moldova is attempting to carry out, with the assistance of the World Health

Organization, a thorough reform of the health care system. This reform is based on the conception that the health care system in each country needs to go through 3 major stages.

The principal objective of health care at the first stage, when a country suffers principally from the infectious diseases and epidemics typical of underdeveloped and developing countries, is to undertake social and infrastructural measures for primary health care. As for the second stage, once the danger of epidemics has been removed, attention should focus on chronic and incurable or near-incurable diseases, with the principal objective of the health care system becoming the prevention of diseases, leading to a prolongation of life expectancy. Countries which have achieved these objectives are ready to pass to the third stage, whose focus is on the quality of life.

The Republic of Moldova has still to emerge from the first stage. If, say, in the 1980s the frequency of infectious diseases was regarded as a marginal phenomenon, present reality imposes a re-evaluation of the conception, strategy and policy of health care protection. Financial constraints, of course, limit commitments, but there are two inescapable objectives: the organizational and technological modernization of the structures for dealing with new diseases, and the improvement of the structures and methods for treating pathologies inherited from the past.

Given all the above, the health care reform in Moldova envisions an organizational and financial restructuring, with a transfer of funds and provision of services from the center (Chisinau) to institutions based locally (in the districts), as well as from hospitals to polyclinics and village surgeries (in cases where the technology required for treatment permits it). Apart from this, health care funding urgently needs to be increased. By preserving the budgetary sources, a Medical Insurance Fund could be built up on the basis of compulsory (income-based) contributions of corporations and individual persons. Individuals with low incomes would be exempt from these contributions. The fund would, in addition, receive resources from both local and central government budgets. These budgetary allocations would equalize territorial differences in access to medical services.

In this context, state and local budgets should give priority to the funding of long-term health protection programmes, while current expenditure should be funded from the Medical Insurance Fund. Such a system of funding would encourage and develop the private system of medical services, which is expected to be regulated by the state through the regulation of tariffs for medical services and through monitoring of the services provided.

Highlighted should be that the state still offers a minimum of medical services free of charge, with the respective law establishing a list of these. Fees, therefore, are charged for all other services.

5.6 EDUCATION SYSTEM

There is no doubt that the social cohesion of a nation is very much determined by the system of education. In this context, to significantly contribute to the development of social cohesion and harmony, an education system for Moldova would need to be supported by and to comply with the following principles:

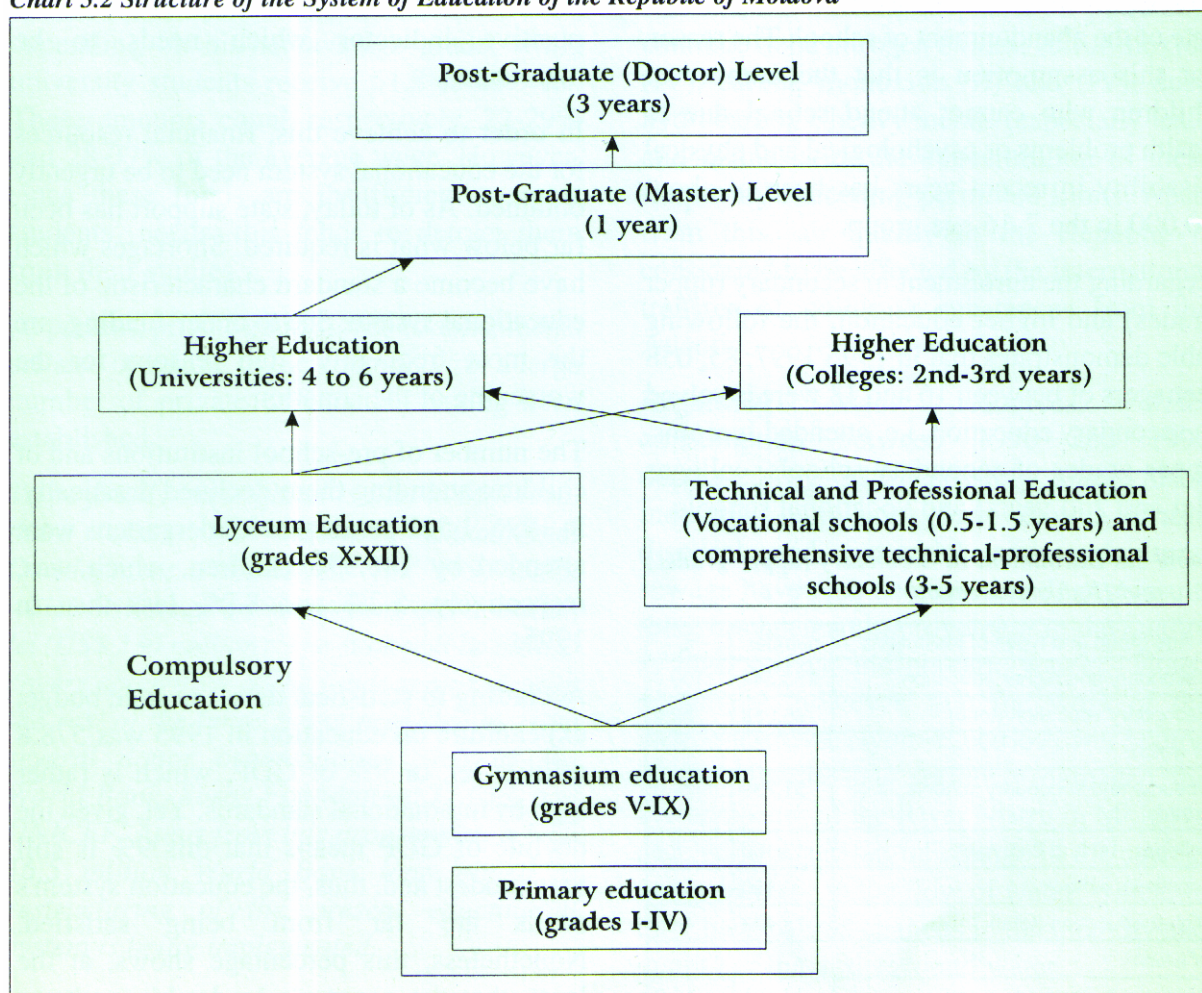
- equal learning opportunities for all children;
- promotion and selection of pupils exclusively on the basis of ability and performance;
- cultivation of a spirit of tolerance and solidarity oriented to human progress;
- recognition of and respect for diversity among people;
- focusing the educational approach on children and on fulfillment of each child's developmental needs.

The Education Law of the Republic of Moldova (1995) which constitutes a legal basis for the reform of the education sector, is designed to encourage the establishment and support of real democracy and social cohesion and, thus, contains all of the above-mentioned principles.

According to the above mentioned Law, the present educational system of Moldova consists of four levels: pre-school education, primary education, general (secondary) education and higher education, with the last two levels having several sub-levels (Chart 5.2).

By law, the compulsory education in Moldova includes the primary education (I-FV Grades) and 'gymnasium' education (V-IX Grades). Thus, compulsory education comprises 9 grades and covers all children between 7 and 16 years of age. Those who complete compulsory education can continue their studies at 'lyceums' (X-XII Grades), professional schools (2-4 years), vocational schools (0.5-1.5 years) or colleges (3-5 years). Highlighted should be that colleges presently operate at two levels: the first 1-2 years in college consist of a general education with a degree of specialization, followed by 2-3 years of undergraduate education.

Chart 5.2 Structure of the System of Education of the Republic of Moldova



Higher education in Moldova is undertaken at universities, academies, and institutes (4-6 years). Researchers and university teaching staff are trained in post graduate courses (masters' level (1 year) and doctor's level (3 years)).

Table 5.7 School Enrollment in the Republic of Moldova

Number of pupils	Age, in terms of years		
	7-15	Including	
		7-10	11-15
Total of school age	641,334	289,26	352,074
	100.0%	100.0%	100.0%
Attend school	597,713	281,365	316,348
	93.2%	97.3%	89.9%
Do not attend school	43,621	7,895	35,726
	6.8%	2.7%	10.1%

Source: Department of Statistics

The above-described structure of the educational system can be considered as satisfactory and as being in accordance with the requirements of a society which wants to become integrated into the European and international educational systems.

As regards the effective functioning of the education system, the best indicators of it are the extent of school enrollment of children and the capacity of the system to sustain their attendance at compulsory school.

The main reasons for recorded absences from school are: physical and psychological deficiencies, poor health, and abandonment of school. Unfortunately, there is insufficient data regarding the reasons for absence from school, and whether those absent have not been registered or have abandoned school. It can, however, be assumed that there is a high rate of the abandonment of school. The reason for this assumption is that the number of children who cannot attend school due to health problems or psychological and physical disability in recent years has been of about 10,000 in the 7-16 age group.

Regarding the enrollment in secondary (upper grades) and higher education, the following table

demonstrates that in 1996/1997, 85, 058 teenagers of between 16 and 18 were involved in secondary education, i.e. attended lyceums, upper grades of secondary schools, colleges (1st and 2nd years) and vocational schools.

Table 5.8 Enrollment in Secondary (upper grades) and Higher Education

Age group and types of institutions	numb	%
Secondary and higher education	163,5	100.
Secondary education (total)	85,05	52.0
<i>of which</i>		
lyceums and secondary schools, IX-X	51,73	31.6
colleges, 1st and 2nd years	13,16	8.1
vocational schools	20,16	12.3
Higher education (total)	78,48	48.0
<i>of which</i>		
Colleges, 3rd and 4th years	20,15	12.3
Universities	58,33	35.7

Source: Department of Statistics

It is interesting that in 1996, 21,311 graduated from school. Of these, 14,862 passed -the entrance exams to universities. Thus, the proportion of successful secondary school-graduates who continue their studies at higher level institutions is 60-70%, which is a very positive indicator which needs to be maintained.

In order to achieve this, financial resources for the educational system need to be urgently obtained. As of today, state support has been far below what is required. Shortages which have become a standard characteristic of the educational system, due to under-funding, are the most frequently cited reasons for the worsening of the situation.

The number of pre-school institutions and of children attending them declined drastically. In 1996, 1,581 permanent kindergartens were attended by 146,930 children, which was, respectively, 5.2% and 8.9% less than in 1995.

According to statistical data, the state budget expenditure on education in 1995 was 578.8 million lei, or 9% of GDP, which is rather high by international standards. Yet, given the decline of GDP means that this 9% is still very modest and, thus, the education system's needs are far from being satisfied. Nonetheless, this percentage shows, at the least, that the country's leadership seeks to invest the maximum possible funds in the development of human resources.

In line with this, students who achieve good academic results (higher than average marks of 7-10 or 8-10) receive scholarships from the government. For a college student, the value

Table 5.9 Structure of Education Institutions

Type of institutions	Total		Form of proprietorship					
			Public		Private		Mixed	
	1995	1996	1995	1996	1995	1996	1995	1996
Schools, gymnasiums, lyceums	1,515	1,530	1,512	1,523	3	7	-	-
	100.0	100.0	99.9	99.9	0.1	0.1	-	-
Vocational schools Students, %	78	81	77	79	1	2	-	-
	100.0	100.0	99.1	98.8	0.9	1.2	-	-
Colleges Students, %	50	51	46	46	4	4	-	1
	100.0	100.0	97.8	95.7	2.2	3.8	-	0.5
Higher education Students, %	20	24	13	13	6	9	1	2
	100.0	100.0	92.2	88.9	7.2	9.2	0.6	1.9

of a scholarship is between 41.5 to 51.8 lei, depending on his/her average grade, while university students receive 51.8 to 68.9 lei. These amounts equal, respectively, 22-29% and 28-37% of the average wage. However, since these funds are insufficient to meet students' needs, this tends to detract them from their studies.

At present, private educational establishments are also operating in the country, with a large number of private universities having been established.

To be finally highlightad is that in Moldova, there exists the National Educational Development Programme for 1995-2005, which will need an investment of 1.1 billion lei (US\$ 230 million). The state will be able to

covers about 45% of the funds required, with the rest of the funds being provided by from several donor organizations such as the World Bank, Soros Foundation, TACIS, and UNICEF. Apart from this programme, a US\$ 16.5 million World Bank loan aimed at restructuring of the present educational system is being implemented.

5.7. ENVIRONMENTAL PROTECTION

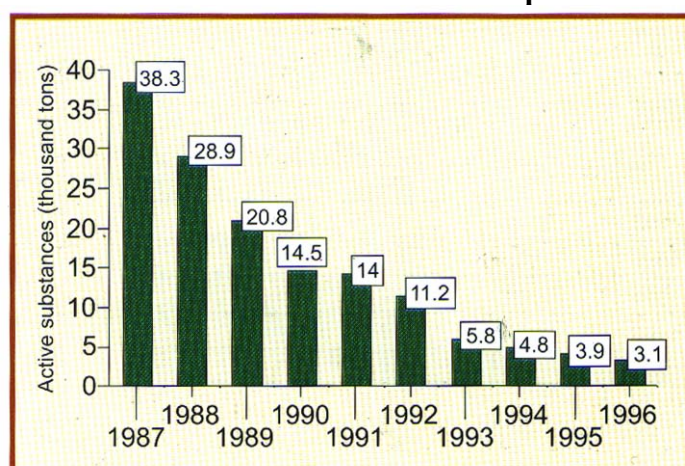
5.7.1 Present State of the Environment

The Report on the "State and Protection of the Environment in the Republic of *chart 5 3* Moldova in 1996", which contains detailed information regarding the current state and changing trends of the environment, mentions a slight improvement in the quality of air and water. Despite this, the process of natural resources degradation and environmental pollution in Moldova still continues, though at a smaller scale. Thus, according to the data provided by the Hydro-Meteo Service, which regularly undertakes air quality analysis through a network of 10 stations, the main atmospheric air pollutants continue to be nitrogen oxides, sulfur dioxide (IV), carbon monoxide (II) and (IV), dust, hydrocarbons, heavy metals (especially lead) and ozone, with the concentration of these frequently exceeding permitted limits. Apart from this, air quality in the Republic is considered to be affected by the international transfer of polluting substances from the Atlantic.

Regarding water resources, water consumption between 1990 and 1996 decreased by 38%, possibly since many industrial companies have closed. Waste disposal and industrial and agricultural sewage have also decreased and, as a result, there has been an improvement in the quality of both surface and phreatic waters. Noted should be, however, that the work of the Novodnestrovsc Hydro-Electric Power Station in the Ukraine has seriously damaged the lower reaches of the River Nistru in Moldova and led to a substantial change in the current and a decrease in the flow of water, which, in turn, have caused changes in the quantity and quality of the underground water.

Another important problem pertains to drinking water: resources are insufficient, with their quality not corresponding to the established standards. In order to improve the situation, urgent action is needed, in particular, the elaboration of a water supply scheme both for the national economy and the population at large. Substantial investments are also required for the establishment of a system of drinking water collection from surface and underground water reservoirs.

Chart 5.3 Utilization of Pesticides in the Republic of Moldova



Preservation of the reproductive functions, fertility and quality of soils in a country like Moldova with such a valuable land potential is another national priority, since the current state of soils is very alarming indeed.

As of today, the pollution of agricultural soils continues. The topsoil exhibits 20-50% of the critical level of pollution, with this phenomenon- being more pronounced in the north of the Republic. This is very much caused by the excessive use of fertilizers and pesticides in the past. Even though their use was reduced 12-fold between 1987 and 1996, the soil still contains considerable quantities of heavy metals, pesticides and chemical fertilizers. In this context, highlighted should be that many pesticides (phosamid, chlorofos, DNOC, trephlan, and others) are classified in the most dangerous category, with some of them being forbidden (chlorofos, phundazol).

Noteworthy is that in the recent years, chemical and organic fertilizers use has been substantially reduced, as can be seen from the Table below:

Table 5.10 Use of Chemical and Organic Fertilizers

years	Fertilizers			
	chemical		organic	
	total, tons	kg, per 1 ha	total, thous.	tons per 1 ha.
1991	204.1	124	8,750.6	5.1
1992	134.8	86	5,530.9	3.4
1993	36.2	27	3,120.8	2.4
1994	12.1	9	1,350.3	1.1
1995	11.2	9	1,517.5	1.2
1996	13.5	11	767.0	0.6

Source: Department of Environmental Protection, State Ecological Inspectorate

Another type of soil pollution which needs to be mentioned is radio-active pollution. Fortunately, it is now not at a level which would be dangerous for agricultural production. The presence of radio-active materials in fodder and food stuffs is twice or three times lower than the maximum permitted amounts, with the overall level of radiation having significantly diminished over the last ten years and having reached at present 12-16 m R/h, and 20-30 m R/h. in the most affected areas.

A one more extremely important problem is the improper use of agricultural land which, in the absence of a comprehensive environmental planning policy, is frequently ignored. As a consequence, towns, villages, roads, and a variety of building projects continue to remove valuable arable areas from the established patterns of rotation of agricultural land necessary for the successful development of agriculture. Thus, during the last 30-35 years rotation has been introduced on 133,000 ha of low-yield and degraded areas, but has been withdrawn from 205,000 ha. of fertile soils.

Soil erosion and degradation also continue. The total surface of the eroded areas increases at an annual rate of 1.5% (10,000 ha). Thus over the last 20 years, 45% of soil has been affected by erosion.

Table 5.11 Classification and Structure of Areas Affected by Erosion, 1993

<i>Land Erosion categories (ha.)</i>		
Slight erosion	287,000	-55%
Average erosion	230,000	-33%
Heavy erosion	83,000	-12%
(of which land with an inclination > 7°).	52,871	(7.9%)
<i>Utilization of highly eroded areas</i>		
Arable land		46.9%
Evergreen plantations		30.3%
Pastures		22.8%

Source: Department of Environmental Protection of Moldova.

There is a growing amount of what is called perpendicular erosion. Annually, 700-800 ravines are formed with a total area of 300,000 ha. Despite this, and notwithstanding the prohibition of cultivation on 330,000 ha. of low-yielding slopes, from as long ago as 1988, this has not yet been complied with and presently approximately 82% of agricultural crops are planted on slopes. In this context, it is necessary to note that the regenerative capacity of steeply inclined soils is very poor and part of those areas will soon have to be reclassified as "unrecoverable resources".

Regarding the causes of erosion, these are due to many factors: *natural* (torrential rains and hilly terrain); *political and institutional* (lack of incentives and technology for soil conservation, short-term yields, a cumbersome control and supervision system, and a lack of resources for the implementation of a national soil conservation plan); and *managerial* (inappropriate crop rotations, large units of cultivation - 100 ha and more - intensive ploughing with over-intensive use of the land, unsuitable landscape management, irrational use of chemical inputs, etc.). And unless urgent measures are taken, Moldova, being an agricultural country, will face serious problems in agriculture.

During the last 25 years, the content of the soil humus has become deficient and now depends directly on the quality of fertilizers applied to it. Apart from this, the productive upper layer of soil has been diminishing yearly by 2.1 cm, which constitutes an annual loss of more than 18,000 tons of phosphates, 75,000 tons of nitrogen, 316,000 tons of potassium salts and about 495,000 tons of humus. As a result, one third of the fertile humus has been lost over the last 100 years.

Given that the value of land in the nation's resource endowment is inestimable, in conditions when the property is being transferred to the private sector, it is important that the reform of the state land management policy should, among others, pursue the following:

- re-modeling of the planning system, with a view to achieving as rational and environmentally sound use of the land as possible;*
- development of farming practices which protect the regenerative capacity of the soil and the environment;*
- promotion of technologies which reduce the risk of soil degradation and environment pollution;*
- development of local-level agro- ecological action programmes;*
- and placing on the owners - who are the beneficiaries of the agricultural reform - the responsibility for the protection of agricultural and forest areas as well as water resources.*

According to the Department of Statistics, forest areas presently occupy 380,000 ha (according to the State Ecological Inspectorate, this figure equals 317,100 ha) and their role in the protection of water basins and rivers as well as in soil conservation is well known. In practice, however, this role is underestimated. The administration of the forest plantations belonging to farms and local public authorities can only resist the most indulgent criticism, since deforestation has been running at some 140-150 ha of these plantations per year. As a result, according to the Department of Environmental Protection and State Ecological Inspectorate, about 7,000 ha of forests have been completely destroyed, in the recent past.

The areas of various other categories of plantations have also been reduced: parks, green zones, forest protection belts, etc. For example, plantations which have been transferred to the management of local governments have lost some 1,600 ha. In this context, mentioned should be that in 1996, state tree planting fell by 60%, while wood cutting increased by 50%. Not a single hectare of forest protection belts has been planted - rather some 40% of previously planted forests have been destroyed. (Noted should be that the data provided by the State Ecological Department again differ from those received from the Department of Statistics: according to the Department, state tree planting decreased only by 20%).

The crisis underway in the Republic, has brought about additional factors affecting forests:

- the fuel crisis, leading to uncontrolled cutting down of trees for fuel. As from 1990, official reports signal a disturbing increase in illegal wood cutting. As a result, in 1996, the Forestry Guard, comprising 200 carabinieri, was established. However, officially reported cases constitute only a fraction of the real amount of activity in wood cutting. Until the fuel problem is solved, the forests will continue to suffer;*
- excessive use of woodlands for cattle grazing, in violation of legal regulations; lack of common grazing land, increasing prices of fodder and the impossibility of making control effective, all lead to the extension of grasslands;*
- institutional factors which allow evasion of laws and technical-normative rules favor abuses and fraud. One of the main reasons for this is the combination in one organization of the functions of forest administration and forest exploitation. For example: the forest regime prohibits exploitation of amounts above certain norms (about 130,000 m³ per annum), yet this limit has been exceeded threefold, officially the amount reaching 400,000 m³.*

Chart 5.4 Quantity of Noxious Wasters (main cities)

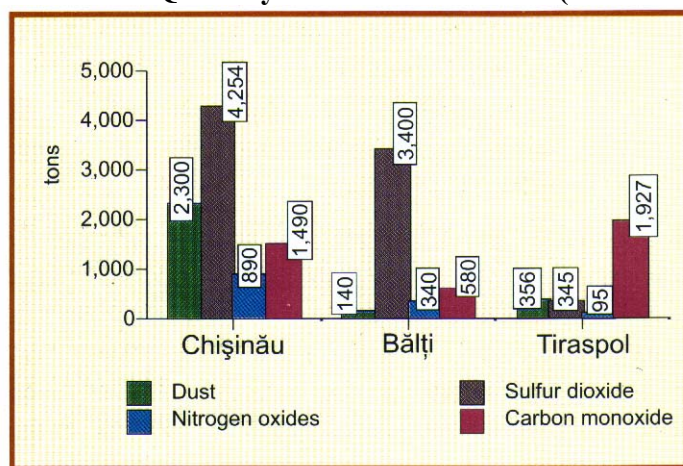
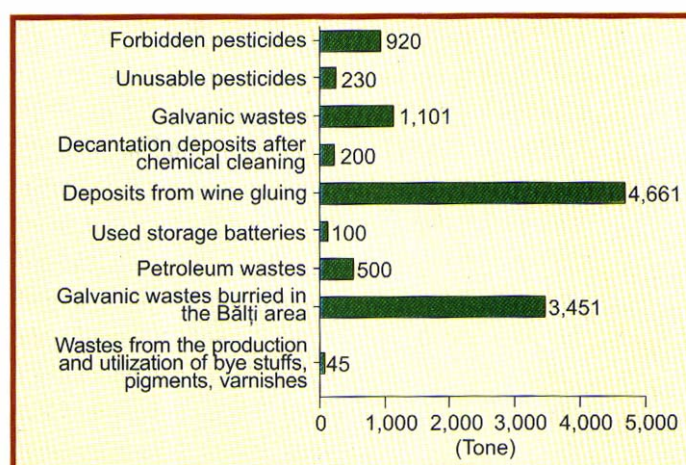


Chart 5.5 Noxious Wasters (1993-1996)



According to official data, forest areas presently constitute only 9% of the territory of Moldova. In conformity with a forest development plan, this figure should reach 13% in 2000. However, if the management of forest resources is not re-structured in every respect, the forecast target, even though it is still much lower than in the majority of European countries with comparable population densities, will not be achieved.

The scale of forest devastation, which has reached a critical stage and may become irreversible in 10-15 years, has provoked a protest on behalf of Moldovans (NGOs, scientists, specialists in the field, etc.) in the form of a Memorandum addressed to the President. As a result, a Special Commission was set up by the Government.

The final problem which needs to be mentioned in this part of the Report is that of waste management. It is noteworthy that urban refuse dumps presently occupy 200 ha, and one third of them are used beyond their capacity.

Industrial and toxic waste is also becoming a worrying source of water and soil pollution. So far, there are no areas for the incineration of toxic waste. These are, therefore, often transported to household waste deposits, without permits, together with other industrial (or agricultural) waste.

In view of the above and in the light of the high cost of new facilities (estimated at US\$ 20 -25 million), it is essential that other solutions - such as refuse reduction and incentives for re-processing - be found.

5.7.2 ENVIRONMENTAL POLICY REFORM

The current state policy of environmental protection consists of restructuring the entire environmental management system and the administration of natural resources, by modernizing juridical, technical-regulatory, institutional, economic and social instruments.

The legal framework for this policy is constituted by Article 37 of the Constitution, which guarantees a healthy environment to each citizen of the Republic of Moldova and by the Documents of the UN Rio de Janeiro Conference on Environment and Development and international conventions in the field to which Moldova has adhered, including the decisions of the Pan-European Conference of Environment Ministers in Lucerne (1993) regarding the implementation of the Action Programme on Environmental Protection in Central and Eastern European Countries. In 1995, with the participation of the World Bank, a National Strategic Programme (until 2010) and a National Action Plan for Environmental Protection (1996-1998) were adopted.

Apart from the above, also adopted were the Law on Environmental Protection (1993); the four Codes - regarding Land, Water, Underground Resources (1993), and Forestry (1996); the Laws on the State Ecological Expertise, on the Protection of Water, Rivers, River Basins, on the Protection of Natural Resources (1996) among others. Further draft laws are presently under examination regarding the atmosphere pollution, natural reserve fund, an ecological tax, wastes disposal etc.

In recent years, resolutions of the Government and decisions of the Department of Environmental Protection, have produced numerous technical-normative acts, procedures, instructions, regulations, and decrees concerning the application of the above legislation. Additionally, recently established has been the Department of Environment Protection (DEP) supervising the State Ecological Inspectorate, "Hydro-Meteo" Service and the National Institute for Ecology (NIE), and in charge of monitoring, controlling and regulating the process of environment protection in the Republic.

The implementation of practical actions is conducted through 11 decentralized regional agencies, delimited territorially on the basis of ecological principles.

Responsibility for the specialized management of natural resources lies with the Ministry of Agriculture and Foods - soils, surface waters, forests; Department for Standards, Meteorology and Technical Control - mineral resources and underground water resources; and Geological Agency of Moldova - mineral exploration. Additionally, the Hygiene and Epidemiology Services of the Ministry of Health Care are responsible for the management of environmental matters as far as they relate to the health of the population. The Environmental Prosecutor's Office ensures compliance with the Environmental Protection Law.

In reality, there is no strong and coherent ecological policy pursuing long-term development and preservation of natural resources, and introducing the improvement and protection of the environment into economic and social behavior in all spheres of human activity. The economic crisis, of course, hinders the promotion of environmental values. But there is hope that once the transition is further advanced it will be easier to redirect the economy towards long-term development issues.

As of today, the good intentions in this field are being only partially fulfilled. The influence of environmental authorities in the Government apparatus is minimal. Only about half of the objectives laid down in the National Action Plan (1996-1998) were achieved in 1996: these focused on such issues as changes in economic, fiscal and environmental policy, consolidation of institutional capacities, improvement of environmental standards and norms, improved supply of drinking water, conservation of natural resources, including energy resources, soil and forest protection, and waste disposal.

The implementation of laws, regulations, and instructions, still remains poor. (The quality of these documents also often leaves much to be desired, as regards judicial style, exactness of wording and the compatibility with the legislation in other fields, among others).

The idea of making use of market incentives for environment protection does not exist even in draft form. Consistent taxation and tariff systems (for utilization of resources and for pollution) have not yet been adopted, whether in accordance with market principles, or with environmental ones. Such payments are either symbolic (i.e. insignificant for economic institutions) or are used more as a negative, coercive instrument than as positive incentives. The taxes for resource utilization are collected principally for the benefit of local government budgets. Although according to some investigations, the share of revenue from this source, doubled between 1992 and 1995, (from 0.18% to 0.33% of total tax collection, including in local budgets from 0.03% to 0.67%), rising from 10 thousand to 6.57 million lei, it is still tiny compared with the amounts required.

Pollution taxes are levied for the benefit of the Ecological Fund which is under the control of the Department of Environmental Protection (DEP). The amounts received by the Fund since its establishment (by Government Resolution) are as follows, in thousands of lei:

Table 5.12 Revenues of the Ecological Fund

Years	Total	Level :	
		Central	Local
1991	1.7	0.6	1.1
1992	18.6	6.4	12.2
1993	206.8	81.3	125.5
1994	304.2	95.7	208.5
1995	938.1	193.2	744.9
1996	1,515.8	208.7	1,307.1

Source: Department of Environmental Protection of Moldova

Also to be noted is that taxes on utilization of natural resources and fines for environmental pollution are now calculated not in terms of current prices (be they approximate) but in terms of minimum wage. Such a criterion is neither environmentally, financially, nor economically efficient.

One positive example in collecting financial resources for their further application to various environmental projects, was the 1995-1996 experience in the mayor's office of the city of Chisinau, which levied taxes on pollution depending on the degree of danger represented by the substances involved, thus, stimulating investments in environmental protection.

5.7.3 WORKING ENVIRONMENT PROTECTION

The quality of the working environment is a decisive element in the health of the population, since a favorable and comfortable working environment increases the productivity and quality of people's work.

In the Republic of Moldova, presently there is no law regarding working environment protection, nor has the country yet ratified all the corresponding ILO conventions, for example the one on the usage of asbestos. Legal aspects of working environment protection are indirectly covered in the Labor Code (1973, revised in 1996), and in more detail in two other laws - the Law on Labor Protection (1991) and on Sanitary-Epidemiological Protection of the Population (1993). The provisions of these laws include: coordination of labor protection with environmental protection; providing security in cases when harmful substances are used in the production process; prohibition on the use of harmful substances for which maximum legal limits have not been established; routine tests to be carried out at the workplace, and regulation of working conditions. On the basis of these laws, the specialized services of the Ministry of Health issue regulations, instructions and decisions which regulate the protection and security of labor, and issues relating to the use of harmful substances, as well as to sanitation and hygiene.

Noted should be that many regulations, instructions and respective standards established by the Ministry of Health of the former USSR have been preserved, having been ratified by the Ministry of Health of the Republic of Moldova. Unfortunately, neither these regulatory acts, nor their application in practice, directly target "working environment protection". Rather stress is placed on "labor security", "labor protection", "labor hygiene", with a general expectation that they will be "coordinated with environmental protection" in general.

According to the legislation and respective regulations issued by the Government, workplaces undergo a certification process for establishing the categories of workers whose health might be endangered. These persons receive various compensatory benefits, such as: additional holidays, shorter working days, free food supplements (milk, etc.), higher rates of pay, salary bonuses, and various pension privileges.

The organization and systematic monitoring of labor conditions start with the enterprise, which should, but does not always, have a Department of Labor Protection and Security. Depending on the specific features of an enterprise's production, this Department should possess necessary laboratories, equipment and machinery, and should be staffed with specialized personnel. As regards small enterprises - the obligations of the employer as well as regulations and insurance of the good state of working conditions, are stated in their licenses.

At a higher level, supervision and regular inspection of labor protection and security are the responsibility of the Department for Labor Security of the Ministry of Labor, Social Protection and the Family. The Department has 70 field inspectors whose main task is to monitor the manner in which enterprises ensure labor security, but they have to do this, regrettably, without any laboratory or mobile verification equipment.

As regards supervision and control of the sanitary and epidemiological regime throughout the country, including sanitation and hygiene at work, this is the responsibility of the specialized services of the Ministry of Health. They visit selected enterprises to verify sanitary and hygiene conditions. The frequency of these visits depends on the number of employees and the nature of activities of the enterprises, among others. Within the Ministry, there is also a Center for Epidemiology and Hygiene.

Regarding penalties, the old Penal Code (in force until September 1996) did not specify an efficient procedure for determining violation of regulations and norms in the field of working environment protection. Fines imposed by the above-specified responsible bodies in case of administrative offenses had little effect on the employers and left much room for arbitrary solutions. In this context, noted should be that the burdensome procedure of dealing with these offenses (by means of inspectors' reports, and local government commissions) facilitated such arbitrary decisions and the evasion of obligations and responsibilities.

Since September 1996, however, after a review of the respective articles of the Penal Code, the procedure has been changed. The reports drawn up by the inspectors of the State Sanitary-Epidemiological Service regarding identified offenses are submitted to the Chief Government Medical Officer (or his Deputy) or to the local government Medical Officers.

Depending on the (administrative or penal) nature of the offense, these government Medical Officers decide whether to submit the case to legal authorities (in case of an administrative offense) or to the public prosecutor. An administrative offense is examined by the judges within 15 days and in case of a guilty judgment a fine could be imposed: for private persons - up to 25 minimum salaries, and for office holders - up to 75 minimum salaries.

Summing up all the above, the institutional organization of working environment protection still carries some marks of the old way of thinking. Apart from this, the existence of many organizations dealing with monitoring and investigative functions implies duplication in some areas, and gaps in others.

Hence, a new approach is urgently needed. In this context, an institution might be needed which would integrate the management of preventive medicine, the monitoring of occupational pathologies, the certification of occupational suitability, etc., through joint efforts of different specialists (doctors, engineers, economists, psychologists, ecologists, etc.).

CONCLUSIONS

In the Republic of Moldova, the effective transition to a democratic society continues to present one of the most difficult and long-term problems, due to various political, economic and social reasons. More so given that the initial conditions in the society were particularly unstable, characterized by geopolitical unrest which has had serious consequences felt even nowadays: the existence of a separatist territorial unit - the self-proclaimed "republic" of Transnistria - undermines the proper functioning of the state, thus hampering the democratic aggregation of the society.

Another obstacle on the way to real democracy is constituted by the continuous degradation of the economic system. In 1996, GDP declined by 8% as compared to 1995, accounting for only 62% of the 1993 GDP. The economic prognosis for 1997 are not optimistic either. The drastic decline of the economic activity is accompanied by a further rise in unemployment and decline in living standards. According to some estimates, at the end of 1996, both registered and concealed unemployment, except for the seasonal unemployment in the agricultural sector, accounted for almost 17% of the economically active population. It seems that the employment crisis will not be solved in the nearest future, with its main characteristics being a high rate and long duration of unemployment and a shift of those employed to the poorly paid branches of the national economy. Such a state of affairs implies a waste of human capital, disillusion, discouragement and social indolence, social exclusion *and* the overall society fragmentation along different lines.

The economic crisis affects allocations to the social sphere, having a direct negative impact upon human development. The economic capacity of the state to support adequate social protection system is very low. Between 1993-1996, when the GDP declined by 38%, while the social needs sharply increased, budget allocations to education, health care, family issues, unemployment benefits, pensions, social assistance, among others, decreased from 60.9% to 48.3%.

Apart from the above, living standards are continuing to decline. The purchasing power of the population incomes has considerably eroded. As compared to 1990, the real money incomes of the population have reduced 3.5 times, with the real wage having fallen 3.7 times and the real pension - almost fivefold. Such a decrease in the purchasing power occurred, among others, due to wages and pensions arrears, which have become a rule rather than an exception.

To be noted that in the Republic of Moldova, there are almost no conditions for the creation of favorable environment for the development of the middle class, which is extremely important for the social and political stability and the democratic aggregation of the society.

Furthermore the imperfect legislation, improper functioning of the new institutions, dealing with the issues of privatization, taxation and crediting lead to the appearance of informal economy, mafia structures and economic crime. At the same time, economic instability affects a growing segment of the society.

Another important problem which needs mentioning is that of poverty. At present, poverty affects about 80% of the population of Moldova. The signs of poverty have not been notified in due course, and its seriousness and extent have not been realized yet. As a result, the "subsistence minimum" and "poverty line" have not been yet legally defined. In the meantime, new categories of the poor keep emerging, including farmers, intellectuals (e.g. teachers, civil servants, doctors, engineers, writers, actors, painters and many others), the youth, the handicapped, pensioners etc. Poverty alleviation, therefore, should be one of the public policy priorities.

Unemployment, a fall in living standards, the population impoverishment, small investments into the human capital development show a rather poor efficiency of the state to manage the processing underway in the country, lack of experience and political inconsistency in the implementation of reforms. Due to objective

difficulties and subjective errors, the policy of the state has been limited to short-term random actions, with these being not targeted to a long-term development model, that might result in an increase in employment, in real incomes, in investments (including in human capital) as well as in the development of the middle class and emergence of new income distribution principles. All these would definitely ensure a greater social stability.

The above-described precarious situation in Moldova requires thorough changes of the social and economic policies:

- consolidation of the capacity of the state to promote reforms and organize the society in compliance with democratic criteria and creation of the legislative framework on the basis of which reforms could be properly implemented;
- a global and coherent reform of the socio-economic system: adjustment of the national economy to market mechanisms and criteria; acceleration of privatization; provision of support to small and middle scale entrepreneurship in all the sectors of the national economy, especially in agriculture; implementation of productive employment programmes; poverty alleviation; improvement of the fiscal system; restructuring of the social security system, etc.

A particular attention should be given to efficient use of loans and credits, granted to Moldova by international bodies, maintaining a maximum level of transparency in the process of decision making and improvement of a dialogue between all sectors of the civil society. All of these are the factors of paramount importance for the achievement of organic social cohesion in the Republic of Moldova.



Human Development Index

Average life expectancy at birth, 1995	Adult literacy rate, 1989	Combined first, second and third-level gross enrollment ratio (%), 1995	Real GDP per capita (PPP\$), 1994	Adjusted real GDP per capita, 1994	Life expectancy index, 1995	Education Index, 1989	GDP Index, 1996	Human Development Index, 1994	Real GDP per capita (PPP\$) rank minus HDI rank, 1994
65.8	96.4	65	1,576	1,576	0.68	0.964	0.92	0.612	28

Profile on Human Development

Life expectancy at birth (years), 1995	Population with access to:			Daily calories supply per capita, 1996	Adult literacy rate, 1989	Combined first, second and third-level gross enrollment ratio (%), 1995	Daily newspapers (copies per 100 people), 1996	TV-sets (pieces per 100 people), 1996	Real GDP per capita (\$ PPP\$), 1994	GDP per capita (US\$), 1996
	Health services (%), 1995	Safe water, 1994	Sanitation,* (%) 1989							
65.8	100	63**	41.4**	2,127	96.4	65	120	20	1,576	442

* Access to piped water

** Estimates

Profile of Human Deprivation

Refugees by country of asylum (thousands), 1996	Population without access to:			Illiterate adults (age 15 and above; millions), 1989	Illiterate females (age 15 and above; millions), 1989	Children not in primary school (thousands), 1995	Malnourished children under five (thousands), 1995	Children dying before age five (thousands), 1995
	Health services (millions)	Safe water (millions)	Sanitation (millions)					
...	...	1.6**	2.5**	0.1	---	19**	---	1.5

** Estimates

Trends in Human Development

Average life expectancy at birth (years)		Infant mortality rate (per 1,000 births)		Population with access to safe water (%)		*Underweight children under age five (%)		Adult literacy rate (%)		Enrollment ratio for all levels (%), age 6-23	Real GDP per capita (PPP\$)
1959	1995	1960	1995	1975-80	1988-93	1975	1990	1970	1989	1995	1994
68.1	65.8	48.2	20.2	...	...	...	...	...	96.4	63*	1,576

* between 7-24 years old.

Rural-Urban Gaps

Rural population (as% of total, 996)	Population with access to services (%):						Rural-urban disparity in services		
	Health, 1995		Safe water, 1995		Sanitation, 1995		(100 = rural parity - urban)		
	rural	urban	rural	urban	rural	urban	Health 1995	Safe water 1995	Sanitation 1995
54	100	100	...	...	...	...	100	...	...

* 79.7% of households with access to piped water are in urban areas

!!! Education indicators used in the text of the Report refer to the Republic of Moldova without Transnistria and the city of Benderi, while the figures in the Annex describe the situation in the country as a whole



Health Profile

One-year-olds fully immunized against		Cases of AIDS (per	Malaria cases (per	Population	Population	Public expenditure on health	
Tuberculosis (%), 1995	Measles (%), 1995	100,000 people), 1995	100,000 people), 1995	doctor, 1995	nurse, 1995	As % of GNP, 1960	% of the GDP, 1995
98	91	0.05	0.05	252	96	...	5.9

Child Survival and Development

Pregnant women aged 15-49 with anemia (%), 1995	Births attended by trained health personnel (%), 1995	Low birth-weight infants (%), 1995	Maternal mortality rate (per 100,000 alive births), 1995	Infant mortality rate (per 1,000 alive births), 1995	Under-five mortality rate (per 1,000 alive births), 1995	Mothers breast feeding at 6 months (%), 1995	Oral rehydration therapy use rate (%), 1995	Underweight children under age five (%), 1995
41	99	6	40.8	21.2	27.3	51	---	

Food Security

Food production per capita index (1985-100), 1996	Agricultural production (as % of GDP), 1995	Food consumption (as % of total household consumption), 1996	Daily calories per capita, 1996	Food imports (as % of merchandise imports)		Cereal imports (thousands of metrical tons), 1996	Food aid in cereal (thousands of metrical tons), 1995
				1970	1996		
31	29.8	65	2,127	...	3.1	42	104.9

Education Imbalances

Pupil-teacher ratio		Secondary technical enrollment (as % of total secondary), 1995*	Tertiary natural and applied science enrollment (as % of total tertiary), 1995	Tertiary students abroad (as % of those at home), 1995	Public expenditures on			
Primary, 1995	Secondary, 1995				Education (as % of GDP), 1995	Education (as % of total government expenditure), 1995	Primary and secondary education (as % of all levels), 1990	Higher education (as % of all levels), 1994
22	15	54	7	1.9	9.0	24.2	61	9

* the number of pupils

Employment

Labour force*(as % of total population)	Women's share of adult labour force (age 15 and above)	Percentage of labour force in						Earnings per employee annual growth rate, (%)	
		Agriculture and forestry		Industry		Services		1970- 1980	1993-1996
1996	1996	1965	1996	1965	1996	1965	1996		
46	53	57.1	42.8	12.8	11.8	30.1	45.5	103	181

* population employed

Welfare, Poverty and Social Investment

Real GDP per capita (PPP\$), 1994	GDP per capita (US\$), 1996	Income share, 1996		People in poverty		Social security benefits expenditure (as % of GDP), 1995	Public expenditure on	
		Lowest 40% of households(%)	Ratio of highest 20% to lowest 20%	Urban	Rural		Education as % of GNP**, 1995	Health care (as % of GNP**), 1995
1,576	422	—	10.0*		—	2	9.0	5.9

* Ratio of highest 10% to lowest 10%

* % of GDP



Resource Flow Imbalances

Total external debt		Debt service ratio (debt service as % of exports of goods and services)		Total net official development assistance received, 1993 (net disbursements)			Export-import ratio (exports as % of imports), 1996	Terms of trade (1987=100), 1995	Current account balance before official transfers (US\$ millions), 1995
US\$ millions, 1996	As % of GNP, 1996	1980	1995	US\$ millions	As % of GNP	Per capita (US\$)			
781	49	---	15	---	...	...	74.3	...	...

Disproportion between the military expenditures and resources usage

Defense expenditure*			Military expenditure (as % of compared health and education expenditure)		Imports of conventional weapons		Total armed forces	
US\$ millions (1995 prices)		As % of GDP/GNP			US\$ millions	% (1989=100%)	thousands	Index (1985=100)
1985	1995	1985	1995	1985	1995	1960	1995	1995
...					

* data is not accessible

Urbanization Growth

Urban population		(as % of	Urban population annual		Population of cities of more than 750,000		The biggest city			
total)			growth rate (%)		As % of total population	As % of urban population		Population (as % of urban population)	Growth	rate (%)
1960	1996	2000	1960-1996	1996-2000	1995	1995		1996	1970-75	1990-96
23	46	46	3.2	-0.3	...	...	Chisinau	33	4.6	-0.4



Demographic Profile

Estimated population (millions)			Annual population growth rate (%)		Population doubling date (at current growth rate)	Crude birth rate, 1995	Crude death rate, 1995	Total fertility rate, 1995	Contraceptive prevalence rate, any method (%), 1994
1960	1996	2000	1960-1995	1995-2000					
3	4.3	4.3	1.1	...	...	13.0	12.2	1.76	22*

* includes women under observation who are using intrauterine devices and oral contraceptives as % of women between ages 15-49.

Natural Resources Balance Sheet

Land area (thousand sq.km), 1996	Forest and woodland (as % of land area), 1996	Arable land (as % of land area), 1996	Irrigated land (as % of arable land area), 1996	Deforestation (1,000 ha per year), 1980- 1989	Annual rate of defores- tation (%), 1980-1989	Reforestation (1,000 ha per year), 1980- 1989	Production of fuel wood and charcoal (1,000 m ³ per year)		Internal renewable water resources per capita (1,000 per year), 1995	Annual fresh water withdrawals	
							1992	1996		As % of water resources ,1995	per capita m ³ 1995
33.8	12.5	52.7	17.3	25	...	3	194	36	1.7*	27*	463*

* estimates

Energy Consumption

Production as % of national energy reserves			Commercial energy production average annual growth rate (%)		Commercial energy consumption average annual growth rate (%)		Commercial energy use (kg of oil equivalent per capita)		Commercial energy efficiency (energy consumption in kg. of oil equivalent per \$ 100 of GDP)		Commercial energy imports (as % of merchandise exports)	
Coal 1991	Natural gas 1991	Petroleum 1991	1971-1980	1980-1992	1971-1980	1980-1992	1971	1992	1971	1992	1971	1992
...	---	1,600	...	...	...	...

National Accounts

GDP (US\$ billiard), 1995	Agriculture (as % of GDP), 1995	Industry (as % of GDP), 1995	Others (as % of GDP), 1995	Consumption (as % of GDP), 1995		Gross domestic investments (as % of GDP), 1995	Gross internal savings (as % of GDP), 1995	Tax revenue (as % of GDP), 1995	Central government expenditure (as % of GDP), 1993	Exports (as % of GDP), 1995	Imports (as % of GDP), 1995
				Private	Government						
1.4*	29.8*	24.4*	45.8	56.4	38.9	13.0	17.8	11.5	6.6	60.0	69.0

* Share of value added in GDP

Trends in Economic Performance

GNP (US\$ billions)	GNP annual growth rate (%)	GNP per capita annual growth rate (%)		Average annual rate inflation (%)		Exports as % of GNP (% annual growth rate)	Tax revenue as % of GNP (% annual growth rate)	Overall budget surplus/deficit (as % of GNP)	
		1965-80	1980-95	1991	1996			1993	1996
1.4	-14.5	...	...	7.9	1.2	...	...	7.5 (-)	10.3 (-)

ABBREVIATIONS

RM	- Republic of Moldova
UN	- United Nations
UNDP	- United Nations Development Programme
WB	- World Bank
IBRD	- International Bank for Reconstruction and Development
EBRD	- European Bank for Reconstruction and Development
BSECB	- Black Sea Economic Cooperation Bank
CIS	- Commonwealth of Independent States
RF	- Russian Federation
EEC	- European Economic Community
EC	- European Community
IMF	- International Monetary Fund
ILO	- International Labor Organization
ITO	- International Trade Organization
OSCE	- Organization for Security and Cooperation in Europe
OECD	- Organization for Economic Cooperation and Development
TACIS	- Technical Assistance for CIS and Mongolia
UNICEF	- United Nations Children's Fund
CSM	- Center for Studies of the Market
MER	- Ministry of Economy and Reforms
ASRM	- Academy of Sciences of the Republic of Moldova
IEASRM	- Institute of Economics of the ASRM
DEP	- Department of Environment Protection
SEI	- State Ecological Inspectorate
NIE	- National Institute for Ecology
DSRM	- Department of Statistics of the Republic of Moldova
MLSPF	- Ministry of Labor, Social Protection and Family
IPPS	- Institute for Pedagogic and Psychological Studies
MF	- Ministry of Finance
NGO	- Nongovernmental Organization
UJRM	- Union of Journalists of the Republic of Moldova

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