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National Human Development Report

2012

EUROPEAN ASPIRATIONS
AND HUMAN DEVELOPMENT
OF THE REPUBLIC OF MOLDOVA



National Human Development Report 2012

EUROPEAN ASPIRATIONS AND HUMAN DEVELOPMENT OF THE REPUBLIC OF MOLDOVA

Chisinau, 2012



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FOREWORD



The Republic of Moldova is a young democracy, yet the progress achieved in transforming political, economic and social realms is commendable.

The positive change accomplished in the last two decades, particularly in the last years, calls for a reflection on the development prospects of the country and on the gaps to overcome in order to make the change irreversible. Moldova also needs to reflect on the major challenges it is about to face and its strategy for addressing them.

It is already a long-standing tradition that each National Human Development Report seeks continuity of national efforts to analyze the human development level and progress. The current report is no exception in this respect. However, the new report is unique in another respect; it approaches the European integration aspirations of the country through the lens of human development; and it seeks to describe the intricate relationship and mutual influence between the two processes. Such an approach will improve understanding of the complexity of the integration process and its impact on human development, of the society's capacity to ensure that all people are able to live and work decently, and to fulfill their potential in an environment where opportunities are preserved and created.

The European integration aspirations of the country cannot be seen outside the current development context. The report examines the

main obstacles and opportunities, placing them in a wider context of the political, economic and social transformations the country is going through. Like any social process, European integration cannot have a linear trajectory and is not a one-way street. The process must be seen as a multidimensional one. It does not bring benefits and advantages alone. In addition to the efforts of politicians or technocrats, it requires efforts from the entire society - shifts in mindsets and attitudes by every Moldovan, and obviously an unparalleled communication within and cohesion of the society. I believe this should be the recipe for success.

As such, the report does not only provide solutions and relevant policy recommendations for decision makers, but also is meant to offer a venue for discussions. I am certain it will generate fascinating and constructive debates at both national and local levels on the complexity of European integration and inclusive and sustainable human development.

I would like to use this opportunity to express my gratitude to our colleagues from the Ministry of Labor, Social protection and Family, from other line ministries, academia, and civil society, analytical groups of the country as well as all those who, directly or indirectly, contributed to this research. Particularly, I would like to emphasize the effective and constructive work of the Advisory Committee and its members. I appreciate the professionalism and substantial contribution of the authors to the achievement of the major goal of this analytical product. While the recommendations of this report belong to its authors, we trust they will significantly contribute to the continuous national efforts of building an inclusive society and to the sustainable human development for the Republic of Moldova and its people.

Nicola Harrington-Buhay
UNDP Resident Representative and
UN Resident Coordinator

PREFACE



European integration of the Republic of Moldova is the overarching goal of the Government, as well as of the ordinary Moldovans.

Through consolidated efforts and with support from domestic and foreign partners, the Government has managed within the last years to put successful efforts in strengthening ties with the European Union, to promote European values and standards in various areas, including economy, culture, and social life. At the same time, the national legislation has been improved considerably in many areas and complies with the European requirements and standards. Implementation of the strategic development framework stipulated in the Moldova 2020 Strategy and in a number of associated sector policies will allow us to advance further in this direction. We are very close to successful finalization of negotiations on the Association Agreement with the European Union, which will allow for a faster advancement on our European path.

We believe sustainable human development in the country is an important goal and is reinforcing the European integration objective. People of this country deserve to live a decent life, to enjoy favorable conditions allowing them to demonstrate all their abilities and capacity, to live in a friendly environment. Human development is an important precondition for sustainable progress of the country. Successful integration of the Republic of Moldova in European structures, in the European Union is and will not be possible without providing all the conditions for sustainable human development.

The 2012 National Human Development Report presents a multilateral analysis of the European integration aspirations and of the human development potential of the country, of interconnections among them, given the current economic, social, political and cultural conditions. This report represents a contribution of all involved actors to a better understanding of our reality and prospects. I would like to use this opportunity to suggest all the stakeholders to extensively use this analysis for formulation of policy proposals and recommendations with the aim to achieve the strategic goals of our country. I would like to emphasize that this Report is intended not only for decision-makers or specialists in various narrow fields, but also for ordinary Moldovans. The contribution of the ordinary people is in fact, crucial. Only the involvement of all Moldovans in sustainable and inclusive development of the country, consolidation of efforts around a common vision will make it possible for us to truly approach the European Union and European values within a reasonable period of time.

On behalf of the Government of the Republic of Moldova, the Cabinet of Ministers, I would like to reiterate my firm belief that European Union integration is the most viable way of modernization for our country. We have an obligation, especially given the circumstances and to the future generations, to build a 'Europe' at our home. I would like to thank our colleagues from the Ministry of Labor, Social Protection and Family of the Republic of Moldova for their efforts in coordinating the large consultation process to develop this report. I would like to thank the members of the Advisory Board comprising representatives of all line ministries, development partners and academic circles, as well as the team of authors for their intellectual effort. We all have to draw certain conclusions based on the report, to support us in a constructive dialogue with all those interested in sustainable and inclusive human development in the Republic of Moldova for a brighter future for our people.

Vladimir Filat
Prime Minister of the Republic of Moldova

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Advisory Board and Consultations

The Report passed through various rounds of bi-lateral and multi-lateral consultations and three Advisory Board meetings. As a result of large participation, the text of the Report has been improved and a multitude of relevant comments have been taken into consideration. Written and verbal feedback to the draft versions of the Report has been received from

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ACRONYMS AND ABBREVIATIONS

- AA** – Association Agreement
- ATP** - Autonomous Trade Preferences
- CEE** - Central and Eastern Europe
- CEDEFOP** – European Centre for the Development of Vocational Training
- CGE** – Computable General Equilibrium model
- CIS** – the Commonwealth of Independent States
- DCFTA** – Deep and Comprehensive Free Trade Area
- EaP** – Eastern Partnership
- EFTA** - European Free Trade Association
- EC** – European Communities
- ENP** – European Neighborhood Policy
- ETF** – European Training Foundation
- EU** – the European Union
- FTA** – Free Trade Agreement
- GDP** – Gross Domestic Product
- GHDR** – Global Human Development Report
- GII** - Gender Inequality Index
- GNI** – Gross National Income
- GoM** – Government of Republic of Moldova
- GSP** – Generalized System of Preferences
- HDI** – Human Development Index
- IHDI** - Inequality-adjusted Human Development Index
- ITI** - Intraregional Trade Intensity
- MDGs** – Millennium Development Goals
- MDL** – Moldovan Leu (national currency in Republic of Moldova)
- MPI** - Multidimensional Poverty Index
- NBM** – National Bank of Moldova



NBS – National Bureau of Statistics of Republic of Moldova

NGO – non-governmental organization

NHDR – National Human Development Report

P&A - Processing and Assembling agreements

PCA - Partnership and Cooperation Agreement

RDA – Regional Development Agency

R&D – Research and Development

RBK CU – Russia-Belarus-Kazakhstan Customs Union

RCA - Revealed Comparative Advantages index

SITC - Standard International Trade Classification

TEU - Treaty of European Union

UNDP – United Nations Development Program

VET - Vocational Education and Training

WeB – Western Balkan countries

WTO – World Trade Organization

INTRODUCTION

European integration has been identified by the previous and current Governments of the Republic of Moldova as the most feasible and strategically the most advantageous integrationist option for the long-term development of the country¹.

European integration is one of the key priorities of Moldova, enjoying large social and political support ...

... even though the public is not necessarily 'connected' to the process.

As existing social opinion surveys show, this option is shared not only by the political and intellectual elite, but also by more than half of Moldova's citizens². As for the political elite, while not all political parties actively support the country's European integration, the predominant opinion among Moldovan politicians is strongly in favour of European integration. Since late 2009, the country has been ruled by a coalition of parties called the Alliance for European Integration. Moreover, 'European integration' is probably the term most often used in the political discourse in the Republic of Moldova.

At the same time, the process of preparation of this National Human Development Report (NHDR) brought clear evidence on the lack of a deep understanding on the part of the wider society regarding the process of European integration, its status and purposes. Citizens are often confused regarding the topics currently discussed and negotiated between the Republic of Moldova and the European Union or are even totally 'disconnected' from

the processes that are going on. As shown by the sociological survey conducted as part of the NHDR preparation process, more than 62 percent of the Moldovan citizens believe that currently Chisinau and Brussels are negotiating Moldova's accession to the European Union³; it is worth recalling that the European Union has not even officially acknowledged Moldova as a 'candidate'. Insufficient information regarding Moldova's European integration vector seems to be one of the key factors explaining the public's bewilderment. Around 39 percent of citizens surveyed have acknowledged that they are rather uninformed about the European integration process, while 23 percent said they are very poorly informed about the process. An equally 'illuminating' finding is that 39 percent of the population believes that politicians are those who will gain the most from European integration, while only 12 percent ascertained that citizens have the most to benefit and 32 percent said that citizens and politicians will equally benefit from European integration. Ensuring that the public is properly informed and, indeed, getting this public involved in the European integration process are of key importance for successfully achieving Moldova's European aspirations, for ensuring that outcomes of the process meet the expectations of the society and that political elites and citizens 'are part of the same universe'.

FOOTNOTES

¹ The Government Program for 2005-2009 "Modernization of the Country – Wellbeing of the Citizens" established the European integration as the fundamental priority of the Government (available in Romanian and Russian languages at <http://www.gov.md/doc.php?l=ro&idc=445&id=2688>). The very name of the current Program of the Moldovan Government for 2011-2014 – "European Integration: Freedom, Democracy, Wellbeing" – explicitly shows the key importance the Government attaches to the European integration vector.

² See the results of the Barometers of the Public Opinion, conducted by the Institute for Public Policy of Moldova, available at http://ipp.md/public/files/Barometru/Brosura_BOP_05.2012_anexe_dinamica.pdf, retrieved at 8 of August 2012.

³ The survey was conducted by the Marketing and Surveys Institute IMAS-INC Chisinau, between 16 of August and 2 of September 2012. The surveyed sample included 1111 respondents aged 18 years and above from the entire country, excluding Transnistria. The maximum sampling error is ±3 percent

Why, however, are we writing a National Human Development Report on the European aspirations of the Republic of Moldova? Does European integration directly affect human development? The historical evidence suggests that there is a strong link between the European integration processes and human development in the countries involved. This link is especially strong during the EU accession stages - when the deepest political, institutional, economic and social changes take place. However,



while there is strong evidence indicating that the recent enlargement waves have greatly benefited human development of the countries joining the EU, there is not so clear evidence on how exactly 'Europeanization' (a concept explained in the chapter two) affects human development beyond EU members and applicant states; and Moldova is the case of a country with no clear 'candidate' perspectives yet. However, a comprehensive literature review suggests that the EU influences the behavior of non-members' and non-candidates', including with respect to human development, either by targeted means (conditionality, externalization, socialization⁴) or by its mere presence (thus stimulating imitation by countries' elites and citizens).

According to one of the first definitions of human development, "[this concept] is about enlarging people's choices in a way which enables them to live longer, healthier and fuller lives"⁵. While crucial indeed, living longer, healthier and fuller lives may not necessarily result in the fulfillment of the peoples' talents, potentials and aspirations. Other inherent dimensions of human development are high-quality education, political freedom⁶, cultural liberty⁷, personal security, the possibility of living in a clean environment, social inclusion, and equality of opportunities regardless of gender, nation, race or religion. In this regard, European integration is a process which in itself and by its outcomes broadens the universe of choices and freedoms of people, consolidates democratic institutions, promotes social inclusiveness and equality of opportunities, emphasizes the importance of environmental policies and brings higher living standards.

Obviously, European integration *per se* is not a guarantee for Moldova to attain the desired level of human development. As proven by the examples of some EU members currently suffering of sovereign debt crises, social turbulence and economic troubles, EU membership does not rule out the need

for a sound macroeconomic environment, transparent policy-making, social dialogue and financial sobriety. However, considering Moldova's geographic conditions, economic development priorities, geopolitical realities, social opinions and cultural affinities, European integration appears to be the best strategic option that may greatly support Moldova in pursuing its development goals. Two key preconditions for the development potential of the European integration vector to materialize are that the process is socially inclusive (to ensure that everybody benefits from it) and fully transparent (to understand the costs and risks involved).

So, on the one hand, European integration can be seen as a long-term political project which would offer Moldovans and their country more opportunities and freedoms. On the other hand, increasing freedoms and building human capabilities represents the core of the human development concept itself. Deeply exploring the link between the European integration aspirations of Moldova and its human development is the main purpose of the Moldovan NHDR for the year 2012. This connection can be described in a metaphorical way – it is like climbing a tree, when in order to reach the top of the tree the climber cannot really jump right to the top, but needs to alternatively step onto higher and higher branches. Some of the branches may offer sound support while others are fragile and should be avoided by a smart

European integration process and its outcomes support the countries' human development ...

But requires political will and clear understanding of the balance of risks and opportunities.

For Moldova, European integration and human development are part of the country's development and modernization process...

FOOTNOTES

⁴ Conditionality, externalization and socialization are three different but closely related concepts. Conditionality represents a set of requirements that developing countries have to fulfill in exchange to external aid, in order to strengthen implementation of good governance principles or align to certain internationally recognized standards. Externalization, as its name suggests, is applying legal norms for regulation of public policies in countries that are outside an institutionalized group. Finally, socialization could be defined as a process of transformation leading to the internalization of norms of an international actor, without the latter necessarily having a targeted action in place in this respect.

⁵ Boozer Michael, Ranis Gustav, Stewart Frances and Suri Tavneet, "Paths to Success: the Relationship between Human Development and Economic Growth", Economic Growth Center, Yale University, Center Discussion Paper no. 874, December 2003.

⁶ UNDP, Human Development Report 2003 "Millennium Development Goals: A Compact Among Nations to End Human Poverty", 2003, accessible at <http://hdr.undp.org> UNDP, 2003.

⁷ UNDP, Human Development Report 2004 "Cultural Liberty in Today's Diverse World", 2004, accessible at <http://hdr.undp.org> Boozer and others, 2004.

... but their link has to be better analyzed and understood...

... with this Report concentrating on impact of trade-liberalization, visa-liberalization, and EU-motivated human rights and justice reform policies.

Report begins by analyzing current situation of Moldova's human development and comparing it with relevant EU countries ...

climber. That is, by engaging in the European integration process Moldova can gradually reach higher human development standards which, in their turn, will help Moldova make better use of the integration opportunities and successfully face economic and social challenges that European integration inevitably brings. This is the most feasible way how Moldova could climb its 'modernization tree' in the long-run.

The broad analytical goal of this NHDR is thus to undertake an objective analysis of the complexity of Moldova's European integration process and of the potential implications it may have on the processes and functioning of the national socio-economic and political system, on the people of Moldova, and, ultimately, on human development. This Report can be seen as an evaluation of the likely benefits and costs of the potential European integration process in pre-determined sectors and areas, an analytical endeavour resulting in a set of recommendations which could reduce costs and maximize benefits of European integration for all the people, regardless of their income, gender, race, ethnicity, etc.

However, this broad goal should be further defined by selecting the most important European integration-related policy issues to look at with a human development perspective in mind. As a result of wide consultations which were undertaken before and during the NHDR preparation process, two issues have been identified as particularly important for Moldova: the impact of the future Deep and Comprehensive Free Trade Agreement (DCFTA) and the impact of the future visa-free regime between Moldova and the European Union. Indeed, as long as Moldova has no clear 'candidate' perspectives, the liberalization of trade and the liberalization of movement of people between Moldova and the European Union may be two powerful incentives anchoring the country on the path of reforms which may be difficult but necessary for its own

development. At the same time, considering the fact that effective promotion of human rights and non-discrimination policies are among the key conditionalities attached by the EU to an eventual visa-free agreement between Moldova and the EU and, more than that, are two key preconditions for European integration to bring the highest possible social benefits, the issues of human rights, justice sector and the non-discrimination policies were included as part of the analysis.

Considering the analytic goal and the more specific objectives, the NHDR 2012 adopted the following structure: In the first chapter we assess the current situation of Moldova's human development, the most important trends, challenges and opportunities ahead. This chapter adopts a comparative perspective, in which Moldova's human development is assessed against a set of relevant comparator countries, either EU members or candidates or non-candidates. The chapter shows that despite its gains in human development, Moldova still has a wide development gap to close even with the less developed countries that joined the EU since the early 2000s. After the transformational collapse in the 1990s, Moldova managed to achieve a stronger economic growth in the last decade, but this growth has been unequal in geographic and social terms. A key message that this analysis conveys is that, if unabated, Moldova's economic growth based on migrants' remittances and consumption risks transforming into a highly non-egalitarian development model in the long-term.

The main purpose of the second chapter is to explain the inner mechanisms, driving forces and stumbling blocks of the European integration project, both in terms of institutional deepening and geographic enlargement. It analyzes the relevant experience of other countries which have been part of the European process, including as candidates, members or associates, explains how Moldova fits into the EU's development logic and highlights the most likely scenarios



for future development of the EU-Moldova relationship. This chapter also sheds light on the main expectations of Moldovan citizens regarding the European integration process. The analysis in the second chapter reports on the sentiment of estrangement that a significant part of Moldovan citizens feel regarding the European integration process and on the diverging social opinions regarding Moldova's European integration vector. One of the key messages of this part of the Report is that unless the Government adopts a more efficient communication strategy on European integration, societal support for this process will gradually decline.

The third chapter discusses the expected impact of the Deep and Comprehensive Free Trade Area (DCFTA) to be created between Moldova and the EU on the Moldovan economic and social development. As Moldova opens up its market to Europe, Moldovan companies will face formidable challenges in competing with European firms and conglomerates. How will this more open and direct competition impact different economic sectors of Moldova is a question addressed by applying Revealed Competitive Advantages indices as the main analytical tool. These results are corroborated further on with analysis based on a Computable General Equilibrium model of the Moldovan economy. A key aspect of analysis is the DCFTA's impact on agriculture and the food industry, considering the economic and social importance of the two sectors. The chapter also compares the impact of a deeper economic and trade integration with the EU with another regional integration options that some political parties in Moldova advocate – that of joining the Russia-Belarus-Kazakhstan Customs Union. Considering the long-term development, the results of the economic simulations are strongly in favour of Moldova pursuing deeper integration with the EU. At the same time, the economic models used strongly suggest that for Moldova to benefit of the economic openness on the part of the EU, the country has to ensure a well-trained, flexible and competent labour

force and to ensure a business environment conducive to a higher volume of investments which would also be more diversified in terms of targeted sectors.

Migration has served so far as a key factor influencing – both positively and negatively – development of Moldova. A more intense migration of labour, while further reducing poverty, is likely to undermine the economic growth potential of the country and to further disrupt social structures. Other conditions being equal, will the expected visa-free regime between Moldova and the EU provide new stimuli for an increased migration of labour? What to expect from this regime in terms of economic and social impact? These questions are answered in the fourth chapter. The key message that this chapter conveys is that the risks of the visa-free regime to spur mass emigration of the Moldovan labour force are heavily overstated and are due, among other things, to ambiguous political statements that feed erroneous expectations of the Moldovan citizens. At the same time, the visa-free regime will impact positively on Moldova, through more intense people-to-people and business-to-business contacts and rehabilitation of broken social links between those working abroad and those remaining at home.

Chapter five explains the nexus between the European integration process and the promotion of human rights and implementation of anti-discrimination policies. Despite the existence of many laws and international treaties that Moldova has adopted, the population still suffers from the weak enforcement of human rights standards, while many minority groups remain on the margin of social, political and economic processes. Furthermore, the poor quality of access to an impartial and efficient justice system only aggravates these problems. How European integration links with the human rights and justice is the main subject analyzed in this chapter. One of the key ideas the Report promotes in this chapter is the need for the Moldovan politicians and policy makers to educate about social values that are more

... then we look into how European integration impacted human development of other countries and what Moldova can learn from this.

Chapter three explores in-depth economic consequences, including for human development, of the 'deep' and 'comprehensive' trade liberalization between Moldova and EU...

... while the fourth one shows that the opinion on the negative impact of the visa-liberalization on migration is not supported by evidence.

Chapter five shows how European integration links with the human rights and justice, and explains why efficient and trustworthy justice is key for Moldova to absorb the integration shock.

Then we show that fostering human capital is a precondition for an efficient and 'high-quality' European integration of Moldova and that education plays a key role in this regard.

And finally, we propose a set of recommendations to support Moldova's European integration policies and to consolidate their positive impact on human development.

in line with the underlying European norms (including tolerance regarding minorities) rather than to adopt decisions satisfying social groups which are less tolerant regarding the rights of other groups. Another important message that this chapter conveys is that, as Moldova deepens its ties with the EU, the country will need a justice system that is able to effectively enforce the contracts and rights which will be necessary to support a more sophisticated economy and society. Failing to consolidate the judiciary as a fundamental institution of Moldovan society will undermine the long-term economic and social gains expected from European integration.

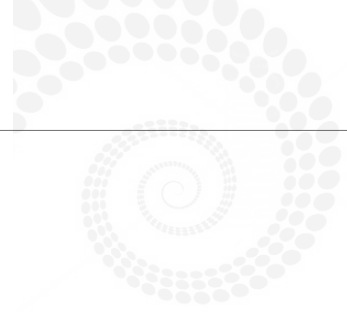
The sixth chapter looks into how the current state of the country's human capital influences the speed and quality of European integration of Moldova. While European integration brings new opportunities for Moldova in terms of economic and labour market expansion, a higher level of human capital is necessary to assist the process of European integration itself. On the one hand, European integration requires well trained human capital; on the other hand, as Moldova's relations with the EU advance, this inevitably shapes the existing stock of human capital. In the sixth chapter we show that the key ingredients of a successful European integration include: a responsible public service, a skillful and competitive labour force for the real sector of the economy and a strong civil society which are able to contribute to the achievement of the goals set and to hold the government accountable for the policies adopted.

The final chapter of the Report draws the most important conclusions from the analysis conducted. It also includes the key policy recommendations that we address mainly to the Moldovan Government, so that the country is able to manage the European integration process in an optimal manner – i.e. allowing for maximization of the expected benefits and for minimization of the related costs for the human development of the country. The recommendations cover a wide set of sectors and issues, from consolidation of the administrative

capacities to management of the visa-related expectations to ensuring optimal transition periods for those Moldovan products that may suffer as a result of liberalizing trade with the European Union.

The most important message we want to convey through this Report is that deepening European integration will positively affect the human development processes in Moldova. Considering the balance of risks and opportunities, European integration is the best option among the other integration options that Moldova has. Even if Moldova does not meet in the foreseeable future its much desired goal of becoming part of the European club, the reforms necessary to fully benefit from the Association Agreement, the Visa Liberalization and the Trade Liberalization will set the country on a qualitatively superior development path and will help narrow Moldova's gap with the more developed Europe. However, the benefits will not come by themselves and will require a diligent preparation of public and private sectors alike. Reforms necessary to make full benefit of European integration span many institutions, agencies, laws and regulations. However, the most important change that European integration requires from every Moldovan citizen and politician is a change in attitudes and in mindsets. In fact, European integration requires a change of perspective in how we collectively see our present and our future in Europe and the world.

Ultimately, although the positive relation between the European integration and human development appears to be intellectually sound and relevant for the whole of Moldova, the lack of reliable and compatible data on many aspects of economic and social life of the breakaway Transnistrian region has precluded the authors from fully incorporating the region into the analysis. Nonetheless, the authors tried to reflect implications of European aspirations for the Transnistrian region and vice versa whenever evidence and data allowed.



EXECUTIVE SUMMARY

One of the most commonly used measures of human development is the Human Development Index (HDI) developed by UNDP measuring three key aspects of human development – living standards, educational outcomes and health. A number of other composite indices related to HDI have been elaborated to measure gender empowerment, multi-dimensional deprivation, inequalities, environmental and sustainability concerns and other aspects.

As the first chapter of the Report shows, Moldova's progress in human development cannot be assessed unequivocally. As measured by the Human Development Index Moldova in 2011 was above the world average performance in human development. In 2000-2011 the HDI in Moldova increased on average by 0.92 percent annually, which is one third above the global rate of HDI growth. For the European continent, this magnitude of HDI gains is significant and comparable to only a few countries among the new EU member states (such as Latvia), the Western Balkans (Croatia) and Eastern Partnership countries (Armenia). Despite the gains in the HDI, Moldova still remains the country with the lowest HDI level when compared with the group of new-EU member states, Western Balkans and Eastern Partnership countries. With an HDI level of only 0.649 in 2011, Moldova ranked 111th globally, seeing little improvements during the last decade in terms of its rank. Most of the new EU member states are presently part of the "very high development" category of countries in the global HDI ranking, except Romania and Bulgaria, which are included in the "high development" category. Being among the

The human development concept, introduced in 1990, is about expanding people's choices. It is defined as the expansion of people's freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet⁸.

countries of medium human development, Moldova is 56 positions below the poorest performing EU member state and may need at least another decade to step into the bracket of "high human development".

Although low per capita income is the most significant disadvantage of Moldova, available data show that Moldova is lagging behind all new-EU member states for all of HDI components, including for health and educational achievements. Life-expectancy in Moldova is among the lowest in Europe, particularly for men, and the gender gap in life-expectancy has widened in the past decade. Moldova has registered good progress in pre-school education enrolment rates; however, due to a high level of drop-out in compulsory education, Moldova is below the European average for the expected years of schooling. More needs to be done to transform the economic growth model into a more inclusive one, to ensure a sustainable decline in rural poverty, to offer more economic opportunities for women, to raise men's life expectancy, to ensure a wider enrolment in mandatory education and to provide for a more sustainable development. Achieving higher standards of human development will ensure that Moldova increases its chances of following a successful European integration process in the long-term and that it gets ready eventually for a more advanced level of relationship with the European Union.

UNDP has developed a set of composite indices helping to measure the human development, including the Human Development Index (HDI).

Economic growth Moldova experienced since the year 2000 did not yet translate into gains in health and education outcomes.

FOOTNOTES

⁸ UNDP, Human Development Report 2010 "The Real Wealth of Nations: Pathways to Human Development", 2010.

European integration has positively affected human development of the countries joining the EU, but the phenomenon of 'Europeanization' goes much beyond EU members or candidates and reaches EU neighbors.

Economic impact of the deep and comprehensive trade liberalization is expected to be positive in net terms, ...

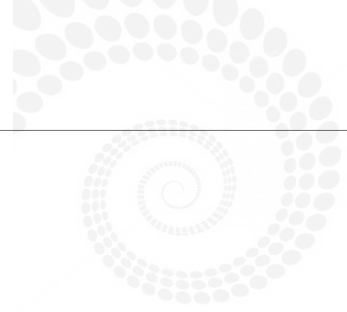
Although certain elements of human development have been intuitively tackled in the past by the European Union bodies, the EU's development policy only officially obtained a human development component, clearly stated in its documents, as a result of its historically largest enlargement to the East. In the case of the countries that joined the EU since the mid- 2000s European integration has impacted positively the human development of the countries concerned⁹. However, available evidence suggests that 'Europeanization' goes much beyond EU members or candidates and reaches the countries still remaining in the 'neighbourhood'. This link is more deeply explored in the second chapter of the Report. As compared to 'older' member states of the EU, the former candidate countries from Central and Eastern Europe obtained considerably higher HDI growth in the years following the signing of first generation of association agreements. Obviously, besides European integration itself, there were also other factors at play that contributed to this growth but these were rather complementary than leading. There is no clear evidence as to what extent this link works for EU partner-countries. However, in their case conditionality measures may be severely weakened by the absence of a clear membership perspective. Even though Moldova has clearly formulated its goal of joining the EU in the future and several EU officials have recently made some statements favouring recognition of Moldova as a potential candidate for joining the EU, for the time being the EU has not yet officially declared that it is ready to discuss a clear membership perspective for Moldova. Adopting a realistic view, the foreseeable limits of Moldova's European integration are those currently negotiated as part of a new-generation Association Agreement bet-

ween Moldova and the EU, an Agreement encompassing also a Deep and Comprehensive Free Trade Area. Such an Agreement would actually offer Moldova a very high degree of integration with the EU, including a stake in the European common market, without actually being a member of the EU. So, while working diplomatically and domestically to ensure that its rights of becoming an EU member country in the future are recognized, Moldova currently has to concentrate on fully harnessing the potential that associate membership will provide.

The third chapter of the NHDR shows that the economic gains that Moldova will incur as a result of further enhancing its trade links with the EU are sizeable and the expected net effect is strongly positive. At the same time, not all companies and people are expected to benefit equally, while some may actually suffer, especially those who derive their income from agriculture. Investing in human capital and technological capital in the most competitive sectors, restructuring the least productive ones, retraining of the labour shed from the latter and offering new economic opportunities will ensure that economic gains will eventually lead to human development through higher wages, a bigger number of SMEs operating on the market and more job opportunities. The Computable General Equilibrium model used to assess the impact of Moldova's integration options and to compare this vector with another integration option promoted by some political parties (the joining of the Russia-Belarus-Kazakhstan Customs Union) suggests that the DCFTA would allow for a significant increase in the welfare of the people in Moldova and in the production level of the economy. Moldovan exports will be more competitive in all geographical directions, while trade diversion effects will be relatively limited. At the same time, reductions in customs duties may ensure longer-term dynamic effects, materializing in increased foreign investment and a much more intense technological transfer from

FOOTNOTES

⁹ Kurt, S., Savrul, M., "The Effect of the European Union on Human Development", International Research Journal of Finance and Economics, Issue 65, April, 2011, pp 35-42.



developed countries to Moldova, thus helping the country to close its technological and labour productivity gap with EU members. The economic model, corroborated with basic economic reasoning show that the integration alternative - that of joining the Russia-Belarus-Kazakhstan Customs Union – is not even an alternative, as it associates with a threefold increase of customs duties, leading to national currency appreciation, rising production costs and worsening of the competitiveness of exports. In this case, there would be serious trade consequences, manifested by falling exports and imports to / from all geographical directions and followed, on the second round, by retaliatory measures against Moldova by certain countries which are members of the World Trade Organization. Higher custom duties following joining of the Customs Union risk undermining the technological modernization efforts of Moldova's economy. Few economic sectors will actually benefit of the higher level of trade 'protection' within the Customs Union, as consumers appetite will drastically fall in result of more expensive imports. The DCFTA and trade opportunities it will bring may be found very attractive by Transnistrian companies; however, the unclear status of the region may preclude further progress in this respect. Therefore, in the longer term any lasting and comprehensive progress of Moldova on the European integration path will require strengthening ties between two parts of the country and resolution to the status of the Transnistrian region as part of Moldova.

The same third chapter shows that the economic gains from a deeper and more comprehensive economic integration with the EU will come with some costs. The international evidence suggests that implementing international sanitary and food safety standards may result in growing production prices for Moldovan producers. For many farmers, adopting these standards will be simply impossible and they will not be able to reap the benefits of trade liberalization. They will

either have to switch to more competitive products or less 'standards-demanding' ones, or abandon farming. In this regard, many agricultural products that Moldova exports to the EU display high competitive potential, including maize seed, grapes, fruit, cattle skin. At the same time, the agrifood products for which Moldovan firms are least competitive in comparison with the European ones have, surprisingly, a relatively high processing level (e.g. butter, pastry, cakes, biscuits, food preparations, sugar confectionery). However, Moldova is set to experience the most intense competition on the niches where the competitive Moldovan products will meet equally competitive European products, such as wine, spirits, apples, vegetables, barley and, tobacco. In the case of industrial products, most of the segments on which Moldovan producers are least competitive in comparison with European ones are those which are high-tech and capital-intensive. The fact that Moldova is a net importer of such products seems a natural outcome of the country's endowment with its production factors. The protection level of these products is very low or even absent and trade liberalization with the EU will not generate a major competitive shock for these industrial sectors. Additionally, eliminating the remaining customs duties for these segments will decrease import and production costs with positive, though marginal, welfare effects. At the same time, closer economic integration with the EU will allow Moldova to further magnify its competitive advantages in products such as textile yarn, fabrics and related products, manufacturers of metals, furniture, clothing and accessories and footwear. Ensuring a smooth transition of productive resources from the less competitive to the most competitive sectors is imperative to minimize the negative consequences and to maximize the positive effects of the trade liberalization on human development.

Liberalization of the visa regime is an important element in the dialogue between the EU

... but unevenly distributed across society and economic sectors. Costs of adopting more demanding sanitary standards may be unaffordable for the small farmers.

The anticipated boost of the visa-free regime on migration outflows is considerably overblown, as shown by the data on migration and international evidence.

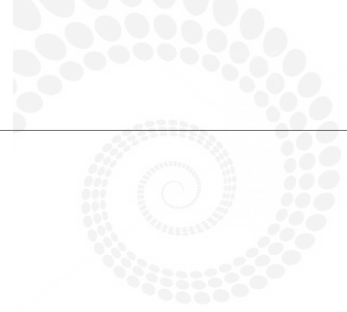
European integration provides the environment allowing Moldova to achieve higher standards in human rights protection and to put in place a trustable and efficient justice system...

and Moldova, and is analyzed in-depth in the fourth chapter. The analysis undertaken and the international evidence suggest that the expected boosting impact of the visa-free regime on emigration flows is considerably overblown. After a decade-long of migration the phenomenon of Moldova's labour migration seems to have reached its apex; as the visa-free regime does not give any additional rights to work, it will bring little if any additional incentives for Moldovan citizens migrating for work in Europe. At the same time, the visa-free regime will come with benefits for business partners on both sides of the EU-Moldova border and the cultural, human, education and research links will be boosted; this will result in a higher demand for services, such as travel and transport. By giving Moldovan citizens the sentiment of 'freedom' and 'openness', the visa-free regime may lead to very significant changes in social attitudes, contribute to Europeanization of both political elites and citizens, educate and expose the population to European values and norms, intensify human contacts, make Moldovan culture better known in Europe and help heal the social fractures that illegal migration magnified in the recent decade.

However, effective entry into force of the visa-free regime is dependent upon the Moldovan track record in enforcing and protection of human rights. As shown in the fifth chapter of the NHDR, Moldova has made substantial progress over the last two years in the areas related to human rights. Moreover, Moldova is currently going through major reforms that are aimed at making it possible for people to achieve their individual goals through the actual enforcement of their legal endowments. The enactment of individual- and freedom-oriented policies is therefore closely connected with public authorities' willingness and capacity to publicly commit to eradicating existing barriers to human freedom. That will be possible only when access to justice and an independent and accountable judiciary will ensure that those

who are tempted to discriminate against some minority or group or are tempted to opt out from rules that treat all individuals equally, have their hands tied. European integration provides, in this regard, an environment allowing Moldova to achieve higher standards in human rights protection and to put in place a trustworthy and efficient justice system. The justice system has an intrinsic and direct impact on human development given the role the judiciary play in ensuring the respect of human rights and legal stability in the country. Moreover, the quality of justice remains a priority for both a successful integration of the Republic of Moldova in the EU and its further performance. An independent and efficient judiciary will increase Moldova's institutional capacity to build a democratic state and eventually achieve full European integration of the country. At the same time, a more efficient and trustworthy judiciary is imperative for meeting the needs of an increased specialization and sophistication of the Moldova economy that European integration will trigger. Considering the developmental role of the justice system and its key importance for the country to organically adapt to the new economic and social challenges that European integration will bring, this chapter proposes a set of very specific and detailed measures that can both increase the independence and accountability of the judges and contribute to the implementation of the justice sector reform strategy that Moldova has adopted.

Considering the impact described above, the European integration process is expected to positively influence the human development of Moldova. However, for the process to be successful, European integration also requires a proper domestic input. As the sixth chapter shows, a more developed human capital is a precondition for Moldova to progress along its path to European integration and to allow for an 'inclusive' European integration. In the case of Moldova, the impact of human capital on European integration goes mainly through



higher quality governance, more involved local communities and informed local authorities, more active civil society and a more competent labour force. In all these aspects, Moldova has to achieve significant quality shifts in order to fully benefit of the European integration while reducing the related costs. Because European integration involves completely new approaches to the policymaking process, human resources employed in the public sector have to be better trained. To increase the human capital 'endowment' of the public sector, people employed in the public sector need also higher wages and more non-financial incentives to perform highly in their work (such as recognition of their work, merits, equal opportunities for career growth, etc.). Better wages are sustainable only if the central public administration reforms and decentralization reforms are successfully implemented. Local authorities need more qualified human resources to successfully compete for EU funds and to increase their absorption capacities, but this will provide little help as long as local communities do not have significant financial leverage to actually attract these funds. Civil society should be more actively engaged as a promoter of European integration, but also to directly support the process, including by offering local public authorities the support needed to formulate and implement EU-sponsored projects. The education sector needs further reform in order to offer a competent labour force which would be able to become part of the more competitive and more EU-integrated technological chains.


The Report concludes that by more deeply engaging in European integration, Moldova may benefit from a significant boost to its human development process. Besides the fact that Moldova is already influenced by EU-led processes and by its geographical proximity to the EU (with significant economic, social, political and cultural implications), Moldova will face a new window of opportunity in the upcoming years after becoming an associate

member of the European Union and after the visa-free regime and the DCFTA enter into full force. More liberal trade will boost competitiveness of Moldovan exports to the European markets, increase consumers' welfare, raise wages and create more jobs. The visa-free regime will also be largely beneficial in economic, cultural and social terms for Moldova, while having a negligible impact on labour emigration. It is clear, though, that in order to fully harness the potential of these agreements, Moldova will have to implement a series of domestic reforms that will bring about a rise in living standards and citizens' freedoms in the short- to medium-term. At the same time, European integration comes with costs and benefits that are not immediate or guaranteed. For instance, even if the EU would immediately and completely abolish all its trade barriers against imports from Moldova, many Moldovan producers would still be unable to enter the European common market, due to the public and private quality, safety and marketing standards that production has to meet. Companies, farmers and Government alike will have to invest significant private and public resources in order to meet these more stringent standards. The Government should be aware that not all Moldovan producers will be able to withstand competition from European competitors. Some of these producers will require both guidance and financial support in adopting more competitive technologies or in transiting to more competitive products. In this regard, Moldova will also have to invest more efforts and resources in order to consolidate a judiciary able to enforce both commercial contracts and human rights. As integration with the EU intensifies, the economy and society will become more sophisticated and demanding of its rights.

The trade and visa liberalization may also contribute to a resolution of the Transnistrian conflict, if progress in dialogue between the national authorities and regional leaders is maintained and mutual trust is further

... but a smooth and efficient European integration also requires better-trained human capital in public and private sectors alike

In general, by more deeply engaging in European integration, Moldova may benefit from a significant boost to its human development process ...



... and the benefits involved may support the resolution of the Transnistrian conflict, which in any case remains contingent on the political goodwill on both banks of the Nistru River

consolidated. Ultimately, the 'free' regimes will provide new economic and travelling opportunities for the citizens of the whole of Moldova. Disregarding the ultimate status that Moldova will reach in its relationship with the European Union, it is clear that the European integration process itself will involve significant positive changes in individual and collective behavior across society. In this regard, for the Government to send the right social signals the Government itself should be seen as a model and a stakeholder actively promoting European norms and values across all of society. The Government should also adopt a more efficient communication strategy explaining to the society the balance of risks and opportunities, costs and benefits that European integration involves. More realistic messages should be sent regarding the real content of the current negotiations with

the EU, particularly when it comes to the visa-related dialogue. Also, the Government has to accomplish a list of long-lasting reforms, which may involve significant financial or political costs, but are nevertheless necessary to unleash Moldova's development potential. Their implementation will generate new economic opportunities, release the potential of Moldova's private sector, and generate new public resources for investment in human development. Reforms of the business regulation, justice sector, central public administration, decentralization, social protection, pension system, educational sector:: these are some of the reforms which very much resemble 'never-ending stories' rather than a 'success story'. And indeed, it is the time for Moldova to transform itself from a 'success story' into a 'successful reality'.



1. HUMAN DEVELOPMENT IN REPUBLIC OF MOLDOVA: ACHIEVEMENTS AND CHALLENGES

Human development is ultimately about expanding peoples' choices and freedoms, so that men and women are capable of tapping fully into their talents and human potential. This chapter traces Moldova's main progress and challenges in attaining a higher level in its human development. It begins by analyzing the positions of Moldova in the global HDI rating, and continues by comparing Moldova's human development level against EU member countries, both earlier and new members. Comparing Moldova with the EU countries provides a useful background for understanding the magnitude of the gap Moldova has to close as it advances along its path of European integration. Later on, the chapter addresses the most critical areas in which Moldova faces significant challenges that are necessary to overcome in order to achieve a higher level of the human development.

1.1. MOLDOVA IN THE GLOBAL HUMAN DEVELOPMENT INDEX RATING

The human development concept, introduced in 1990, is about expanding people's choices. It is defined as the expansion of people's freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet¹⁰.

The Human Development Index (HDI) is a composite measure of achievements in three basic dimensions of human development—a

long and healthy life, access to knowledge and a decent standard of living¹¹ (see more details in Box 1). Being an indicator of wellbeing the HDI gives a solution to the old debate that development is not only about economic growth. Indeed, higher economic growth does not necessarily translate into higher human development: in the last decade, the average annual growth of the world GDP was 3.74 percent, while the average annual HDI growth rate was only 0.66 percent¹².

BOX 1. HOW IS THE HUMAN DEVELOPMENT INDEX CALCULATED?

The Human Development Index (HDI) is a composite measure of achievements in three basic dimensions: life expectancy, access to knowledge and living standards

The Human Development Index (HDI) is a summary measure of human development. It measures the average achievements in a country in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living. The HDI is the geometric mean of normalized indices measuring achievements in each dimension. For a full elaboration of the method and its rationale, see Klugman, Rodriguez and Choi (2011). This technical note describes the steps to create the HDI, data sources and the methodology used to express income. There are two steps to calculating the HDI.

Step 1. Creating the dimension indices

Minimum and maximum values (goalposts) are set in order to transform the indicators into indices between 0 and 1. The maximums are the highest observed values in the time series (1980–2011). The minimum values can be appropriately conceived of as subsistence values. The minimum values are set at 20 years for life expectancy, at 0 years for both education variables and at \$100 for per capita gross national income (GNI). The low value for income can be justified by the considerable amount of unmeasured subsistence and nonmarket production in economies close to the minimum, not captured in the official data.

Goalposts for the Human Development Index in the 2011 Global Human Development

Dimension	Observed maximum	Minimum
Life expectancy	83.4 (Japan 2011)	20.0
Mean years of schooling	13.1 (Czech Republic, 2005)	0
Expected years of schooling	18.0 (capped at)	0
Combined education index	0.978 (New Zealand, 2010)	0
Per capital income (PPP USD)	107721 (Qatar, 2011)	100

FOOTNOTES

¹⁰ UNDP, Human Development Report 2010 'The Real Wealth of Nations: Pathways to Human Development', 2010.

¹¹ Ibidem.

¹² The authors' calculations are based on International Human Development Database, UNDP.



Having defined the minimum and maximum values, the sub-indices are calculated as follows:

$$\text{Dimension index} = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}} \quad (1)$$

For education, equation 1 is applied to each of the two subcomponents, then a geometric mean of the resulting indices is created and finally, equation 1 is reapplied to the geometric mean of the indices using 0 as the minimum and the highest geometric mean of the resulting indices for the time period under consideration as the maximum. This is equivalent to applying equation 1 directly to the geometric mean of the two subcomponents.

As each dimension index is a proxy for capabilities in the corresponding dimension, the transformation function from income to capabilities is likely to be concave (Anand and Sen 2000). Thus, for income the natural logarithm of the actual minimum and maximum values is used.

Step 2. Aggregating the subindices to produce the Human Development Index

The HDI is the geometric mean of the three dimension indices:

$$(I_{life}^{1/3} \cdot I_{education}^{1/3} \cdot I_{income}^{1/3})$$

Example: Calculating the HDI for the Republic of Moldova

Indicator	Value
Life expectancy at birth (years)	69.3
Mean years of schooling (years)	9.7
Expected years of schooling (years)	11.9
GNI per capita (PPP \$)	3058

$$\text{Life expectancy index} = \frac{69.3 - 20}{83.4 - 20} = 0.778$$

$$\text{Mean years of schooling index} = \frac{9.7 - 0}{13.1 - 0} = 0.740$$

$$\text{Expected years of schooling index} = \frac{11.9 - 0}{18.1 - 0} = 0.661$$

$$\text{Education index} = \frac{\sqrt{0.740 \cdot 0.661} - 0}{0.978 - 0} = 0.699$$

$$\text{Income index} = \frac{\ln(3058) - \ln(100)}{\ln(107721) - \ln(100)} = 0.490$$

$$\text{Human Development Index} = \sqrt[3]{0.778 \cdot 0.669 \cdot 0.490} = 0.649$$

Source: 2011 Global Human Development Report and authors calculations;

Despite inherent shortcomings, the HDI measures and compares internationally the countries' achievements and stalemates in human development.

However, the HDI itself is not a perfect measure of development, as it only captures some of the relevant dimensions and the choice of indicators is severely restricted by data availability¹³. The main critiques to the choice of variables used in the HDI stems from the limited number of aspects of the well-being included in the HDI, leaving aside important dimensions such as equity, political freedoms, human rights, sustainability and happiness, etc.¹⁴ (Some of these aspects have been analyzed in more detail further in the Report, in Chapter 1 and Chapter 5). Despite these shortcomings, the HDI and other related or derived indicators (non-income HDI, inequality-adjusted HDI, Gender Inequality Index and Multidimensional Poverty Index (more on MPI in Moldova see in Box 2) remain very useful measures to compare the country's achievements and stalemates in human development internationally and to track

the country's own progress. Annex 1 includes the most important indicators and indices featuring Moldova's human development progress over the past decade.

As measured by the HDI, Moldova was above the world average performance in human development level in 2011. Over the last decade, the HDI in Moldova increased on average by 0.92 percent annually, which is one third above the global rate of HDI growth. This magnitude of HDI gains is significant and comparable only to few countries from the new EU member states (such as Latvia), the Western Balkans (Croatia) and the Eastern Partnership countries (Armenia). Moldova's HDI growth began to slow down in 2009, which reflects wider regional trends, with most countries experiencing lower HDI growth rates in the aftermath of the global financial crisis..

TABLE 1. HDI VALUE AND RANK IN NEW EU MEMBER STATES, WESTERN BALKANS AND EASTERN PARTNERSHIP COUNTRIES, YEAR 2011

Rank	Country	HDI value	Rank	Country	HDI value
21	Slovenia	0.884	55	Bulgaria	0.771
27	Czech Republic	0.865	59	Serbia	0.766
34	Estonia	0.835	65	Belarus	0.756
35	Slovakia	0.834	66	Russian Federation	0.755
38	Hungary	0.816	70	Albania	0.739
39	Poland	0.813	74	Bosnia and Herzegovina	0.733
40	Lithuania	0.810	75	Georgia	0.733
43	Latvia	0.805	76	Ukraine	0.729
46	Croatia	0.796	86	Armenia	0.716
50	Romania	0.781	92	Turkey	0.699
54	Montenegro	0.771	111	Moldova	0.649

Source: International Human Development Indicators, UNDP.

In the recent decade, Moldova's HDI has grown faster than the world average, but yet not enough to significantly narrow the gap with the new EU members and EU candidates

FOOTNOTES

¹³ UNDP, Human Development Research Paper 2011/01 "The HDI 2010: New Controversies, Old Critiques", 2011 accessible at http://hdr.undp.org/en/reports/global/hdr2011/papers/HDRP_2011_01.pdf.

¹⁴ Ibidem.



Despite the gains in the HDI, Moldova still remains the country with the lowest HDI level compared with the group of new-EU member states, the Western Balkans and Eastern Partnership countries. With the HDI level of only 0.649 in 2011, Moldova ranked 111th position globally (Table 1), with little improvement during the last decade in terms of its rank. Moldova's HDI increased from 0.552 in 2000 to 0.623 in 2010 (13 percent gains), whereas the average for the group of countries with medium human development grew from 0.510 to 0.592 (16 percent gains). Currently Moldova's level of human development is above the average of the group of countries it belongs to by 4 percent, but it still has to add about 7.6 percent to its HDI to step into the group of countries with high human development.

Moldova's poor position in the global ranking partly derives from the relatively low HDI level it inherited after the collapse of the Soviet Union and partly from the slow pace of reforms during the entire transition period¹⁵. As Chapter 2 shows further on, the higher the level of human development of a transition country in the CEE, the more successful and fast was its European integration. Considering this link, the large gap between the level of human development in Moldova and in the EU reflects the systemic difficulties of the country in pursuing its goal of European accession. At the same time, if pursued in a credible way, the process of European integration itself might offer the Government opportunities to adopt policies which would speed up the country's progress in human development and allow a faster convergence with European countries¹⁶.

BOX 2. MULTIDIMENSIONAL POVERTY INDEX IN MOLDOVA

The 2010 HDR introduced the Multidimensional Poverty Index (MPI) developed by Oxford Poverty and Human Development Initiative, which identifies multiple deprivations in the same households in education, health and standard of living. The education and health dimensions are based on two indicators each, while the standard of living dimension is based on six indicators. All of the indicators needed to construct the MPI for a household are taken from the Household Budget Survey (HBS). The indicators are weighted, and the deprivation scores are computed for each household in the survey. A cut-off of 33.3 percent, which is the equivalent of one-third of the weighted indicators, is used to distinguish between the poor and non-poor. If the household deprivation score is 33.3 percent or greater, that household (and everyone in it) is multi-dimensionally poor. Households with a deprivation score greater than or equal to 20 percent but less than 33.3 percent are vulnerable to or at risk of becoming multi-dimensionally poor.

The most recent survey data that were publically available for Republic of Moldova's MPI estimation are from 2005. In the Republic of Moldova 1.9 percent of the population suffers multiple deprivations while an additional 6.4 percent are vulnerable to multiple deprivations. The breadth of deprivation (intensity) in Republic of Moldova, which is the average percentage of deprivation experienced by people in multidimensional poverty, is 36.7 per cent. The MPI, which is the share of the population that is multi-dimensionally poor, adjusted by the intensity of the deprivations, is 0.007.

Source: Republic of Moldova: HDI values and rank changes in the 2011 Human Development Report, Explanatory note on 2011 HDR composite indices, Global HDR 2011 "Sustainability and Equity: A Better Future for All, retrieved at <http://hdrstats.undp.org/images/explanations/MDA.pdf> on 5 of August 2012.

FOOTNOTES

¹⁵ According to the Global HDR 2010, in 1990 Moldova's HDI was 0.616, which is 6 percent below the average of 0.655 for the group of seven former Soviet republics for which 1990 data are available (Russian Federation, Ukraine, Lithuania, Latvia, Kazakhstan, Kyrgyzstan and Tajikistan). In 2010 Moldova's HDI equaled 0.623, whereas the average for the group of the mentioned countries was 0.696, widening the gap to 11 percent.

¹⁶ As mentioned in Chapter 2, there are empirical studies which illustrate how European integration affects national policies in human development areas outside the EU which is also valid for Moldova.

An important remark which is necessary to be made is that neither Moldova's official statistics nor the data used in the Global Development Reports cover the breakaway Transnistrian region of Republic of Moldova. As the region does not report to the country's constitutional authorities, it is not possible to ensure integration of the region in the national statistical system. However, using the

data produced by the 'official' institutions in the region, as well as Internet and media resources, one can assess that the current state of human development of the region is very much resembling the conditions on the right-bank Moldova. More details on the basic indicators of human development indicators in the Transnistrian region of Moldova are included in Box 3.

BOX 3. HUMAN DEVELOPMENT IN TRANSNISTRIA

The Transnistrian region broke away from the Republic of Moldova in result of political and military actions in 1990-1992 but has not been recognized as a state by the international community. The region has a different economic structure than the right-bank Moldova, with the manufacturing sector providing 24.6 percent of the GDP, agriculture only 5.4 percent and services 65.3 percent. However, the regional economy is dominated by only four enterprises which contribute more than 50 percent to the total industrial output, 60 percent to exports and roughly half of the total budgetary revenues. The SMEs sector in the region is poorly developed: in 2011 the SMEs share in total manufacture production was less than 5 percent, 22 percent in total capital investment, and 12 percent in the market services provided to the population.

The population subsists on low levels of income: in 2011 the average wage in the region was 288 USD (at market exchange rate), similar to the right-bank Moldova (270 USD). The average pension is, again, very low, around 100 USD. The region has remained afloat due to the system of subsidized energy and other prices, however the sustainability of the system is under question. The region has benefited from subsidized energy and other prices, however the sustainability of these benefits is under question.

The region is confronted by significant demographic challenges. In 2011 the mortality rate was above 14 cases per 1,000 of the population, whereas the birth rate was 9.7. In the last decade the region's population declined between 0.5 and 1 percent annually in result of both natural and migration factors. Life expectancy in 2011 was 68.6 years, compared with 69.2 in 2010. Like in the right-bank Moldova cardiovascular-related diseases and malformations are the main causes of mortality (combined, they are responsible for half of the deaths)

Source: De facto 'central bank of transnistria', de facto 'ministry of economy of transnistria'.

While all new EU member states already fare at the "very high" or "high human development" level, Moldova remains among the medium developed countries, with the low level of income being the main drag factor.

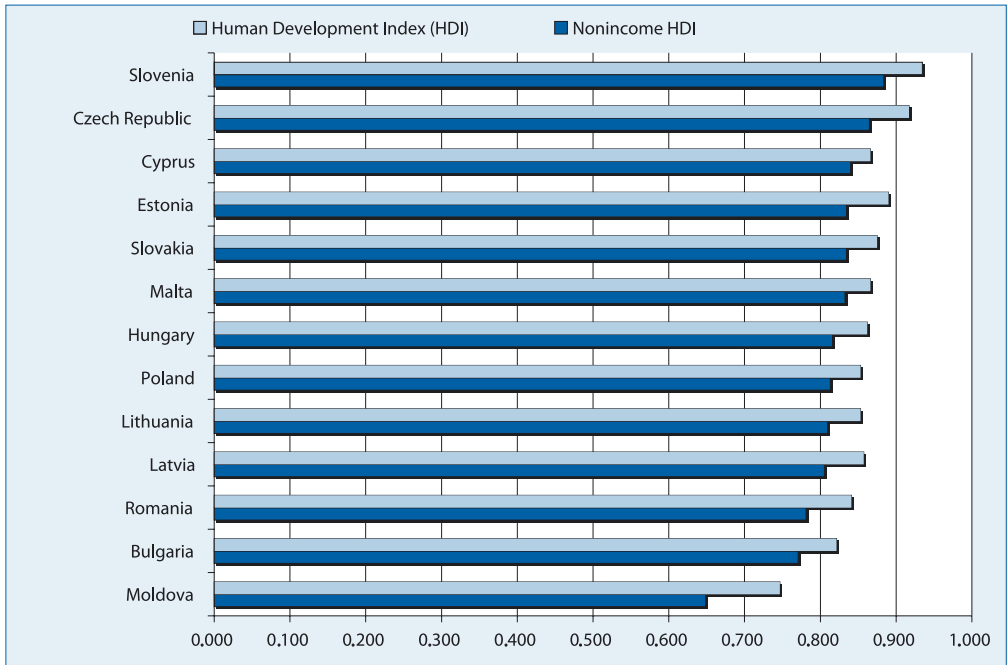
1.2. COMPARING MOLDOVA'S HUMAN DEVELOPMENT WITH NEW EU MEMBERS

Most of the new EU member states are presently part of the "very high development" category of countries in the global HDI ranking, except Romania and Bulgaria, which are included in the "high development" category. Being among medium human development countries, Moldova is 56 positions lower than the worst performer EU member state (Chart 1). Although the low income per capita is the

most significant disadvantage of our country, Moldova is lagging behind every new-EU member state for all of HDI components (Chart 2). While the economic growth served as key factor allowing Moldova to slightly converge with this group of countries during the last decade (Table 2), the gap remains wide and challenging.

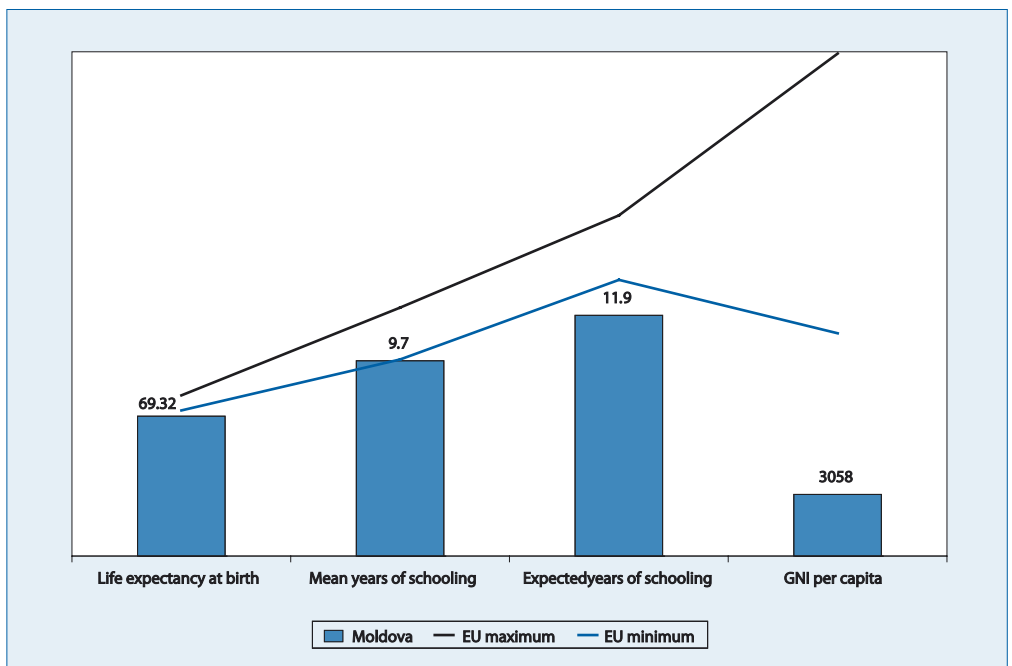


CHART 1. HDI AND NON-INCOME HDI IN NEW-EU MEMBER STATES AND MOLDOVA, YEAR 2011



Note: Non-income HDI is the value of the HDI computed base on the life expectancy and education indicators only;
Source: International Human Development Indicators, UNDP.

CHART 2. HDI COMPONENTS VALUES IN MOLDOVA AND NEW-EU MEMBER STATES, YEAR 2009



Source: Authors' calculations based on International Human Development Indicators Database, UNDP.

TABLE 2. GAP BETWEEN MOLDOVA HDI VALUE AND NEW-EU MEMBER STATES' HDI VALUE, PERCENT, MOLDOVA HDI =100%, PERIOD 2000-2011

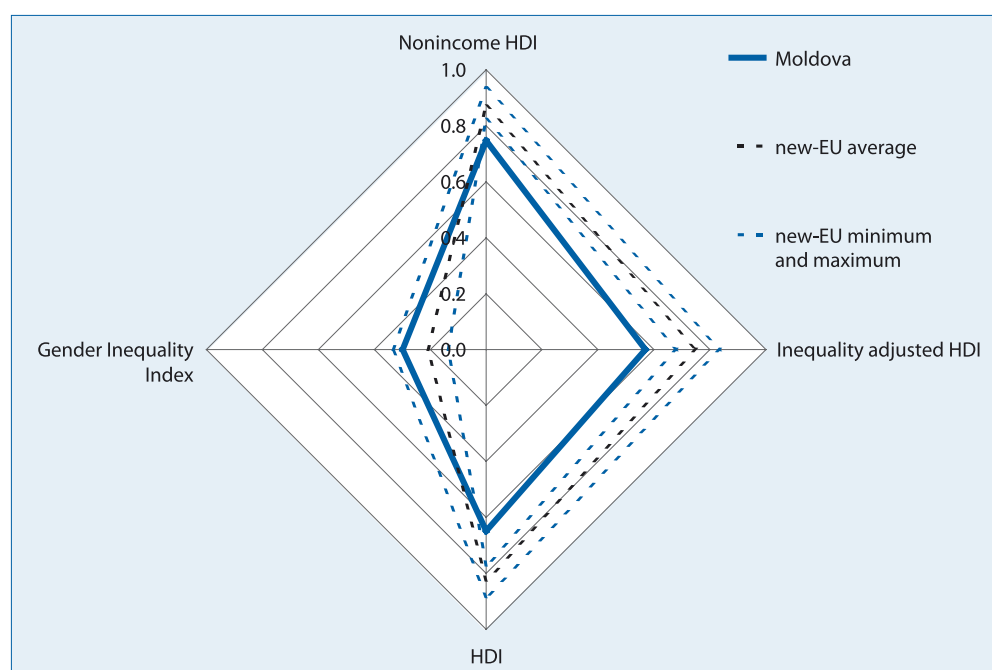
	2000	2005	2009	2011
Bulgaria	122.0	118.8	120.0	118.8
Cyprus	136.5	128.4	131.2	129.5
Czech Republic	139.1	135.5	135.2	133.3
Estonia	132.4	130.3	129.7	128.6
Hungary	132.1	127.4	127.1	125.8
Latvia	124.9	124.4	125.0	124.1
Lithuania	127.8	125.8	125.7	124.8
Malta	136.4	130.8	129.7	128.3
Poland	131.3	125.4	126.5	125.4
Romania	120.0	118.6	121.9	120.4
Slovakia	132.9	128.4	129.8	128.6
Slovenia	137.3	134.5	137.3	136.2
Average	131.06	127.36	128.26	126.98

Source: Authors' calculations based on International Human Development Indicators Database, UNDP.

As for the other human development-related indices, Moldova is again below the EU lowest results for most of them: HDI, non-income HDI and inequality-adjusted HDI. The only

index, where Moldova is within the new-EU standards is the Gender Inequality Index (Chart 3).

CHART 3. HDI-RELATED INDICES IN MOLDOVA AND NEW-EU MEMBER STATES, YEAR 2011



Note: Gender Equality Index is ranging between 1 to 0, whereas 0 is the full equality, and 1 is full inequality. The opposite goes for the HDI and its derivatives: 0 marks the lowest possible level of human development, whereas 1 - the highest.

Source: Authors' calculations based on International Human Development Indicators Database, UNDP.



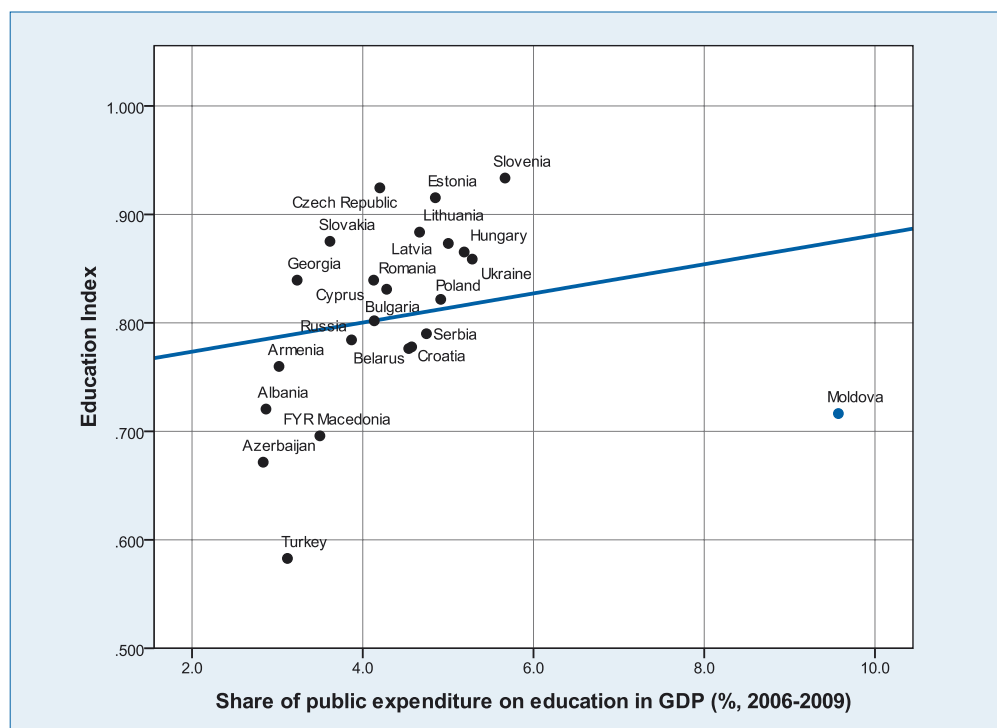
The economic growth process in the post-2008 economic crisis period has made Moldova slightly converge with the CEE countries in terms of income per capita. However, the domestic economic growth remains too volatile and remittances-driven. Low labour productivity in a few large sectors (such as agriculture) explains how the relatively high economic growth had limited impact on the peoples' income.

Aside from low income, the health status of the population and the low quality of education remain two other significant constraints preventing Moldova's human development convergence with new-EU member states. Strikingly contrasting are its low performance in health and educational indicators, Moldova invests high proportions of its GDP in these sectors. As a share of GDP, Moldova spends more on education than any new EU member and other countries in the Western Balkans and Eastern partnership. In spite of this,

Moldova's education component in the HDI is among the lowest in the region, with only Azerbaijan faring worse (Chart 4, more details on the quality of educational system can be found in the sub-chapter 6.5.). The same is valid for the health system. While public expenditures for health are relatively high, Moldova's health component of the HDI is among the lowest in the group of comparator countries (Chart 5). Obviously, investments in education and health have a long-term return and the performance in these sectors is not exclusively determined by the current expenditures. Moreover, the per-capita expenditures in these sectors are still relatively low. However, considering the fact that Moldova already invests high proportions of GDP in these sectors, the situation can significantly improve only by improving the intra-sector efficiency of spending in education and health in a manner allowing the country to achieve much higher development standards.

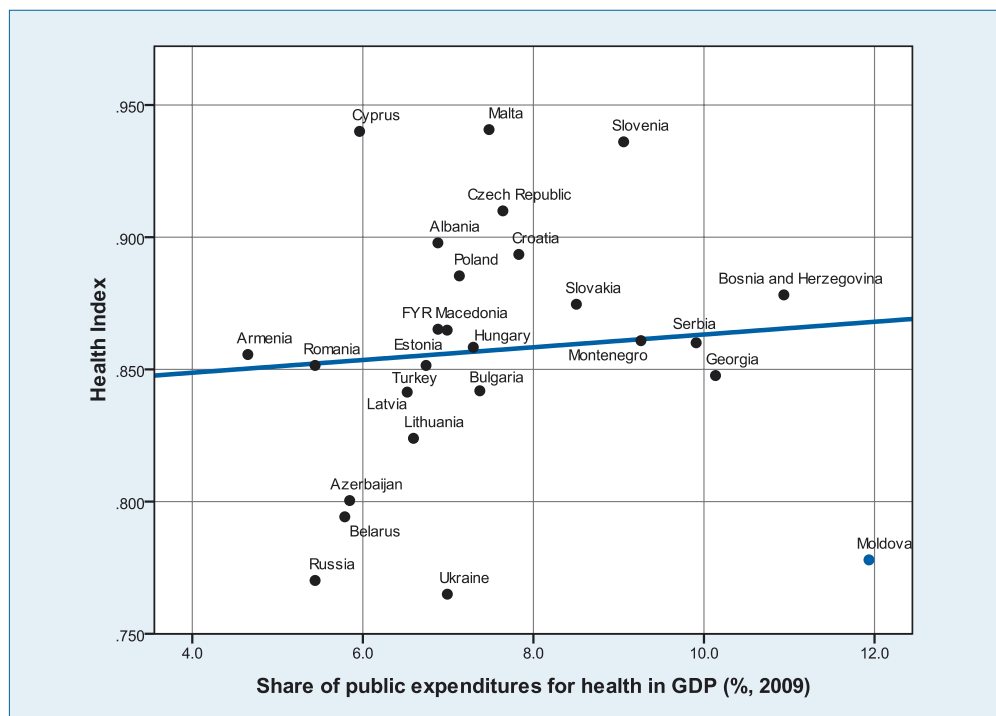
Despite high shares of GDP invested in education and health, Moldova's outcomes in these areas are not satisfactory.

CHART 4. CORRELATION BETWEEN SHARE OF PUBLIC EXPENDITURES ON EDUCATION IN GDP, PERCENT, AVERAGE FOR THE PERIOD 2006-2009 AND EDUCATION COMPONENT OF THE HDI, YEAR 2009



Source: Authors' calculations based on International Human Development Indicators Database, UNDP.

CHART 5. CORRELATION BETWEEN SHARE OF PUBLIC EXPENDITURES FOR HEALTH IN GDP, PERCENT, YEAR 2009 AND HEALTH COMPONENT OF THE HDI, YEAR 2009



Source: Authors' calculations based on International Human Development Indicators, UNDP.

To conclude this section, while low incomes are the key disadvantage of Moldova compared to other countries from the CEE region, it is lagging behind every new EU member state for all HDI components, including in the inequality-adjusted HDI. The only index where Moldova is in line with the new EU members is the Gender Inequality Index.

Economic growth served as a key factor allowing Moldova to slightly converge with this group of countries during the last decade, but this growth was quite volatile and far from socially inclusive, thus partly explaining why the Moldova's human development gaps remain wide and challenging to address.

1.3. MOLDOVA'S HUMAN DEVELOPMENT: BALANCING PROGRESSES VERSUS FAILURES

While the GNI growth made a significant contribution to the growth of the Moldova's HDI over the last decade, the still-depressed level of GNI per capita remains the most important factor explaining the country's relatively low performance. When the non-income components of the HDI are calcu-

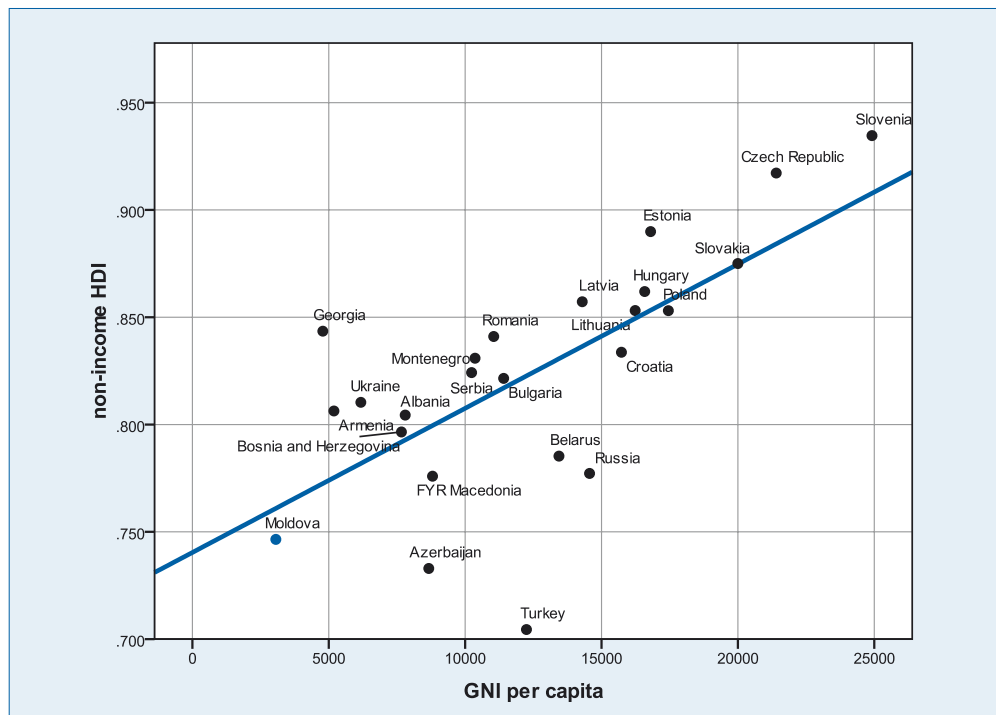
lated, Moldova is positioned slightly better - on 94th place, with a level of 0.746. The 15 percent difference between HDI and non-income HDI is significant and higher than in any other country from the group of new EU member states, the Western Balkans and Eastern Partnership countries. This does not

necessarily mean that while controlling for its level of income Moldova performs relatively well for non-income components. As Chart 6 shows, Moldova is in fact marginally lower than expected given its GNI per capita level. Only two countries are behind Moldova in this regard, namely Turkey and Azerbaijan.

Why should Moldova's government care more about the non-income components of its human development? While economic growth and income are very important elements of the development process, at higher levels of development, income itself is not the main ingredient making the population more satisfied. GNI per capita has a greater

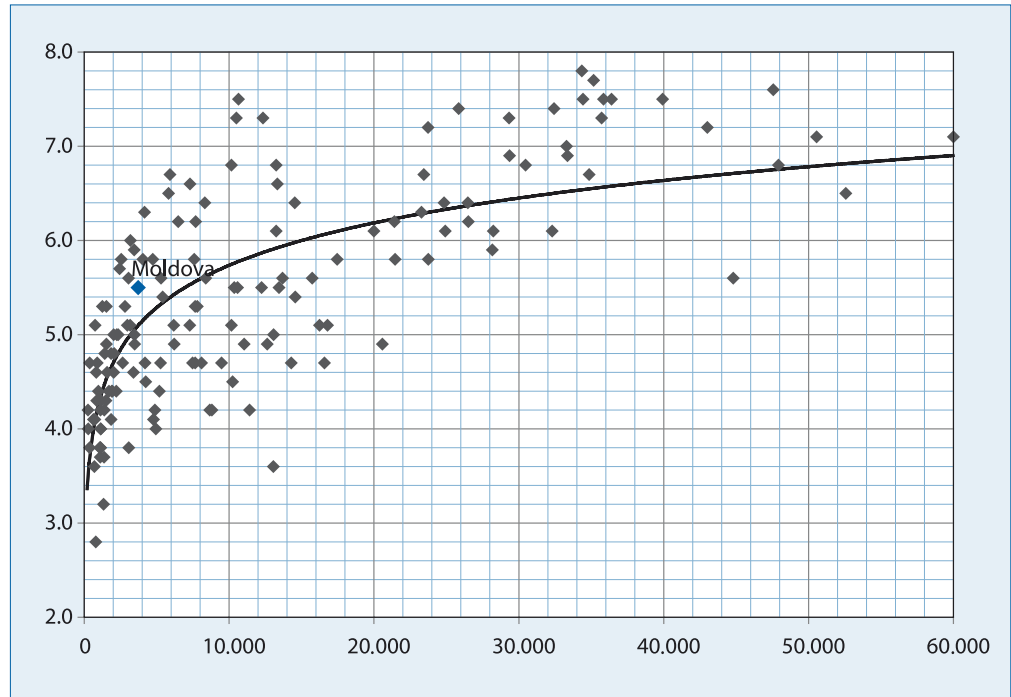
impact on the life satisfaction only in the poor countries, while HDI correlates better with life satisfaction for more developed countries. Once the basic needs (shelter, food) are satisfied, income levels tend to be less important for overall life satisfaction. In this regard, Chart 7 is quite suggestive, as it indicates the high correlation between the GNI per capita and overall life satisfaction for countries with GNI per capita level up to USD 10 thousand. For countries with GNI per capita above this level the correlation is weaker. At the same time, as Chart 8 suggests, there is a positive correlation between HDI level and life satisfaction, which is stronger for countries with HDI level above 0.7.

CHART 6. CORRELATION BETWEEN GNI PER CAPITA AND NON-INCOME HDI, YEAR 2011



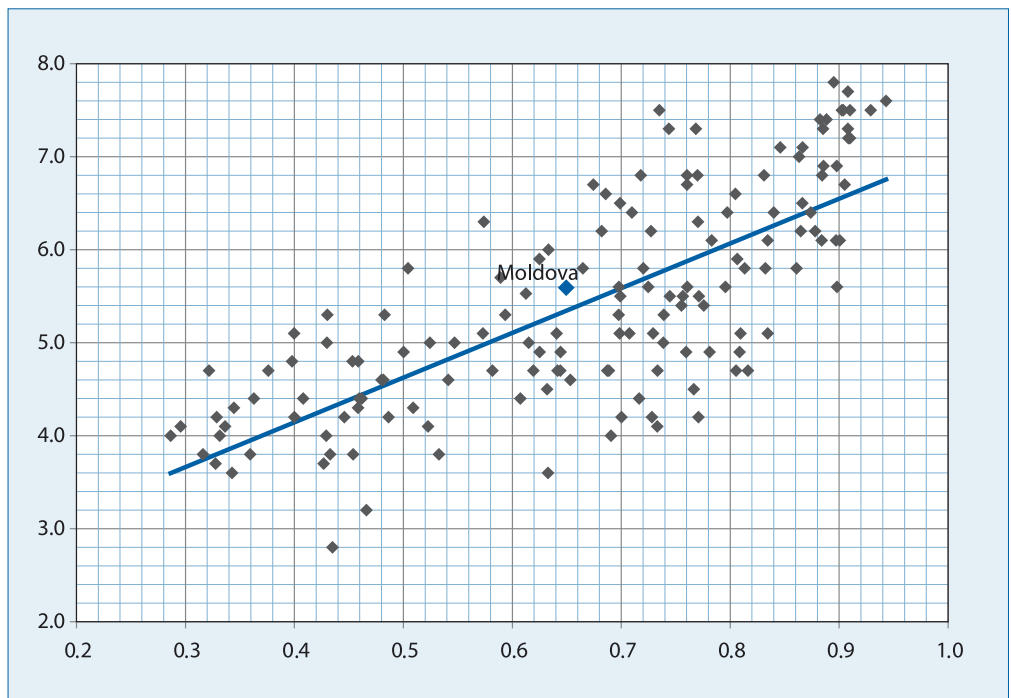
Source: Authors' calculations based on International Human Development Indicators Database, UNDP.

CHART 7. CORRELATION BETWEEN GNI PER CAPITA (USD) AND OVERALL LIFE SATISFACTION, YEAR 2011



Source: Authors' calculations based on International Human Development Indicators Database, UNDP.

CHART 8. CORRELATION BETWEEN HDI AND OVERALL LIFE SATISFACTION, YEAR 2011



Source: Authors' calculations based on International Human Development Indicators Database, UNDP.

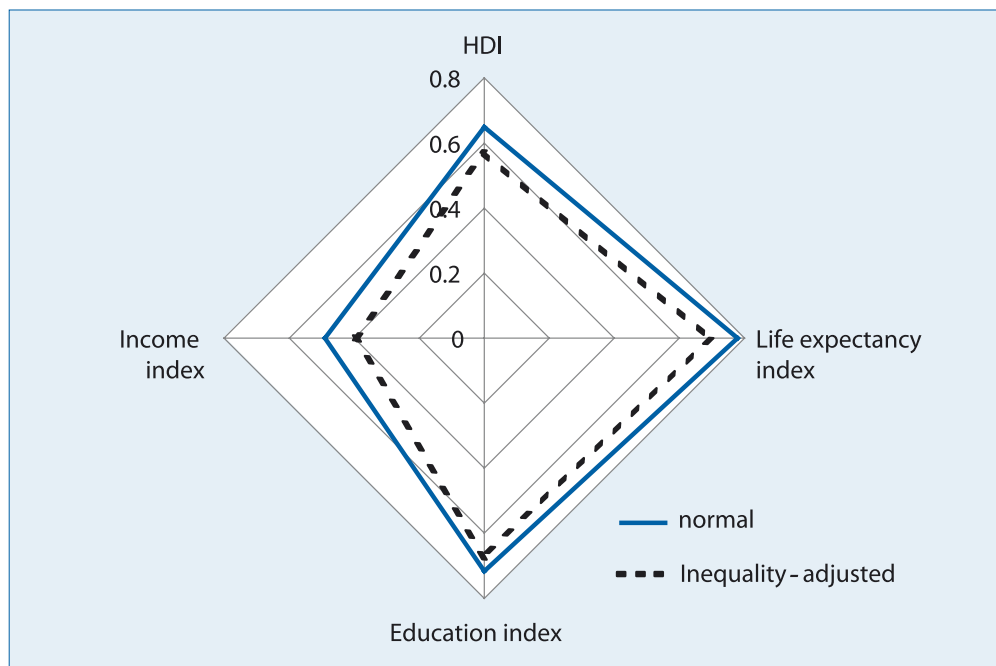
1.3.1. Poverty and Inequality

The 2010, Global Human Development Report refers to a new human development index—the Inequality-adjusted Human Development Index (IHDI). As the latter takes into account the degree of inequality, it is considered to represent *actual human development* as opposed to the standard HDI expressing *potential human development*¹⁷. In an ideally equal society, IHDI should equal HDI, with the discrepancy between the two increasing as inequality grows.

When calculating the IHDI, Moldova loses 12.3 percent of its HDI level, but gains 18 positions in the global ranking, as the general situation in the world is worse than in Moldova (the world on average loses 23 percent of the HDI). In this respect, Moldova is more like European and Central Asian countries, with an average loss of 12.7 percent. The largest drop in Moldova's HDI level stems from the income inequality, but there are also sizeable differences in the life expectancy index and education index (Chart 9).

Narrowly base economic growth resulted in high poverty and income inequality, which risk turning into permanent features of the Moldovan model of development.

CHART 9. MOLDOVA'S HUMAN DEVELOPMENT INDEX, INEQUALITY-ADJUSTED HUMAN DEVELOPMENT INDEX AND THEIR COMPOSITE INDICES, YEAR 2011



Source: Authors' calculations based on International Human Development Indicators Database, UNDP.

One of the key reasons explaining the high level of income inequality and vulnerability to poverty in Moldova is the economic growth pattern. From 2000 to 2011 economic growth in Moldova has been relatively strong, with GDP growing on average by 5.05 percent annually. However, this period featured a strong growth in the level of emigrants' remittances feeding domestic consumption and a dramatic reduction in the number of jobs. This was

reflected in poverty reduction trends, absolute and extreme poverty alike. Initially, economic growth was accompanied by a remarkable reduction in poverty: from almost 70 percent in 2000 to 26 percent in 2004. However, due to the jobless economic growth and steep contraction of the employment in agriculture

FOOTNOTES

¹⁷ UNDP, Human Development Report 2011 "Sustainability and Equity: A Better Future for All", 2011.

The social protection policy based on the means-tested principle renders positive results in reducing poverty and has to be further consolidated...

... but also more employment opportunities are necessary to achieve a sustainable poverty reduction.

(Chart 10), after 2005 poverty remained more or less stable, featuring opposing trends in urban and rural areas (Chart 11).

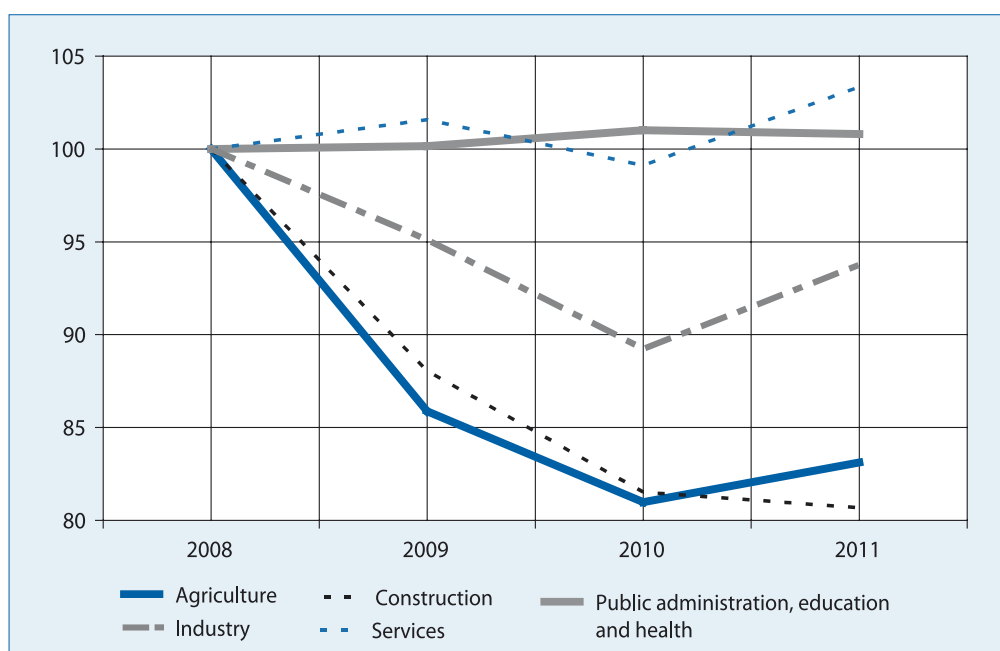
The decrease in poverty in 2010 was significant, reflecting the pro-poor impact of the amended social protection policy. The absolute poverty rate of 21.9 percent and the extreme poverty rate of 1.4 percent in 2010 were well under the MDG1 national targets for 2010 of 25 percent and 4 percent respectively. Recent developments raise the country's chances of meeting the targets in eradicating poverty and hunger set for 2015 as well. The poverty gap index¹⁸ also shrank, while the share of poorest quintile in the national consumption rose by 0.2 p.p. (from 7.9 percent in 2009 to 8.1 percent in 2010) and the Gini coefficient improved by 1.3 percent points in 2010.

From 2006 to 2009, the average income per capita grew by 11.6 percent yearly. The economic crisis in 2009 slowed down the growth of the incomes of the population which increased by only 1.7 percent in 2010. In 2011 growth was 5.4 percent, but the evolution was

not homogenous for all sources of income. As statistical data show, the income from wages rose, mostly due to an increase in wages in the budgetary sector, while in the real sector of the economy they were more volatile. The income from individual entrepreneurship increased both in agricultural and non-agricultural activities, due to revival of the economic activity and more favourable prices, especially for agricultural goods.

Normally, recent trends would indicate that the poor population is doing better than in the past; however, due to very low incomes and urban-biased economic growth, the economic growth is barely felt by the country's poorest households. The economic opportunities of the population remain limited in general, as suggested by the decline in employment in 2010 and its modest increase in 2011. Only the service sector has achieved the pre-crisis level of employment, while the other three main sectors (agriculture, industry and construction) have yet to complete their recovery (more details on the situation of agriculture in industry are provided in Chapter 3).

CHART 10. EMPLOYMENT TRENDS BY ECONOMIC SECTORS, 2008=100 PERCENT, PERIOD 2008-2011



Source: Authors' calculations based on NBS data.

FOOTNOTES

¹⁸ The poor income gap relative to the poverty line.

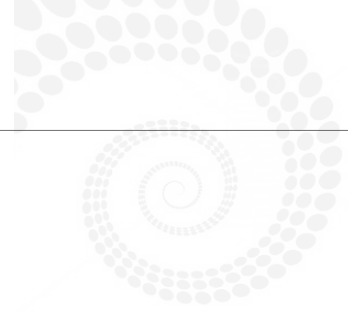
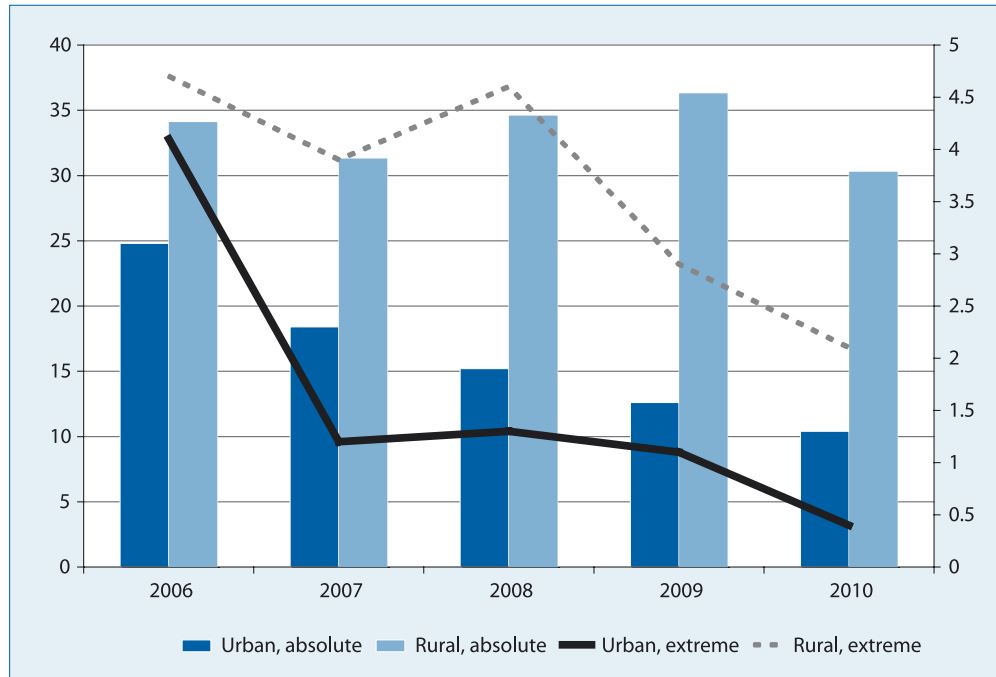


CHART 11. ABSOLUTE POVERTY RATES AND EXTREME POVERTY RATES (RIGHT-HAND AXIS) BY AREA OF RESIDENCE, PERCENT OF TOTAL POPULATION, PERIOD 2006-2010



Note: absolute poverty refers to the people with income below the national poverty line; extreme poverty refers to the people not having enough income to buy food, thus suffering from hunger or malnutrition. More on poverty indexes in Moldova see in Republic of Moldova National Development Strategy 2008-2011.

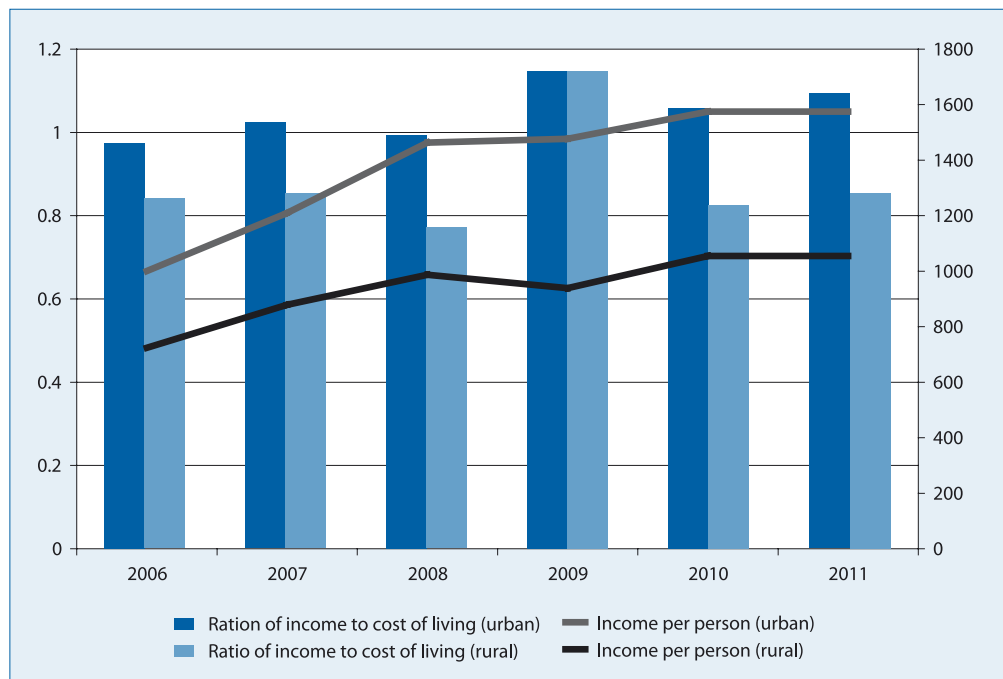
Source: Ministry of Economy, 2011

Although it is impossible to calculate GNI per capita in rural and urban areas, available economic indicators reflect very high inequalities between the incomes of rural and urban

populations. The disposable income per person in rural areas is even lower than the cost of living, with a very erratic evolution since 2006 (Chart 12).

At the same time, the Government needs to better communicate to the public the advantages of the means-tested social aid ...

CHART 12. RATIO OF DISPOSABLE INCOME TO COST OF LIVING, BY RESIDENCE AREAS, PERIOD 2006-2011



Source: Authors' calculations based on NBS.

... while proceeding more vigorously with the pensions reform to prevent the system from collapsing and to ensure more decent aging.

The Moldovan welfare policy traditionally failed to target the most vulnerable individuals. The law on social assistance which was adopted in 2008¹⁹ aimed at cutting welfare benefits granted to pre-defined categories of the population and implement an income-tested distribution mechanism. The first assessments of the implementation suggest that the new scheme has lower inclusion errors, but the exclusion errors are still significant and further policy interventions are necessary to ensure that those who are really in need do not fall out of the scheme. A recent study attributes the reduction of poverty that could be observed

in 2010 to the increase in social benefit and its better targeting²⁰, while another finds higher efficiency in targeting the poorest households²¹. However, the same studies state that the social aid reaches approximately half of the overall eligible households, and that it reaches the poor but still not the poorest due to the limitation of means-tested selection mechanisms. Also, the general public's opinion of the new social policy is largely negative due to the complicated mechanism of identification of 'the poor' and difficulties the population has in understanding and accepting the means-testing formulas²². Despite the positive impact in addressing poverty, the social policy maintains a functional approach by providing the necessary means for survival, while no real support is provided for the integration of vulnerable groups into society through better access to education, health and to other services.

Additionally, a more efficient, sustainable and socially fair social insurance system is necessary to reduce peoples' vulnerability in the face of poverty. The reform of the pension

FOOTNOTES

¹⁹ Law on social assistance no. 133 of 13.06.2008 <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=329197>.

²⁰ Prohniitchi V., Sandu V. and Sinchetru A., "Assessing the experience of implementing the law on social aid", Independent Think-Tank Expert-Grup, 2012, accessible at http://expert-grup.org/library_upld/d483.pdf.

²¹ UNICEF Moldova, "Impact of cash transfers on poverty and well-being of the most vulnerable families in the Republic of Moldova, within the context of transition from category-based to means-tested social assistance", 2011 accessible at http://www.unicef.org/moldova/ro/EnglishVersion_ECI_CBS_AXA_2011.pdf.

²² Results of the focus-groups held by the Moldovan Independent Think-tank EXPERT-GRUP in districts of Chimislia and Telenesti in October 2011.

system has been practically blocked since 2002 and this represents a serious long-term threat for the pension system and for benefits received. The Pension Reform Strategy²³ elaborated in 1999 envisaged an increase in the retirement age and cuts in most of the unwarranted benefits granted to some categories of pensioners. However, it did not aim for a multi-pillar pension system, with the private mandatory and voluntary funds, referring only to a pay-as-you-go (PAYG) option. The reforms did not benefit from the necessary political support, one of the arguments being the low life-expectancy in Moldova that generates resistance towards an increase in the retirement age. The shrinking population and stagnating job market put great pressures on the social insurance budget, which has become increasingly dependent on transfers from the state budget. Even with these transfers, pensions do not cover the cost of living and most pensioners live at a subsistence level. The constant deficit of

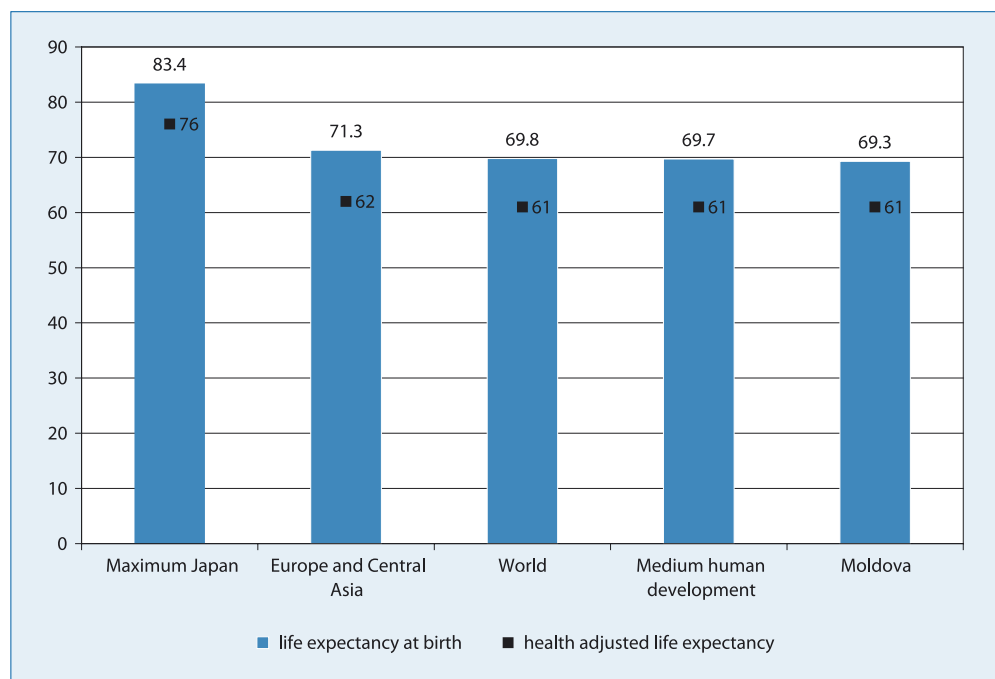
the social insurance budget since 2009 and negative demographic perspectives make the pension system reform even more urgent, including an increase in retirement age, rise in replacement ratio, complete withdrawal of all unwarranted benefits and elaboration of the legal framework for the multi-pillar pension system allowing for cumulative funds²⁴.

1.3.2. Living a Long and Healthy Life

With a life expectancy at birth of only 69.3 years, Moldova was at the bottom of the group of new-EU member states, Western Balkans and Eastern Partnership countries in 2009. The life-expectancy in Moldova was slightly lower than the world average and the average in the global group of countries with medium human development (Chart 13). The health-adjusted life expectancy equaled the world average and medium human development countries²⁵, indicating, among other causes, the poor performance of the health system.

With only 69.3 years life expectancy at birth, Moldova is at the bottom of the group of new EU member states, Western Balkans and Eastern Partnership countries...

CHART 13. LIFE EXPECTANCY AT BIRTH AND HEALTH ADJUSTED LIFE EXPECTANCY, YEAR 2009



Source: International Human Development Indicators Database, UNDP.

FOOTNOTES

²³ Approved by Parliament Decision no. 141 from 23.09.1998 <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=306930>.

²⁴ Lupusor A, "The price of solidarity between generations and the optimal model for the retirement system reform", Independent Think-Tank Expert-Grup, 2012.

²⁵ Health-adjusted life expectancy (HALE) is an indicator developed by the World Health Organization that adds up expectation of life for different health states, adjusted for severity distribution making it sensitive to changes over time or differences between countries in the severity distribution of health states. HALE is defined as average number of years that a person can expect to live in "full health" by taking into account years lived in less than full health due to disease and/or injury.

Since 2009 (when life expectancy was 69.31 years), there were no significant improvements in life expectancy: the indicator decreased slightly in 2010 (69.11) and bounced back in 2011 (70.88). This partly reflects the unsteady state of the health system in Moldova. Despite the introduction of mandatory social health insurance in 2004, about 20 percent of the population is not yet covered by the system. Also, there are significant problems limiting the access to services that could not be eliminated even after the introduction of the mandatory health insurance: persistence of informal payments, the low level of satisfaction regarding the quality of services, inefficiencies in the spending of public funds and in the functioning of health service providers.

Life expectancy is much lower for Moldovan men compared to women (by 8.1 years in 2011). It is true that there are countries with even higher discrepancies, but in most of these countries, despite the gap, the life expectancy rate for men is still higher than in Moldova (except the Russian Federation and Belarus).

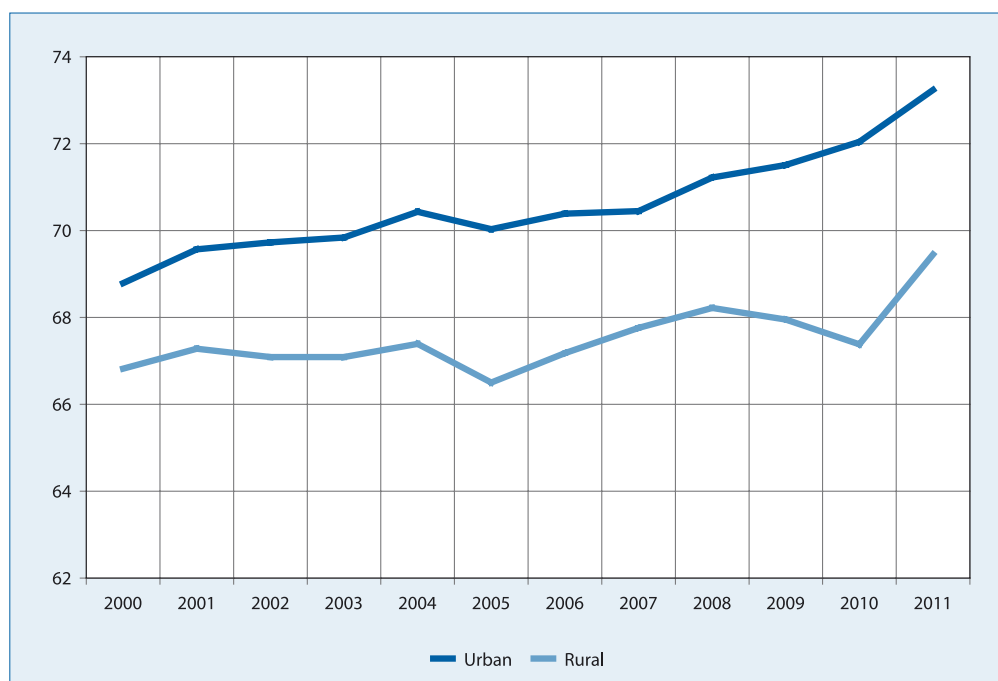
Of equal concern is the fact that there was no irreversible progress registered recently. From 2007 to 2010 the gap was widening as the life expectancy increased for women and decreased for men; the reduction in the gap in 2011 was negligible (0.3 years). Differences in lifestyles and health attitudes (risk-aversion, health-checks, etc.) might explain this gap²⁶. The consequences and the social impact of this gap are worrying especially considering that Moldovan women retire five years earlier than men. Thus, it creates inequalities both in terms of expected years of living for men and their opportunities to enjoy a decent period of retirement.

Equally important is the wide gap observed between urban and rural areas. Life expectancy was 4.66 years lower in rural areas than in urban areas, and the gap has more than doubled in the past decade (Chart 14). The significant increase in life expectancy in 2011 was determined by lower mortality rate, including for the under-one year age infant mortality rate.

... and shows one of the widest disparities in terms of gender, with men living 8 years less than women ...

... and with rural inhabitants living 4-5 years less than urban ones.

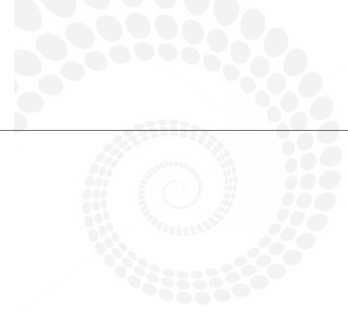
CHART 14. LIFE EXPECTANCY AT BIRTH BY AREA OF RESIDENCE, PERIOD 2000-2011



Source: NBS.

FOOTNOTES

²⁶ Shaw J., Horrace W., Vogel R., The Determinants of Life Expectancy: An analysis of the OECD Health Data, Sothorn Economic Journal, 2005.



The recent evolutions related to the health status of the population and other relevant health indicators have been volatile, questioning the capacity of the health system to contribute to achieving some of the MDGs related to health. The infant and under-5 children mortality rates (11.7 and 13.6 cases per 1000 born respectively) are already well into the national target, but Moldova should continue its efforts to reach development levels closer to European countries. At the same time, the second national target of MDG4 - the share of children aged under 2 years vaccinated against measles - has not seen a significant improvement (92.8 percent in 2011), raising doubts about the accomplishment of the 2015 target.

Regarding MDG5 on maternal health, the evolution has been very volatile. In the last five years, maternal mortality rate varied from 15.2 cases per 100,000 births to 44.5 cases per 100,000 births, with significant hikes and drops. Deaths are predominantly caused by bleeding, followed by late gestoses, septic states, thromboembolism, hepatic cirrhosis and, more rarely, cases of anaesthesia-related complications. Social factors (particularly poverty) play a determinant role in half of the cases of maternal mortality. Although the absolute number of maternal deaths is small, the non-linear evolution of the maternal mortality rate raises some concerns. In 2011 the maternal mortality rate reached a historical low, but the previous non-linear evolutions mean the achievement of the final target is still uncertain. There was also a progress registered in number of births assisted by qualified medical staff, which is already above the target set.

Also, Moldova runs high risk of missing the MDG6 targets in fighting the HIV/AIDS and tuberculosis. The incidence of HIV/AIDS rose from 4.0 cases per 100,000 people in 2000 to 17.58 cases per 100,000 people in 2011. The situation is largely similar in the case of tuberculosis. The prevalence of HIV/AIDS is particularly high in the breakaway

Transnistrian region of Moldova. This is also worrying in the context of highly intolerant attitudes in Moldovan society toward these groups of the population. The subject of low tolerance and its development implications is further analyzed in the sub-chapter 5.1 of our Report.

1.3.3. Achieving Higher Human Development through Better Education

When only the adult literacy rate and gross enrolment rate were used for the calculation of the education component as part of the Human Development Index, Moldova performed relatively well in this area. Now, with the former education indicators being replaced by two new indicators – the average years of schooling²⁷ and expected years of schooling²⁸ – Moldova appears to perform less well. While the mean years of schooling indicator has slightly increased, the expected years of schooling indicator has slightly worsened since 2006 (Chart 15), determining the overall education component to stagnate. Since school life expectancy is an average based on participation in different levels of education, the expected number of years of schooling may be pulled down by the high proportion of children who never go to school. Those children who are in school may benefit from many more years of education than the average. Thus, the decrease in primary education enrolment partially explains the decline in expected years of schooling. Moldova is above the world average and medium human development countries average for both indicators; however, it is under the Europe and Central Asia average regarding expected years of schooling.

Some of the MDG targets are likely to be met by 2015 ...

... but will certainly fail to meet targets related to HIV and tuberculosis.

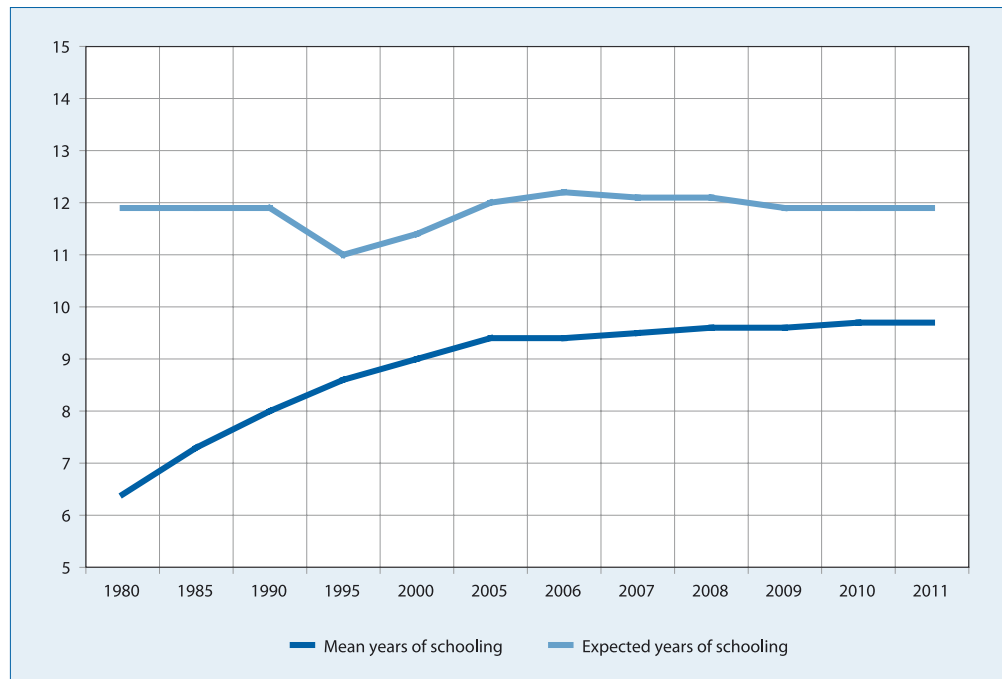
Moldova's achievements in education have not been steady in the last decade...

FOOTNOTES

²⁷ Average number of years of education received by people aged 25 and older, converted from education attainment levels using official durations of each level.

²⁸ Number of years of schooling that a child of school entrance age can expect to receive if prevailing patterns of age-specific enrolment rates persist throughout the child's life.

CHART 15. MEAN YEARS OF SCHOOLING AND EXPECTED YEARS OF SCHOOLING IN MOLDOVA, PERIOD 1980-2011

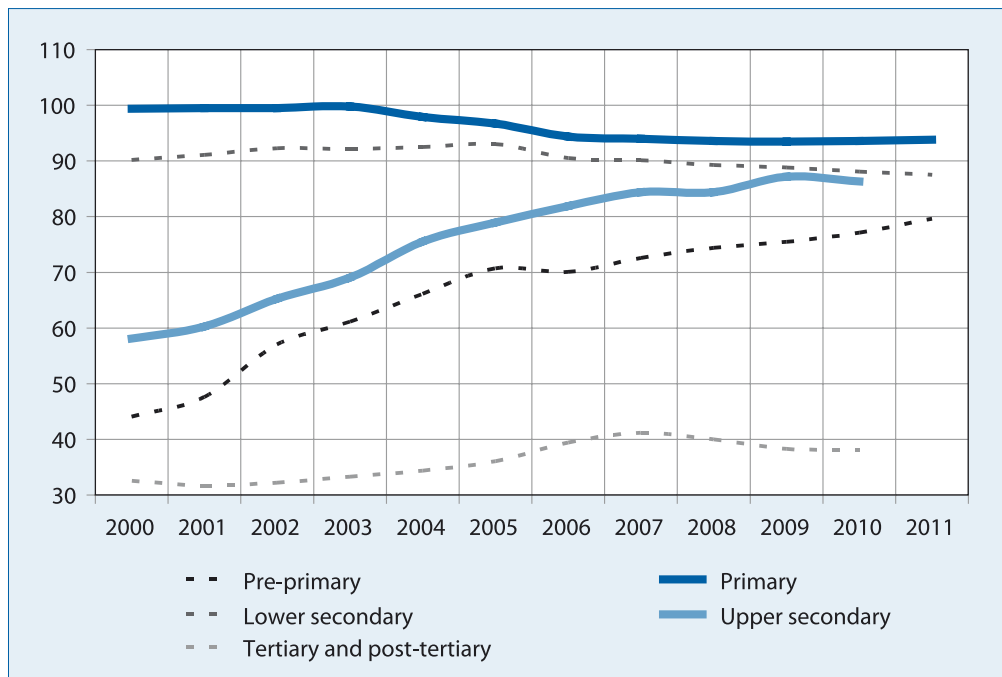


Source: International Human Development Indicators, UNDP.

Enrolment in education followed different, sometimes opposite trends across different educational levels. The most worrying trend

was the decline in enrolment rates in general mandatory education, which has stabilized somewhat since 2007 (Chart 16).

CHART 16. GROSS ENROLMENT RATES BY LEVEL OF EDUCATION, PERCENT, PERIOD 2000-2011



Source: NBS, UNESCO database.

These trends may undermine the achievement of the national targets for the MDG2 for ensuring full access to general compulsory education. The intermediary target for 2010 to increase the gross enrolment rate for compulsory general education to 95 percent in 2010 has already been missed, making it difficult to achieve the 98 percent in 2015. Moreover, the literacy rate has slightly dropped - by 0.1 percentage point - although it still remains well within the targeted limit. The only indicator, where significant improvements have been achieved is the enrolment rate in the pre-school education. The gross enrolment rate in pre-school education of children aged 3 to-6 years in 2010 was 77.1 percent and almost 80 percent in 2011 (well above the target of 75 percent). However, data show that children in rural areas, children with disabilities and Roma children have a much lower enrolment rate in pre-school education²⁹. Generally, there are several risk groups (children from poor families or with migrant parents, Roma children, children

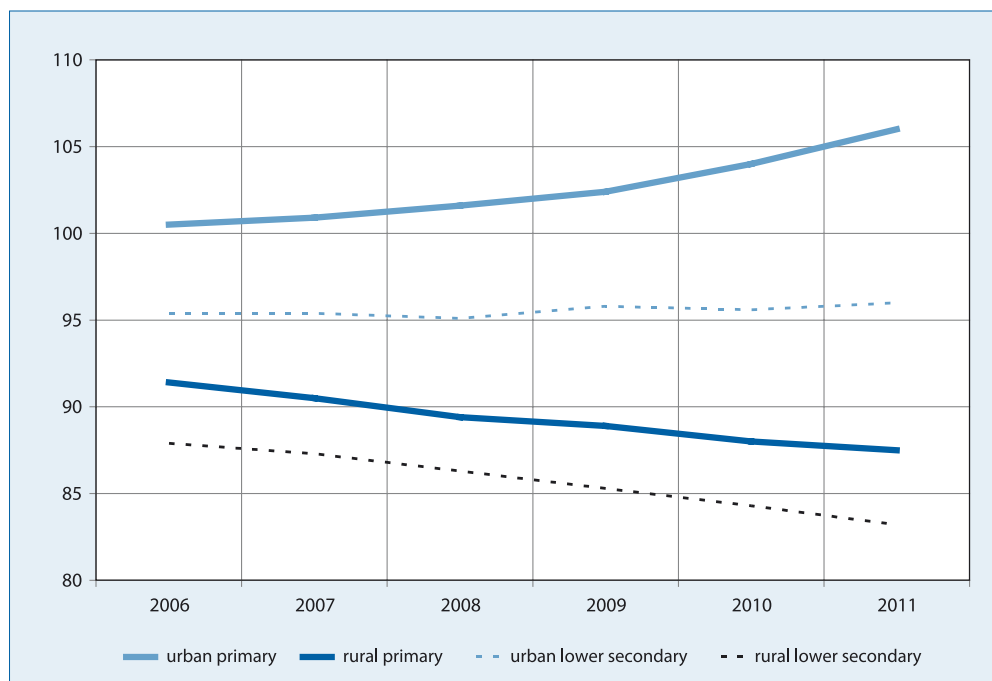
with special educational needs, children with HIV) who face significant barriers in accessing regular schools and quality education³⁰ and require better regulation as well as both the consolidation of the capacities of pedagogic staff working with them and eradication of a social culture of intolerance (see more on this in Chapter 5).

In Moldova there are no significant gender discrepancies in educational enrolment, but there is a large and widening gap between enrolment in rural and urban areas. In the past years the enrolment of urban children improved, while in rural areas it has further decreased. Despite the fact that enrolment in primary and lower secondary education is mandatory, the enrolment rate in rural areas is below 100 percent and has been on a downward path since 2006 (Chart 17). Apart from having limited access to education, children in rural areas also suffer from a lower quality of education and more limited choices.

... undermining its chances of achieving MDG target to ensure full access to general compulsory education.

Gender discrepancies in educational enrolment are not significant, but the rural-urban divide is widening.

CHART 17. GROSS ENROLMENT RATES IN BASIC EDUCATION BY AREA OF RESIDENCE, PERCENT, PERIOD 2006-2011



Source: NBS.

FOOTNOTES

²⁹ Government of Republic of Moldova, "The second Millennium Development Goals Report. Republic of Moldova", 2010 accessible at http://www.undp.md/presscentre/2010/MDG%20Report%20II/MDG2_RM.pdf.

³⁰ National Human Development Report 2011, Republic of Moldova. From Social Exclusion towards Inclusive Human Development, UNDP, 2011.

While HDI is not able to capture the quality of education, this is a key parameter influencing the labour productivity in the long term and, consequently, income growth itself. In this regard, the quality of education in Moldova does not seem to have followed the trend of a growth in its financing³¹. As for the quality of the educational system and its ability to meet the needs of a competitive economy, in 2012 the World Economic Forum assessed this aspect with a score of only 3.2 out of the maximum 7 and there was no progress registered since 2008³² (see more on the quality of education and the skills mismatch on the labour market in Chapter 6).

Optimization of the school network³³ that started in 2010 is one of the few comprehensive reforms in the educational system in the last decade. Although there was initial public reluctance towards closing the schools in some rural areas due to concerns regarding access to education, this is a price to pay for making the system more efficient and increasing the quality of basic education. The reform is necessary because, despite the apparently high enrolment rate in compulsory education, the costs for this formal achievement are too high, while the quality of education in these remote rural schools is often too low. The impact of the reforms on the enrolment rate has not yet been evaluated, with both negative and positive opinions of parents and children expressed depending on whether they reach better schools. The reform was supposed to be completed by the end of 2012, but it will go beyond this date, especially that it is accompanied by the change in the

financing mechanism of the schools, introducing a per-capita formula starting in 2013. Unfortunately, there are few other good practices in the educational system. Despite the continuous reformation of the Vocational Education and Training (VET) system since 2006 and significant increase in financing, improvements in quality and outcomes of the VET are barely visible.

1.3.4. Human Development through Equal Opportunities for Women and Men

Two main HDI components presented in the sections above (life expectancy, enrolment in education) indicate a more favourable position for women. According to the Gender Inequality Index, Moldova ranked 46th out of the 145 participating countries

Women's literacy rate for the adult population and share of adult female population with at least secondary education are still lower than the corresponding indicators for men, however, the trends have changed over time in favour of the female population. For the younger groups of the population, the above mentioned indicators are better for the female population. However, women's educational achievements are not reflected in the economic, social and political participation of women. This is partly seen in the more limited labour force participation rate for women and their limited percentage of seats in the Parliament. The share of MP seats held by women has fallen from 24.7 percent in 2009 to 18.8 percent in 2011. At the local level the situation has slightly improved as a result of the 2007 and 2011 local elections. However, as a general pattern, the higher up in the hierarchical structure of decision making bodies, the fewer women one finds compared to men³⁴. Achieving the MDG3 target of increasing the women's representation in decision-making positions remains a challenge for Moldova. The wage gap declined in 2006-2008; however, no progress was registered afterwards. The gap remains significant (23.9

Optimization of the school network, while necessary, has to be implemented with care, and more attention to be given to the reform of the vocational education establishments.

While Moldovan women have better educational achievements, these do not reflect in the economic, social and political participation of women...

FOOTNOTES

³¹ The share of public expenditures on education in GDP increased from 6.7 in 2000 to 9.4 percent in 2009, reaching its historical height. After 2009 the nominal public expenditures on education have continued to grow, but at lower rates than GDP. In 2011 the share of public expenditures on education in GDP was 8.4 percent, which in relative terms is still higher than in any country in the EU.

³² Global Competitiveness Reports, World Economic Forum.

³³ Introduced in National Action Plan for the accomplishment of structural reform in the educational system approved by Governmental Decision no. 484 from 05.07.2011 <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=339274>.

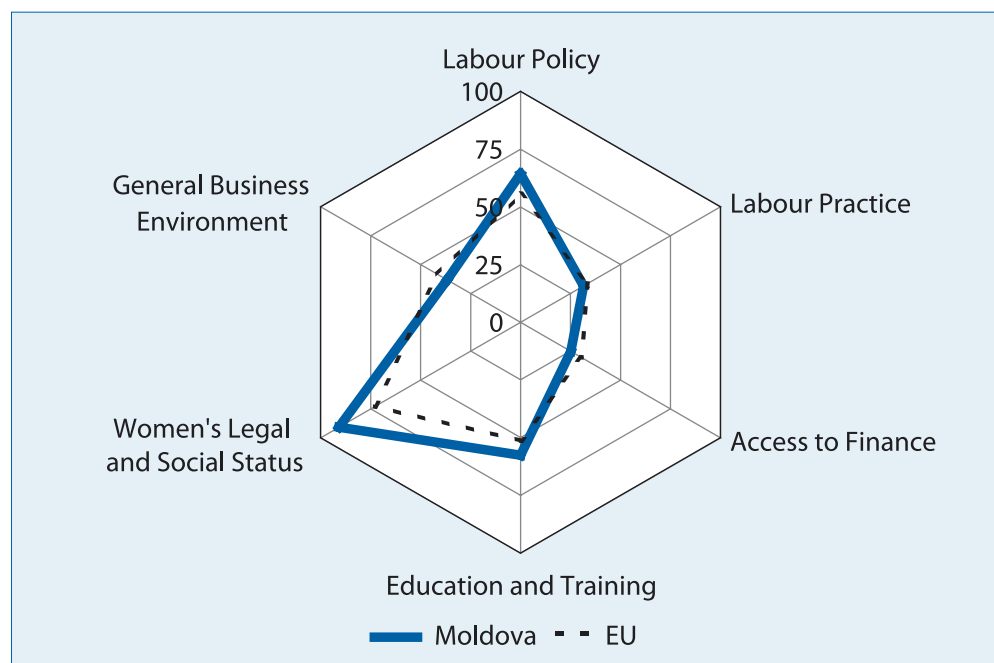
³⁴ Government of Republic of Moldova, "The second Millennium Development Goals Report. Republic of Moldova", 2010 accessible at http://www.undp.md/presscentre/2010/MDG%20Report%20II/MDG2_RM.pdf.

percent) because women either work in lower-paid sectors – education, healthcare or services - or occupy lower-paid positions.

The limited economic opportunities for women are reflected in the Economist Intelligence Unit's Women Economic Opportunity Index³⁵, where Moldova receives only 51 points (of the maximum of 100) and is ranked 60th.

The quoted report concludes that Moldova performs relatively well in 'labour policy', 'education and training' and 'women social and legal status' pillars, achieving a higher score. At the same time the country achieves a lower score in the 'labour practice', 'access to finance' and 'general business environment' pillars (Chart 18).

CHART 18. SCORES FOR WOMEN ECONOMIC OPPORTUNITY INDEX COMPONENTS FOR MOLDOVA AND EU AVERAGE, YEAR 2012



Note: Evaluation is done on the scale from 0 to 100, with higher scores representing better situation of women.

Source: Economist Intelligence Unit, 2012.

Moldova's main strengths underlined in the report are: 'Maternity and paternity leave provisions', 'Legal restrictions on job types', 'Freedom of movement for women', 'Property ownership right', 'Ratification of Convention on the Elimination of All Forms of Discrimination against Women CEDAW', 'Literacy rate for women', 'Adolescent fertility rate', and 'Addressing violence against women'. The main weaknesses refer to: 'Tertiary education for women', 'Implementation of Non-discrimination, ILO convention 111 (policy and practice)' ³⁶, and 'Access to childcare and Implementation of Equal Pay', ILO Convention 100 (policy and practice)' ³⁷.

This makes even more evident the need to adopt and implement effective policies for widening women's opportunities and their more active participation in economic life. This is also important in the context of Moldova's EU integration aspirations. Equality between women and men is part of the underlying values on which the Union is founded (Article 2, Treaty of European Union), making it a criteria for determining whether a state can be a candidate for accession or not.

... making even more urgent the adoption of effective policies actively promoting women participation.

FOOTNOTES

³⁵ Economist Intelligence Unit, "Women Economic Opportunity Index", 2012, accessible at http://www.eiu.com/site_info.asp?info_name=womens_economic_opportunity&page=noads.

³⁶ Convention concerning Discrimination in Respect of Employment and Occupation.

³⁷ Convention concerning Equal Remuneration for Men and Women Workers for Work of Equal Value.

Following the global pattern, Moldova's economic growth risks to be accompanied by a much heavier environmental footprint.

High energy intensity is one of the weakest elements undermining Moldova's sustainable development path.

Moreover, Moldova's own National Program on Gender Equality for 2009-2015³⁸ stipulates that the European aspirations will require full adherence to the relevant instruments. This particularly refers to some EU directives that need to be fully implemented as not all of them are currently reflected in the legislation of the Republic of Moldova: Directive on equal pay for men and women; Equal treatment of men and women in employment; Equal treatment of men and women in occupational social security schemes; The Pregnant Workers Directive; The Parental Leave Directive, etc.

1.3.5. Environmental Sustainability

HDI does not capture the environmental aspect of human development, but recent evolution of the environmental indicators suggests that rising global HDI has been accompanied by environmental degradation caused by the economic growth. In the context of its declared European integration aspirations, Moldova's environmental sustainability is a crucial aspect to be considered in national development policies. The importance EU attaches to the environmental sustainability is reflected by some of the targets of the EU's "Europe 2020" strategy, such as:

- reduce greenhouse gas emissions by 20 percent (or even 30 percent, if the conditions are right) compared to the level of 1990; increase the share of renewable energy sources in final energy consumption by 20 percent;
- increase energy efficiency by 20 percent.

The countries with European aspirations are expected by the EU to abide to similar targets. At the same time, these targets should be adopted considering the national contexts, as volume of emissions depends to some extent on the level of economic development of a country. A poor country which has little heavy industry, Moldova is positioned among the countries with low levels of greenhouse gas emission per capita in the Global Human Development Report 2011 (1.1 tons of carbon dioxide equivalent in 2005 and 1.3 tons per capita emission of carbon dioxide in 2008)^{39,40}. However, as its economy grows, Moldova may become a more pollutant country. This is demonstrated by the evolution of air pollutants from the industrial sector: following a U-inverted trend in the volume of discharged air pollutants per unit of industrial output between 2003 and 2010. In 2010 Moldova's industry was just as dirty as it was in 2005. This suggests that if Moldovan industry starts growing faster, the impact on environment may be even greater.⁴¹

Regarding renewable energy, Moldova has a long way to go before it reaches the EU standards. Moldova is ranked quite low in the Global Human Development Report 2011, with only 2.8 percent of total energy supply coming from replenished natural processes in 2007⁴². This is less than the average for Europe and Central Asia. At the same time, Moldova is among the nations with highest energy consumption per unit of GDP. In 2008 the GDP per unit of energy use equaled 3.8 constant 2005 USD per kg of oil equivalent, while in European Union the corresponding level is 8.2.⁴³ The double 'curse' of limited domestic energy resources and poor efficiency in energy use generates significant level of energy poverty and creates significant hindrances for Moldova to achieve a more sustainable development⁴⁴.

Therefore it is not surprising that the overall score for environmental performance of Moldova is relatively weak (Chart 19). On the

FOOTNOTES

³⁸ Approved by Governmental Decision no. 933 from 31.12.2009 <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=333441>.

³⁹ Human Development Indicators, UNDP.

⁴⁰ At the same time, the International Energy Agency reports 1.59 tonnes of CO2 per capita emission in 2009.

⁴¹ Government of Republic of Moldova, "National Report for UN CSD 2012 Rio+20", Chisinau, 2012.

⁴² According to World Development Indicators by World Bank the combustible renewables and waste as share of total energy was 3.3%.

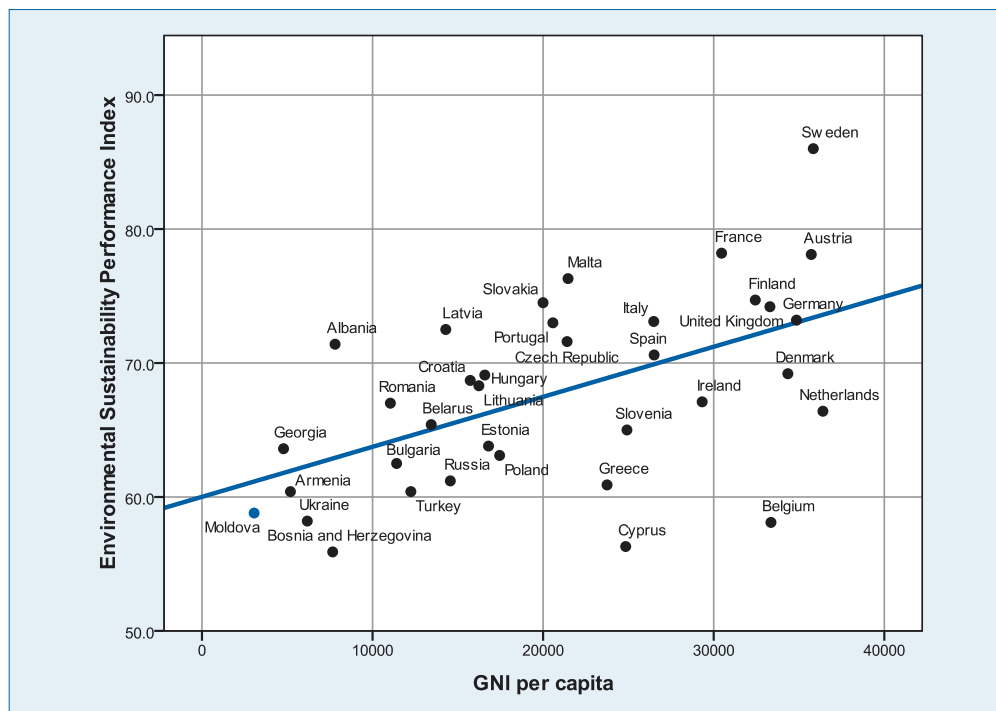
⁴³ World Development Indicators, World Bank.

⁴⁴ Government of Republic of Moldova, "National Report for UN CSD 2012 Rio+20", Chisinau, 2012.

one hand, Moldova is among the nations performing well in terms of environmental burden of disease and indoor air pollution. On the other hand, Moldova has average results on most other indicators, and performs poorly when it comes to air pollution level. The score on urban particulates and industrial carbon dioxide performance falls well below other countries⁴⁵. It is true that in the last two

decades the emission of urban particulates and emissions have decreased significantly in Moldova, mostly due to shrinking industrial sector, but this has been 'compensated' by higher levels of pollution from the part of mobile sources. The current industrial growth is intensifying and the percentage of carbon emissions to industrial GDP has significantly increased.

CHART 19. CORRELATION BETWEEN GNI PER CAPITA AND ENVIRONMENTAL SUSTAINABILITY PERFORMANCE INDEX IN EU, WESTERN BALKANS AND EASTERN PARTNERSHIP COUNTRIES



Source: Authors' calculations based on International Human Development Indicators Database, UNDP.

The general satisfaction of the public with the Government's policy of reducing emissions and with actions to preserve the environment is relatively low: 4.5 percent and 15.5 percent respectively of surveyed individuals from 2006 to 2010⁴⁶. Moreover, public dissatisfaction has been fed by a low access to improved water supplies and a high share of the population living on degraded land⁴⁷. In fact most of the national targets of MDG7 on ensuring a sustainable environment have been missed for 2010 due to very slow progress, especially

in expanding access to water and sanitation infrastructure. As the population's living standards grow, the Government should expect growing pressures from the part of the population to ensure a cleaner and healthier environment.

Considering social and economic needs of the country, providing universal access to safe water and stopping the soils erosion should remain among the top priorities for Moldova.

FOOTNOTES

⁴⁵ Economist Intelligence Unit, "Women Economic Opportunity Index", 2012, accessible at http://www.eiu.com/site_info.asp?info_name=womens_economic_opportunity&page=noads.

⁴⁶ Convention concerning Discrimination in Respect of Employment and Occupation.

⁴⁷ Convention concerning Equal Remuneration for Men and Women Workers for Work of Equal Value.



2.

EUROPEAN INTEGRATION AND HUMAN DEVELOPMENT: LESSONS FROM THE PAST AND FORTHCOMING OPPORTUNITIES

■

The key purpose of this chapter is to draw relevant lessons from the way European integration has influenced human development and to find out what experiences in this respect would be particularly relevant for Moldova. While some parts might seem historical in their nature, these are meant to help understand the logic behind ideas and decisions collectively taken over time by its members in support of the EU's development cooperation policy, in general, and human development, in particular. Moreover, these lessons are of utmost importance if we were to anticipate if and how various scenarios for the future of Europe would affect human development in Moldova, assess the level of preparedness of the Moldovan authorities to deliver an adequate response to each scenario and provide relevant recommendations in this respect. The chapter ends by highlighting the most important stages in the relationship between Moldova and the EU and their implications for the country's development.



2.1. BRINGING PEACE AND WELFARE: UNDERSTANDING THE LOGIC BEHIND EUROPEAN INTEGRATION

EU membership is closely associated with a steadily growing HDI of those which joined (or are about to join) the club.⁴⁹ As noted in the 2005 Global Human Development Report, 25 of the EU countries are among the first 50 countries with the highest HDI in the world (in 2011 – the EU-27 are among the top 55 with Romania ranking 50th and Bulgaria – 55th). However, Europeanization, which measures the domestic impact of European integration, also occurs beyond EU membership, and in many cases even beyond EU candidacy (such as European Free Trade Area (EFTA), European Neighbourhood Policy (ENP) and, more recently, the Eastern Partnership Countries (EaP) countries).

Naturally, the attention on how European integration shapes human development is mainly

The EU emerged as a reconciliation project with solid economic foundations but gradually evolved into a welfare community, positively affecting the level of human development of its member states⁴⁸.

focused on member and candidate countries. However, since there are empirically proven studies which illustrate how European integration affects national policies, politics and polities outside EU,⁵⁰ one could reasonably assume that to some extent European integration processes influence human development of these countries as well, especially those in geographic proximity, enjoying comprehensive bilateral agreements with EU.

Impact of the European Union spreads far beyond its borders...

BOX 4. EU DEVELOPMENT POLICY AND HUMAN DEVELOPMENT

The human dimension of the EU development policy, both within the Union but especially when ‘exported’ to non-member countries, is a relatively recent development. Although the Schuman Declaration, which marked the beginning of the EU, aims, among other things, for a “Europe where the standard of living will rise”, it was not until the Lomé III (1985) and IV (1989) Conventions⁵¹ when certain aspects of human development (such as gender and human rights) were first tackled. This was the first time when EU attempted to make aid conditional upon a good record in certain dimensions of human development. Although not stated in terms we are used to these days, particular aspects of the human development concept in its modern understanding (such as respect for human dignity and human rights, freedom, equality) could be also found in the Treaty of Rome (1957).

Despite significant experience in the inter-governmental decision-making and cooperation, and declared goals to address poor economic conditions of countries in need, the EU did not become a key player in international development policy until early 1990s. Between the 1950s and 1990s it was preoccupied by trade issues⁵² and provided humanitarian responses to emerging crises, rather than preventing them.

The geographical focus of the EU’s development policy was originally the African, Caribbean, and Pacific (ACP) countries. It only obtained a Central and Eastern European (CEE) dimension after the fall of the Iron Curtain. This allowed the EU to adopt a new developmental approach, based on the lessons learned over a few decades, towards the new CEE neighbours, many of which have later joined the EU in a few successive waves.

Source: based on Stephen Dearden, The Reform Agenda of the EU’s Development Policy, European Development Policy Study Group Discussion Paper 34, Manchester Metropolitan University, 2008.

FOOTNOTES

⁴⁸ As the EU website states in its historical chapter, “The historical roots of the European Union lie in the Second World War. Europeans are determined to prevent such killing and destruction ever happening again.” http://europa.eu/about-eu/eu-history/1945-1959/index_en.htm (accessed: 01.06.2012).

⁴⁹ Kurt, S., Savrul, M., “The Effect of the European Union on Human Development”, International Research Journal of Finance

and Economics, Issue 65, April, 2011, pp 35-42.

⁵⁰ Schimmelfennig, F., “Europeanization beyond Europe”, Living Reviews in European Governance, Vol. 7, (2012), No. 1: <http://www.livingreviews.org/lreg-2012-1> (cited [30 January 2012]).

⁵¹ Stephen Dearden, The Reform Agenda of the EU’s Development Policy, European Development Policy Study Group Discussion Paper 34, Manchester Metropolitan University, 2008.

⁵² The Lomé Conventions were labelled as ‘trade and aid agreements’.

Including because many norms EU promotes are actually universal.

A particularity of EU norms is their universality, as they take their roots from international organizations, including the United Nations. Indeed, the references to international organizations (United Nations Organization, Council of Europe, Organization for Security and Cooperation in Europe) and to their treaties (for example the United Nations Charter, Helsinki Final Act, Paris Charter, the case law of the European Court of Human Rights, European Social Charter, etc.) occurs quite often in EU treaties.⁵³ Since the EU did not initially have its own legal norms, Member States ratified most of these treaties. The internalization of norms from these international commitments in all Member States led to their recognition at the EU level and contributed to proliferation of the human rights-related concepts.

The same path was reflected in the priorities of the EU's development policy (promoting and consolidating human rights and the rule of law, alleviation of poverty etc.) in the Maastricht Treaty. They have been originally adopted as priorities of external development cooperation by several Member States, particularly Germany, Sweden and the UK.⁵⁴ Successful application of existing norms in Greece, Portugal and Spain gave birth to the EU's enthusiasm to replicate them in Eastern Europe, thus generating the most prominent enlargement wave of the EU.⁵⁵ Anticipating the upcoming accession of new members, the so-called Copenhagen membership criteria had been set in 1993, and further fine-tuned in Madrid in 1995. These criteria, as further

examined in the next section, attached human development dimensions to the European integration process.

Some of the lessons learned over the past decades were further addressed in the 2000 Statement by the Council and the Commission on the European Community's Development Policy⁵⁶. Poverty reduction became the main objective of the EU's development policy and a distinction was made between emergency relief and long-term development assistance programming. However, human development only emerged as an official EU policy tool with the adoption of the 2005 European Consensus on Development.⁵⁷ The document, approved in a joint statement by the Council, European Parliament and Commission, affirms the EU's commitments to work towards achievement of MDGs and other development objectives as agreed at major UN conferences and summits. It also acknowledges that "the Community human development policy framework for health, education, culture and gender equality aims at improving peoples' lives in line with the MDGs through action at global and country level. It will be driven by the principle of investing in and valuing people, promoting gender equality and equity". The document stresses the need for a mainstreaming approach for issues which require a multi-sectoral response such as human rights, gender equality, democracy, good governance, children's rights and indigenous peoples, environmental sustainability and combating HIV/AIDS. Box 4 includes additional details on the evolution of the EU development policy.

FOOTNOTES

⁵³ Helene Sjursen, "What kind of power?", *Journal of European Public Policy*, 13:2, 2006, p. 171.

⁵⁴ Giuseppe Balducci, "Europe's identity as a democracy promoter: where it comes from and what it does", NESCA Second Workshop 2006 The EU's new identity and its perception in Asia: Responding to the 7th Framework Programme "Europe in the World", NCRE, University of Canterbury, Christchurch, New Zealand, July 27-29, 2006, p. 13.

⁵⁵ *Ibidem*.

⁵⁶ Document available at http://europa.eu/legislation_summaries/other/r12001_en.htm.

⁵⁷ Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy, Official Journal of the EU, 2006/C 46/01.

2.2. DEVELOPMENT IMPACT OF INTEGRATING WITH EU: CASE-STUDIES FROM THE 2000s' EU ENLARGEMENTS, WESTERN BALKANS AND ENP

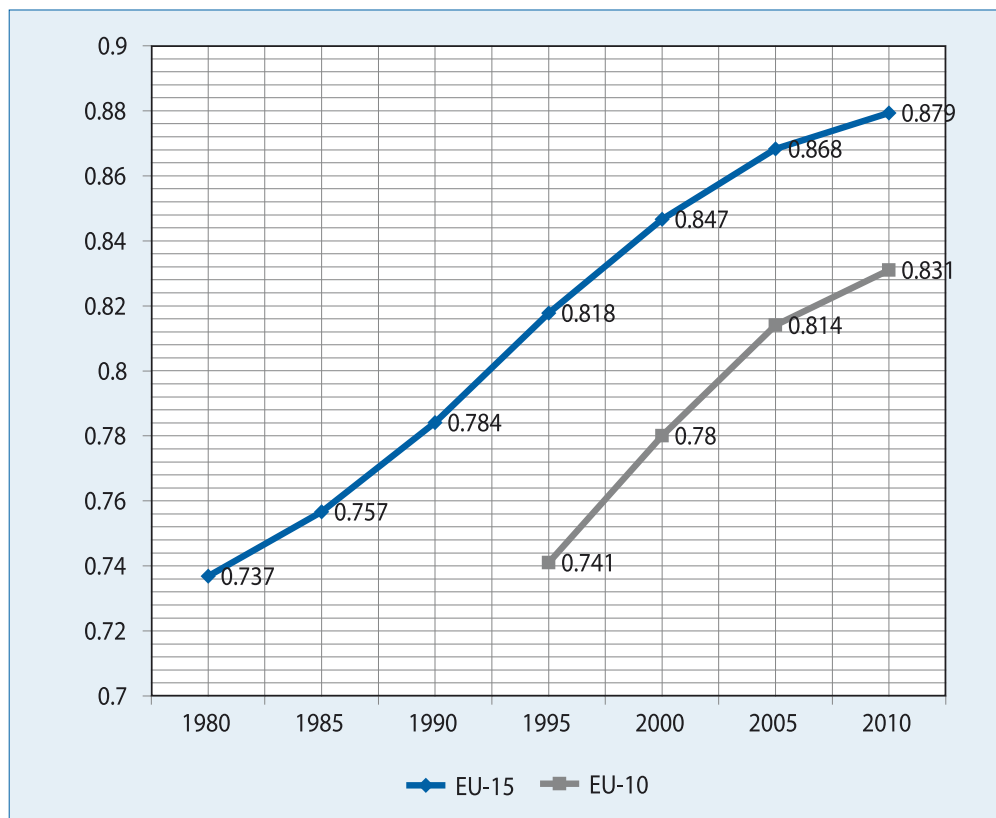
European integration has traditionally been a two-way, long-term, ongoing and open-ended process (even though nowadays the EU is thinking of stopping 'negotiating' adoption of the *acquis* by the countries willing to join the club but rather of encouraging the applicants to transpose the *acquis* as it is). The road to one of the main elements of this process – EU membership – is quite long and difficult. Only after over a decade of reforms, eight former communist CEE countries became part of the largest EU's enlargement wave in 2004 (Cyprus and Malta also joined at the same time). The next wave included Bulgaria and Romania in 2007 making Moldova a direct neighbour of the EU. A challenging question to be looked into

this section would be: does EU membership automatically lead to a higher level of human development? In spite of weighty evidence and reasonable assumptions referred to below, the answer to this question is not unequivocal.

International evidence published in reputable scientific journals suggests that there is a statistically-significant and direct link between the EU membership and development performances, reflected, among others, in the increasing value of the Human Development Indexes (HDI) of the countries involved⁵⁸. As shown in Chart 20, based on available HDI data, the EU-10⁵⁹ countries started their road to membership⁶⁰ from nearly the same level as previous EU-15 at a 15 years distance.

International evidence suggests a statistically-significant and positive link between the EU membership and human development, as measured by HDI

CHART 20. EVOLUTION OF THE AVERAGE HDI IN EU'S FOUNDING AND NEW MEMBER STATES, PERIOD 1980-2010



Note: Austria, Sweden and Finland joined the EU in 1995, Spain with Portugal - in 1986, and Greece in 1981 but they are included in calculations since 1980.

Source: authors' calculations based on UNDP data on HDI retrieved from <http://hdr.undp.org/en/statistics/> on 23.03.2012.

FOOTNOTES

⁵⁸ Kurt, S., Savrul, M., "The Effect of the European Union on Human Development", International Research Journal of Finance and Economics, Issue 65, April, 2011, pp 35-42.

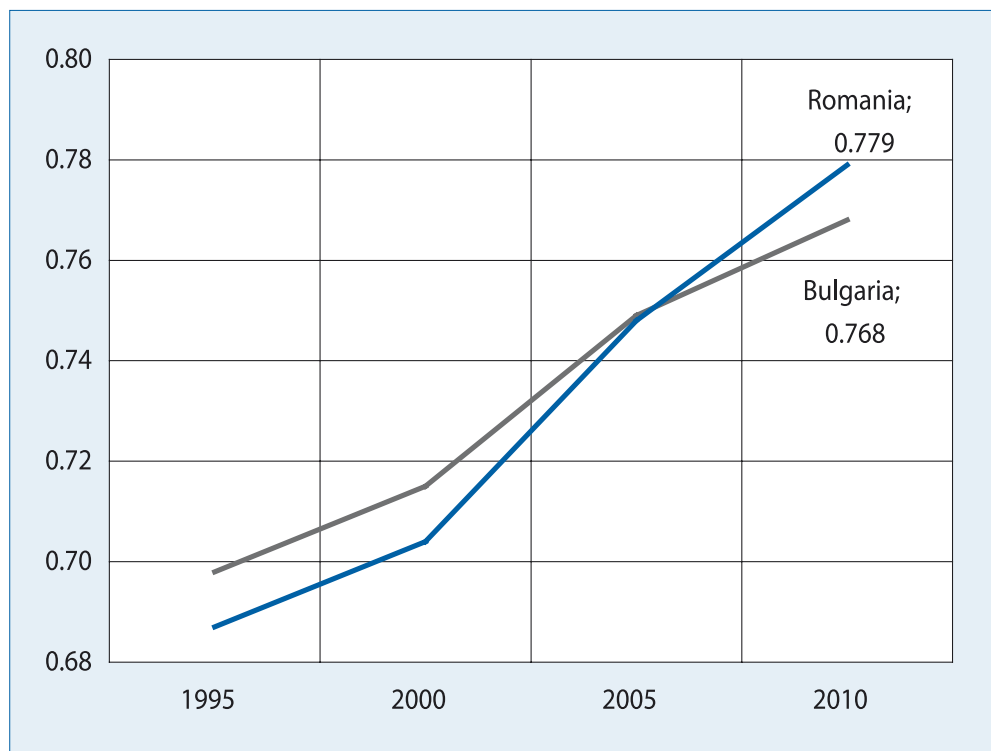
⁵⁹ EU-10 includes the eight Central European countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) and the two Mediterranean countries (Malta and Cyprus) joining EU in 2004.

⁶⁰ Most of EU-10 countries signed Association Agreements and subsequently became candidates around 1995.

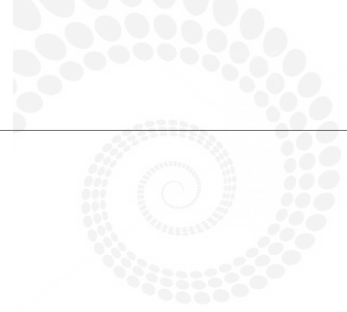
The HDI growth rate of EU-10 countries after association in 1995 is impressive. They reached the EU-15 HDI value from 1990 twice faster than the older members (i.e. in only five years from 1995 to 2000). Presumably, there were many interdependent factors which contributed to such an outcome, among which a multitude of newly enacted requirements which made a given country eligible for membership. This was a period of intense structural reforms which followed the signing and entering into force of Associations Agreements (AAs) and Free Trade Agreements (FTAs). The whole body of *acquis communautaire* had to be transposed (i.e. not only adopted, but also implemented) which demanded an immense workload. The approaching enlargement revealed the need for further systematization of the EU law. Thus, it has been divided into 31 *acquis* chapters in order to facilitate negotiation with

candidate countries. Membership negotiations have started and most of traditional chapters were agreed and closed over this period, among which many (e.g. social policy and employment, education and training, environment, consumers and health protection etc.) have contributed significantly to human development of the countries joining the EU. A similar growth pattern occurred for Bulgaria and Romania, which have experienced the highest HDI growth rates from 2000 to 2005 period when accession negotiations took place (see Chart 21). The progress made by the two countries is particularly instructive for Moldova, considering that among the countries joining the EU in the 2000s, Bulgaria and Romania are the closest to Moldova in terms of geography, culture, economic structure and development.

CHART 21. HDI GROWTH IN ROMANIA AND BULGARIA, PERIOD 1995-2010



Source: authors' calculations based on UNDP data on HDI retrieved from <http://hdr.undp.org/en/statistics/> on 23.03.2012.



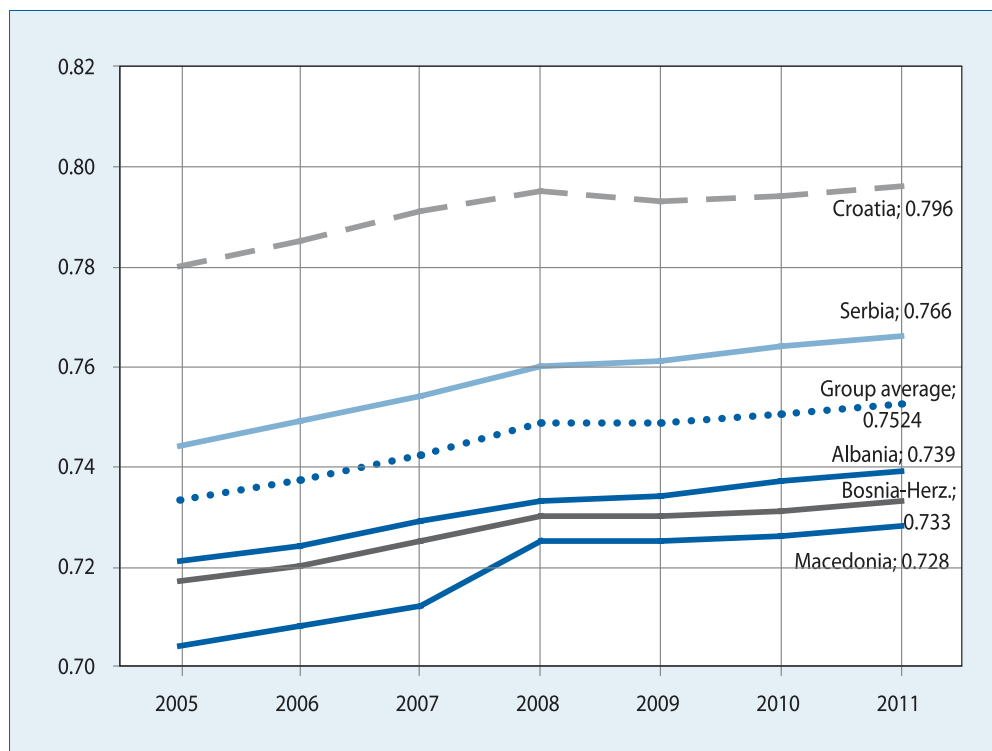
To a great extent these reforms were triggered by the adoption of the Copenhagen membership criteria in 1993. As opposed to candidates which joined the EU prior to the 2004 enlargement wave, the EU-12 countries⁶¹ had to comply with specific political, economic and legislative criteria which have ultimately, in a way or other, contributed to improvement of human development conditions. Specific requirements with respect to human rights and protection of minorities, alignment to the free market competition rules and legal harmonization in many policy areas covered by the EU law, have all expanded the range of choices for individuals and resulted in speeding up of peoples' well-being. An important factor attached to these criteria was a clear membership perspective granted to candidates which would successfully fulfil them. The fact that HDI grew faster during accession negotiations first for EU-10 countries and later for

Bulgaria and Romania is too prominent to be considered a mere coincidence.

It should be noted that HDI is not a measure in itself of countries' preparedness to apply for EU membership. However, the analysis of patterns of HDIs' changes of EU-12 and Western Balkans' (WeB) countries reveal a general rule which assumes that countries with a higher HDI are more likely to become EU candidates and members. At first sight, the 1995 'HDI starting point' of 0.741 (see Chart 20) may not seem achievable for Moldova in 15-20 years considering its past HDI growth rates and current HDI level, which only reached 0.649 in 2011⁶² (up from 0.584 in 1995). However, Latvia and Lithuania, for example, signed Association Agreements and subsequently officially became candidates in 1995, with their HDIs equalling only 0.673 and 0.696 accordingly. Among the WeB countries (Chart 22), Croatia, with the highest HDI

European integration impacted human development through the reforms required to comply with the EU's acquis.

CHART 22. HDI GROWTH IN FIVE WESTERN BALKANS COUNTRIES, PERIOD 2005-2011



Note: Kosovo and Montenegro not included since no data is available for the whole period.

Source: authors' calculations based on UNDP data on HDI.

FOOTNOTES

⁶¹ EU-12 includes the EU-10 countries plus Romania and Bulgaria that joined EU in 2007.

⁶² Changes in HDI calculation methodology for 2011 should be noted.

value, is an acceding country, scheduled to join the EU in 2013. Serbia has also recently received a candidate status. The only exception is Macedonia, a candidate state, which has a slightly lower HDI than Albania and Bosnia and Herzegovina which are only “potential candidates”. The differences, however, are not statistically significant.

Where there any other factors, other than European integration that might have influenced HDI growth? Such factors have certainly existed. Obviously, developing countries could feature a faster growing HDI than developed countries simply because it is quite hard to gain significant improvements in this indicator once it reached a score quite close to the maximum possible. Also, the HDI growth from 1980 to 2008 as shown in Chart 20, coincided with times which were favourable to economic growth (one could also see how the global financial crisis affected HDI growth in Western Balkan countries in 2008 – see Chart 22). Some European countries such as Switzerland and Norway, are not part of the EU but have high and rising HDI levels. However, the fact that the European integration process in general and the accession process in particular offers access to EU markets and innovative technologies and attracts FDIs, thus stimulating the economic performance, also cannot be neglected. The pre-accession and structural funds, available to members and candidates only, have been another important

channel translating the EU impact on human development. These follow a programming approach and run throughout the 1994-1999, 2000-2006 and 2007-2013 programming periods. They have significantly impacted both the soft and physical infrastructure during accession of EU-12, especially in regions below the EU average GDP levels, and thus influenced the HDI growth levels.

Certain studies published in authoritative scientific journals have analyzed the evolution of HDI in EU countries which joined the Union from 1975 to 2004 and came to the conclusion that although less developed countries grew faster this was not the result of EU enlargement.⁶³ In the light of the impact of Copenhagen criteria as analyzed above, a plausible explanation for this would be that no conditions particularly relevant to human development had been put forward in the previous enlargements: Denmark, Ireland and UK (1973), Greece (1981), Portugal and Spain (1986), Austria, Finland and Sweden (1995). In the case of the latter three, quite the opposite, most of their national health and environmental standards have been adopted across the EU.⁶⁴

The evidence above suggests a strong link between European integration processes, especially during the accession stages, and human development. However, while there is enough evidence which indicates that the recent enlargement waves have greatly benefited human development, there is no clear evidence on how exactly Europeanization affects human development beyond EU member and applicant states. A comprehensive literature review reveals that EU influences non-members’ and non-candidates’ behaviour, including with respect to human development, either by targeted means (conditionality, externalization, socialization⁶⁵) or by its mere presence (thus stimulating imitation).⁶⁶ While transposing the *acquis communautaire* represents the core of Europeanization of both EU members and candidates, there is no

EU also influences non-candidate countries through conditionality, externalization, socialization of elites and by serving as model.

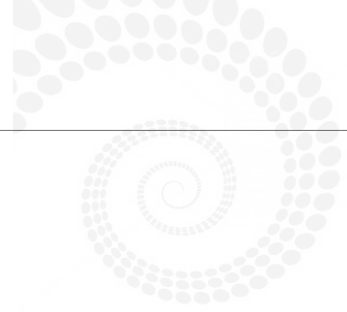
FOOTNOTES

⁶³ Konya, L. and Guisan, M. C. “What Does the Human Development Index Tell Us about Convergence?”, *Applied Econometrics and International Development*, Vol.8-1, 2008.

⁶⁴ Press release “Strengthened EU environment standards as a result of the enlargement with Austria, Finland and Sweden”, European Commission, Brussels, 14 December 1998.

⁶⁵ Conditionality, externalization and socialization are three different but closely related concepts. Conditionality represents a set of requirements that developing countries have to fulfill in exchange to external aid, in order to strengthen implementation of good governance principles or align to certain internationally recognized standards. Externalization, as its name suggests, is applying legal norms for regulation of public policies in countries from outside of an institutionalized group. Finally, socialization could be defined as a process of transformation leading to the internalization of norms of an international actor, without the latter necessarily having a targeted action in place in this respect.

⁶⁶ Schimmelfennig, F., “Europeanization beyond Europe”, *Living Reviews in European Governance*, Vol. 7, (2012), No. 1: <http://www.livingreviews.org/lreg-2012-1> (cited [30 January 2012]).



such a distinctive instrument for EU partners. Besides the so-called 'quasi-members' which seek access to the single market and thus are determined to adopt some parts of the *acquis*, the ENP countries would represent a remarkable exception, because of the EU's commitment to extend its *acquis* without offering a clear membership perspective.⁶⁷ Some of these countries, currently negotiating AAs, in many fields face the same adaptation pressures as candidate countries without having an explicit signal from the EU about their membership perspective. Since European

integration is a two-way process, which implies a great deal of commitment and government ownership, membership conditionality can significantly quicken the process. With respect to partner countries, such as EaP members, conditionality would take the form of gradual partial access to the free movement of goods, capital, services and persons. Transposing the *acquis* in these areas is a complex and costly process. For this reason some partners might not always find that doing this is in their best interest, a behaviour which they cannot adopt if given a clear membership perspective.

2.3. MOST SIGNIFICANT EVOLUTIONS IN THE MOLDOVA-EU RELATIONSHIP

While geographically and culturally part of Europe, Moldova was rather late in establishing its relations with the EU. And the EU has only recently recognized that Moldova deserves more special treatment.

Moldova and the EU initiated their relationship through a Partnership and Cooperation Agreement (PCA) in 1994, with legal effects starting only in 1998 and which still has legal force (see Box 5 for a timeline of the EU-Moldova relationship). Based on 'standard' approach and representing only a modest evolution from the previous agreement that European Community signed with USSR in 1989, the PCAs were applied by the EU to frame its relations with almost all CIS countries. Two key differences from the EC-USSR agreement are that EU-Moldova PCA envisaged the harmonization of the Moldova's legislation with the EU legislation and creation of a free trade zone once Moldova joins the WTO. In these respects, practical achievements have not been as positive as initially hoped. Mol-

dova joined the WTO in 2000 while official negotiations on the creation of Deep and Comprehensive Free Trade Area were only launched in December 2011, to be part of a new-generation Association Agreement. As for the legal harmonization, the PCA lacks a strategic goal, and has brought relatively limited effects. Some authors even believe that the delayed and formulaic institutionalization of the EU's relations with Moldova considerably undermined 'the socialization' of Moldova's elites⁶⁸.

FOOTNOTES

⁶⁷ Ibidem.

⁶⁸ Vahl Marius and Emerson Michael, "Moldova and the Transnistrian Conflict", by 2008.

BOX 5. KEY FACTS AND FIGURES ON THE COOPERATION BETWEEN REPUBLIC OF MOLDOVA AND EUROPEAN UNION

- **1998:** Entry into force of the EU- Republic of Moldova Partnership and Cooperation Agreement.
- **2005:** Approval of the EU-Republic of Moldova Action Plan.
- **2006:** General System of Preferences (GSP) granted back in 1996 was extended to the GSP + system;
- **2008:** Entry into force of the Visa facilitation and readmission agreements. Signature of a pilot Mobility Partnership to strengthen legal migration opportunities and to strengthen capacities for migration management and fighting illegal migration.
- **2008:** Moldova was granted the EU Autonomous Trade Preferences.
- **2008 and 2009:** The EU's Civil Protection Mechanism was mobilized to support Moldova in assessing the flooding of the Nistru and the Prut rivers, and in alleviating the consequences of the Ukraine/Russia gas crisis.
- **2007-2010:** the ENPI envelope for Republic of Moldova stands at EUR 209.7 million, with an additional allocation of EUR 16.6 million through the Governance Facility.
- **2008-2010:** Neighbourhood Investment Facility committed nearly EUR 35 million to seven projects in Republic of Moldova in the social, transport and private sectors. Republic of Moldova benefited also from four NIF regional projects (total EUR 39 million in support of the energy and the private sectors, including SME's).
- **2010:** the EU and Moldova started negotiations on an EU-Moldova Association Agreement;
- **2011-2013:** The new National Indicative Program (NIP) 2011-2013 for Republic of Moldova was adopted in May 2010 and has a budget of EUR 273.1 million. The Program is geared towards supporting the achievement of key policy objectives as outlined in the EU-Republic of Moldova Action Plan and pursues 3 priorities: (1) good governance, rule of law and fundamental freedoms; (2) social and human development; and (3) trade and sustainable development.
- **2011:** Launch of the negotiations on the establishment of a Deep and Comprehensive Free Trade Area (DCFTA).
- **2011:** The Republic of Moldova held the rotating Energy Community Presidency

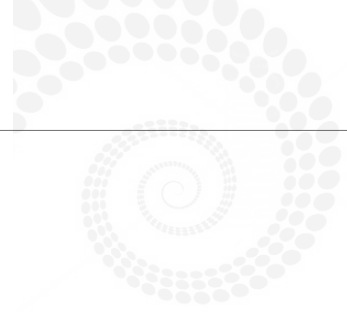
Source: Delegation of the European Union to Moldova, http://eeas.europa.eu/delegations/moldova/eu_moldova/index_en.htm and European Commission, Memo 12/xxx, Brussels, May 15, 2012 "ENP Country Progress Report 2011 – Republic of Moldova", http://ec.europa.eu/world/enp/docs/2012_enp_pack/moldova_memo_2011_en.pdf.

Moldova is currently negotiating a new generation Association Agreement with the EU...

At the same time, Moldova benefited from significant unilateral trade concessions from the EU: in 1997 when the EU granted Moldova trade preferences as part of the Generalized System of Preferences, which in January 2006 were extended; in 2008 the EU granted Moldova the Autonomous Trade Preferences (ATP). An Actions Plan was signed between Moldova and EU in February 2005, providing Moldova a roadmap for the most significant reforms that EU was expecting. A National Centre for Legal Approximation has been created, with

most of the legislation currently being tested for 'euro-conformity'. In 2008 a visa facilitation and readmission agreement between Moldova and EU entered into force. A pilot Mobility Partnership was signed to strengthen legal migration opportunities and to strengthen capacities for migration management and fighting irregular migration.

In order to accelerate Moldova's political association and economic integration with the EU, and in line with the EU's Eastern Partnership



Policy, the EU and the Republic of Moldova have entered negotiations on an Association Agreement (AA). Negotiations on the AA, as the successor agreement to the PCA, were launched in Chisinau on the 12th January, 2010. The EU-Moldova AA represents the so-called new-generation of the Associations Agreements, a key element of which are free trade areas. After 11 rounds of negotiations on the AA (as of October 2012), Moldova and EU have provisionally closed a number of 'chapters'. In 2012 Moldova and EU started negotiating the Deep and Comprehensive Free Trade Area that is going to be part of the Association Agreement. According to recent statements from the Moldovan Government, the European Commission President Jose Manuel Durao Baroso said that Moldova and the EU could sign the Association Agreement before the Eastern Partnership summit scheduled for September 2013⁶⁹.

As shown in previous sections, the EU has exerted a crucial influence on countries willing to join the club. Political prerequisites were powerful incentives for the democratization of the South- and East-European countries which are presently members of the EU. However, there is currently available a rich literature on the impact of the EU on the countries beyond the EU's borders. Conditionality and socialization are only two of the widely researched mechanisms transmitting the impact of EU on third countries⁷⁰. In Moldova, the EU has been a factor having a strong demonstrative and symbolic influence and has had an impact on human development in Moldova in three ways: firstly, by providing assistance to support the country in overcoming some poverty-related problems; secondly, by influencing policy agenda in the area of human development; and thirdly, by 'Europeanizing' Moldova's elites themselves.

Moldova's European aspirations are very ambitious, as indicated by official sources⁷¹, and not limited to remain forever just an 'EU neighbour'⁷². For a long time the EU was

not ready even to acknowledge, let alone to discuss, a clear membership perspective for Moldova. However, some important developments took place in 2011-2012. In their Joint Communication of 25 of May 2011, the European Commission and the High Representative of the European Union for Foreign Affairs and Security Policy stated that "Some Eastern Partnership countries attach great importance to their European identity and the development of closer relations with the EU enjoys strong public support. The values on which the European Union is built – namely freedom, democracy, respect for human rights and fundamental freedoms, and the rule of law – are also at the heart of the process of political association and economic integration which the Eastern Partnership offers. These are the same values that are enshrined in article 2 of the European Union Treaty and on which articles 8 and 49 are based"⁷³. Article 49 of the Treaty on European Union says that "Any European State which respects the values referred to in Article 2 and is committed to promoting them may apply to become a member of the Union"⁷⁴. Following this, on the 15th of September 2011 the European Parliament in its resolution containing the European Parliament's recommendations to the Council, the Commission and the EEAS on the negotiations between the EU and the Republic of Moldova on the Association Agreement acknowledges progress made by the Republic of Moldova in its relations with the EU.

*... but also
aspires of becoming
EU member.*

FOOTNOTES

⁶⁹ <http://www.gov.md/libview.php?l=ro&idc=436&id=5480>.

⁷⁰ Coppieters B., Emerson M., Huyseune M., Kovziridze T., Noutcheva G., Tocci N. and Vahl M., "Europeanization and Conflict Resolution: Case Studies from the European Periphery", vol. 1/2004 of Journal on Ethnopolitics and Minority Issues in Europe (Special Focus), Academia Press, Gent. Online version (accessed 25 January 2012): <http://www.ecmi.de/publications/detail/issue-12004-61>.

⁷¹ Government of Republic of Moldova, "Program of activity European Integration: Freedom, Democracy, Wellbeing 2011-2014", available at <http://www.gov.md/doc.php?l=ro&idc=445&id=3729>.

⁷² Statement on "European perspective of Moldova", Ministry of Foreign Affairs and European Integration, accessible at <http://www.mfa.gov.md/din-istoria-rm-ue/>.

⁷³ European Commission and High Representative of the European Union for Foreign Affairs and Security Policy, Joint communication to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions "A new response to a changing Neighbourhood", Brussels, 25/05/2011, Com (2011) 303.

⁷⁴ European Parliament resolution of 15 September 2011 containing the European Parliament's recommendations to the Council, the Commission and the EEAS on the negotiations between the EU and the Republic of Moldova on the Association Agreement (2011/2079(INI)), accessible at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fTEXT%2bTA%2bP7-TA-2011-0385%2b0%2bDOC%2bXML%2bV0%2f%2fEN&language=EN>.

However, the way to membership is very long and Moldova has to concentrate on extracting maximum value from the opportunities the associate status offers.

So, even though currently the foreseeable limits of Moldova's European integration are those negotiated as part of a new-generation Association Agreement between Moldova and EU, the door has not been closed for Moldova. The Association Agreement itself would offer Moldova a very high degree of integration with EU only without the country being a member of the EU. There are even some doubts that Moldova would be completely ready to digest such integration without more institutional and legislative reforms. In this regard, the road to European integration is not an 'easy journey', as proven by Moldova's own experience of interacting with the EU in the past two decades.

At the same time, European integration – be it limited to the association stage or to full membership – involves both benefits and costs. Many Moldovans – both citizens and political leaders – are often tempted to see the European integration as the 'ultimate saviour'. The reality is far more sober, however, as the experience of other countries integrating

with the EU clearly shows. Moldova has not formally applied for EU membership and was not invited to. Nonetheless, depending on what exactly will be agreed between Moldova and EU, an Association Agreement with a DCFTA as one its key components would purport for Moldova many benefits, but also costs. As impact assessment of the previous generation of the AA shows, for the trade liberalization to bring about maximal effects, it should be accompanied by deep structural reforms making the country more competitive and by gradually extending the trade liberalization to services and agriculture, ensuring an adequate fiscal policy response and strengthening the EU assistance⁷⁵. Some of these reforms are low-hanging fruits, others are more difficult to attain. Dealing with the hard reforms will involve significant costs in short term – political and financial – and will bring benefits but only in the long-term. Therefore, political courage and strategic vision are indispensable for Moldovan politicians to engage in a lasting effort that European integration requires.

2.4. MOLDOVA'S FUTURE IN THE WIDER EUROPE: MAKING SENSE OF TOMORROW

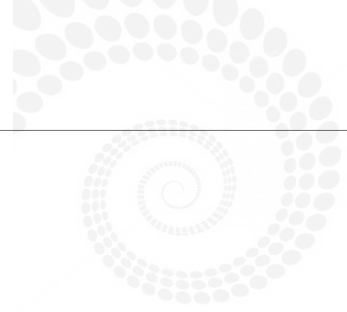
The EU has irreversibly changed as a result of a rapid enlargement to the East. It now has almost five times more members than at its origins and includes some members which are quite poor in comparison to the EU's founding nations. Although not in the position to fully enlarge further to the East, the EU is both concerned about stability at its external borders and at the same time wants to project democracy, stability and prosperity beyond its borders, far into its neighbourhood. Thus, the EU developed the European Neighbourhood Policy (ENP) as an alternative to enlargement, whose main aim is to offer neighbouring countries something more than a partnership but less than member-

ship. In broad terms, this would mean offering Eastern partners the possibility to partly benefit from the Four Freedoms, which lay at the heart of EU's internal market, namely free movement of goods, capital, services and people (but not labour). They would also be entitled to participate to some EU programmes which in the past were open to EU members only, but will not be formally part of the EU decision-making process.

In the meantime, the global financial crisis poses new challenges both for the EU's established institutional foundations and for the desire of the neighbouring 'ring of friends' to adopt European integration values. Historically, geographically and culturally Moldova has always been part of Europe and its future depends to a great extent on how

FOOTNOTES

⁷⁵ Henri G, 'Impact of European Union Association Agreements on Mediterranean Countries', IMF Working Paper, WP/98/116, August 1998.



the European integration project evolves. Whatever direction the EU moves in, either to an 'ever closer union', the one speed model, or whether it follows the path of a 'multi-speed EU', or a more likely in-between scenario,⁷⁶ Moldova needs to have the appropriate tools and efficient institutions in place to be able to quickly adapt to changing circumstances.

Any of the abovementioned scenarios could create both opportunities and risks. Even the optimistic scenario of an 'ever closer union' may not result in a clear membership perspective for Moldova since EU still has to accommodate the promised integration of the Western Balkans countries. It took Croatia more than 12 years from the start of negotiations on the EU AA till achieving full membership, which is expected to be formalized in 2013. As shown in the previous section, the five-year period after entering into force of the AAs (one currently negotiated by Moldova with the EU) offers extraordinary opportunities for a significant leap in the level of human development and in the well-being of citizens. It also offers the range of necessary tools: the *acquis*, the DCFTA benefits and partial relaxation of free movement of persons' rules. If seized, these opportunities could potentially result in fairly rapid improvements in the well-being of Moldovans, as shown by the experience of former candidates and implicitly in a stronger support from citizens for EU-oriented reforms. Europeanization, conceptualized as "downloading EU regulations and institutional structures to the domestic level"⁷⁷ would benefit from the propitious conditions under this scenario, provided that adequate administrative capacities to manage European and home affairs are developed by Moldova. Under this scenario, Moldova's European integration would be mainly a subject of domestic policy.

A movement towards a multi-speed Europe would exacerbate the dividing lines between the existing formal and informal alliances such as those created between founding and new members, Euro-zone and non-Euro-zone

members, Southern and Northern Europe, and Schengen and non-Schengen countries. Such developments cannot be favourable to the EU enlargement and could result in new ways to integrate candidates.⁷⁸ Under this scenario, agreements on EU policies would go beyond the existing treaties and the most important decisions would be reached by intergovernmental negotiations rather than taken within EU institutions. This would be a Europe with multiple voices and European integration for Moldova could increasingly become a matter of foreign policy while in the first scenario it would require more domestic efforts.

Moldovan authorities should keep a sharp eye on any important developments in this respect and react accordingly when necessary, either by increasing administrative capacities in certain sectors or by increasing bilateral diplomatic efforts. In this way, no opportunities will be missed, should they arise, or the harm caused by unexpected evolutions may be diminished, by an early warning system in place. It is highly recommended, in particular for the Government of Moldova not to rely on intuition and at least to develop a non-paper outlining the most likely scenarios to occur at the European stage in the medium term, how the Moldovan government would react to each of these and what capabilities need to be built and/or strengthened now so that no one is caught by surprise and no institution is overwhelmed by an event everyone should have expected.

The main recommendation in this respect is for Moldova to behave like a candidate state, irrespective of existence of a formal membership perspective. Croatia's experience is very telling in this respect and needs to be further

Not being recognized as official candidate should not impede Moldova to really behave as candidate, by implementing fully commitments it takes.

FOOTNOTES

⁷⁶ Mark Leonard, ECFR, *Four scenarios for the reintegration of Europe*, ECFR London, November 2011.

⁷⁷ Howell, Kerry E., "Developing Conceptualisations of Europeanization: Synthesising Methodological Approaches", *Queen's Papers on Europeanization*, No 3/2004.

⁷⁸ Mark Leonard, ECFR, *Four scenarios for the reintegration of Europe*, ECFR London, November 2011.

considered by Moldova. This recommendation is addressed to the Government of Moldova as a whole, but also in particular to the Ministries of Foreign Affairs and European Integration, Justice, Economy and to the State Chancellery, which have a steering role in negotiating and coordinating European affairs. This behaviour should concern any cooperation area included in the Associations Agreement, from convergence with the *acquis* to full imple-

mentation of its requirements. There will obviously be domains which can only become relevant when membership negotiations begin, but most of the AA's contents are meant not merely to apply some kind of membership conditionality but to place an emergent country on the path to a competitive economy capable of sustainable growth, rule of law, functional democracy and other universal values.

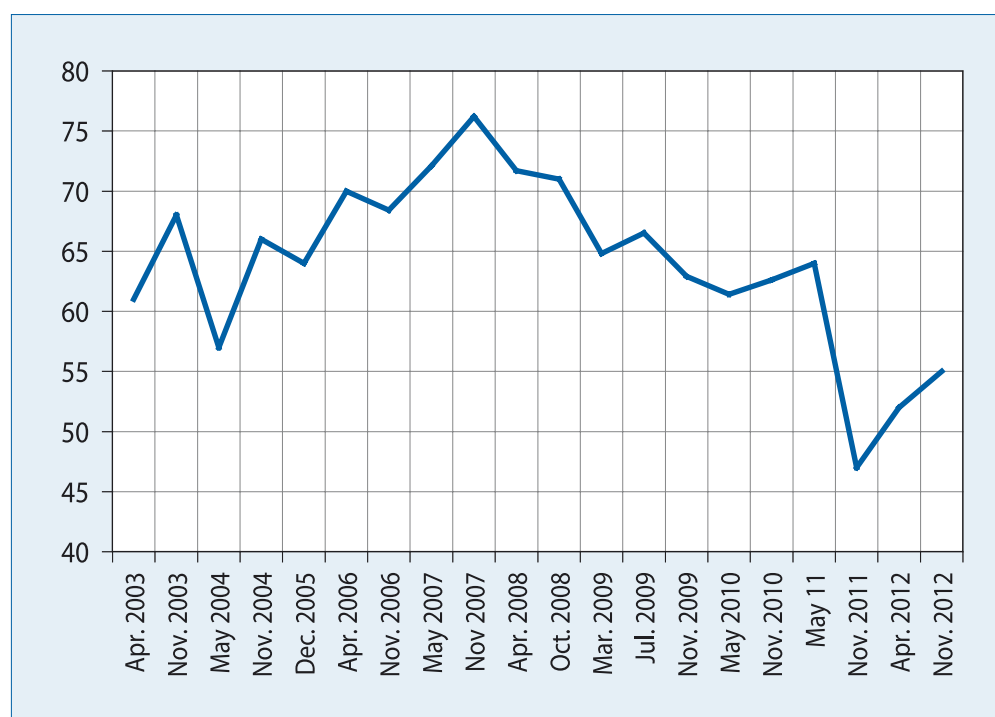
2.5. MOLDOVA'S EUROPEAN INTEGRATION: PEOPLES' VOICES AND ATTITUDES

To a great extent, the way how things evolve domestically in any of the two abovementioned scenarios depends on citizens' perceptions and opinions on European integration. Public perceptions of Moldovan nationals on current European integration issues, prospective re-

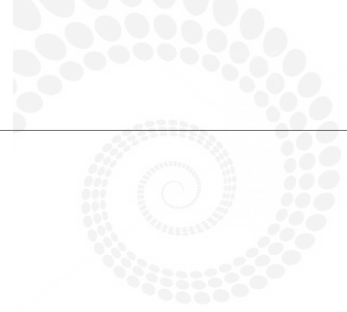
forms and possible evolutions on the EU stage influence the way authorities tackle problems and allow stakeholders to timely and appropriately address upcoming sensible decisions.

As evidenced by falling social support for the European integration ...

CHART 23. EVOLUTION OF THE PERCENTAGE OF MOLDOVAN RESPONDENTS WHO WOULD VOTE FOR MOLDOVA JOINING THE EU, PERIOD APRIL 2003 - NOVEMBER 2012



Source: Barometers of Public Opinion, Institute for Public Policy, 2003-2012.



In this regard, the sociological survey undertaken by the IMAS sociological company in August-September 2012 for the purposes of this Report clearly shows that the Moldovan government needs a better strategy to inform the public regarding Moldova's European integration vector in order to consolidate the people's support. One of the most striking findings of the survey is how much people's expectations and beliefs diverge regarding the European integration process. Some of the findings should be of concern for the Government.

For instance, those who believe that Moldova had more to lose than to gain as a result of its relationship with European Union (23 percent) slightly prevail over those who believe that the gains outweigh the losses (17 percent). The prevalent opinion in the Moldovan society (with 32 percent of votes) is that Moldova equally benefitted and lost as part of this relationship. At the same time, an equally sizeable portion of the society (29 percent) is not able to make any judgment about the net effects on Moldova of its relationship with the EU. Looking into the future, expectations regarding a potential accession of Moldova to the EU are marginally positive (24 percent of the people expect only advantages or mainly advantages for Moldova, while 21 percent expect mainly disadvantages or only disadvantages).

The evolution of support for European integration among Moldovan citizens has not been steady in the recent decade (Chart 23). The decline in the approval rate from 2007 to 2012 is a visible and worrying trend. A part of this decline can be probably attributed to the slow progress of reforms related to European integration, the limited impact of these reforms on citizens' wellbeing and the alienation of the people from the decision-making, in general, and from the European integration policy, in particular. Curiously, around 39 percent of the people believe that politicians are those who stand to benefit most from the European integration process, while only 12 percent believe that citizens are those who will benefit most; a further 32 percent believe that both

citizens and politicians will benefit from the European integration process. At the same time, the remarkable decline in approval rate in 2011 is probably more attributable to the psychological impact of the European sovereign debt crisis than to a 'real life' factor. We expect support to rise again as Moldova achieves more important progress in its relations with the EU, including by signing the Associations Agreement in 2013.

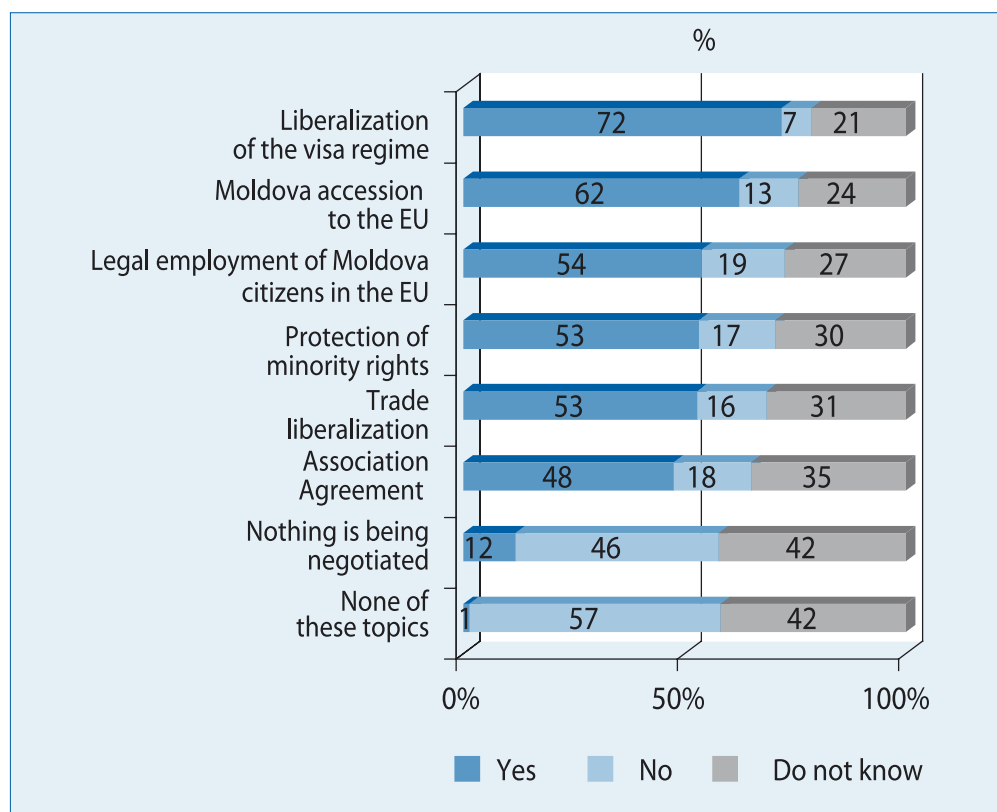
The results of the sociological survey also show that perceptions of the Moldovan public regarding the European integration vector are not only split, but often really uninformed. A striking figure is that 3 percent of the people surveyed believe that Moldova is already part of the EU, while another surprise is that 5 percent of citizens think that Moldova is part of the Russia-Belarus-Kazakhstan Customs Union. About 16 percent thought that Moldova's integration options are not described by any of the alternatives proposed in the survey, while 20 percent were not able to say anything about Moldova's integration vector. So, about half of the Moldovan population is not able to describe at least in broad terms the current integrationist status of their country. Only 36 percent of the people said that Moldova is neither part of the EU nor the Customs Union but Moldova wants to join the EU. Slightly more than 7 percent said the opposite, that Moldova is pursuing membership of the Customs Union.

Another example reflecting how poorly informed citizens are is the fact that more than 62 percent of Moldovans believe that currently the Republic of Moldova is negotiating with the European Union the country's accession to the EU, while 54 percent believe that a topic of discussions between Moldova and EU is the possibility of legal employment of Moldovans in the EU (Chart 24); in fact, none of the two topics are currently being discussed between Moldova and the EU. More than 39 percent of the citizens surveyed recognized that they are rather uninformed about Moldova's European integration process, while 23 percent said they are poorly informed.

... and by the large proportion of people 'disconnected' from European integration policy ...

... the Government failed to implement an efficient communication strategy on Moldova's European integration priorities.

CHART 24. DISTRIBUTION OF THE ANSWERS TO THE QUESTION “WHICH OF THE FOLLOWING TOPICS IN THE LIST BELOW ARE BEING DISCUSSED AS PART OF ONGOING NEGOTIATIONS BETWEEN REPUBLIC OF MOLDOVA AND EU?”



Source: IMAS, „Socio-Politic Barometer, September 2012“.

Considering this poor information, it is no surprise that Moldovan society is very fragmented when it comes to supporting the European integration vector. Almost 30 percent of the Moldovans would vote at a referendum in favour of Moldova joining the EU; 21 percent would vote for Moldova to join the Russia-Belarus-Kazakhstan Customs Union. An interesting finding is the fact that about 19 percent would vote for Moldova joining both EU and Customs Union at the same time, which is another sign that many citizens have little understanding of the incompatibility of Moldova’s integration options.

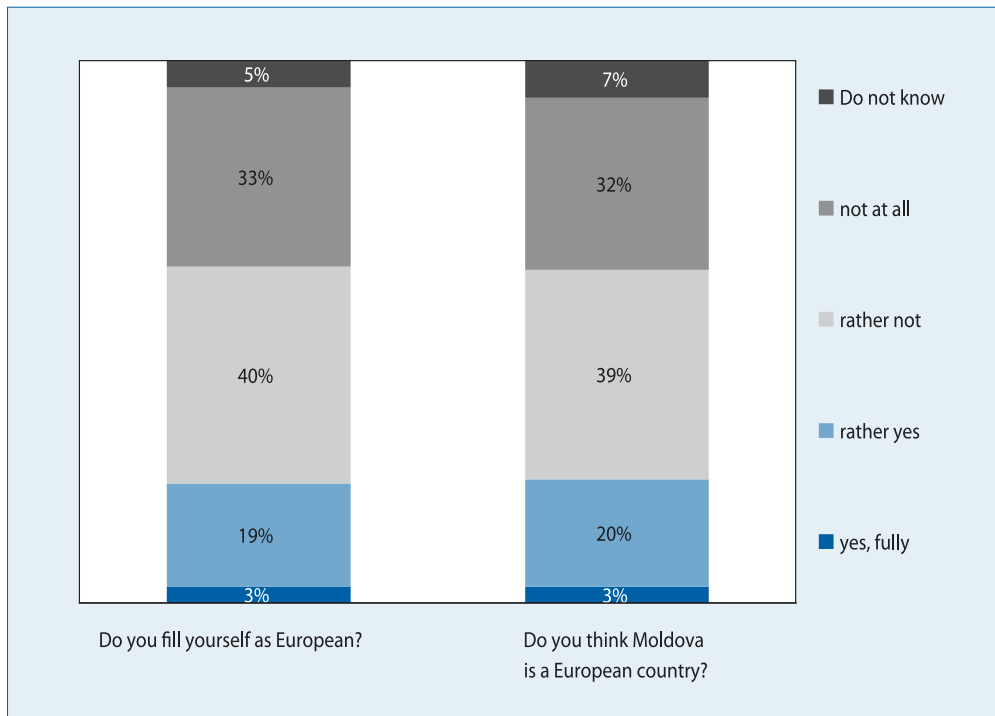
These figures reflect, to some extent, the fact that only a minority of Moldovan citizens fully identify themselves and their country with Europe. This statement is supported by answers to the direct question regarding the European

identity as reflected in Chart 25. These attitudes only slightly correlate with the ethnic self-identity of the citizens. These findings also correlate with the interesting finding that, according to most Moldovans, to be European means to have a European country citizenship: 70 percent of the people surveyed said this is “very important” or “quite important”. About 56 percent believe that respecting European norms and institutions are important elements for a person to be considered European. Feeling oneself as European or sharing European cultural traditions were identified as important elements of European identity by only 44 and 38 percent, accordingly, of the people surveyed.

People have also been asked about three key advantages they believe Moldova will have by joining the EU. Slightly more than 11 percent

The weak European self-identity is one of the main challenges for the European integration policy of Moldova.

CHART 25. ATTITUDES REGARDING CITIZENS' SELF-IDENTITY AND EUROPEAN IDENTITY OF MOLDOVA



Source: IMAS, „Socio-Politic Barometer, September 2012.”

believe that EU membership will bring no advantages at all 13.5 percent could not nominate at least one advantage, 16 percent could not nominate more than one advantage, while 22 percent could not identify more than two advantages. Of those supporting Moldova joining the EU, the possibility of travelling freely in Europe emerged as the option that gathered most votes. People also believe that other important advantages for Moldova joining the EU include growth in number of jobs, a raised level of incomes and investment and better opportunities to find a job in the European countries.

The causes of ‘fear of Europe’ were also researched in our survey. Citizens have been given the opportunity to pick up from a predefined list three of the most important European integration disadvantages they are mostly concerned of. About 15 percent of the population was not able to provide any answer, while about 6 percent of the population believe that there will be no disadvantages at all. Higher

prices has emerged as by far the most important concern, followed by difficulties of travelling in the CIS area and by risks of Moldova losing even more of its labour force.

To sum up, the sociological survey conducted specifically for the purposes of the NHDR 2012 has clearly shown that the main consumers of the European integration – Moldovan people – are not properly informed about the implications and real meaning of the current stage of the country’s European integration. European integration is perceived as a rather virtual process not really or directly influencing citizens. Lack of information and of strategic communication from the Government risks alienating even more citizens and will leave the Government with fewer policy options in the long-term. A more coherent strategy of communication is necessary to be put in place in order to shape a well informed public, willing to provide the political support for the difficult reforms which will have to be implemented in the not-so-distant future.



3. MOLDOVA'S EUROPEAN INTEGRATION: ASSESSING THE ECONOMIC AND TRADE IMPACT

■ This chapter is dedicated to assessing the economic and socio-economic impact of the forthcoming Deep and Comprehensive Free Trade Area. There is broad consensus that European integration, in general, and the liberalization of trade with the EU, in particular, implies both welfare benefits and costs. Hence, on the one hand, trade creation generates additional consumer surpluses, as the prices drop due to increased competition resulting in lower mark-ups and higher supply. Additionally, the pro-competitive effects of trade creation may positively impact employment and incomes. On the other hand, the elimination of import tariffs, at least in the short and even medium term, may generate convergence costs, forcing small local producers out of the market. Consequently, it may imply adverse effects on the labour market, population's incomes and overall human development. Considering the different socio-economic patterns and expected impact of the trade liberalization, the analysis in this chapter is split between agrifood and non-agrifood sectors.

3.1. COMPETITIVE IMPACT OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA ON THE AGRIFOOD SECTOR

While there are many drawbacks related to free trade and its associated effects, there is compelling evidence that with proper investments more open trade offers the opportunity to create more and better paid jobs which, ultimately, means better living standards for people. In this way, the employment channel is the most important one linking the trade liberalization with the human development.

Empirical studies suggest that welfare gains of trade liberalization are likely to be higher if prior to liberalization the tariffs for entering foreign markets are also higher, tariffs on imports are lower and domestic prices are closer to foreign ones⁷⁹. In such conditions, as local producers do not rely heavily on import tariffs as a protection measure against the competition from foreign exporters, producers will remain relatively neutral to wiping out the tariffs. At the same time, if the exporters face large tariff barriers to enter a certain foreign market, trade liberalization will spur their external price competitiveness as a result of wiping out of tariffs on imports to the foreign market. This underlines the importance of an intense institutional harmonization and broad adjustment of the domestic economy before trade liberalization can take place, so that people will benefit the most from it, while costs will be minimized.

This is confirmed by one of the most comprehensive and influential reports on trade liberalization and market integration, the Cecchini Report, although it has sometimes been criticized for its over-optimistic views and methodology used.⁸⁰ The report argues that in order to enjoy maximum gains, prior to trade liberalization, firms must improve their management and productivity, while policy makers must adjust the competition policy by removing price discrimination practices and any forms of domestic market protection. Additionally, economic policies should be growth-oriented, while monetary policies

The possibility of trading goods and services with other countries has always implied many benefits, but also costs for firms and employees. Thus, while free trade offers the opportunity to have access to larger outlets, which for the small Moldovan economy is a critical necessity, it also calls for stronger competitiveness on the domestic and foreign markets.

should aim to ensure financial stability.⁸¹ Hence, in order to make trade liberalization work for the country, the country itself has to become internally more competitive and, in this, way, allow people to reap as many benefits as possible from this challenging process.

The current trade regime of Moldova is fairly liberal⁸², which is reflected in its early accession to the WTO (2001) and a wide array of various trade agreements, including with CIS countries, the Autonomous Trade Preferences granted by EU in 2008 and the Central European Free Trade Agreement. The Autonomous Trade Preferences (ATP) ensure an unlimited and mostly duty-free access of Moldovan exports to the European market, except for several sensitive agricultural products, such as wine, sugar and barley, on which quotas are imposed. Additionally, as long as Moldova is not recognized by the EU as a 'market economy', the Moldovan producers of certain types of agricultural products face a specific tariff barrier: the EU entry price system (EPS)⁸³. This is applied to a large number of fruits and vegetables in order to protect EU producers against international price competition⁸⁴. EPS imposes a series of product-specific entry price levels, such

In order to make the open trade work for the people a broad adjustment of the domestic economy is necessary before trade liberalization takes place.

The Moldovan exporters face relatively low tariff barriers on the European market, benefiting of unlimited duty-free access, except for several sensitive agricultural products.

FOOTNOTES

⁷⁹ Pelkmans J., "European Integration. Methods and Economic Analysis", third edition, 2006.

⁸⁰ For the debate about its merits and shortcomings see Pelkmans & Winters (1988), Italianer (1990, 1994), Siebert (1990), Winters & Venables (1991), Flam (1992), Pelkmans (1992a), Winters (1992), Hoeller & Louppe (1994).

⁸¹ Cecchini Report, European Commission, 1988.

⁸² Moldova ranked 11th in the world according to the latest World Bank Total Trade Restrictiveness Index.

⁸³ Leahu, V. "Fresh Fruit Sector in Moldova. Comprehensive Baseline Study", UNDP, 2012.

⁸⁴ Council Regulation (EC) No 1182/2007 of 26 September 2007.

that additional specific tariffs are applied for commodities valued below the given entry price. Except these constraints, the Moldovan exporters face relatively low tariff barriers on the European market.

The trade preferences included in the ATP represent an extension of the previous trade preferences (Generalized System of Preferences (GSP) and GSP+) which involved asymmetric trade liberalization, as they were granted by EU on a non-reciprocal basis. As a result, the Moldovan agrifood sector remained the most protected one,⁸⁵ with the purpose of enhancing the competitiveness of local producers on the domestic market. It is therefore the sector most vulnerable to trade liberalization, as a potential withdrawal of import tariffs for these products, though gradual, will expose local producers to more competition with European exporters who produce at a higher quality/cost ratio. This is a direct outcome of erroneous government policies from recent years, aimed at protecting several important branches such as meat, dairy products, and sugar, while paying less attention to export promotion and adoption of the EU technical, sanitary and phytosanitary standards. As a result, the Moldovan agrifood sector struggles with low level of competitiveness, a lack of capital investments and low value-added production. Despite the availability of natural and human resources, this sector has always performed below its potential level, even during periods of strong economic growth.

The potential DCFTA is going to counter-balance these asymmetries. Therefore, the key question to be answered in this sub-chapter is: what will the impact of trade liberalization on the agrifood sector be; and what should the policy actions of decision makers be in order to maximize welfare gains and minimize welfare losses?

3.1.1. Snapshot of the Agricultural Sector

The agrifood sector plays a crucial role in Moldova, accounting in 2010 for 52 percent of total exports and 32 percent of exports to the EU, while the food processing industry ensures around 40 percent of country's total industrial production. Besides its economic role, the sector has a central social function, especially in rural areas having limited economic opportunities and more difficult living conditions: more than half of the rural population is employed in agriculture, which reveals its fundamental importance for human development of the country. Due to its numerous social and economic ramifications and the possible negative competitive shocks on some local producers, farmers and workers, the liberalization of agricultural imports should be scheduled to take place over a longer period of time than in other sectors and even other countries, so that the producers will have more time to adjust and enhance their competitiveness.

Low productivity and poor competitiveness on the European market magnify the economic and social vulnerability of the Moldovan agriculture. Despite the fact that its share in total employment is about 27.5 percent, the agricultural sector accounts for only around 12 percent of GDP⁸⁶. Moreover, regardless of the duty-free access to the EU market, the Moldovan exporters of agrifood products face high non-tariff barriers. These are mostly related to the sanitary and phytosanitary standards. This is the main reason why some products are denied entry to the EU market, including those exporting live animals and meat products. Besides the official barriers, many exporters of processed food products face high standards imposed by private retailers, such as special requirements on packaging and appearance of exported fruits and vegetables, as well as requirements on minimal volumes of homogeneous produce supplied. Bringing domestic standards in

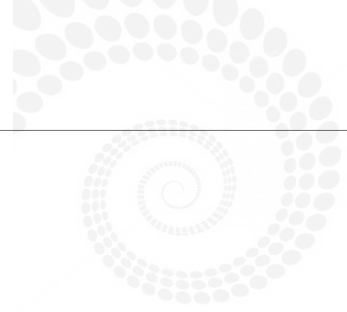
But the agrifood sector remained relatively protected which made it vulnerable to trade liberalization.

Due to its social and economic ramifications, the liberalization of agricultural imports should be relatively slow, in order to avoid an eventual negative shock.

FOOTNOTES

⁸⁵ According to latest WTO data (2010), the simple average of MFN applied tariffs was 10,7% to imports of agricultural products and 3,7% to non-agricultural products.

⁸⁶ 12.04% in 2010 and 12.26% in 2011.



line with the EU ones and enforcing the domestic quality infrastructure are therefore key actions necessary for strengthening the export potential of Moldova's agrifood sector.

The rather limited progress over the last decade in adopting those standards significantly undermined the domestic and external competitiveness of Moldovan agrifood producers and left them heavily dependent on the Eastern market: half of the agrifood exports are directed to CIS countries. At the same time, as the Eastern market brings lower returns, is more volatile and often vulnerable to political uncertainties, it serves as an additional constraining factor for the development of this sector. No surprise, in recent years the sector has constantly been losing its attractiveness for investors and labour force. From 2000 to 2011 the number of people employed in agriculture shrunk by 2.4 times, while the share in total people employed – about twice.

The problems of poor compliance to EU standards and underinvestment are especially critical for agricultural small and medium enterprises which, in 2011, accounted for 97.4% of total number of firms in this sector. The biggest share of them are family farms employing only 2-3 people, which, by definition, cannot ensure a high division of labour. Featuring low productivity and lack of investment capital, these farms are the least competitive and highly vulnerable to tariff withdrawal and import liberalization of agricultural products.

The economic hardships of the agricultural sector meant that a large share of the labour force moved to other economic sectors such as domestic trade or constructions or emigrated. It comes as no surprise that in rural areas, where agriculture is the main source of revenue, the employment rate saw a much stronger decline (from 59.4 percent to 36 percent from 2000 to 2011) than in the urban ones (from 48.6 percent to 44.1 percent). Moreover, this trend has been mostly characteristic for the population with lower

education, which traditionally is employed in agriculture.

The above-mentioned structural issues have strongly influenced the structure of foreign trade with the agrifood products. More than half of Moldovan agrifood products exported to EU are vegetables, fruits and cereals.⁸⁷ Annex 2 reveals important changes in the structure of main items exported to the EU-27 in recent years. One can notice the decrease in wines' share from 19.7 percent in 2006 to 7.8 percent in 2010, owing to Romania's accession to EU in 2007, as well as to the rather modest sector performance over these years. This is also the result of too many domestic structural and institutional barriers hampering the competitiveness of wine producers, as well as the intense competition on the European market, making the diversification of exports away from Eastern markets a challenging task. Another negative phenomenon is the elimination of two important products from the group of main exported items to EU: sugar and eggs. As most of these exports were concentrated in Romania, both sectors suffered a painful blow after the country's accession to EU in 2007, uncovering again the severe problems related to the poor compliance of Moldovan producers with European quality standards.

On a positive note, among the most dynamically growing exports are sunflower seed oil and sunflower seeds. The latter increased its share in total agrifood exports to EU from 5.6 percent in 2006 to 11.1 percent in 2010, which were mostly sold in Romania and United Kingdom. Additionally, the extended duty-free coverage of ATPs spurred the exports of barley to Romania, becoming one of the main exporting products to EU. Another new entry in top-10 exported items was rape, colza and mustard seeds which were sold primarily to UK, though it faces a decreasing trend since 2009.

Poor compliance with EU standards undermined the domestic and external competitiveness of Moldovan agrifood producers and left them heavily dependent on the Eastern market.

FOOTNOTES

⁸⁷ According to the last available data on UN COMTRADE database (2010), these product categories accounted for 51.8% of total exports to EU.

Imports of agrifood products from the EU are three times less concentrated than the exports⁸⁸, with fruits, vegetables and tobacco products accounting for about one third of total imports from EU-27 in 2010. A more detailed analysis reveals several important changes in the structure of imports (Annex 3). One of the most noticeable trends is the strong increase in the share of several products where Moldova apparently has comparative advantages: fruits, potatoes and pork. This fact, coupled with the high concentration of agrifood exports, points again to the issue of poor competitiveness which does not bode well for this sector given the upcoming import liberalization. Therefore, in order to mitigate eventual negative shocks and prevent workers, especially in SMEs, from losing their jobs, it is necessary to identify the most vulnerable sub-sectors for which the import liberalization should be smoother.

3.1.2. Assessing the Impact of the Deep and Comprehensive Free Trade Area on the Agrifood Sector

Before assessing the potential impact on particular products, it is worth analyzing the intraregional trade intensity (ITI⁸⁹) – an index which compares the performance of bilateral trade between Moldova and EU with their trade with other countries, as well as the world trade dynamics. The steady growth of ITI for total products reveals the increasing trade interdependence between Moldova and EU due to lowering of trading costs in comparison with other countries (Chart 26). Hence the potential DCFTA will support the ‘natural’ trade between both trading partners.

It implies net benefits for EU, though limited due to the negligible size of the Moldovan economy with respect to the European one, whereas the main payoffs will be reaped by Moldova which is highly dependent on the EU market. At the same time, the decrease in ITI index for agrifood products until 2008 is due to the tariff and, especially, non-tariff barriers faced by Moldovan agrifood producers on the European market. Still, since 2009 the trade intensity reversed its trend on the grounds of extended coverage of duty-free exports to the EU and some positive changes in terms of compliance with international quality standards. As a result, we observe a gradual reorientation of Moldovan agrifood exporters to the EU market.

The estimates of the Revealed Comparative Advantages (RCA) indexes, based on the well-known Ricardian concept, provide a more detailed assessment by revealing the weakest and strongest segments of Moldovan agrifood exports. The higher the RCA on a given market, the more competitive a product reveals to be on the respective market. Annex 4 identifies the agrifood sectors which generate the highest gains from trade as a result of most efficient specialization. Cereals display the biggest comparative advantage on the EU market, being followed by other products, such as hides, skins, furs, oilseed, oleaginous fruits which registered impressive dynamics over the recent years. On the downside, Moldova has the comparative disadvantage (RCA index is less than unity) for the majority of its exported agrifood products, owing to high non-tariff barriers and poor domestic quality infrastructure. These factors explain the very small RCA index for animal products, which Moldova is unable to export to the EU market due to non-compliance to international sanitary standards. These sectors are likely to suffer the harshest competitive shocks as a result of the potential withdrawal of import duties for European exporters. More details on the sensibility of different products are included in Annex 4.

Due to increasing trade interdependence between Moldova and EU, the potential DCFTA is likely to support the ‘natural’ trade between both partners.

FOOTNOTES

⁸⁸ Herfindahl-Hirschman Index for agrifood exports, in 2010, was 993.4 points while for imports – 311.0 points.

⁸⁹ $\frac{T_{ii}/T_i}{T_i/T_w}$, where,

T_{ii} - exports of region i to region i plus imports of region i from region i,

T_{ii} - total exports of region i to the world plus total imports of region i from the world,

T_w - total world exports plus total world imports, which can be twice the value of world exports or twice the value of world imports since the value of world exports should equal world imports.

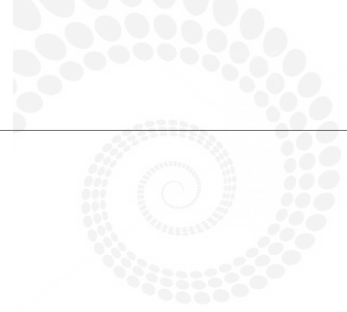
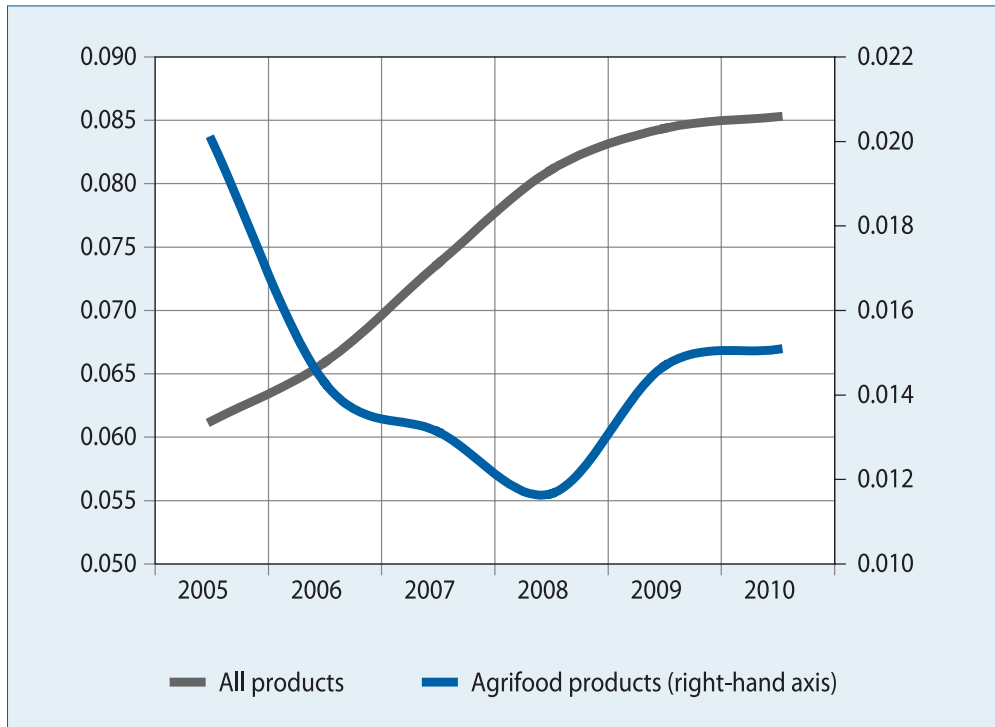


CHART 26. INTRAREGIONAL TRADE INTENSITY BETWEEN MOLDOVA AND EU-27 FOR ALL PRODUCTS AND AGRIFOOD PRODUCTS, PERIOD 2005-2010



Source: Author's computation based on UN COMTRADE.

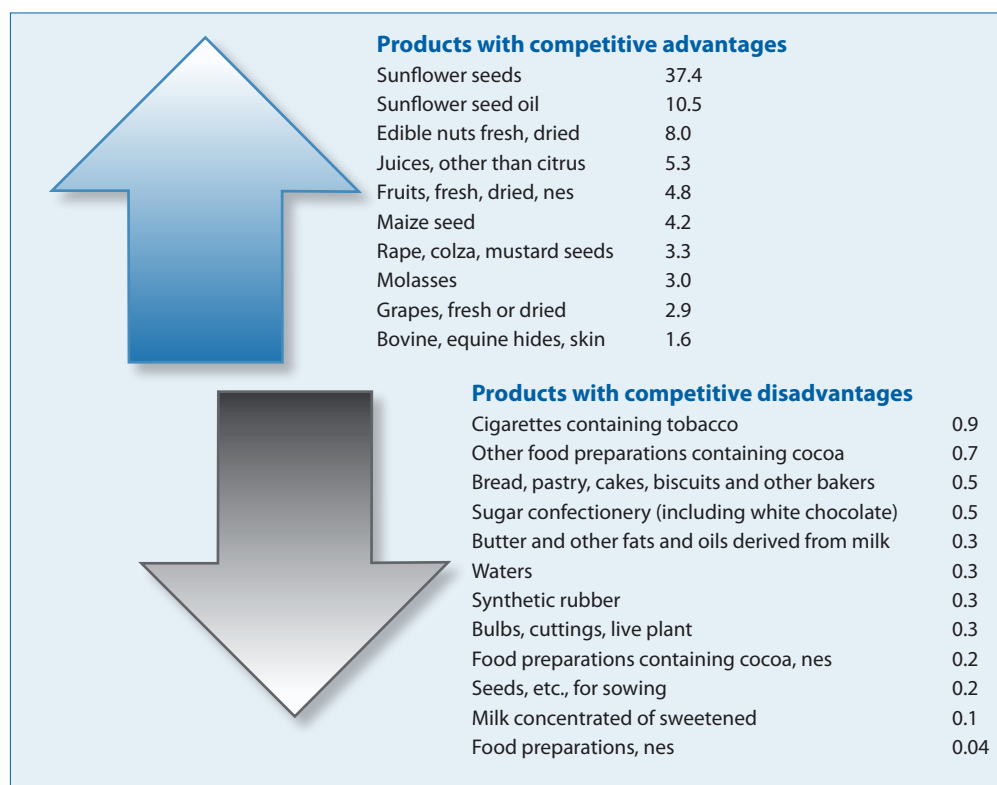
For a more accurate analysis of the potential impact of a DCFTA on particular agricultural products it is necessary to compare the Moldovan RCA indexes with the European ones at more disaggregated levels. This allows uncovering the sectors which are economically complementary to the EU countries (the largest discrepancy between RCA indexes), as well as the segments where Moldovan producers

directly compete with the European ones (the RCA indexes are similar). Annex 5 and Annex 6 provide the results of this analysis for 30 most important exported items to EU (as of 2010) which reveals the most vulnerable sectors to potential trade liberalization, as well as those which are likely to most benefit. Chart 27 summarizes the results of the competitiveness analysis.

Cereals display the biggest comparative advantage on the EU market, being followed by other products, such as hides, skins, furskins, oilseed, oleaginous fruits.

Moldova has comparative disadvantages for the majority of its exported agrifood products, owing to high non-tariff barriers and poor domestic quality infrastructure.

CHART 27. COMPETITIVENESS OF THE MOLDOVAN AGRIFOOD PRODUCTS ON THE EU MARKET, RCA INDEXES IN FIGURES, YEAR 2010



Source: Author's computation based on UN COMTRADE.

Butter, pastry, cakes, biscuits, food preparations and sugar confectionery are among the most vulnerable agrifood sectors to trade liberalization with EU.

Surprisingly, most of the agrifood products for which Moldovan firms are least competitive in comparison with European ones have a relatively high processing level (butter, pastry, cakes, biscuits, food preparations, sugar confectionery). This may pinpoint to the problems related to scarce capital, limited domestic production capacities and know-how, as well as poor compliance with international quality standards. As Annex 5 reveals, the vulnerability of the sectors with competitive disadvantages to the trade liberalization is amplified by their relatively high protection level through custom tariffs. For this reason, Moldovan policy makers should negotiate smoother transition periods for these products within the negotiation process for the forthcoming DCFTA with EU. This will mitigate the competitiveness shocks on these Moldovan producers by allocating a

longer time span to adjust their production patterns and to get better prepared to face the competition with the European exporters. A failure to do so could result in large losses, job cuts and welfare costs which will be felt especially by the rural population.

Nevertheless, it is important to bear in mind that not all agrifood products lack competitiveness. Annex 6 presents the most important sectors where Moldova has revealed comparative advantages in comparison with EU and which are likely to benefit from deeper trade integration. Moldovan agrifood products with high revealed comparative advantages are exported at a lower processing stage, serving in many cases as raw materials at the lower end of the production chains (e.g. maize seed, grapes, fruits, bovine skin). Despite their fairly low level of added value,



these sub-sectors are less vulnerable to trade liberalization with EU and are likely to benefit the most from this process. Hence, they could mitigate the expected negative welfare effect of DCFTA by attracting the labour force from the less competitive products. Therefore, for these products, the transition period towards the full withdrawal of custom duties for European exports should be the shortest one. Two important agrifood sectors are worth pointing out as they have significant unexplored potential: animal products and honey. Currently, Moldovan animal products are banned on the European markets, while honey products have been banned until 2012, due to non-compliance with sanitary and phytosanitary standards. However, once the domestic quality system are upgraded and the standards – adjusted, these products are

most likely to display much higher revealed comparative advantage on the European market. This is going to be a costly and time consuming process, requiring consolidated efforts and frank commitment from Moldovan policy makers.

It is surprising that the list of products with revealed comparative advantages does not include many 'strategic' exports which have been traditionally considered to be the most important for Moldova (e.g. wines). The analysis denotes that these products may be competitive on foreign markets (the RCA index is more than unity), however, European producers register comparative advantages as well. As a result, Moldovan producers are set to meet fierce competition from the part of European firms in these subsectors (Table 3).

Maize seed, grapes, fruits and bovine skin are the most competitive Moldovan agrifood sectors.

TABLE 3. SEGMENTS WITH THE HIGHEST EXPECTED LEVEL OF COMPETITION BETWEEN EUROPEAN AND MOLDOVAN PRODUCTS, YEAR 2010

SITC code	Commodity name	RCA index of Moldova	RCA index of EU-27	Custom duty applied by Moldova for imports (level of protection)
1121	Wine of fresh grapes	7.8	3.2	0.5 euro/l
2112	Whole hides and skins of bovine animals, weight per skin < 8 kg when dried	0.8	1.1	0 percent
1124	Spirits	2.4	3.9	0.5 euro/l
0574	Apples, fresh	12.7	1.2	10 percent/20 percent
0567	Vegetables prepared or preserved	2.4	1.5	0 percent/10 percent/15 percent/20 percent/25 percent
0430	Barley, unmilled	7.3	1.8	10 percent
1211	Tobacco, not stemmed/ stripped	11.5	1.2	5 percent
0581	Jams, fruit jellies, marmalades, fruit or nut pastes	2.4	1.5	0 percent/10 percent

Source: Author's computation based on UN COMTRADE.

Given such the strong competition faced by Moldovan producers, the transition period towards full trade liberalization with these products should be shorter than for

those with comparative disadvantages (Annex 5), but longer than for products with comparative advantages (Annex 6). Additionally, unless the domestic relevant in-

For a number of strategic agrifood exports, the Moldovan producers face a fierce competition with the European ones.

stitutions are strengthened, the quality infrastructure adjusted to the European norms and redundant administrative barriers removed, many Moldovan companies could gradually lose their competitive edge on the European market. This is mostly noticeable for the wines industry which has seen its RCA index decreasing from 15.4 points in 2005 to 7.8 points in 2010. With a share of about 20 percent of total agrifood exports and providing employment opportunities especially in small towns and rural areas, this industry is crucial both from the development perspective. Hence, there is a high need for bolder policy actions aimed at enhancing the competitiveness of the most strategic branches of the Moldovan agrifood sector. As it will spur employment and imply positive social spillovers, it will consequently have a positive impact on the country's overall human development.

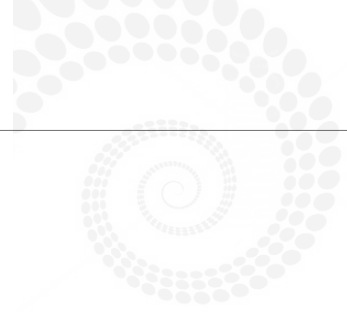
The comparison of the RCA indexes of EU member states denotes that Moldova's main competitors on the EU markets are Bulgaria, France, Hungary, Romania and Slovakia (Annex 7). Moldovan farmers should therefore acquire a good understanding of the production models of their peers in these countries in order to adopt the most competitive production and marketing strategies. The markets where Moldova will meet the fiercest competition are in wheat, barley, fresh fruits, jams, fruit jellies, marmalades, fruit or nut pastes, juices, spirits, skin of bovine, rape, colza and mustard seeds. Besides EU countries, Moldovan producers will face strong competition from several non-EU states: Ukraine, Turkey, China, USA, Australia, South Africa and New Zealand. Additionally, exporters of wines of fresh grapes, which are considered strategic for Moldova compete with Bulgaria, France, Italy, Luxembourg, Portugal, Spain, Australia, Chile and South Africa. Besides the fact that it squeezes the profit margins, such a tough competition on the European market serves as a strong entering barrier for small producers due to

financial and technological constraints and higher unit costs.

Since price is one of the crucial components of export competitiveness, it is worth comparing the export prices of the Moldovan producers with that of the main foreign exporters to the European market. From Annex 8 we can observe that for most of the top-10 exported items, Moldovan export prices are lower in comparison with their European competitors. However, this does not necessarily mean that Moldovan exports are more competitive. Some of them indeed may benefit of lower production costs, given the cheaper domestic labour force and other inputs. At the same time, smaller prices may reveal lower quality of these products in comparison with their European counterparts. Additionally, in some cases, this might be the result of the marketing strategies of Moldovan firms aimed at stabilizing their segments on the European market. However, the competition that Moldovan producers face on the European market is by far more intense with firms from the non-EU countries. For instance, Chinese exporters have a price advantage in exporting apple juice to the EU markets; US export prices are lower for walnuts, as well as for hides and skins of cattle; Ukraine has an advantage in producing refined sunflower seed or safflower oil and has the same prices as Moldovan producers for crude sunflower seed or safflower oil, wheat and rape or colza seeds.

Hence, the trade liberalization for the agrifood sector may bring both benefits and costs. In order to maximize the former and minimize the latter, the Government has to switch its policy priorities from protecting the domestic producers to enhancing their competitiveness through a better investment climate and higher compliance with EU standards. Additionally, we identified a number of sub-sectors for which the trade liberalization should be much smoother in order to prevent eventual job cuts and foreclosures as a result of stronger competition with the European exporters.

In order to maximize the benefits of the trade liberalization the Government has to switch its policy priorities from protecting the domestic producers to enhancing their competitiveness.



This is extremely important from both economic and social points of view. From the economic side, the Moldovan agricultural sector is mostly represented by micro-enterprises which face low competitiveness and

productivity; from the social point of view, there are no viable alternatives for raising revenues in rural areas, except for agriculture, which exposes hundreds of thousands of people to a significant poverty risk.

3.2. COMPETITIVE IMPACT OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA ON THE INDUSTRIAL SECTOR

While the level of protection in the industrial sector is lower in comparison with the agrifood sector, there are still several sub-sectors which continue to be heavily protected by the state through higher custom tariffs. Therefore, the implementation of DCFTA is likely to create additional challenges for those firms which, due to their low competitiveness, are relying on protectionist measures.

3.2.1. Industrial Sector Snapshot

The industrial sector is much more integrated into the trade flows with EU in comparison with the agrifood one. Given the higher inflows of FDI, there are less stringent standards than for products destined for human consumption and in a more favourable external environment, Moldovan industrial companies have emerged as more competitive on the European market in comparison with agrifood producers. The share of these exports in recent years accounted for about 2/3 of total Moldovan exports to the EU's 27 member states. However, about 40 percent of them are "Processing and Assembling" (P&A)⁹⁰ exports (re-exports) which, usually, are more volatile and sensitive to foreign shocks. Moreover, the problem of labour shortage especially in rural areas, which is gradually becoming more acute, coupled with poor road infrastructure and the resulting high transportation costs could undermine the growing trend in re-exports in the near future.

In recent years, the most competitive Moldovan industrial product on the European mar-

ket has been clothing/clothing accessories. About half of these exports to the EU are, in fact, based on P&A operations mostly with counterparts from Italy, United Kingdom and Germany. However, the share of these products in total industrial exports to the EU significantly decreased from 59 percent in 2006 to 45.5 percent in 2010, due to the severe blow suffered by these companies during the global economic crisis. Another reason is the robust emergence of a new industrial product – electrical machinery, over 90 percent of which consist of insulated wires, cables and other conductors. Most of these spare parts are exported to Romania where the value chains continue at more advanced processing level. Annex 9 reveals more details about top-10 Moldovan exports/re-exports of industrial products to EU-27.

Generally, the import pattern of industrial products reveals Moldova's main comparative disadvantages (e.g. road vehicles, TV, sound, video, electrical machinery). Part of these imports is the outcome of FDIs and/or investment and modernization activity of some companies (e.g. general industry machinery and equipment, machinery specialized for particular industries etc). Annex 10 provides more details on import structure.

The industrial sector is much more integrated into the trade flows with EU in comparison with the agrifood one.

The most competitive Moldovan industrial products on the European market are clothing and clothing accessories, as well as electrical machinery, all being based on P&A operations.

FOOTNOTES

⁹⁰ "Processing and Assembling" (P&A) exports imply that foreign firms provide raw materials, components and parts and sometimes machinery and equipment as well as design under a contractual agreement to entities located in Moldova that in turn manufacture products using the imported inputs and re-export them back to the foreign firms.

Since the industrial sector employs a large share of young labor force, a potential competitive shock could create additional pull factors for labor migration.

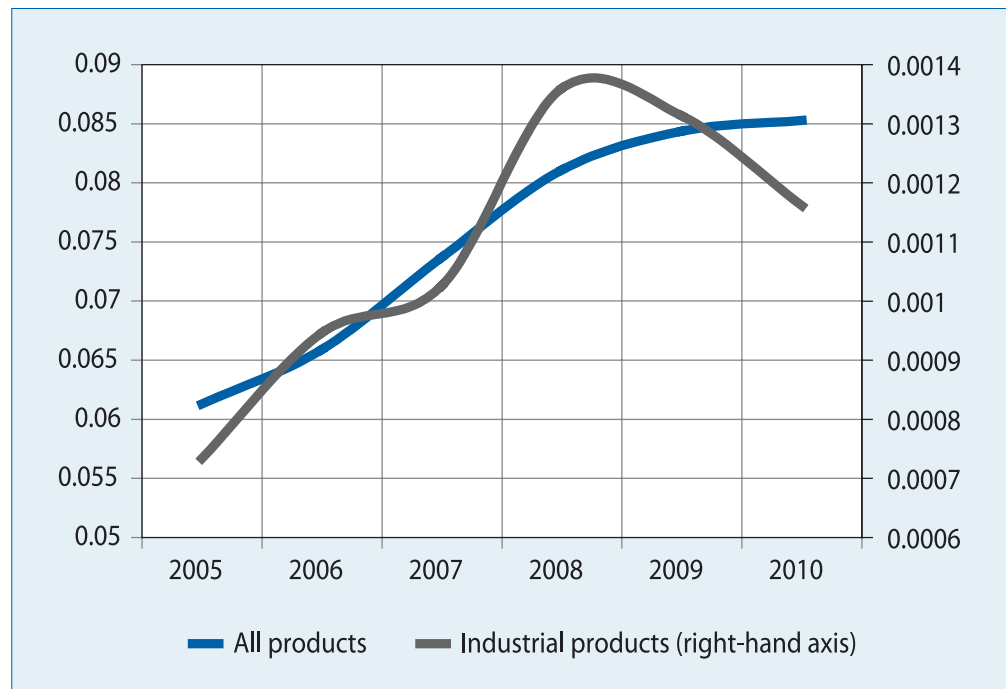
The share of people employed in industry in 2011 was 13.1 percent, twice lower in comparison with agriculture. DCFTA can have some important social repercussions on this sector through the employment channel. Unlike agriculture where the biggest share of employees are aged between 45 and 54, most people employed in industry are much younger (25-34 years), with a much higher level of education. Although, theoretically, better education could help them adjust easier to eventual competitive shocks suffered by certain industrial branches as a result of trade liberalization, it could also fuel additional push factors for emigration if no economic alternatives are provided. Therefore, it is important to identify the sectors for which tariff withdrawal should be smoother in order to avoid or minimize eventual job losses, mitigate the risks of poverty and keep the family

ties in households which are exposed to these sectors.

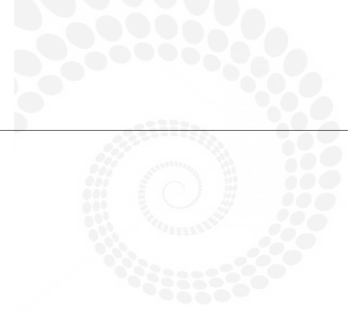
3.2.2. Assessing the Competitive Impact of the Deep and Comprehensive Free Trade Area on the Industrial Sector

The performance of Moldovan industrial exports on the European market in comparison with the rest of the world declined from 2009 with the rest of the world declined from 2009 to 2010. It was due to the repercussions of the world economic crisis which hit the European economies more severely and due to the more dynamic recovery registered on the Eastern markets. However, it hardly denotes the decreasing importance of the EU market relative to the other ones, taking into account the strong positive trend registered before the crisis (Chart 28).

CHART 28. INTRAREGIONAL TRADE INTENSITY BETWEEN MOLDOVA AND EU-27 FOR INDUSTRIAL PRODUCTS AND ALL PRODUCTS, PERIOD 2005-2010



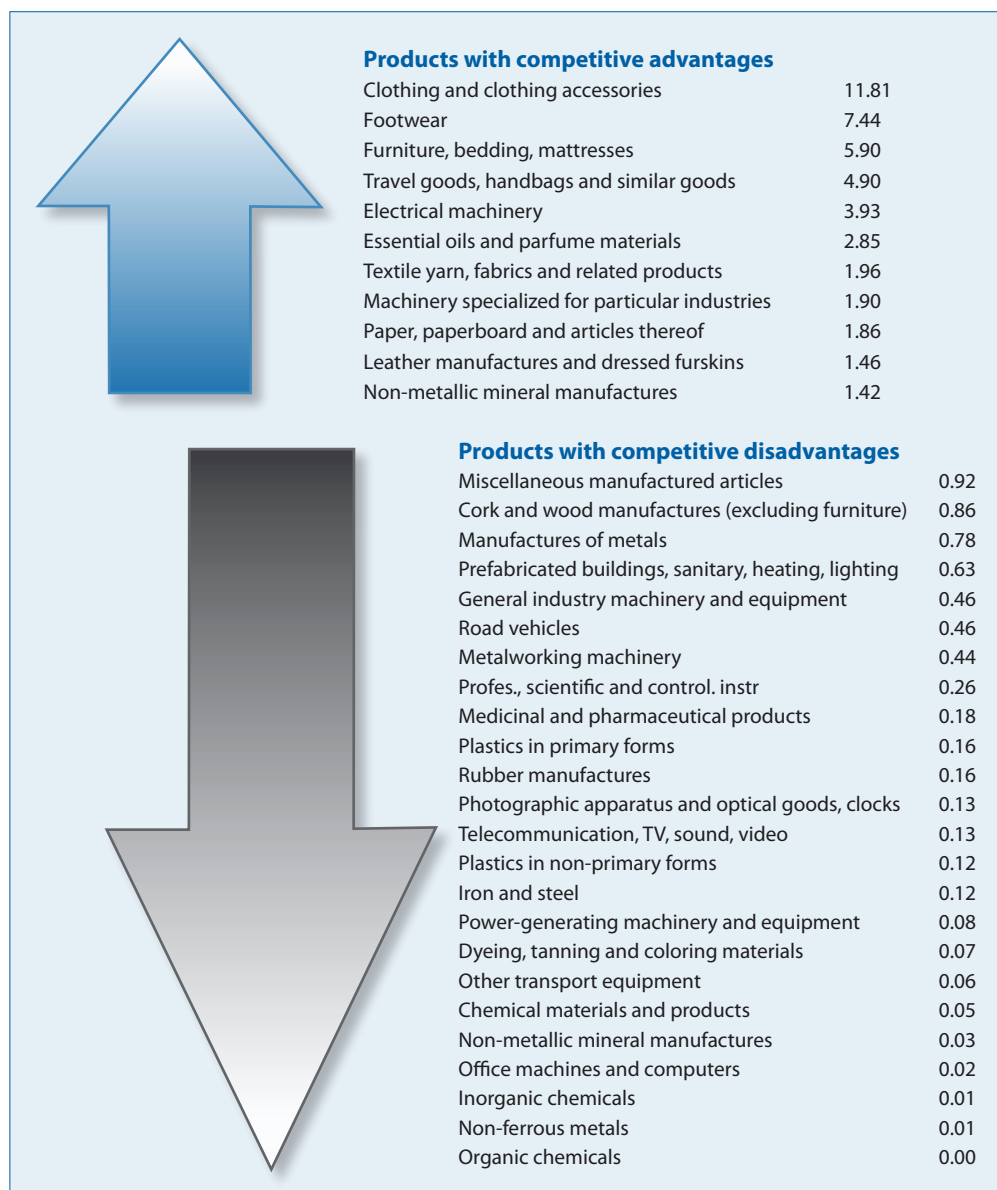
Source: Author computations based on UN COMTRADE database.



Besides the crisis repercussions, the recent decrease in ITI index for industrial products may also be explained by the gradual erosion of competitiveness of Moldovan industrial products on the European market. An RCA-based analysis reveals comparative advantages only for 11 sectors out the total number of 35

analyzed sectors (Annex 11). Moreover, even the traditionally most competitive sectors saw a declining RCA index relative to the European producers. Clothing and clothing accessories, footwear, travel goods, handbags and similar goods serve as the most prominent examples.

CHART 29. COMPETITIVENESS OF THE MOLDOVAN INDUSTRIAL PRODUCTS ON THE EU MARKET, RCA INDEXES IN FIGURES, YEAR 2010



Source: Author computations based on UN COMTRADE database.

Trade liberalization with EU will not generate major competitive shock for a number of high-tech and very capital intensive industrial sectors.

Most of the segments on which Moldovan producers are least competitive in comparison with the European ones are high-tech and very capital intensive. The fact that Moldova is a net importer of such products seems a natural outcome of the production factors' endowment of the country. As a result, the protection level of these products is very low or even absent. Trade liberalization with the EU will not generate a major competitive shock for these industrial sectors. Additionally, wi-

ping out the remaining custom duties for these segments will decrease import and production costs with positive, though marginal, welfare effects (Annex 12).

At the same time, there are 5 main industrial sectors where Moldovan firms appear to be more competitive in comparison with the European counterparts (Table 4). As a result, they have the highest shares in total industrial exports to EU, the main advantage being the access to cheaper local labour force.

TABLE 4. COMMODITIES FOR WHICH MOLDOVA REGISTERS COMPETITIVE ADVANTAGES IN COMPARISON WITH EU, YEAR 2010

SITC code	Commodity name	RCA index of Moldova	RCA index of EU-27	Custom duty applied by Moldova for imports (level of protection)
65	Textile yarn, fabrics and related products	2.3	0.7	15 percent
69	Manufactures of metals	1.6	0.9	0 percent/10 percent/15 percent
82	Furniture, bedding, mattresses	3.2	0.8	0 percent/10 percent
84	Clothing and clothing accessories	10.7	0.5	6.5 percent
85	Footwear	6.9	0.6	15 percent

Source: Author's computation based on UN COMTRADE.

A number of industrial sectors which meet a fierce competition with EU producers and which benefit of a high tariff protection are the most vulnerable to trade liberalization with EU.

Besides the products mentioned in the Table 4, Moldova has revealed comparative advantages on the world market for other 4 types of industrial products (Table 5). However, since European producers are also competitive in production of these products, Moldovan firms will meet the fiercest competition on these segments. What is telling is that the RCA indexes for all these products exported by Moldova have steadily declined over the past decade. Given the eroding competitiveness

and relatively high protection level, these segments are likely to experience the strongest shock in comparison with other industrial sectors as a result of trade liberalization with EU under DCFTA. Therefore, tariff withdrawal for these industrial sectors has to be slightly smoother in order to allow firms to adjust to new challenges, prevent job cuts and, in this way, mitigate the eventual repercussion on peoples' living standards.

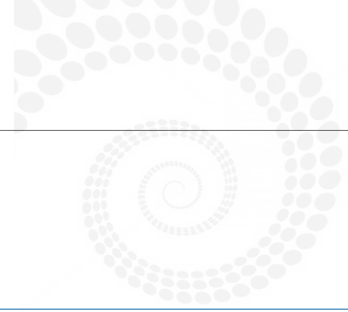


TABLE 5. COMMODITIES INVOLVING THE MOST INTENSE COMPETITION BETWEEN EUROPEAN AND MOLDOVAN INDUSTRIAL PRODUCERS, YEAR 2010

SITC code	Commodity name	RCA index of Moldova	RCA index of EU-27	Custom duty applied by Moldova for imports (level of protection)
55	Essential oils and perfume materials	1.2	1.7	5 percent
61	Leather manufactures and dressed	2.3	1.2	15 percent
66	Non-metallic mineral manufactures	1.4	1.2	10 percent
83	Travel goods, handbags and similar goods	5.0	1.0	15 percent

Source: Author's computation based on UN COMTRADE.

For almost all products which have comparative advantages, Moldovan exporters face fierce competition from many countries (Annex 13). For example, on the segment of clothing and clothing accessories – Moldova's most important exported industrial item – Moldovan companies are competing with companies from 10 European countries which have also have comparative advantages. Additionally, the position of Moldovan ex-

porters on this market is constrained by the producers from other 7 non-European countries: China, India, Turkey, Indonesia, Bangladesh, Vietnam and Tunisia. Intense competition drives down the profit margins and calls for significant investments in order to keep the producers' market segment, which is challenging for many Moldovan companies given the high cost and scarcity of domestic capital.

3.3. 'DEEP' AND 'COMPREHENSIVE': INTEGRATION GOING BEYOND TRADE

The DCFTA that Republic of Moldova and the European Union are currently negotiating is not a 'classic' free trade agreement. The latter normally foresee a mutual opening of markets for goods and services. The reason that the trade agreement between Moldova and EU is called 'Deep and Comprehensive' is that it would go much further. It would be "comprehensive" because it would cover a wide array of trade-related issues (investment, competition, public procurements) and sectors (services) and it would be "deep" because it aims at eliminating 'behind the border' obstacles to trade, thus partially opening/extending the EU internal market to Moldova. By achieving such a level of integration, Moldova will actually get a stake on the European internal market, which is presently composed of 27

member states, has more than 500 million consumers and a combined GDP of about 15 trillion Euro. However, this requires many reforms to be adopted by Moldova. One of the key requirements is the alleviation of the so-called behind-the-border measures to trade, i.e. those laws and regulations that restrict cross-border access to national markets compared to the access of suppliers within national borders.

3.3.1. Sanitary and Phytosanitary Standards

One of the most difficult areas for Moldova is Sanitary and Phytosanitary Standards. In order to benefit from the FTA with the EU, Moldova needs to ensure full implementation

Unlike regular free trade agreements, the potential DCFTA between Moldova and EU will cover a wide array of trade-related issues and is aimed at eliminating 'behind the border' obstacles to trade.

In order to benefit from the FTA with the EU, Moldova needs to ensure full implementation of WTO Agreement on Sanitary and Phytosanitary (SPS) Measures.

of the WTO Agreement on Sanitary and Phytosanitary (SPS) Measures. With its accession to the WTO in 2001, Moldova committed itself to applying these standards. Moldova also pledged to harmonize its standards with those of the EU. While Moldova is neither a candidate nor a potential candidate (and is not obliged to implement the SPS commitments within a specified period of time), it also has no time to lose. These commitments have only partially materialized as their full implementation requires significant changes in laws, institutions and policies. As a result, many commodities are non-complying with international food and animal safety standards and are not allowed on the EU market (this includes meat products, dairy products, poultry and live animals). At the policy level, there are systemic weaknesses resulting in lack of interconnectedness and fact-based policy making. While a Strategy on Food Safety was developed, as of the end-November 2012 the Food Safety Agency was not yet created, and the safety and control system remains fragmented and inefficient. The system for ensuring the biological and chemical safety of food products is incomplete, which, inter alia, does not allow for proper sampling and analysis of food on the marketplace⁹¹.

The benefits of introducing EU recognized food safety standards are multiple, including higher consumer production, high quality of products and the possibility of exporting Moldovan food products to EU, as well as to other markets adopting the EU food safety standards, including Balkans and Turkey. On the downside, the implementation of the SPS standards, even though gradual, will require an adaptation of costs, both in the private and public sector (related to upgrading of the quality infrastructure). One of the most difficult aspects to deal with is the negative

financial impact the new SPS will have on the small producers, especially in rural areas. In this regard, the EU pledged technical and financial support for the adoption of new standards. However, additional flanking measures will have to be introduced in order to ensure access of the producers to financial resources (banks, micro-finance, capital market, public support). Still, some companies should be expected to be driven out of the agricultural business. Adopting the SPS standards also has important political economy implications, as new institutions, laws and policies are not welcomed by the exponents of vested interests thriving on the current (often corrupt) institutional arrangements. The political economy considerations are probably the most important factor explaining the slow speed of creating the new institution responsible for the implementation of the food safety regulations.

3.3.2. Harmonization of the Economic and Commercial Legislation

DCFTA is also expected to envisage the harmonization of Moldova's economic legislation to the EU standards. While a significant degree of approximation already took place, the area of harmonization is still very broad, including Civil Code, Law on Joint Stock Companies, Law on Enterprises and Entrepreneurship, Law on Capital Markets, Law on the Securities Market and a dozen others. Additionally, proper enforcement of the legislation requires consolidation of the institutional environment, including the Courts, the State Chamber of Registration, National Commission of Financial Markets, and many others. One of the most significant challenges yet to be met is the proper disclosure of the property rights (particularly so in the banking sector). Another challenge is to ensure proper systems to access information about the company documents and to establish an electronic filing and access system. And probably the most significant challenge is to ensure adequate protection of

One of the most difficult aspects to deal with is the negative financial impact the new SPS will have on the small producers, especially in rural areas.

FOOTNOTES

⁹¹ Moody R., Kireeva I. and Butucei I., "Agriculture and Food Law and Policy. Approximation to EU standards in the Republic of Moldova", Sectoral Law Approximation Guidelines Studies, April 2010.

the shareholders rights, particularly for the minority shareholders⁹². The latter is one of the key preconditions to attract capital investment in more risky activities and sectors, including in the technological innovation activities.

Providing for these amendments in the national legislation and practices will ensure a predictable legal and institutional environment that will greatly increase the attractiveness of Moldova as an economic partner and destination for foreign direct investment, both from the EU and from other places. The will facilitate business-to-business contacts and encourage foreign and domestic investments alike. Higher income generated in result of increased investment will ultimately bring important contribution to the human development.

3.3.3. Consumers Rights

The protection of consumers' rights is one of the most contentious issues in the Republic of Moldova. On the one hand, consumer protection in Moldova is not well developed in overall terms and in some specific fields regulations required are completely missing. In general terms, the national legislation is a long way from EU standards, while consumers are the weakest contractual part in the commercial relations in Moldova. On the other hand, companies and the state have invested few efforts and resources to meet or ensure the respect of even the existing requirements. As an assessment report evaluates, the level of protection provided in the Republic of Moldova is only partially aligned to the standards applicable within EU⁹³.

The DCFTA is expected to contain specific commitments from the part of Republic of Moldova to address the existing shortcomings. Internal market rules to which Moldova will abide as part of its DCFTA commitments would institute modern standards in the field of industrial products and food safety, and would ensure better product quality. This will greatly improve the consumers' welfare and

will empower them to better know and defend their rights. On the negative balance, increased consumers rights will put additional pressures on businesses in the short term. However, in the long term, as all people are ultimately consumers, a proper enforcement of the consumers' rights as part of the DCFTA will lead to a socially more optimal equilibrium.

3.3.4. Competition Policy and State Aid

From 2011 to 2012 Moldova achieved important progress in these two areas. Parliament passed a new Law on Competition and a draft Law on State Aid is pending approval. While in the case of competition Moldova already has some experience, both negative and positive, in the case of state aid, Moldova has not made any practical progress in monitoring, reporting on and regulating state aid. A large volume of state aid is continuously provided under non-transparent conditions and some clearly in breach of existing Moldovan legislation⁹⁴.

Effective implementation of the two laws mentioned above will require institutional strengthening, including two key aspects: 1) consolidation of the capacities of the National Agency for Competition Promotion and 2) training of judges to make rulings according to the provisions of the new laws. However, the efforts and resources to be invested are worthwhile, considering the tremendous positive impact that a more fair competition and a more transparent state aid mechanisms will exert on the economy, with effects spilling over onto the human development.

As the level of consumer protection in Moldova is only partially aligned to the EU standards, the DCFTA will contain specific commitments from Moldova to address the existing shortcomings.

The issues related to competition policy and state aid should be addressed in line with the consolidation of the National Agency for Competition Promotion capacities, as well as training of judges.

FOOTNOTES

⁹² Gasperini N., "Company Law and Policy: Law Approximation to EU Standards in the Republic of Moldova", Sectoral Law Approximation Guidelines Studies, December 2010.

⁹³ Dona M., Stuart E., "Consumer Protection Law and Policy: Law Approximation to EU Standards in the Republic of Moldova", Sectoral Law Approximation Guidelines Studies, August 2010.

⁹⁴ Stuart E., "State Aid Law and Policy: Law Approximation to EU Standards in the Republic of Moldova", Sectoral Law Approximation Guidelines Studies, September 2010.

The benefits of liberalizing the services sector are not limited to expanding of exports, but also encompass the inclusion of Moldovan service companies in regional and off-shoring service.

The unsolved conflict between Chisinau and the breakaway Transnistrian region has many implications on the future of the European integration of Moldova.

3.3.5. Liberalization of the Services

The term 'comprehensive' in the DCFTA refers particularly to the services sector. Services are the main economic sector in terms of employment and contribution to Moldova's GDP. Therefore, the liberalization of services has significant economic implications. Tourism and professional services in Moldova are already quite liberalized. A significant progress has been achieved in 2012 with the agreement signed between Moldova and EU on the liberalization of the air transport services. Other sectors are more protected, including education, public health, financial services, legal services. Opening up these sectors to the competition with European service providers may certainly benefit the consumers of the services, but will also impact the domestic producers of some least competitive services. For instance, considering the complaints from Universities regarding the scholarships provided by Romania to Moldovan students in 2011-2012, it appears that the education sector in Moldova may not be ready to compete directly with the European providers of services. In this context, the Moldovan government needs to carefully define where its offensive and defensive interests are with respect to trade in services.

Financial services give rise to particular concerns. While the banking sector is well developed and capitalized, the insurance, pensions' funds, capital markets and micro-finance are the weakest pillars of the sector. Moldova has already achieved great convergence with the EU norms and standards in regulating the banking sector. Of immediate priority is the development of securities market and National Commission for Financial Markets' regulations in line with international standards, so that they can qualify for mutual recognition by regulators in EU Member States

as part of the EU approximation process. This will also be critical to establish the essential conditions for the successful introduction of second pillar pensions.

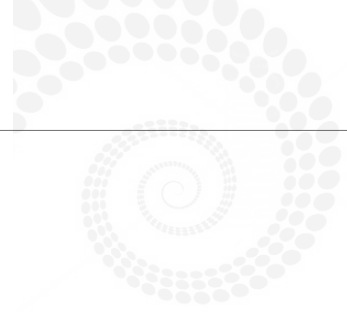
As existing studies suggest, eventual benefits of the liberalizing the services sector are not limited to simple expansion of exports of services, but also encompass the inclusion of Moldovan service companies in regional and off-shoring service provision leading to more economic opportunities and higher income for Moldovan labourers and companies. As the service markets become more competitive, this will result in the increasing access of Moldovan consumers to the higher quality and more diversified services. But effective liberalization of the services implies a great many conditions, including but not limited to the liberalization of the licensing, mutual recognition of rules for attestation and recognition of diplomas, higher labour mobility and more liberal immigration policy, rules for qualification assessment, and many others⁹⁵. Among the key risks that may affect the liberalization of the services sector are the vested interests in certain sectors that can obstruct or undermine liberalization reforms (the overly long process of liberalization of the air transport and failure to attract low-price companies is a testimony of this hindrance).

3.3.6. DCFTA: Comprehensive for Transnistria

The unresolved conflict between Chisinau and the breakaway Transnistrian region has many implications for the future of the European integration of Moldova. While the Republic of Moldova has been pursuing the European integration path, the undetermined status of the Transnistrian region has precluded the latter's inclusion in this process. Therefore, in the longer term any lasting and comprehensive progress of Moldova on the European integration path will require strengthening ties between two parts of the country and resolution to the status of the Transnistrian region as part of Moldova.

FOOTNOTES

⁹⁵ Luecke M., Oprunenco A., and Prohnițchi V., "Options for a Deep and Comprehensive Free Trade Agreement between Moldova and the EU", GET Moldova, Policy Paper Series [PP/02/2011], Berlin/Chisinau, May 2011.



However, the undetermined status of the region might pose thorny questions in the shorter term as well. Currently, Transnistrian firms benefit from the ATPs that EU unilaterally granted to Moldova. To benefit from the ATPs, more than 400 Transnistrian companies registered with official authorities of Moldova. These preferences helped the Transnistrian companies to successfully reach or become part of intra-industry linkages on the Common market. However, the conclusion of the DCFTA would supplant the current ATPs regime with one that is much more complex and challenging but promising in nature. This regime also implies that EU exports would reach the region without being subject to any additional customs or other tariffs than those envisaged by the DCFTA, while the products originating from Transnistrian region would access the European markets. To take advantage of this new regime, the Transnistrian region needs to become more involved in the negotiation process. Indeed, the EU would like the DCFTA to be implemented on all the Moldovan terri-

tory, including the Transnistrian region. If the regions opt to stay out then both the EU and Moldovan authorities would face hard choices and need to find technically sophisticated solutions in order to ensure the DCFTA enters into force on the right-bank of Moldova once negotiations are concluded and the door remains open for the companies from the Transnistrian region in the future.

To avoid this, it is important for the Moldovan authorities to remain open for the proper inclusion of the Transnistrian representatives in the DCFTA negotiations and to identify feasible technical solutions to address the interests and concerns of Transnistrian companies. At the same time, as economic and trade relations between Moldova and the EU get stronger and the benefits are more visible for Moldovan companies, it could be anticipated that the Transnistrian *de facto* authorities become more involved in the efforts aimed at implementing the DCFTA on the whole Moldovan territory.

3.4. STRATEGIC COMPARISON OF MOLDOVA'S REGIONAL INTEGRATION OPTIONS

Since 2011 Moldova there have been increased discussions about the strategic options the country has for its long-term development. As shown by public opinion polls⁹⁶ and by political leaders' rhetoric, Moldovan society and the national political elites are split: some consider that Moldova should continue the path of European integration, ultimately pursuing the goal of joining the EU; others considers that Moldova should abandon its current European vector and join the Russia-Belarus-Kazakhstan Customs Union (RBK CU). As clearly proven by the sociological survey conducted for this Report, an important segment of Moldovan society does not really understand the differences and incompatibilities of the two options. Moreover, the disputes in which the supporters of European integration and those of the

joining the Customs Union engage are often determined by ideological preferences and emotions, rather than by a clear and objective understanding of the effects these two options have for the country's future development.

Supporters of Moldova joining the RBK CU argue that this would allow Moldova to benefit of tariff-free access to a geographically and demographically large market, of higher level of protection of domestic producers, and of lower prices for gas and fuels. They also believe that migrant workers would be better protected on the markets of the countries which are members of the Customs Union⁹⁷.

While the society is divided between those who consider that Moldova should join EU and those in favor of RBK Customs Union, many people do not understand the differences of these options.

FOOTNOTES

⁹⁶ Institute for Public Policy, "Barometer of Public Opinion, April 2012", accessible at <http://ipp.md/libview.php?l=ro&idc=156&id=610&parent=0>.

⁹⁷ See the interview of the leader of the Social-Democrat Party of Moldova, Mr. Victor Selin, <http://referendum.md/video#897>.

In order to bring an understanding of the best options for Moldova, the economic consequences of the two main strategic options of Moldova have been analyzed in this report: enhancing trade integration with the EU and

the joining to the RBK Customs Union. The analysis is based on the results of economic simulations performed by the authors using a General Computable Equilibrium (CGE) Model (more details see in Box 6).

BOX 6. WHAT ARE THE GENERAL EQUILIBRIUM MODELS AND WHY ARE THEY USEFUL?

Computable General Equilibrium (CGE) models are large linear and nonlinear equation systems describing the behaviour of an economic system. This class of models is used for the quantitative analysis of the way the external shock spread through the economic system and how the analyzed economic system moves from the initial equilibrium to the new equilibrium. CGE models acknowledge the shocks can propagate in completely nonlinear manners, and may have unintended second round effects. CGE models do not claim to precisely forecast the way the economy will adapt to after-shock conditions but they offer an invaluable support for the policy makers to get an educated understanding of the impact of the decisions to be adopted and to compare the policy options they have.

CGE models are implemented based on the so-called Social Accounting Matrixes (SAM). SAMs represent detailed and comprehensive data sets, in form of square matrix, which illustrate real and monetary flows between different economic agents (accounts): activities, goods, consumers, government, rest of the world. The level of disaggregation depends only on the analytical requirements and the available statistical data. Each account is represented by a column (which illustrates the expenses of that account) and a row (revenues), the sums of which are equal.

The CGE model used for the purposes of this paper represents an extended and adjusted version of the standard model described in Lofgren et al, 2002. This model is calibrated on the basis of a Moldova's SAM for 2010, developed by EXPERT-GRUP independent think tank, using statistical data provided by the National Bureau of Statistics, National Bank of Moldova, the Ministry of Finance and the Customs Services of the Republic of Moldova. The Moldova's SAM has a high level of disaggregation, including 36 types of economic activities, 35 produced goods and services, 3 types of transaction costs, 6 types of factors of production, 2 types of households (rural and urban), government, 5 types of taxes, including the custom duties disaggregated at geographical region and 5 geographical regions with which international trade is conducted

Source: authors of the report.

The immediate implication of the DCFTA with EU is the reciprocal withdrawal of custom duties between Moldova-EU and Moldova-Turkey.

For Moldova, enhancing trade integration with the EU implies, first of all, a gradual reduction to zero of custom duties of its imports from the EU and Turkey. It should be noted that signing a free trade agreement with Turkey is a precondition set by the EU in order to create a Deep and Comprehensive Free Trade Area between Moldova and the European Union. At the same time, the UE and Turkey will cancel their own custom duties for imports from Moldova. This ultimately means better prices for Moldovan exporters on these two markets. Clearly, there are some costs which Moldovan producers should bear, especially

in order to meet the European standards and norms and be able to enter the market.

Moldova's joining the RBK CU bears significant implications as well. First of all, theoretically this would mean zero custom duties mutually granted by the RBK CU members (including Moldova). However, Moldova's trade with the three RBK CU member states is already liberalized. In September 2012 Moldova ratified the multilateral Free Trade Agreement adopted in the CIS in 2011. Therefore, one should not expect any further effects because of further custom duties reduction, as these

are already almost zero. Secondly, and more importantly, the accession to the RBK CU implies that Moldova will become part of the common customs policy of the CU members. Specifically, it will require Moldova to bring its custom duties in line with those of the Russian Federation, which has the main say in the RBK CU common customs policy (indeed, it is hard to believe that after joining the RBK CU the tiny Moldova will be able to impose its own views on the common customs policy). Currently, Russian customs duties are on average 2.7 times higher than Moldovan ones.

Considering this, we analyzed three basic scenarios:

- **DCFTA:** a) cancelling Moldovan customs duties for imports from the EU and Turkey; b) 5 percent increase in export prices for Moldovan agrifood products delivered on the European market, for Moldova's industrial products the European tariffs are already zero; c) 20 percent increase of export prices for the agricultural products and by 5 percent of export prices for Moldovan industrial products delivered to the Turkish market⁹⁸; d) 8 percent increase of agricultural sector production costs, conditioned by the necessity to meet the sanitary and phytosanitary European standards (EUREPGAP)⁹⁹.
- **RBK:** a) cancelling Moldova's customs duties for the RBK CU imports; b) A 2.7-fold increase of Moldova's customs duties for imports from all countries except RBK CU. It is assumed that it is not necessary to invest additionally in order to meet the technical standards of the RBK CU as Moldova and RBK UV use the same standards.
- **RBK_GAS:** an important element is added to the above RBK scenario, namely a 30 percent discount to the price Moldova pays for natural gas imported from Russia. According to media reports, this discount was proposed to Moldova by Russia for

Moldova in exchange for leaving the Energy Community Treaty that Moldova joined.¹⁰⁰

The same macroeconomic balance and factors of production rules are applied to all three scenarios. Particularly, it is implied that: 1) for the external balance, there is a floating exchange rate, while the trade deficit is fixed; 2) for savings-investment balance it is considered that savings are investment-driven; 3) for the budget balance, we have consider a stable fiscal pressure, while the budget deficit is allowed to adjust. Regarding factors of production, it is assumed that none of these factors, in particular the capital, are used to their full capacity and they can flow across the economic sectors.

The three scenarios have completely different consequences. As a net effect, the impact is positive for the DCFTA scenario (sustainable trade integration with the EU) and is strongly negative for the RBK scenario (joining the RBK CU). When the cheaper natural gas imported from Russia is considered, joining the RBK CU – designed by the RBK_GAS scenario – has a less negative impact than the 'ordinary' RBK scenario. Main simulations results are included in Table 6. Next to the custom duties reduction's impact, these effects are conditioned by two other essential changes which take place in the economic fundamentals. In the DCFTA scenario (more intense trade integration with the EU) the real exchange rate of the Moldovan leu depreciates by around 2.1 percent, which has a positive impact on national exports. The RBK scenario

The main implication of Moldova's accession to RBK Customs Union is the alignment to the common customs policy of its members.

According to all scenarios, the simulations denote that the application of DCFTA has a positive net effect, while joining the Customs Union implies a negative net effect.

FOOTNOTES

⁹⁸ Export price increases were estimated by the author grounded on the analysis of the current tariffs applied by the EU and Turkey to imports from Moldova, then computing the effects over the prices received by exporters after cancelling these tariffs. See a trade policy analysis of the WTO, ITCS and UNCTAD, 2011.

⁹⁹ According to international evidence, the application of sanitary and phytosanitary standards initially implied cost growth for the multiyear production by 0.5-5%, thereafter by 1-3% (World Bank, 2005). To remain on the safe side, the authors have chosen the upper limit of the interval which sums up the two cost components.

¹⁰⁰ „Moldova poate obține o reducere de 30% a prețului la gaze! Condiția impusă de Rusia este renunțarea la achetul Energetic al UE”, accessible at http://www.adevarul.ro/moldova/economie/Moldova_poate_obține_o_reducere_de_30_a_prețului_la_gaze-_Condiția_impusa_de_Rusia_este_renunțarea_la_Pachetul_Energetic_al_UE_0_77272912.html.

results in a 7.4 percent appreciation of the rate, while the RBK_BG (joining the RBK CU plus natural gas imported from Russia 30 percent cheaper) the rate appreciates by 3.3 percent in both cases making Moldovan exports less competitive. At the same time, the model predicts that producer prices will not increase under the DCFTA scenario (+0.02 percent), but will increase by 1.3 percent in the RBK scenario. Cheaper imported natural gas diminishes the impact of RBK scenario on prices, however, pressures on production costs remain.

The decrease of producer prices in the case of DCFTA is reflected by an essential decrease of consumption goods prices: -9 percent for apparel (+26 percent in RBK scenario), -3.3 percent for textiles (+6.6 percent in RBK), -7.1 percent for oils and vegetal fats and animals (+8.6 percent RBK), -3.4 percent for fruits and vegetables (+5.7 percent RBK), -2.1 percent for alcoholic and non alcoholic drinks (+5 percent RBK). The RBK_GAS scenario includes a smaller increase in consumption prices than in case of RBK scenario, but it is nevertheless positive.

As a result, the overall welfare (estimated through the total absorption level) amplifies in the first scenario (+5.0 percent) and worsens in the case of second scenario (-9.6 percent). Cheaper gas compensates partially the negative effects of the RBK scenario on welfare (the latter increasing by 2.7 percent). At the same time, the private consumption demand of DCFTA scenario increases by much more (7.5 percent) than absorption per economy. As a result of joining RBK CU household consumption decreased dramatically (-18.8 percent) compared to rural ones (-9.3 percent). Cheapening natural gas

partially compensates the welfare losses, with consumption expected to grow by 1.7 percent in rural households and 6.1 percent in urban ones.

The three scenarios have different implications over the state budget. In particular, in the case of DCFTA scenario we could expect an essential budget revenues growth (over 1.6 percent), while by budgetary expenditures decrease. A 30 percent decrease in the price of the natural gas imported from the Russian Federation may have a positive impact on the budget revenue and to compensate the losses caused by the RBK CU accession (revenues are expected to grow more than 10 percent). As expected, in the case of DCFTA scenario the fiscal burden (estimated as weight of the direct taxes and customs tariffs in the GDP) decreased by 1.1 percent, while in the case of RBK and RBK_GAS, conversely, the fiscal burden increases by 1.9 percent. At the same time, it is important to mention that the decrease of revenues and welfare levels could lead to an increased demand of the population for additional social assistance that could finally lead to augmentation of the budget deficit.

The terms of international trade improves in the DCFTA scenario (export prices increase by 3 percent on average, while import prices by 0.8 percent). At the same time, for some imports, prices for beverages are 2.3 percent lower while other food products are 0.7 percent less, -0.3 percent less for agricultural products. Obviously, these price decreases for imported products generate greater competitive pressure on local producers. As expected, in the DCFTA scenario more goods are exported to the EU and Turkey and less to other destinations.

Although, cheaper natural gas partially compensates the welfare losses as a result of joining the Customs Union, the highest overall welfare is reached in the DCFTA scenario.

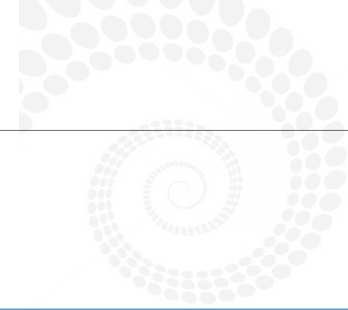


TABLE 6. MAIN ECONOMIC INDICATORS VARIATION, PERCENT CHANGES TO BASE EQUILIBRIUM

	DCFTA	RBK	RBK_GAS
Producer Price Index	0.0	1.3	1.0
REER – Real Exchange rate (negative sign indicates MDL appreciation)	2,1	-7.4	-6,4
GDP	6,4	-13.2	-9,7
Absorption	4,9	-9.6	-6,6
Consumption expenditures of households, total	7.8	-14.8	-10.2
Rural	3.9	-9.4	-6.7
Urban	10.6	-18.8	-12.8
Exports	11.3	-22.2	-17.0
Imports	6.1	-11.1	-7.9
Factors of Production revenues			
Low skilled labour	5.9	-12.0	-8.8
Medium skilled labour	6.5	-12.7	-9.3
High skilled labour	4.4	-8.7	-6.2
Capital	6.9	-14.1	-10.1
Agricultural Informal Employment	5.9	-14.2	-10.2
Informal Employment other sectors	7,0	-13.3	-9.5
State Budget Revenues	1.6	-6.5	-2,4
Investment /GPD	-1.4	2.7	1,8
Savings / GDP	4.6	-7.4	-4.8
Trade Deficit / GDP	-2.6	3.3	2.4
Budget Deficit / GDP	-1,1	3.1	1,5

Source: simulation results on the basis of CGE model.

Imports also increase strongly in all directions and for all products under the DCFTA scenario. Overall, exports grow by 11.2 percent, while imports – by 6.1 percent. In case of RBK, although the price of imports decreases (-4 percent), export prices drop even more (-7.4 percent), worsening the terms of trade. In this case, exports decrease by equal proportions for all destinations and for all products, while the value of imports from other destinations decreases stronger than imports from Russia, Belarus and Kazakhstan. Total exports drop by 22.2 percent, imports - by 11.1 percent. The third scenario compensates the negative net impact on international trade conditions, however the net effects are marginal: total exports grow by 0.2 percent, while imports - by 7.6 percent. In result of competitive gains in

case of DCFTA scenario trade deficit decreases by 2.6 percent. In the RBK scenario export competitiveness decreases, resulting in 3.3 percent widening of the trade deficit, which is almost completely offset by cheaper gas.

Final domestic demand, which strongly increases in case of DCFTA and decreases in the other two scenarios reflects in the output level at sectors' level. In case of DCFTA, the production levels increase with rates varying between 1.9 percent (constructions) and 21.3 percent (apparel and shoes production). In case of RBK CU accession, the situation is entirely opposite, production decrease starting at 3.7 percent in case of constructions to 36 percent in case of apparel and shoes production. Gas cheapening compensates the

The DCFTA is likely to spur the firms' production and households' consumption, while the effects of joining the Customs' Union will be negative.

The DCFTA with EU will ensure a sustainable economic growth and welfare gains for Moldovan citizens, while joining the Customs' Union will imply adverse effects.

negative impact of the previous scenario, but well below the DCFTA scenario.

At the same time, changes in production are accompanied by the corresponding shifts in demand for the factors of production: in case of enhancing trade integration with the EU, labour force demand increases by 4.4 percent (decreases by 8.7 percent in case of joining RBK CU) for a highly skilled labour force, by 6.5 percent for a medium skilled labour force and by 5.9 percent for the low skilled one (demand for medium and low skilled labour force decreased by 12.6 percent if Moldova joins the RBK CU). In case of DCFTA scenario capital demand increases by 7 percent, while it decreases by 14 percent in case of joining the RBK CU. The third scenario has negative implications for the factors of production, even these are more moderate than in the second scenario.

Ultimately, the impact over GDP is the most important aspect to be considered when strategically comparing trade options. The DCFTA has a strong positive impact on economic growth, +6.4 percent, while the RBK scenario reduces Moldova's GDP by 13.2 percent. The

Russian Federation energy bonus (RBK_GAS scenario) mitigates the negative impact of the RBK CU accession, with GDP expected to grow by 2 percent.

To conclude, the performed simulations show that enhancing trade integration with the EU is easily a preferable option in terms of the development impact, than the accession to the Customs Union of Russia-Belarus-Kazakhstan. Despite the costs related to the implementation of the sanitary and phytosanitary standards recognized by the EU, the first option ensures sustainable economic growth and welfare gains for Moldovan citizens. The second option has negative effects for the welfare of citizens and economic growth, undermining the efforts of technological modernization and of making full use of the Moldovan economy's competitive potential. The 30 percent discount promised by the Russian Federation for the price of natural gas delivered to Moldova does not compensate the negative economic effects caused by the increased custom duties within the Custom Union, leaving aside the fact that there are significant doubts whether this promise is trustworthy.



4 • DEVELOPMENT IMPACT OF THE VISA LIBERALIZATION BETWEEN MOLDOVA AND EU

■

Aside from negotiating the Deep and Comprehensive Free Trade Area, Moldova has started negotiations with the EU to liberalize the visa regime which is perceived by the population to be one of the most prominent issues of the EU – Moldova negotiations¹⁰¹. Free travel is a powerful tool, which, aside from having economic implications, is able to change peoples' political attitudes and geopolitical options. However, aren't there any risks to be considered? This is one of the key questions addressed in this chapter. A more liberal travel regime has its important benefits for Moldova as well as for the EU. At the same time this process might have some negative implications (e.g. irregular migration, social costs) both parties should be aware of and find ways to mitigate them. Last but not least, it is necessary to dig into more details about the particularities and limitations of the visa-free regime which, in the end, could determine its social and economic impact.

4.1. VISA LIBERALIZATION AND MIGRATION: PERCEPTIONS VERSUS FACTS

Increased migration has been often identified as one of the major consequences of the visa liberalization between Moldova and the EU.

The Moldovans' propensity is expected to increase after the implementation of a more liberal visa regime...

However, the visa-free regime does not imply a broad and unlimited opening of all EU member states' borders and does not give additional rights to work.

It is believed to provide additional pull factors for Moldovan job-seekers on the EU labour market, even though according to the EU regulations visa free travel does not involve any additional labour rights for foreign job seekers. This perception is fuelled by the Moldovans' fairly high propensity for migration, a propensity which is often expected to increase after the implementation of a more liberal visa regime. Indirectly, this was confirmed by a nationwide survey in 2011: while under the current circumstances of the visa regime the probability to migrate to EU for employment reasons in the next 12 months is quite high or very high for 12 percent of total respondents, under the visa-free regime this share increased up to 27 percent¹⁰².

Our sociological survey conducted in August 2012, has shown almost the same share – 26 percent - of people willing to migrate for job purposes under the visa-free regime. More than 27 percent of women confirmed that they would certainly migrate to the EU for a job, while in case of men the figure is 24.4

percent. This difference is probably explained by the fact that previous emigration flows were dominated by men, leaving the women with a slightly higher migration potential. Another reason may be the economic discrimination of women, leading to fewer employment opportunities domestically and lower wages compared to men's wages on the domestic labour market¹⁰³. Very high indexes of migration propensity under the visa-free regime were also reported in small towns (32 percent) and by respondents aged from 18 to 29 years (38 percent) and, unsurprisingly, by those unemployed (42 percent).

Nevertheless, what is the probability that such a strong boost in the propensity to migrate will materialize? It is worth noting that a significant increase in the propensity to migrate may be due to erroneous public expectations about the peculiarities of the visa-free regime which were shaped by a variety of official declarations¹⁰⁴. As a result, a perception was created that the visa liberalization equates no-visa regime, implying a broad and unlimited opening of all EU member states' borders with resulting opportunities for travel and employment. However, this is not exactly the case for Moldova. In fact, the analysis of migration propensity and trends over the last years and the provisions of a more liberal visa regime with EU denote that the pull factors for labour migration are overestimated. In order to understand this, several important features of the administrative procedures have to be borne in mind:

- Following the Visa Code¹⁰⁵, a "visa" means an authorization of stay in the territory of Member States for no more than 3 months within a 6-months period. Therefore, the discussed visa-free regime refers only to short-term stays after which the person is required to return to the home country.

FOOTNOTES

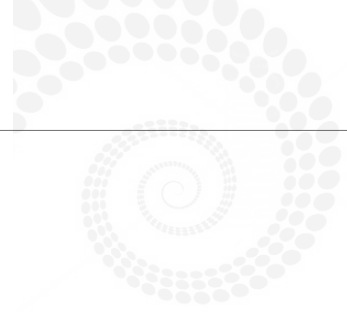
¹⁰¹ According to the latest sociological survey the share of respondents believing that visa liberalisation issue is discussed during the current EU-Moldova negotiations was 72% - the highest in comparison with other issues mentioned in the questioner (e.g. European integration, legal employment in EU, human rights etc.).

¹⁰² Institute of Public Policies, "Barometer of Public Opinion, November 2011", accessible at http://ipp.md/public/files/Barometru/Brosura_BOP_05.2011_prima_parte.pdf.

¹⁰³ Academy of Economic Studies of Moldova and National Employment Agency, "The Situation of Women on the Labour Force Market", 2007, accessible at <http://www.scribd.com/levitskytayana/d/48409595-Rapor-situatia-femeilor-pe-pata-fortei-de-munca-1B126198FAB24579A31269976DDF093F>.

¹⁰⁴ See for instance the following news: <http://www.ziare.com/international/stiri-externe/filat-le-promite-moldovenilor-ca-nu-vor-mai-merge-cu-viza-in-europa-1005594>.

¹⁰⁵ Art. 2(2) of the Visa Code.



Moreover, the Annex II of the Visa code explicitly provides the list of activities which can serve the purpose of stay in the Schengen Member States for the nationals of countries enjoying visa-free regime. These are: (i) business trips; (ii) study and other types of training; (iii) tourism or private reasons; (iv) political, scientific, cultural, sports or religious events; (v) official visits; (vi) medical reasons. Hence, paid employment and self-employed economic activities are not to be carried out during the visa-free stay in the Schengen zone. The visa liberalization will imply free movement of people and not of the labour force, meaning that it will not provide automatically additional employment opportunities for Moldovan migrants.

- Following the Schengen Borders Code¹⁰⁶, even under the visa-free regime, before crossing the border of an EU member state, Moldovans will be asked to provide all the relevant documents justifying the purpose of their journey as well as their commitment to return after a certain period of time.
- The “smart borders” initiative proposed by the European Commission¹⁰⁷ which, most probably, will be implemented before the visa-free regime will be available for Moldova, will enhance the capacity to verify the real purpose and duration of stay. Hence, it could significantly limit the possibilities of Moldovans to overstay and abuse the liberalized regime.

As a result, since the future visa-free regime will not facilitate the access of foreign nationals to the EU labour market, it will provide quite limited opportunities for long-term migration. Besides the above mentioned administrative limitations, the expected migration hump is likely to be moderated by 3 additional factors:

- The visa-free regime will be introduced after a massive migration outflow from

Moldova, primarily fuelled by high poverty rates and poor economic opportunities which almost exhausted the pool of potential migrants. Consequently, over the last decade, this dynamic has visibly matured and now we may reasonably assume that the migration flows approached its apex level; the EU is currently hit by a severe sovereign debt crisis which has its repercussions on the demand for labour force and wages, making it a less attractive destination for Moldovan migrants in comparison with the previous decade. Moreover, the Eastern economies (e.g. Russia, Turkey, and Kazakhstan), at least on a short and medium term, may increase their attractiveness relative to the EU due to more dynamic demand for labour force, as well as lower formal (e.g. no visa requirements) and non-formal barriers for Moldovan migrants (e.g. knowledge of the Russian language). However, in the long run, due to an ageing population and an accelerating lack of domestic labour supply, the EU will be motivated to further liberalize its labour market in order to fill the gap with a foreign workforce.

- Many Moldovan nationals, especially current and potential migrants have or will soon obtain Romanian citizenship, meaning that the visa-free regime will not have any additional impact on their decisions to migrate. Moreover, visa liberalization will hardly serve as a solid motive for many Moldovan migrants working in Russia or other CIS countries to change their preference in favour of EU. The main reasons are related to language barriers, more expensive travel costs and higher competition on the EU labour market.

FOOTNOTES

¹⁰⁶ Art. 5(1) and Annex I of the Schengen Borders Code.

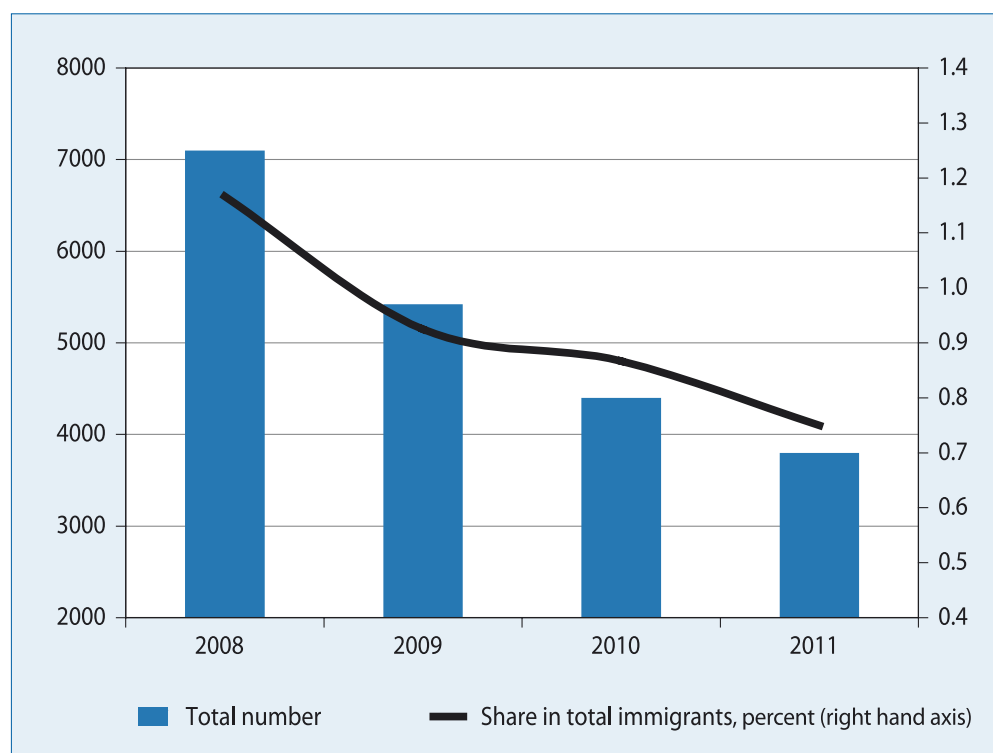
¹⁰⁷ COM Communication on Smart Borders, COM(2011) 680 final of 25.10.2011.

The impact of the visa-free regime is likely to be limited due to proper improvement of border control system between Moldova and EU, as well as drying out of the migrants' pool.

Hence, the general growth in migration to the EU is going to be quite modest due to the limitations of the new visa regime in terms of employment opportunities for foreigners, as well as by other factors which mitigated the migration push factors over the previous decade. At the same time the apparently strong increase in migration propensity is explained by population's very high expectations and limited knowledge about the peculiarities of the visa-free regime. These assertions corroborate with a recent survey pointing out that one consequence of the visa-free regime will be the increase in migration for short-term employment in the EU, following the experience of Central European states in the mid-1990s or the 2004 accession. Still, experts believe that this increase in migration will not be very strong and will stabilize shortly afterwards.¹⁰⁸

As far as the visa-free regime's impact on the irregular migration is concerned, it is likely to be limited as well due to at least two important factors. First of all, the extension of the "White List" of countries which do not need Schengen Visas will not be carried out without a proper improvement of border control system by EU and Moldova aimed at counteracting irregular migration attempts and potential abuses of the short-term visa-free regime. Additionally, with the political status of Transnistrian region undetermined, the visa-free regime will not be granted without reforms aimed at: (i) a substantial improvement of the border control management between Moldova and Ukraine on the Transnistrian perimeter, and (ii) ensuring the full security of the civil status documents issued by the Transnistrian unrecognized authorities. Hence, a better enforcement of the immigration legislation

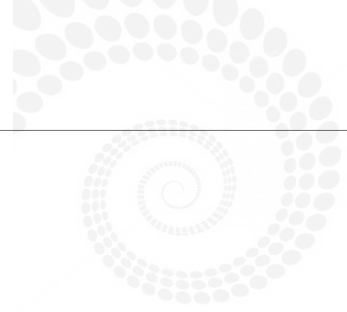
CHART 30. MOLDOVAN NATIONALS FOUND TO BE ILLEGALLY PRESENT IN EU MEMBER STATES, TOTAL NUMBER AND SHARE IN TOTAL NUMBER OF IMMIGRANTS TO EU FROM ALL OVER THE WORLD, PERIOD 2008-2011



Source: Eurostat.

FOOTNOTES

¹⁰⁸ Weinar A., Korneev O., Makaryan S., Mananashvili S., "Consequences of Schengen Visa Liberalisation for the Citizens of Ukraine and the Republic of Moldova", Migration Policy Center, January, 2012.



by EU and relevant reforms undertaken by Moldova before receiving the visa-free regime are likely to discourage irregular migration.

The second reason why visa liberalization will not boost such practices is the shrinking pool of potential irregular migrants in Moldova over the last years. Most of them have already obtained legalization in many EU countries (mostly in Italy, Portugal and Spain) or re-

ceived Romanian, Bulgarian or other EU citizenship thus benefiting from the legal right to settle in their countries of destination. As a result, the number of Moldovans which currently reside in any EU member state has been steadily declining over recent years both in absolute terms and as a share of total number of illegal migrants found in the EU (Chart 30).

4.2. ECONOMIC IMPACT OF THE VISA-FREE REGIME

The visa-free regime is designed to facilitate travel opportunities, either for business, cultural, academic, tourism or other purposes, between Moldova and EU member states, promoting, in this way, the cross-border exchange and strengthening the cooperation between various entities. Based on the existing international evidence, its main positive economic effects are expected to come in several ways:

Intensification of business relations between Moldovan companies and their partners from EU. This is mostly relevant for clothing, textile and footwear firms performing P&A operations (“lohn”) and re-exports mainly to Italy, Germany, Great Britain and Romania. As these firms are important job providers in Moldovan regions which have severe social problems (e.g. low incomes and poor employment opportunities), this effect is likely to have a positive impact on the human development at a local and regional level by supporting the creation of jobs and alleviating poverty in many socially vulnerable communities. Moreover, visa-free regime will essentially improve the whole business climate due to lower travel costs and closer cooperation between foreign and local partners. A recent empirical study based on 200 German firms doing business in Eastern Europe¹⁰⁹ corroborates this statement. According to this report, the current visa requirements makes it impossible to keep short deadlines when working with partners

across the Schengen border or even to sign the contracts by legal deadlines. Additionally, because of the visa issues, about 20 percent of companies surveyed lost contracts and orders to other companies.

The expected intensification of business relations and facilitation of cross-border exchange could stimulate the transfer of know-how into the Moldovan economy. This may be a result of more professional meetings, seminars, and trainings which could be easier available to current or potential Moldovan businessmen. The intensification of the activity of local firms working on “lohn” contracts or franchises could be an additional source of know-how.

Reduced incentives for irregular emigration. The current severe requirements for the Schengen visas made the irregular migration of Moldovan citizens in many EU countries economically reasonable. Hence, due to the difficulty in obtaining the Schengen visa many migrants often overstayed their legally permitted time instead of applying for a new visa. In this way, once they remained illegally on the territory of a Schengen country they, usually stayed there for as long as possible in order to avoid potential sanctions at the

The main economic effects of the visa-free regime are related to promoting the cross-border exchange and strengthening the cooperation between various entities.

FOOTNOTES

¹⁰⁹ Committee on Eastern European Economic Relations, “Roads to Visa-Free Travel”, July, 2011, accessible at http://www.ost-ausschuss.de/sites/default/files/pm_pdf/Position%20Paper%20Roads%20to%20Visa-free%20Travel_0.pdf.

The potential costs of the visa-free regime will be fairly negligible in comparison with the benefits.

border crossing. At the same time, irregular migration exposed Moldovan nationals to irregular employment practices. Obviously, these practices brought advantages for employers, as these workers could be paid less without them benefiting from any social protection or legal rights. Obviously, the potential visa-free regime will not grant migrants the right to be employed or carry out self-employed activity. However, once legally entered the Schengen area they could easier find a job and apply for a working permit in those countries. Consequently, it will improve their working conditions by negotiating higher wages, turning into more remittances and better living conditions for the families left behind.

Increased demand for transport and travel services. Since one of the main outcomes of the visa-free regime is the increase in number of *bona fide* travellers to EU countries, it will boost the demand for transportation

services (by car or plane), as well as for the services of tourism agencies. These sectors may become more attractive for potential players on the market, while at the same time the competition will increase, driving down prices and leading to a higher quality and a diversification of services.

The main economic costs therefore are likely to be fairly negligible in comparison with the economic benefits. These costs are related to potential increases in migration flows which could turn into a low scale “brain drain”. Nevertheless, these effects are likely to be quite marginal since the increase in migration is expected to be relatively modest as we concluded in the previous subchapter. On the other hand, these economic costs will be compensated by certain benefits, coming mainly through intensification of business and people-to-people contacts, a higher demand for tourism and transport services and reduced incentives for irregular migration.

4.3. SOCIAL IMPACT OF THE VISA-FREE REGIME

While costly and time consuming, visas did not prove to be a significant barrier for Moldovan migrants moving to the European labour market. The severe visa requirements stimulated irregular migration and forced Moldovans to overstay their visa periods and to work illegally in the EU in order to avoid repeating procedures of getting new visas. The irregular migration will continue bringing both benefits and costs. Hence, the acceleration of migration flows, though on a low scale, and the resulting increase in remittances, will support the economic growth. As a result, it will increase the disposable income of migrant families which could afford more and better quality consumption goods, as well as healthcare and education.

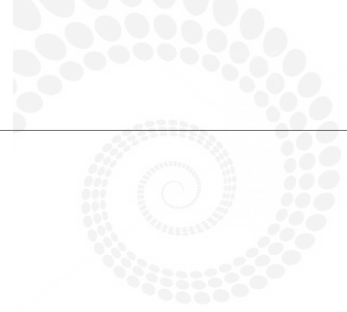
However, as Moldova’s experience proved over the last decade, these social benefits do-

minate only on a short and medium-term. On a longer-term perspective, the costs of irregular migration exceed the benefits. The long periods of absence of migrants negatively influence their family relations. As a result, generations of children grow in single parent families or are raised by other relatives when both parents migrate. Following the latest available official data, in 2010, 17.1% of children live in families, where at least one parent lives abroad. Every tenth child lives in a household where the mother is abroad, 5.2 percent of children have a father abroad, while in case of 1.5 percent of children, both parents are abroad¹¹⁰.

A much stronger implication of the visa-free regime will rather be the increase in the mobility of the population. This is extremely important for such a small country as Moldova is, with over 316.900 people (official estimates for 2011) who left their relatives and friends

FOOTNOTES

¹¹⁰ Ministry of Labour, Social Protection and Family of Republic of Moldova, “Annual Social Report 2010”, 2011.



and migrated to other countries to find better jobs. Therefore, the potential inclusion of Moldova in EU's "White List" of countries which does not require visa would remove an important constraint for people to visit their friends and family members abroad and to travel to other purposes to EU countries. The increased mobility could significantly improve people's attitude and understanding about the EU and European values, which positively contribute to the integration of the Moldovan society. This is especially important nowadays, when Euro sceptic sentiments gain steam and the population, as its political elite, is almost evenly divided between the strategic options of joining the European Union and the Customs Union (Russia – Belarus – Kazakhstan)¹¹¹.

Due to its impact on mobility, the liberalization of the visa regime is likely to enforce the family ties of migrant families. Hence, it will make possible for children or other close relatives to visit their family members who have already migrated to EU. In this way, the visa-free regime is likely to mitigate the long-term social costs associated to migration, while keeping the short and medium-term benefits.

Still, we have to be aware of the fact that, as in the case of an increase in migration for temporary employment, the mentioned benefits will also be quite marginal. Firstly, the scarce financial resources will still serve as a major constraint for Moldovans wishing to travel, which is worsened by the relatively high prices for air transport services from Moldova as compared to the region¹¹². Secondly, besides visa barriers, the migrants' possibilities to come back home for a temporary visit depends on the employer's approval to offer a vacation for a certain period of time. Most migrants have a very limited amount of time granted by employers which they could spend visiting their families. This is confirmed by a recent study, conducted among legalized Moldovan migrants from EU countries, which concludes that "visa liberalization is not likely to affect the duration of their (migrants') stay in their home countries"¹¹³.

Overall, it appears that the main benefits of the visa-free regime will be mostly reaped by certain categories of the population for whom the current visa regime represents a major administrative barrier for travelling to EU for various reasons without facing major financial constraints. Aside from the people mentioned in the previous section, other categories expected to gain the most from the visa-free regime are:

- **Moldovan migrants who are currently living and working illegally in EU.**

Although, the visa-free regime does not directly imply the possibility for legal employment in EU, it will ease, in an indirect way, the access of Moldovan migrants to the EU labour market¹¹⁴. Particularly, it will motivate many migrants to switch to a legalized stay in EU and periodically visit their home country, without losing the opportunity to return. Becoming legal migrants will not only help them defend their rights on the European labour market, but will also enhance the family ties.

- **People with higher education engaged in international circuit of knowledge and ideas.**

Additionally, as for this category of population the financial constraints are somewhat less binding, they could benefit more of travel opportunities for tourism or business. This statement corroborates with the findings of a recent study undertaken for Albania¹¹⁵. Additionally, about 78 percent of respondents to the Barometer of Public Opinion with a high education level from the municipality of Chisinau and 77 percent from the rest of the country stated that under the visa-free regime they would travel more often to EU; for those with

The main beneficiaries of the visa-free regime will be the Moldovan citizens for whom the current visa regime is a major barrier for travelling to EU and who can afford the associated travel costs.

Due to its impact on mobility, the visa-free regime is likely to enforce the family ties of migrant families.

FOOTNOTES

¹¹¹ According to the recent Barometer of Public Opinion, 35 percent of respondents would vote for joining EU and 38 percent - for joining the Customs' Union, April-May, 2012.

¹¹² Litra L., "Does Moldova Need Low-Cost Airlines?"; IDIS "Vitorul", 2011.

¹¹³ Weinar A., Korneev O., Makaryan S., Mananashvili S., "Consequences of Schengen Visa Liberalisation for the Citizens of Ukraine and the Republic of Moldova", Migration Policy Center, January, 2012.

¹¹⁴ Ibid.

¹¹⁵ European Movement in Albania, "Impact of visa-free travel on people's mobility", 2011.

medium education level the share is 70 percent in Chisinau municipality and 61 percent for the rest of the country; and for people with low education – 65 percent in Chisinau municipality and 33 percent for the rest of the country.

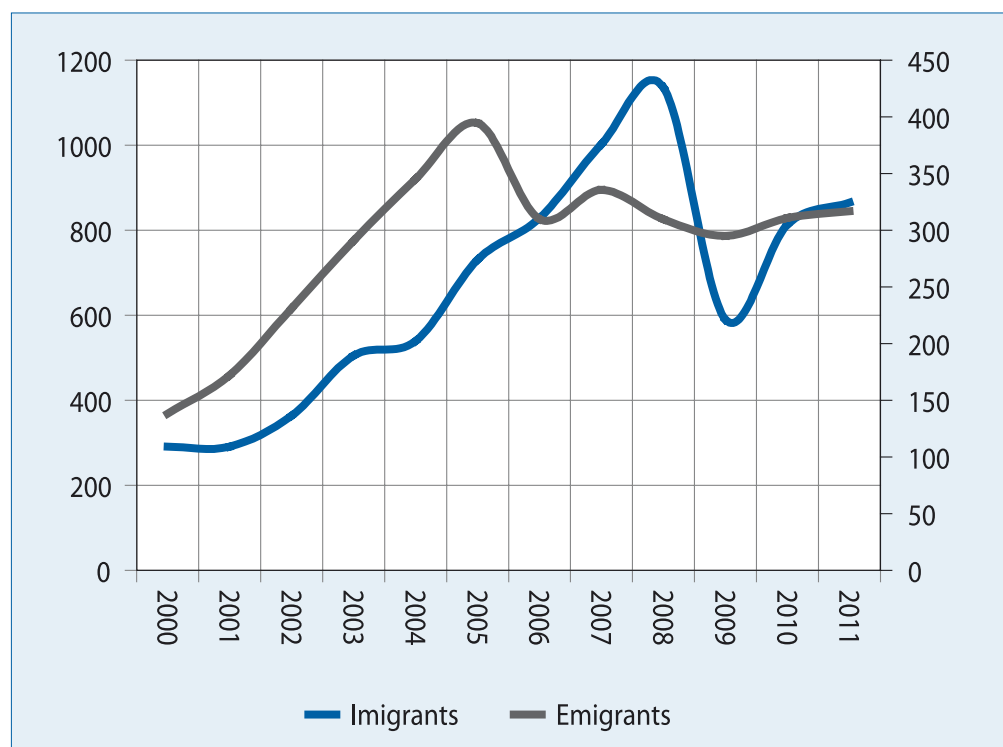
- **People whose family members have already migrated to a EU country.**

As we discussed earlier, Moldovan migrants have limited opportunities to visit their family members more often, due to their employment contracts, financial constraints and visa requirements. In such circumstances, a good option is to offer their family members the possibility to visit the migrants directly in their host countries. This opportunity is provided by the visa-free regime, which could have significant social benefits in terms of keeping family ties closer, mitigating the risks of divorce and, thus, avoiding

potential repercussions on children's education and psychology.

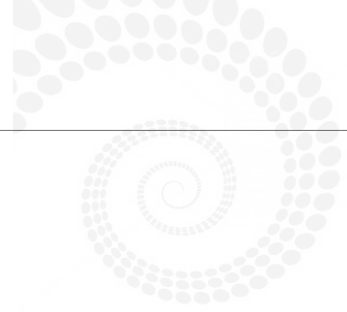
Besides the expected, though limited, emigration hump generated by the visa-free regime, it is likely to have some implications on the immigration patterns in Moldova. The reason is that emigration drains away the pool of available domestic workforce, which, coupled with poor competitiveness of Moldovan companies induces an imbalance on the domestic labour market. Empirical observations suggest that, on average, immigration follows emigration with a lag of 1 year (Chart 31). This is explained, *inter alia*, by the tendency of Moldovan employers to compensate for the insufficiency of qualified labour force on the domestic market with foreign workers. Nevertheless, the emigration pattern was not equally matched by immigration flows, which remained on a rather small scale due to the unattractiveness of the Moldovan labour market for foreign employees.

CHART 31. TOTAL NUMBER OF OFFICIALLY-REGISTERED EMIGRANTS FROM MOLDOVA (RIGHT-HAND AXIS) AND IMMIGRANTS TO MOLDOVA (LEFT-HAND AXIS), PERIOD 2000-2011



Note: Although the official numbers understate the emigration pattern from Moldova, this chart underlines the correlation between emigration and immigration dynamics and not the levels.

Source: NBS.



The acceleration of emigration, though limited, will continue uncovering one of the most important constraints for economic growth in Moldova – a lack of a labour force¹¹⁶. Obviously it can be compensated to certain extent by such measures as fostering the investment climate, strengthening the efficiency of institutions or improving the educational system. Stimulating the domestic mobility of the labour force is another promising track that can be explored.

However, another option, which may become unavoidable in the long run but is less discussed among Moldovan policy circles, is to compensate the labour market gap with a foreign workforce. Hence, the necessity to adjust the domestic regulatory framework in order to make it friendlier for labour immigrants who come to Moldova. Currently, the political agenda clearly lacks this desiderate. For example, neither the recently adopted National Development Strategy “Moldova 2020”, nor the National Strategy for employment policies for 2007-2015¹¹⁷ mention the issue of importing foreign labour force in Moldova. Moreover, the legal framework contains discriminatory provisions against foreign employees and imposes burdensome procedures for employing foreign workforce. For example, the Law on employment and the social protection of the unemployed¹¹⁸ stipulates the fact that immigrant workers cannot be beneficiaries of social protection in the case they become unemployed.

Companies wishing to employ foreign workers encounter many bureaucratic and time consuming barriers. Particularly, the employer must first of all comply with the quotas on labour immigration. They are imposed annually by the Government and specify the maximum number of foreign employees which can get a job in Moldova during the given year. The entire procedure of obtaining a working permit for an immigrant comes in two main stages. Firstly, the employer has to get permission from the National Agency for

Employment. In order to get a positive response he has to register all available job vacancies at the Agency and to publish an advertisement in a newspaper about all the jobs on offer. Thus, if within 15 days the Agency does not find the appropriate candidates for these vacancies, the employer receives the permission to hire foreign workforce. In the second stage, which takes about 30 days, the employer has to submit a set of documents to the Bureau for Migration and Asylum requesting (i) the working permit which is granted by the National Agency for Employment and (ii) the temporary residence permit granted by the Ministry of Interior. The entire procedure can take 1.5 to 2 months, during which the entrepreneur wishing to hire immigrants has to request permission from 2 different institutions, submitting a relatively complex set of documents. Moreover, the entire procedure is not transparent, the mentioned institutions cannot be easily monitored and there were reported many cases when the officers from the Bureau for Migration and Asylum requested informal payments from applicants¹¹⁹.

All in all, despite the fact that the insufficiency of the labour force is recognized as a major constraint for the economic growth of Moldova, immigration policies, which might fill this market gap, are lacking from the official agenda of policy makers. Moreover, the current legislative framework which regulates the employment of immigrants is very restrictive, time consuming and discriminatory against foreign nationals which also undermines the motivation of local firms to resort to foreign labour. These issues, if not tackled properly, will become more and more pressing as labour remains scarce, while the expected migration hump fuelled by a potential visa-free regime could aggravate it.

The emigration will continue uncovering one of the most important constraints for economic growth in Moldova – insufficiency of labor force.

The current legislative framework which regulates the employment of immigrants is very restrictive, time consuming and discriminatory against foreign nationals.

FOOTNOTES

¹¹⁶ Oprunenco A., Popa A., “Report on Analysis of Constraints to Economic Growth”, The Government of the Republic of Moldova, 2010.

¹¹⁷ Government Decision no. 605 of 31.05.2007.

¹¹⁸ Law no. 102-XV from 13.03.2003, article 5, (6).

¹¹⁹ <http://www.humanrights.md/rom/news/Com.presa.imigranti.htm>.

As net effect, the visa-free regime is expected to bring about positive social and economic impact for Republic of Moldova and negligible impact for the EU.

Nevertheless, some efforts are currently being done for removing these legislative flaws. Particularly, the Law on integration of foreigners entered into force in July 2012 which partially correlates with the EU legislation¹²⁰ on the non-discrimination of foreigners in the economic, social and cultural spheres of life. Additionally, efforts are being undertaken to simplify the existing residency procedures for foreigners and foreign investors (e.g. one-stop-shop offices are planned to be opened in December 2012 in Balti and Comrat, the legislation is being gradually amended in order to simplify the procedures for foreigners, there is a continuous consultation process with foreign investors etc). Still, more work has to be done in order to fully adjust the domestic legislative framework to the best practices in this domain. One particular issue related to the fact that the Republic of Moldova has two laws regulating this issue: the Law on labour Migration and the Law on the Status of Foreigners. This com-

plicates the procedures and it is hoped that these documents will merge into one single comprehensive law on immigration, in accordance with EU standards.

To sum up, the potential implications of the visa-free regime are significantly overestimated, both on the positive and negative side. There are many administrative and economic factors limiting the additional growth of emigration in result of introducing a more liberal visa regime. As a net effect, the visa-free regime is expected to bring about a positive social and economic impact for the Republic of Moldova and a negligible impact for the EU. For Moldova, visa-free regime will result in more intense business and people-to-people links, increased demand for travel and tourism services, reduced incentives for irregular migration, and strengthening social links between migrants and their dependants left behind.

FOOTNOTES

¹²⁰ CE Directive no. 83/2004/CE of April 29, 2004.



5. MOLDOVA'S EUROPEAN INTEGRATION: IMPACT ON JUSTICE AND HUMAN RIGHTS

■

The prospective of European integration has created a positive environment for promoting legal and social changes aimed at supporting higher human rights standards in Moldova. At the same time, the country's people suffer from the weak enforcement of the human rights standards, while many minority groups remain on the margin of the social, political and economic processes and suffer from the intolerant attitude that one can clearly observe within Moldovan society. The 2011 Ombudsman report provides clear-cut examples of attitudes that harm many individuals categorized in one or another minority group. In effect, many of the measures adopted to promote human rights do not enjoy public support. Despite many reforms, the Moldovan record of accomplishment in the area of human rights is far from impressive. Furthermore, the poor quality of access to an impartial and efficient justice system only aggravates these problems. How European integration links with the human rights and justice is the main subject analyzed in this chapter.

5.1. GIVING EFFECT TO HUMAN RIGHTS THROUGH LEGAL INTEGRATION

5.1.1. Why Analyzing Human Rights in the Context of European Integration?

Human rights are usually defined as “rights that belong to an individual as a consequence of being human.” The human rights scholar Louis Henkin¹²¹ (1990) emphasizes the importance of three aspects with regard to human rights: (1) “Human rights are rights of individuals in society”; (2) “Human rights are universal, they belong to every human being in every human society”; and (3) “Human rights are claims upon society.” Human rights are thus individual rights, worth having for themselves and not as means to achieve some other goal. This concept of human rights is also at the core of Amartya Sen’s approach to justice¹²². It is worth noting Sen’s insights about the central role played by information and knowledge for adequate ethical scrutiny, and the importance of reasoning without disowning the pertinence of powerful sentiments. His theory of justice derives from a view of human beings as having any sense of being different from what they already are. These changes in “character” are subjective to the individual. Hence, the importance of learning in the process of building institutions and organizations that will allow the individualized pursuit of whatever men may choose¹²³. This concept of justice is at the odds with the traditional strain in political philosophy which seeks to identify a set of just principles that will guide political choices within the limits of a sovereign state. The latter is currently dominating the discussions, particularly in Moldova, about the boundaries

of justice, as we come to know more about people leaving elsewhere, sometimes holding different societal preferences, and with whom we have come to develop new relations. Notwithstanding the importance of national institutions, Sen’s concept of justice and human rights takes us beyond our national borders by committing to the concept of a global justice. Central to this idea is the need to have just relations to others, without regard to religious, gender or sexual issues. And what motivates this inquiry is the diagnosis of what is unjust in the current social, political and economic arrangements.

Within this perspective on justice, credible commitments to advance the individual’s rights have become one of the key conditions to be fulfilled before entering the world’s most important political and economic clubs. In the case of the European Union, the advancement of human rights is one of those requirements for states negotiating the new-generation Deep and Comprehensive Free Trade Agreements (DCFTAs) and other forms of cooperation with the EU. Moreover, when negotiating adherence to the EU, the candidate states must ensure the implementation of comprehensive anti-discrimination measures – that is part of the *acquis communautaire*, Chapter 19 on Social policy and employment – and also guarantee the rights from the Charter of Fundamental Rights of the European Union, Chapter 23 on Judiciary and fundamental rights.

In this context, the European aspirations of the Republic of Moldova are positively altering current and future politics that concern the eradication of existing barriers to human freedoms. By this we mean not just formal liberties but also the institutional and attitudinal changes that once enforced within society allow people to get much more freedom to live the kind of lives of which they would

Human rights scholars emphasize the importance of public reasoning and knowledge for adequate ethical scrutiny instead of seeking a set of just principles a priori.

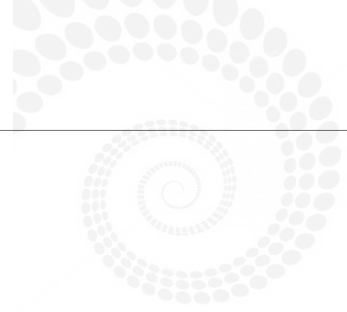
Eliminating unjust ethical arrangements is one of EU’s key requirements for countries negotiating any forms of cooperation with the Union...

FOOTNOTES

¹²¹ Henkin L. “The Age of Rights”, New York: Columbia University Press, 1990.

¹²² Sen A. The Idea of Justice, Harvard University Press, 2009.

¹²³ This understanding was embodied in the wisdom of the eighteenth century moral philosophers Adam Smith and David Hume.



have reason to be proud and dignified. The process of integration with the EU is thus to be viewed as an engagement with, often, contrary arguments that can serve to stimulate public reasoning and increase people's knowledge about the institutional alternatives under which cooperation takes place and also about political solutions that can guarantee the game having fair rules. It is worth noting here the role of the EU in the development of minority rights in two other countries, the Czech Republic and Romania before their accession to the European Union – the major difference being that these were candidate countries. As pointed out by Melanie Ram (2003)¹²⁴, in the Czech Republic and Romania, “human rights norms (bolstered by EU directives and international human rights law) have affected domestic institutions, policy and policy-making processes on minority issues in direct and indirect ways”. Firstly, these countries accepted new constitutional and international treaty obligations, establishing strong formal protections for minorities' rights. Secondly, the EU directives and international law that have been accepted served as a basis for new domestic legislation. Thirdly, as evidenced by citizenship and language laws, the Governments of these countries revised domestic policies in response to the international and European criticism, despite domestic opposition. Still, the depth of social and legal changes greatly vary as a function of the degree and timing of EU interests and pressure, the chances of gaining EU membership, popular attitudes toward minorities, the domestic legislation and last but not least the domestic enforcement mechanisms. Overall, these observations tell us, as noted by the former Czech Prime Minister, Milos Zeman, that we should not conceive our European aspirations “only as a foreign policy matter, but also as a domestic affair”.

The straightforward policy implication for Moldova's European commitment is that it offers greater incentives to consistently implement reforms needed by Moldovan society and promoted by the international

community in the areas of human rights, such as the prohibition by law of any discriminatory behaviour, the right to freedom of religion or belief and the access to an efficient and independent justice system¹²⁵. The effective implementation of these measures is essential for the internal transformation of the country. However, one could think that their implementation is merely a question of “national identity” that is the political authorities will commit to realize the values expressed in the international and European conventions on human rights through domestic legislation and public policy because they internally support those values. And conversely, the three key power branches (Legislative, Executive, and Judiciary) will not accept and enforce these reforms if they feel that the majority within Moldovan society does not share these normative standards nor has interest in realizing them. This common wisdom has until very recently dominated the debate around the enactment of a comprehensive anti-discrimination legislation in the Republic of Moldova. The boundaries of justice are considered, within this perspective, as limited to a number of individuals living under a sovereign state that may or may not be concerned with the wellbeing of other groups. However, given our expanding (European and global) contacts, we gradually have to enlarge also our own views regarding the idea of justice. In effect, we have good reasons to pay more attention to the wellbeing of all individuals as we become more informed about their lives, along with our growing connections with them. Raising public awareness is thus the possible way to deal with justice issues that arise, in particular in phases of institutional transition.

... and treating all individuals equally should not be viewed by non-EU countries as a foreign policy matter, but rather as a national commitment to the concept of global justice.

However, the current public debate in Moldova is dominated by a view of the boundaries of justice as limited to only some individuals that are bound together by certain principles of justice, defined a priori.

FOOTNOTES

¹²⁴ Ram, M. H. Democratization through European Integration: the Case of Minority Rights in the Czech Republic and Romania. *Studies in Comparative International Development*, 2003, 38(2), pp. 28-56.

¹²⁵ Article 13 of the Treaty of Amsterdam that amended the Treaty of Rome, gave European institutions the power to “take appropriate action to combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation”. EU regularly includes this principle in its trade agreements and other cooperation arrangements.

That is why it is so important to first of all assess nationally the existing human rights situation in the Republic of Moldova. This assessment should start by diagnosing the current social and political arrangements, and engaging in a comparative analysis of the national legislation against the European human rights standards. Finally, it is necessary to identify how openness to the European values of freedom, tolerance and dignity combined with the EU's support can affect the evolution and enforcement of human rights standards and alter people's attitudes toward minority groups in Moldova but also toward the immigrants that will seek to establish themselves in the Republic of Moldova once the borders with the EU will eventually be transformed into a simple formality.

5.1.2. Current Arrangements Protecting Human Rights in Moldova

The national framework that guarantees the respect for human rights in the Republic of Moldova is based on the Constitution of July 29, 1994¹²⁶, the national legislation and international instruments to which the Republic of Moldova has adhered¹²⁷. According to the Universal Periodic Review (UPR), "Moldova has ratified

nearly all core international human rights treaties" together with the European Convention on Human Rights, its main protocols as well as other Council of Europe human rights treaties. Moreover, according to Moldovan authorities¹²⁸, the prospective of European integration created a positive environment for promoting legal and social changes aimed at supporting a higher standard of human rights.

Notwithstanding the improvements that have been made, such as the establishment of several bodies to protect human rights¹²⁹, the adoption by the Parliament of the Law on Freedom of Expression, which brings regulations regarding objectivity and censorship in line with the European standards and the adoption of the law on equality of opportunities, major problems still persist.

To mention just one of the most outrageous practices, limited progress was achieved in eradicating torture and ill-treatment. For instance, a recent report that assesses the performance and transformation of the criminal justice system in Moldova points out to the high levels of police abuse, poor police performance on human rights and measures to protect the law¹³⁰. Since allegations of torture are examined by prosecutors and the latter depend on police officers, the existing system creates few incentives to expose torture. The recommendation from the Council of Europe to create an independent institution in charge of torture investigations has not been met by Moldovan authorities.

A particularly alarming and sensitive issue for social order is the situation with regards to the enactment of anti-discrimination measures and more specifically its content. As the UN special rapporteur on freedom of religion or belief pointed out after his visit to Moldova in 2012, the country lacks a public culture that appreciates diversity¹³¹. A study on people's perception of discrimination in Moldova reveals that the marginalization of minorities is not merely a hunch but represents a real and problematic issue within society¹³². Discrimination mostly

Moldova has accepted nearly all international human rights standards...

FOOTNOTES

¹²⁶ Effective as of 27.08.1994.

¹²⁷ The range of human rights and fundamental freedoms is regulated by a series of acts (some of which are legally binding) that can be found in the National Report submitted in accordance with paragraph 15 (a) of the annex to Human Rights Council, resolution 5/1 by the Republic of Moldova to the Universal Periodic Review, <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/G11/150/08/PDF/G1115008.pdf?OpenElement>.

¹²⁸ See the National Action Plan on Human Rights 2011-2014, <http://lex.justice.md/viewdoc.php?action=view&view=doc&id=339395&lang=1>.

¹²⁹ The Coordinating Council of Ethno-Cultural Organizations; the National Council for Participation; the National Council for Child Rights Protection; the National Committee to Combat Human Trafficking; the Governmental Committee on Gender Equality; the Governmental Council for the Problems of Persons with Disabilities; the National Commission for Implementing the National Action Plan on Human Rights; and the Centre for Human Rights of Moldova (or the Ombudsman).

¹³⁰ Criminal Justice Performance from a Human Rights Perspective, Assessing the Transformation of the Criminal Justice System in Moldova, Soros Foundation – Moldova, November 2009.

¹³¹ See the Report of the Special Rapporteur on Freedom of Religion or Belief, Heiner Bielefeldt, UN, 2012, <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/G12/105/03/PDF/G1210503.pdf?OpenElement>.

¹³² Soros Foundation – Moldova, „Percepțiile populației din Republica Moldova privind fenomenul discriminării: studiu sociologic”, 2011 doc/UNDOC/GEN/G12/105/03/PDF/G1210503.pdf?OpenElement.

takes place in the labour market, but it also pervades some key public institutions such as medical centres and the education system. The forms of discrimination also vary, from religious to financial criteria. Notwithstanding the importance of eradicating all types of discriminatory behaviours, the protection of rights that limit the possible scope of majority decision-making or some other organized groups to impose an externality¹³³ on other individuals is of particular interest for a country that is in an institutional transition. Moreover, both the EU-Moldova Actions Plan and the European Neighbourhood Policy reports on Moldova point to the current weak protection of minority rights and emphasize the need for implementation and actual enforcement of anti-discrimination measures. The acceptance and enforcement of minority rights is also part of the international legal body that is binding upon Moldova.

However, as a result of the weak support for and protests around the already adopted law¹³⁴, on May 25 2012, that seeks to enact formal protections against discriminatory behaviours in Moldovan society¹³⁵ the effectiveness with which these measures will be enforced is questionable.

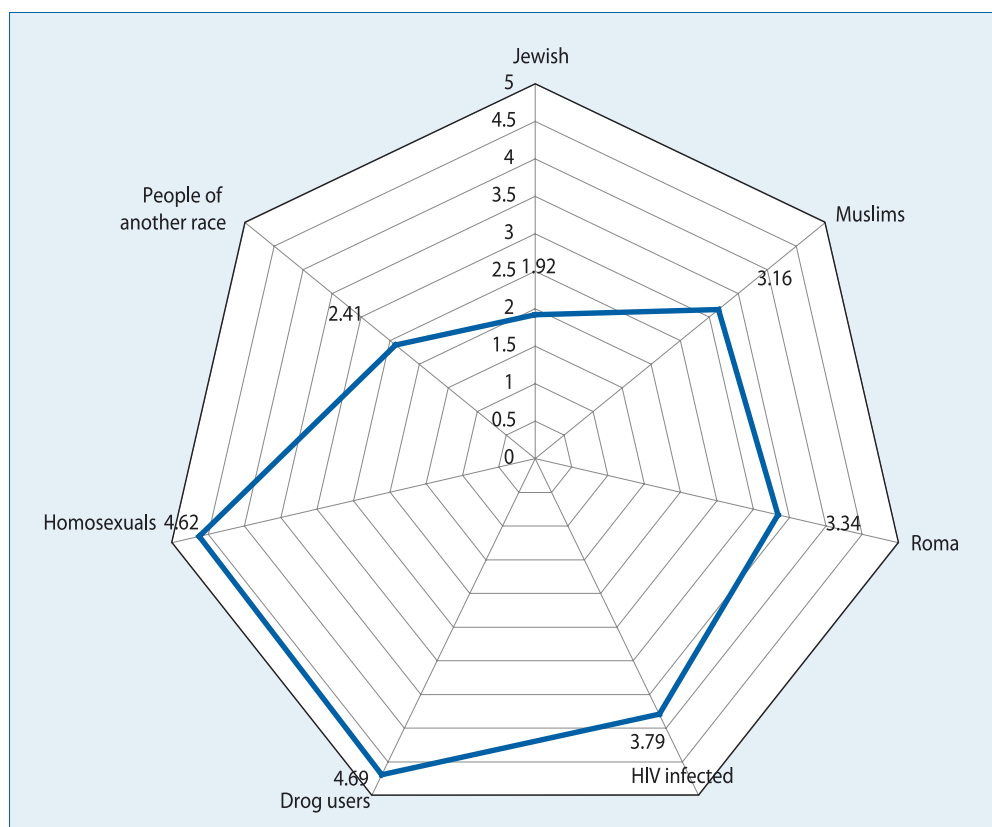
5.1.3. The Case of Social Attitudes toward Minority Groups

While we do not dispose of any empirical analyses that would reveal the origin of discriminating behaviour in the Republic of Moldova, social attitudes toward minority groups is constantly measured¹³⁶ and the results are alarming. The graphic representation in the Chart 32 presents the average position of the respondents in relation with a certain group, on the scale from 0 to 5, where 5 means maximum intolerance i.e. rejection of a particular group of people.

... but its people still suffer from a weak enforcement of their individual rights...

Tolerance attitudes are constantly measured in Moldova and the results are alarming.

CHART 32. THE LEVEL OF TOLERANCE TOWARD CERTAIN GROUPS IN THE MOLDOVAN SOCIETY, YEAR 2011



Note: scale from 0 to 5, where 0 represents maximal tolerance, 5 represents maximum intolerance.

Source: Authors' calculations based on IPP, Barometer of Public Opinion, November 2011.

FOOTNOTES

¹³³ An externality is the effect of a decision by one set of parties on others who did not have a choice and whose interests were not taken into account. For more details, see The Concise Encyclopedia of Economics, <http://www.econlib.org/library/Enc/Externalities.html>.

¹³⁴ The text of the law can be found at the following link <http://www.parlament.md/ProcesulLegislativ/Proiectedeactelegislativ/tabid/61/LegislativId/1203/Default.aspx>.

¹³⁵ See the Ombudsman Report on Human Rights in Moldova 2011, where numerous cases of religious, ethnic and sexual discrimination are depicted at length.

¹³⁶ Institute for Public Policy, "Barometer of Public Opinion. April 2012" <http://ipp.md/lib.php?l=ro&idc=156>.

Sexual minorities along with HIV infected persons and Muslims suffer the most from the missing culture of appreciating diversity within the Moldovan society.

While the law ensuring the equality of chances should have altered people's preferences, its enactment was followed by numerous protests. The fact that it is generally viewed as being an 'externally imposed constraint' only aggravates its legitimacy.

The results from the November 2011 Barometer of Public Opinion in Moldova demonstrated an already extremely unfortunate picture of intolerant attitudes toward some marginalized groups in Moldovan society, such as: drug consumers, sexual minorities, HIV infected persons and Muslims. Our more recent diagnosis points out to an even more alarming situation than a year ago. Almost 8 out of 10 respondents to the IMAS survey conducted as part of the National Human Development Report 2012 preparation would not accept having a neighbour from the LGBT community. As many as 7 out of 10 people would oppose HIV infected persons share their neighbourhood. Furthermore, only one-third of respondents think they would accept people from the Roma community entering their neighbourhood. The interviewed persons are even more opposed to drug consumers.

The question that this diagnosis naturally raises is why we have witnessed a decrease, compared to last year's results, in people's tolerance toward some of the minority groups within the Moldovan society. One of the major events that occurred between November 2011 and September 2012 is the adoption on May 25 of the law on the equality of opportunities that seeks to enact formal protections against discriminatory behaviours. Intuitively, the law should have had a deliberate function. That is, by making a statement about the unjust discriminatory practices and attitudes, it should have altered people's preferences over the regulated behaviour. However, its enactment was followed by protests and is generally viewed as a condition imposed from the outside (i.e. by the EU) in order for Moldova to benefit from some facilities offered by Moldova's European partners (such as the visa-free regime with the EU) and, unfortunately, not as normative conditions that are already part of the international law.

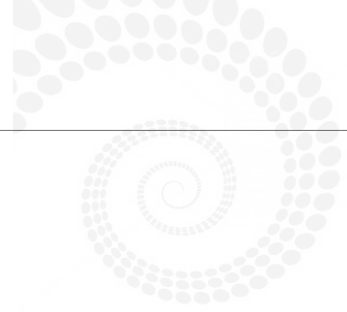
In effect, when asked if they agree or not with the following statement: "The EU imposes models and values that people in Moldova do not share" only 28 percent say they disagree (and 33 percent did not offer an affirmative or negative response). It is worth noting, however, that for 58 percent of the respondents, the EU serves as a (good) model of democracy and economic development – only 20 percent disagree with this statement.

Most importantly, the eradication of unjust arrangements needs to come as the result of an engagement with contrary arguments (i.e. from public reason or reasoning) that stimulate people's capacity to learn about alternative institutional constraints that support social cooperation. That has been neglected in the eradication of unjust discriminatory arrangements in Moldova, which might explain the continuous opposition within Moldovan society to the law on the equality of opportunities. This phenomenon may also undermine the success with which anti-discrimination measures are enforced (by public agents who are supposed to hold different internal beliefs than those dominating the current public discussions?!).

Another important question that these results raise is if and how Moldovans' attitude toward religious, sexual, ethnic and other minorities correlates with their attitude toward the European project. The relation between intolerance and Euro-scepticism can indeed shed light on the nature of Moldovans' attitude toward the accession perspective of Moldova to the EU versus the Russia-Belarus-Kazakhstan Customs Union¹³⁷. The integration alternatives of the Republic of Moldova are analyzed more in depth in Chapter 3. We only consider necessary here to note that although human rights are universal norms and their enforcement is equally binding for all the of the Customs Union countries as they are for the EU countries, there is no evidence of the former countries promoting human rights criteria within the framework of the Customs Union. Hence, a lack of tolerance towards

FOOTNOTES

¹³⁷ From the same Barometer of Public Opinion: to the question "if a referendum on the accession of the Republic of Moldova either to the EU or to the Customs Union Russia-Belarus-Kazakhstan was held, what would you opt for?", 33,8% of the respondents would opt for the EU and 45,6% for the RBK customs union.



other religious, sexual or ethnic groups is likely to shape not only diffuse scepticism but also reservations about specific integration policies. In fact, what we see is only a very weak correlation between respondents' willingness to accept as neighbours a member of any of the aforementioned minorities and their response to the question: "Do you consider yourself as European?". We see, however, a stronger, although not very significant, relationship between respondents' attitude toward minorities and their preferences for one of the following integration options from this question: "If you were asked, on a referendum, to choose between Moldova's adherence to the EU and its adherence to the Russia-Belarus-Kazakhstan Customs Union, which option would you choose?". With some exceptions, respondents that are more likely to tolerate minority groups are also more likely, on average, to opt for Moldova's integration with the EU (the attitude toward sexual minorities and drug users do not correlate with respondents' integration preferences).

Another concern is with Moldova policymakers' capacity to stop and eventually reverse the trend noticed in the survey results on discrimination. Formal prohibition of discriminating behaviour and augmenting economic opportunities are two mechanisms at public authorities' disposal to direct Moldovan society toward a superior social equilibrium.

5.1.4. The Potential Impact of European Integration

The EU is strongly committed to the promotion and enforcement of equality, the rule of law and human dignity. These standards are embedded in the Treaty on European Union and have been reinforced by the Charter of Fundamental Rights. Article 21 from the European Charter of Fundamental Rights specifically emphasizes the prohibition of any discrimination based on any ground such as sex, sexual orientation, race, colour, social or

ethnic origin. Moreover, countries willing to join the EU are explicitly asked to adapt their legal standards that ensure anti-discrimination with those at work in the EU (see Chapter 19 of the *acquis communautaire*), and so must states seeking to conclude trade agreements with the EU, although in the latter case the conditions are slightly lighter. So far, the EU has shown no signs of allowing a 'Moldovan' exception to this rule.

At the same time, the content and actual enforcement of anti-discrimination legal penalties is a very sensitive issue that presents interesting challenges and dilemmas for Moldovan political actors. Indeed, anti-discriminatory measures in general and the legal recognition and accordingly protection of sexual and religious minorities in particular is highly unpopular among Moldovan voters. And therefore the political risks stemming from legal harmonization with the European standards and the de facto implementation of these standards cannot be neglected and at least in the short run will certainly be a major factor in political calculations. In effect, after a long process of negotiations with EU representatives and national stakeholders, the Government has decided to restrain the domain to which the law on equality of chances will apply by mentioning the criterion of anti-discrimination on the basis of sexual orientation only in the chapter on discrimination in the work place. Moreover, while the adoption of legal provisions is important, the actual enforcement is not less critical for the advancement of human dignity.

If sanctioning relies exclusively on the state (police, prosecutors, etc) and is not complemented by enforcement from within society, then running an institutional system that promotes and protects human freedoms and capabilities is a lot more costly than if most (or even all) enforcement is done without having to rely on the visible and often hesitant hand of the state. The cost of running the institutional system will in turn be determinant of the institutional changes' sustainability over time.

The low level of tolerance toward diversity also affects people's preferences vis-à-vis Moldova's foreign policy...

... urging the national policymakers to stop and eventually reverse the alarming trend noticed in the survey.

Harmonization of normative standards protecting human rights is compulsory for Moldova to continue its European vector.

However, one should not rely too heavily on the formal arrangements. Encouraging public reasoning and debates over the issue of justice is crucial if one also cares about the enforcement of the formal protections.

Besides EU's role as a democracy model, it will also further higher human rights standards in Moldova through greater commercial openness: the market process implies interactions and exchanges beyond one's group.

Institutional systems largely compatible with the prevalent values and norms of a society are more likely to survive than institutions that are largely incompatible with the prevailing values and norms. Yet, prevailing norms can be the result of a social lock-in and are not always socially beneficial. Basic human rights and institutional arrangements supporting tolerance in a society are essentially the result of open discussions and, what Sen has labelled as, a regime of "open government" (Adam Smith referred to the big society governed by impersonal rules) and do not have to be seen as a set of pre-determined principles based on utilitarian criteria. Thus, discrimination practices should be exposed through an open public debate where people who are discriminated against are empowered to speak for themselves and have the possibility of gaining the respect and the confidence of the rest of the population. The question of why should representatives of sexual minorities be granted the right to equal treatment or why should we accept and tolerate people from other ethnicities, religion, or with a different sexual orientation than ours as neighbours has to be openly discussed, although it is not disputable. As Stigler and Becker (1977)¹³⁸ put it, "De Gustibus Non Est Disputandum"¹³⁹.

In this context, the European Union, as a value-based community has a special role to play in promoting an "open government" through which public reasoning is stimulated and also in increasing local knowledge with regard to the alternative – impersonal – institutions and organizations available for regulating social cooperation.

The positive effects on the level of implementation and enforcement of higher human rights standards within Moldovan society will spread through two other channels. The first channel is that of fair and impersonal institutions – in particular, a just and predictable legal system. The second one is represented by the market processes that imply interactions and exchanges beyond one's group, i.e. the extension of the limits of cooperation that is conducive to what moral philosophers from the eighteenth century called the "big society" (reference made to the effects of industrial revolution in England). The latter will also make intolerance come at an economic cost, in that rejection of a group of people for other reasons than low productivity lowers profits for firms and the well-being for consumers. The increasing European and thus market orientation of Moldovan economy will probably augment rather than lower income inequality, at least for a while, as is suggested in Chapter 3 on the economic consequences of the DCFTA¹⁴⁰. However, trade and competition with the European producers will make this inequality more dependent on differences in human and other capital, and less directly on sexual orientation, gender, religion and other roots of discrimination.

Nonetheless, while norms and values supporting tolerance combined with the economic and political incentives are essential factors in shifting the current situation to a socially more desirable and human development-enhancing equilibrium, one cannot ignore the demand side for a society that treats equally its members. The role that litigants play in advanced market-democracies is particularly important in advancing higher standards of human behaviour¹⁴¹. Individuals that suffer or suffered from discrimination need in effect to be able at low individual costs to challenge rules that are socially harmful. This is why a thorough analysis of human rights evolution needs to also consider access to justice as a key component affecting the phenomenon of institutional change.

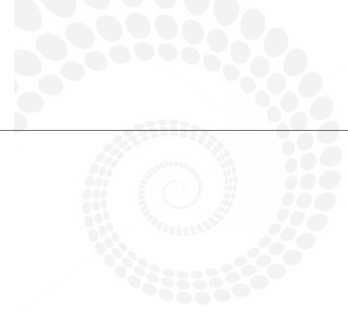
FOOTNOTES

¹³⁸ Stigler, G. J. and Becker G. S., "De Gustibus Non Est Disputandum", *The American Economic Review*, V. 67(2), 76 – 90, 1977.

¹³⁹ Meaning that everyone's personal preferences are subjective opinions, experiences, which cannot be "right" or "wrong", so they should never be argued about as if they were.

¹⁴⁰ See also the conclusions on short-term income effects in Moldova from the DCFTA in "Trade Sustainability Impact Assessment in Support of Negotiations of a DCFTA between EU and Georgia and the Republic of Moldova", Interim technical report (2012), by ECORYS and CASE, accessible at <http://www.enpi-info.eu/files/publications/ac24377%20georgia%20and%20moldova%20report.pdf>.

¹⁴¹ See Schleifer A., "The Failure of Judges and the Rise of Regulators", MIT Press, 2012.



5.2. ACCESS TO JUSTICE

Access to justice lies at the heart of human rights protection. Without it, human rights are rendered meaningless. Access to legal advice and representation and fair trials are essential for a society that complies with human rights. It is furthermore a specific right included in the Charter of Fundamental Rights of the EU. In article 47, the Charter states: “everyone whose rights and freedoms guaranteed by the law of the Union are violated has the right to an effective remedy before a tribunal”. Moreover, the Treaty on the Functioning of the EU (TFEU) stipulates that the “Union shall facilitate access to justice, in particular through the principle of mutual recognition of judicial and extrajudicial decisions in civil matters”.

Within this perspective, how can the European integration vector support access to justice in Moldova? To answer this question we need to highlight the main obstacles to accessing justice but also actual practices in the Republic of Moldova and EU law. Some of the key concerns include poorly developed legal aid, excessive litigation costs stemming from the lack of alternative that is non- or quasi-judicial mechanisms of dispute resolution, and the complexity of legal procedures.

With regard to legal aid provided by the state to persons who do not have sufficient financial resources to defend themselves, Moldova has only recently, in July 2007, adopted such a measure that became effective as of 2008. A large majority of EU member states offer a wide range of legal aid to potential litigants, such as legal advice and representation in criminal and non-criminal cases¹⁴², whereas in the Republic of Moldova qualified legal aid, consisting of legal advice and representation, has been provided only in criminal cases until 2012. Primary legal aid, or consultations available to everyone without any merit tests, is only functioning in 30 villages where the Soros Foundation – Moldova supports paralegals¹⁴³.

Expansion towards non-criminal legal aid, where the needs are much more voluminous, has been initiated since January 2012.

In the context of European programs for institutional reform, it is reasonable to expect an increase in the number of cases which will be eligible for receiving public legal aid and higher financial resources allocated per case from Moldova’s closer cooperation with the EU. Moreover, as the Romanian and Bulgarian experience has shown under the European institutional framework governing access to justice, legal representation needs also to cover non-criminal matters that are considered as disputes with small amounts at stake. Furthermore, European financial aid to reform the judiciary in the Republic of Moldova is currently promoting a higher degree of standardization and computerization of the judiciary¹⁴⁴, especially in the branches with large numbers of cases and this will reduce administrative costs and allow revenues derived from court fees to be allocated more efficiently and/or distributed to those that value legal aid the most (for example persons with low income facing non-criminal proceedings).

Another notable issue in ensuring access to justice in Moldova is the development of an alternative dispute resolution (ADR) mechanisms, such as quasi-judicial procedures. In 2007, the law on mediation was approved and the National Mediation Council is currently in the process of formation. The implementation of ADR mechanisms can, in effect, considerably contribute to improve the justice system in Moldova and give access to justice at lower costs and thus to a higher number of persons demanding for conflict

Poorly developed legal aid, excessive litigation costs and the lack of legal alternatives for litigants are the main sources of concern.

Legal representation needs also to cover non criminal matters.

The development of Alternative Dispute Resolution mechanisms can give access to justice at lower cost and reduce the workloads for public courts.

FOOTNOTES

¹⁴² See the European Commission for the Efficiency of Justice report, “Access to Justice in Europe and Efficiency and Quality of Justice”, Edition - 2010, accessible at <https://wcd.coe.int/com.instranet.InstraServlet?command=com.instranet.CmdBlobGet&InstranetImage=1694098&SecMode=1&DocId=1653000&Usage=2>

¹⁴³ For more data, see “Access to Justice in Europe and Efficiency and Quality of Justice, Edition - 2010”. For an assessment of the national framework supporting legal aid in Moldova, see Gramaticov, M. and Hriptievshi, N. “Impact Assessment of the Moldovan Law on State Guaranteed Legal Aid”, Soros Foundation – Moldova, 2012.

¹⁴⁴ Joint Program by the EU and COE on Increased Independence, Transparency and Efficiency of the Justice System (EUR 3.3 million)

resolution services. Dispute settlements by a body of qualified and independent experts represent a commonly used practice in the EU.¹⁴⁵ Moreover, national courts in many EU member states may require from the litigants to resort to ADR of some type before going to trial (see the European Mediation Directive, 2008¹⁴⁶). This is an economically efficient and socially beneficial institutional arrangement for it considerably reduces the workload of national courts, reduces litigation costs and hence gives litigants who lack the financial resources to go to court but have high interests at stake greater chances for a rapid and less costly trial.

The Moldovan judicial system has much to gain from implementing this type of alternative (partly private) conflict resolution system. It is worth noting the progress that has been made regarding the mediation in cases involving children. The relative success of mediation

in this type of conflicts can be explained by the high psychological costs to minors from traditional court procedures. The success of mediation in this domain is therefore driven by the demand-side for legal services that may protect the minors from the sufferings related to the public resolution of disputes within the national tribunals.

The prospective of the Republic of Moldova's integration with the EU is definitely not synonymous of ADR's implementation on a large scale by Moldovan authorities since it is not stipulated as a formal requirement to be implemented by the new member states. However, the growth of commercial exchanges and legal harmonization with the European legal standards will certainly provide an incentive for Moldovan authorities to promote ADR mechanisms in order to improve access to justice for persons of any nationality engaged in any dispute on its territory.

5.3. RULE OF LAW AND DEMOCRACY: TAKING STOCK AND LOOKING AHEAD

Justice sector reform was one of the main priorities reflected in the Government Programmes for 2009-2013 and 2011-2014. However, until June 2011 reforms progressed slowly. During this period, the trust of the population for the justice system decreased dramatically, from 37 percent in November 2009 to a historical low of 18.3 percent in November 2011¹⁴⁷. The reform process gained momentum in June 2011, with the Justice Sector Reform Strategy approved by

Parliament in November 2011¹⁴⁸ and seems to have been accompanied by an increase in trust in the system; the share of respondents stating that they have much or some trust in the system rose to 26 percent in May 2012¹⁴⁹. A well-implemented strategy could have many positive impacts: the public's increased confidence in the justice system will ensure increased respect for laws by the population; zero tolerance for corruption can be expected to diminish the magnitude of this phenomenon; a more certain legal environment will be conducive for new investments; improved human rights record of the country will be beneficial for the population. Consequently, these could benefit human development through increase access of the population to services and widening people's choices.

*The reform process
of the justice sector
has effectively
started in June
2011...*

FOOTNOTES

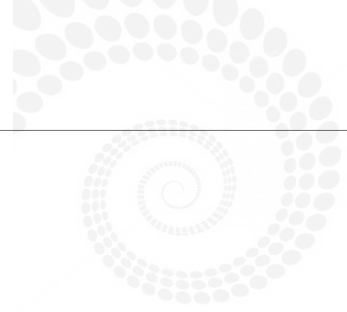
¹⁴⁵ See for example the International Chamber of Commerce which is the largest business organization in the world and provides dispute resolution services, <http://www.iccwbo.org/>

¹⁴⁶ Official Journal of the European Union, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:136:0003:0008:En:PDF>

¹⁴⁷ Respondents stating they have much or some trust in the justice system in the Barometer of Public Opinion conducted by Institute for Public Policy <http://ipp.md/lib.php?!=ro&idc=156>.

¹⁴⁸ Approved by Law no.231 from 25.11.2011 <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=341748>.

¹⁴⁹ According to Barometer of Public Opinion Survey, Institute for Public Policy, May 2012 <http://ipp.md/lib.php?!=ro&idc=156>.



5.3.1. The Development Role of the Justice System

Justice system has a direct impact on human development, given the role justice institutions have in ensuring the respect of human rights and legal certainty and stability in the country. The latter is important for both individuals and business sector. Justice sector reform is a key area for European integration, and compliance with European standards in this area is likely to become a key commitment of Moldova in the forthcoming Association Agreement. EU member states are indeed greatly interested in establishing a certain and efficient legal environment in Moldova to maximize the benefits from the free movement of goods, capital and labour. The effects of liberalization of commerce between EU and Moldova are indeed dependent on the willingness of economic agents to engage in exchanges that occur only when one expects that he/she will effectively enjoy the fruits of greater cooperation. Hence, the importance of mechanisms that secure and enforce fair and impersonal rules of the game¹⁵⁰.

The quality of justice remains a priority for both a successful integration of the Republic of Moldova into the EU and its further performances within the bloc. The justice system has therefore two main implications. An independent and efficient justice system will increase Moldova's institutional capacity to build a democratic state and eventually achieve the European integration of the country. At the same time, the quality of contracts enforcement by the justice system together with legal certainty greatly affects the degree of specialization and "sophistication" of any economy. In effect, the higher the number of inputs necessary for the output realization, the greater the number of contract relationships that an agent has to enter with other manufacturers. Accordingly, the higher the probability of problems with hold-ups¹⁵¹.

The respective willingness of an agent to enter new contract relationships depends therefore

on the quality of institutions in charge of contract enforcement, which is judiciary or some other arrangements for conflict resolution, such as the ADRs. A higher degree of specialization within the nexus of contract exchanges leads to a higher degree of labour division, hence the increase in total factor productivity. Moreover, empirical evidence suggests that the quality of contract enforcement institutions is the main factor that determines output volatility (see Krishna and Levchenko 2009¹⁵²).

A truly functioning judicial system is therefore one of the central factors that will affect Moldova's political and economic successes in the eventual accession process and accordingly within the EU. Within this perspective, the question we ask is how can the European integration prospective support in return welfare enhancing and human development "friendly" reforms in the Moldovan justice system? To answer this question we need to highlight the main institutional obstacles to an efficient and independent judicial system in the Republic of Moldova, together with the actual commitment of the EU to judicial independence and the promotion of the rule of law.

5.3.2. Key Institutional Obstacles to an Independent and Efficient Justice System in Moldova

When captured by some interests that go beyond the concern for the social welfare and by locked-in rules that do not fully enhance people's freedoms and capabilities¹⁵³, the judiciary poses a great threat to private

... and is of special interest for Moldova's European partners since the benefits from cooperation can be realized only under a certain legal environment.

An efficient legal system will determine the progress in Moldova-EU relationship and also Moldova's further performances within the Union.

FOOTNOTES

¹⁵⁰ On the role of the reform of justice system on Moldovan long term development, see Capussela A. L. "Institutions, Development and the Reform of Moldova's Justice System" in *Moldovan Economic Trends* No. 5(Q1) 2012.

¹⁵¹ The hold-up problem is a situation where two parties (such as a supplier and a manufacturer or the owner of capital and workers) may be able to work most efficiently by cooperating, but refrain from doing so due to concerns that they may give the other party increased bargaining power. For a simple account on the phenomenon, see http://en.wikipedia.org/wiki/Hold-up_problem.

¹⁵² Krishna P. and Levchenko A. A., "Comparative Advantage, Complexity and Volatility", National Bureau of Economic Research, Working Paper 14965, 2009; accessible online on April 29, 2012 <http://www.nber.org/papers/w14965.pdf>.

¹⁵³ According to the Strategy for Judicial Sector Reform 2011-2015, the main problems are related to the procedure of case assignment and the appeals procedure which are both chaotic, to the lack of judicial accountability and the poor quality of judicial decisions. For more details, see http://www.justice.gov.md/file/proiectul_strategiei/SJSR_Gov_Version_En_DemSp_Translation_05%2009.pdf.

In lights of the numerous cases lost before the ECHR, the judiciary appears to be one of the key elements to be reformed in order to overcome the current legal lock-in.

The high degree of corruption perceptions within the judiciary only undermines its legitimacy.

property and the protection of human rights, creates uncertainty through complex and highly inefficient rules and undermines the economic and social progress of the country.

For instance, political interference in the judicial system, as reported by Freedom House¹⁵⁴, reached a high point during the 2009 parliamentary elections and the protests that followed the elections when judges and prosecutors involved in cases related to police and security forces abuses behaved improperly¹⁵⁵. Other structural problems were established in cases brought before the European Court of Human Rights related to arbitrary decisions in property matters (*Cebotari v. Moldova*¹⁵⁶), the excessive length of proceedings (*Rosca v. Moldova*¹⁵⁷) and other cases in relation to the lack of judicial deterrence in the field of protecting individuals from property deprivation and ill-treatment. It is worth noting that Article 17 from the Universal Declaration of Human Rights specifically addresses the problem of arbitrary deprivation of property¹⁵⁸.

The quasi-general perception of a high level of corruption within the judicial system represents another obstacle to an independent and efficient institution for securing people's rights in Moldova¹⁵⁹. A recent survey conducted by national and international experts on bribery, crime and police abuse in Moldova found that 41% of respondents say that "it is

very likely" that a person could solve a problem by bribing a judge¹⁶⁰. The attempts of hostile corporate takeovers on some of the country's major businesses and banks in 2011-2012 in which some judges' rulings were made on a suspicious basis put the Moldovan judiciary in an even more unfavourable light.

In this unfortunate context of judicial performance and independence, the focus of Moldovan authorities in the last two years or so has been increasingly on how to design a judicial system that is both accountable and free of political influence or the influence of any other interest group. At the same time, the recent and more comprehensive reports realized on this subject by international experts, such as the "Report on Quality and Efficiency of Justice in European Judicial Systems" of the European Commission for the Efficiency of Justice (CEPEJ) published in 2010, and the "Assessment of the Justice System in Moldova" (Vitkauskas et al. 2011) argue that the "efficiency and accountability of courts in Moldova should give rise to much more concern than any alleged lack of their independence". In effect, the improvement in the independence of courts from the other two branches of power does not necessarily imply an increase in the efficiency with which the courts operate. Moreover, empirical evidence suggests that too much independence for judges can endanger judicial efficiency: judges that are independent have high incentives to remain uninformed, can become lazy or even corrupt (see Voigt 2005). In effect, all of the above-cited international and national reports point to a lack of judicial specialization in Moldova, a "closed protected club" the admission to which is not conditional upon some performance/efficiency criterion and that is perceived as highly corrupted.

Despite numerous discussions about poor performances from the Moldovan judiciary there is a lack of attention paid to the expectations of court users, the other actors involved in the legal process and the public. Surveys that

FOOTNOTES

¹⁵⁴ Freedom House, "Nations in Transit 2011", accessible at <http://www.freedomhouse.org/report/nations-transit/nations-transit-2011>.

¹⁵⁵ Institutul de Reforme Penale, "Raportul Comisiei de Anchetă Pentru Elucidarea Cauzelor și Consecințelor Evenimentelor de După 5 Aprilie 2009", http://irp.md/item.php?text_id=943.

¹⁵⁶ <http://sim.law.uu.nl/sim/caselaw/Hof.nsf/e4ca7ef017f8c045c1256849004787f5/4da096abc8e329f3c125739100317484?OpenDocument>.

¹⁵⁷ <http://www.unhcr.org/refworld/publisher/ECHR,MDA,4ae02ca72,0.html>.

¹⁵⁸ For more details, see the Universal Declaration of Human Rights, <http://www.un.org/en/documents/udhr/>.

¹⁵⁹ See Vitkauskas et al., "The Judicial Reform Index for Moldova", American Bar Association, 2009; and the Strategy for Justice Sector Reform 2011-2016.

¹⁶⁰ Soros Foundation – Moldova "Bribery, Crime and Police Abuse in Moldova: Findings of the Victimisation Survey", 2010.

measure the confidence and satisfaction of court users are either lacking or not carried on a regular basis. And this is despite the trend in Europe for the introduction and use of specific tools to evaluate the how satisfied or confident court users are in the system.

The EU, through its numerous projects directed toward the justice system in the Republic of Moldova¹⁶¹, is actively seeking to address the aforementioned issues. A question remains yet unanswered: how can the European aspirations of the Republic of Moldova impact the conditions under which judges will render impartial and efficient decisions? And what is the appropriate level of intervention? Should the Executive focus on reforming judiciary as a group or should it instead favour incentives-focused reforms that seek to alter individual judges' set of motivations to act responsibly?

5.3.3. How to Design an Independent and Efficient Judicial System?

As the differences in procedural and substantive rules in the judicial systems across the EU member states are so vast, it seems irrelevant to compare the Moldovan system (and obstacles to its efficient functioning) against some European standards and see if and how the convergence on this issue could take place. Instead, we propose to briefly discuss the mechanisms that can make judges more accountable without reducing the degree of independence they currently enjoy. The impact of EU integration is thus assessed in light of the achievement of impartiality in judges' decisions, which is in turn a precondition for the rule of law that is strongly promoted by the EU in its every single cooperation agreement.

The question we are asking is whether there are any instruments to make judges render impartial and efficient decisions and how the European integration process can impact the adoption of these instruments? This is indeed the main objective of judiciary as a public institution in all European and international

democracies. Based on the "Strategy for Justice Sector Reform 2011-2016" and the other sources outlined in this chapter we now turn to present some of the instruments concerned with improving Moldovan judicial system. Key areas of interest include the fortification of judges' accountability towards the society and at the same time the protection of their independence, the safeguarding of the principles of a fair trial within a reasonable time frame, the promotion and protection of access to justice, efficient and effective court organization, as well as the development of the public service of justice aimed at court users.

As noted in the European Commission for the Efficiency of Justice (CEPEJ) report, there is a correlation between the lack of performances and efficiency of some judicial systems and the weakness of their financial resources. However, an increase in the financial resources does not always lead to an improvement in judicial performances. In effect, there is no causal relation between judicial pay and judicial performance (Choi et al. 2009)¹⁶². That is why other mechanisms that can affect courts' organization, the selection mechanism of judges and the sanctioning of non-adequate performance, are necessary in order to complement an eventual increase in resources allocated to the judicial system.

Empirical evidence suggests that collective decisions of three or more judges are less likely to lead to erroneous and biased decisions. International experts and the programme on the rule of law and governance of the EU in Moldova have already observed the necessity of reforming the procedural rules and in particular to involve non-judges in case studies. Juries can also serve as a mechanism to delegate judicial power and thus reduce

... so that present and future court users regain confidence in the impartiality of the legal system.

There are few mechanisms that can make judges more accountable without undermining their independence vis-à-vis the two other branches of power.

Higher salaries for judges can serve as a short term solution, but one needs to get beyond judicial pay and consider incentives-focused reforms that have proven efficient in increasing judicial performance in the long run.

FOOTNOTES

¹⁶¹ See for instance the Project on Increased Efficiency, Transparency and Accountability of Courts, worth EUR 3.4 million which is part of the larger Action on Support to the Justice Sector Policy Reforms 2011-2013.

¹⁶² See Choi, S. J., Gulati, M. G. and Posner, E. "Are Judges Overpaid?" *Journal of Legal Analysis*, 1(1), 2009.

the discretionary power of judges, thereby rendering decisions more independent. However, the costs of implementing and maintaining a jury system are very high, that is for instance what recently motivated the debate on the suppression of juries in some of the French courts. Hence the need to negotiate European financial and technical aid on this matter. Furthermore, judges have a proper training for, normally, offering qualitative and relatively rapid decisions on complex issues. The benefits from this division of labour risk to be less important once non-judges are involved in the decision-making process. There is therefore a trade-off between the costs of decision-making and restraining judicial behaviours.

Various theoretical¹⁶³ and empirical analyses have shown that if a court is obliged to motivate and publish its decisions, then departing from the “letter of the law” becomes more costly. Moreover, this is generally assumed to increase legal certainty and consistency in judicial behaviour for it disseminates valuable information about the reasoning behind judicial decisions. In this sense, European institutions need to pay more attention to the current reforms in Moldova that affect the procedural aspect of the justice system and judicial decision-making. It has been recently proposed, and already adopted as law, eliminating the obligation for judges of the first instance to motivate their decisions. Judges need to motivate their decisions only if and when one party requests a motivation, or one party decides to appeal, or when the judgments will be recognized or implemented on the territory of another country. Firstly, the Treaty on the Functioning of the EU (TFEU) stipulates that the “Union shall facilitate access to justice, in particular through the

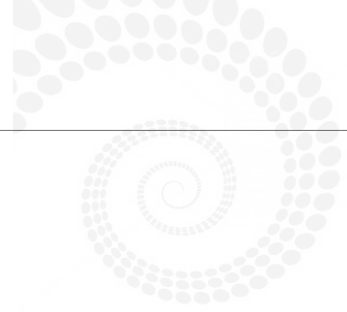
principle of mutual recognition of judicial and extrajudicial decisions in civil matters” and thus for judicial decisions to be recognized on the territory of our European partners, they need to be motivated. Secondly, the motivation requirement facilitates third party detection of judicial errors. Thirdly, given the weak legal culture in the Republic of Moldova, the question is whether future litigants will be informed that they can request a motivated decision from the judge. It is moreover in the latter’s interest not to motivate the decision adopted for it is costly for the judge to justify the legal outcome. Furthermore, there is no reason one should expect a reduction in the courts’ workloads from the elimination of the obligation to motivate judicial decisions. There is no metric for judicial performance and changes in other inputs may affect the length of the legal dispute. That is why it is so important that in the European programmes for reforming Moldova’s justice system more emphasis needs to be put on the individual judges’ incentives and the social value of strengthening judicial accountability. All judicial decisions need to be motivated so that the public and other members of the judicial audience can better monitor judicial performance and reveal inconsistencies in the legal process.

Another aspect of judicial accountability and the transparency of judges’ decisions is whether court proceedings occur behind closed doors or are open to the public. The recent implementation of audio recordings in some courts and tribunals of the court proceedings is an important step toward higher transparency. However, according to the 2011 report of the Superior Council of Magistracy on the implementation of the audio system, only in 12 judicial institutions the system was implemented and regularly used, in 9 it was used only at some “occasions” and in the other 32 institutions it has never been implemented. Transparent and open court hearings are crucial for restraining judges to engage in arbitrary decisions.

Providing the public and in particular judicial audiences with motivated decisions is generally assumed to increase legal certainty and may restrain judicial behavior.

FOOTNOTES

¹⁶³ See Miceli, T. J. and Cosgel, M. M., “Reputation and judicial decision making”, *Journal of Economic Behavior and Organization*. V.23(1), 1994, p. 31-51.



Judicial individual statistics – that is per court and/or judge statistics – also represent an important factor that can increase judicial accountability. It can inform the public about the number of cases filled and the number of cases resolved. However, when this information is provided collectively, for the judiciary as a group, it does not provide helpful information with regard to judicial efficiency. Published individual calendars make judges' activities more transparent and therefore make judicial behaviour more accountable. When a case is assigned to a particular judge who is in charge of the case from its beginning until the final decision is rendered, then judicial accountability increases, something that has been observed in many countries which have weak institutions to protect the rule of law. The implementation, under the "Project on Increased Efficiency, Transparency and Accountability of Courts" of an efficient system of individual calendars and the use of IT facilities in the communication between the courts and the litigants could help in restraining judicial behaviour and also in collecting reliable data on court performances. Individual calendars are also important for reducing courts' workloads.

Also, the prospective of European integration can significantly affect the extent to which national courts (should) make reference to and enforce international laws and norms.

As the High Commissioner Navi Pillay, said following her mission to Moldova: "(...) an

improved, fully independent judiciary is key to the protection and promotion of human rights in all areas." Notwithstanding the importance of the aforementioned mechanisms in improving the justice system's performances in protecting individuals' rights, the formal institutional constraints on the judicial system actors may not be sufficient to ensure a judiciary that is not only independent but also accountable to its principals, namely people affected by judges' decisions: "For these, one has to rely on the "culture of the judiciary" and the great status (and possibly financial rewards) that surround it" (Mueller, 1996). This could mean that formal rules might not be sufficient to ensure an independent and socially accountable judiciary. A higher degree of implication of citizens and the civil society in public decision-making (an issue that is discussed in the next Chapter) may further the political, economic and legal culture of people living in Moldova, thereby augmenting the quality of public servants' decisions, through for instance a higher degree of litigation of socially harmful decisions and rules. What Sen has labelled as the "open government" is yet to be achieved in the Republic of Moldova and the European aspirations and commitment of the country will without any doubt stimulate public reasoning and thereby lead to better, fairer and impersonal rules of the game. The conditions outlined above will affect the timing and extent of the social, political and economic changes dealt with in this report.

An efficient and independent judiciary is a key to the protection of higher human rights standards. Nonetheless, formal constraints may not suffice. Cultivating a legal culture and respect for human rights through public and open reasoning may augment the quality of public decisions and public policy.



6. HUMAN CAPITAL AS KEY PRECONDITION FOR SUCCESSFUL EUROPEAN INTEGRATION

Development thinking has changed considerably over time: starting with the idea that capital investment equals growth and development, moving on successively to the role of human capital, the role of markets and policies, the role of institutions and more recently the role of individual and group empowerment and country ownership.¹⁶⁴ The European integration process, through political, economic and social shifts, is expected to contribute to positive transformations of human capital, as shown by the experiences of countries that already joined the EU.¹⁶⁵ However, while European integration brings new opportunities for Moldova in terms of economic and labour market expansion, a higher level of human capital development is necessary to fulfil the European aspirations themselves. On the one hand European integration requires well trained human capital; on the other hand as Moldova's relations with EU progress, this models the existing stock of the human capital. While human capital is most often viewed as means of production defined as the skills, knowledge, and experience possessed by an individual or population¹⁶⁶, in this chapter we analyze human capital as the value each person brings to the country's development, according to their studies, knowledge, capabilities, skills and the framework they are placed in. When we refer to the need of human capital, we ultimately mean a responsible public service, a skilful and competitive labour force for the real sector of the economy and a strong civil society able to contribute to the achievement of the goals set.

6.1. IMPACT OF THE HUMAN CAPITAL ON IMPLEMENTATION OF THE EUROPEAN INTEGRATION POLICY AGENDA

For a successful and efficient transposition of the EU acquis there needs to be a high level technical competence of the policy makers combined with an acquired understanding of the functioning of the EU and its institutions in many areas of expertise. By adopting the EU-Moldova Action Plan in 2005 and of the Actions Plan for implementing the Recommendations of the European Commission for the future negotiations of the Deep and Comprehensive Free Trade Area (DCFTA) between the Republic of Moldova and EU in 2010, Moldova has committed to a number of difficult reforms requiring long-lasting efforts.

So far, Moldova has performed relatively well in passing several laws and regulations agreed in the two Actions Plans. At the same time, when it comes to their effective implementation, Moldova has traditionally lagged behind. In this respect, the role of human capital is essential and can be considered as key input for successful European integration. The issue is also given high priority by the EU, as the efficient use of EU funds depends on the quality of Moldovan governance, institutions and civil servants.

Because implementing the undertaken reforms and transposing European standards and norms requires competent public servants, it should be no surprise that the EU-Moldova agenda of bilateral actions included many forms of training. In the most important policy areas a number of training requirements have been identified:

- **Democracy and the Rule of Law:** improve training, in particular on Human Rights issues and on judicial co-operation, of judges, prosecutors and officials in the judiciary, Ministry of Justice administration, police and prisons; enhancing human rights training of staff in police and penitentiary institutions;

Human capital is the key element defining the European integration process at each stage: from policy formulation to its implementation and compliance to new rules, needs and socio-economic conditions.

- **Rights of Establishments and Company Law:** set up and train supervisory authorities in the financial sector;
- **Competition Policy:** ensuring adequate human and financial resources, as well as training of staff in the competition agency;
- **Public Procurement:** improve the functioning of the current system through increased transparency, information provision, training and the strictly limited use of exceptions;
- **Border management:** start developing a comprehensive education and training strategy on state border management, including improved understanding of Schengen rules and standards;
- **Fight against organized crime:** strengthen the Moldovan law enforcement authorities (police, border guards, customs) through the provision of modern equipment, facilities and training in order to increase in particular the effectiveness of border crossing checkpoints;
- **Money laundering, financial and economic crime:** develop a training programme for the staff of the financial

Human capital is the key element defining each stage of the European integration process: from policy formulation to its implementation and compliance to new rules, needs and socio-economic conditions

Successful implementation of the national reform agenda and transposition of the European standards and norms depends on the quality of Moldovan governance, institutions and civil servants

FOOTNOTES

¹⁶⁴ UNDP, Human Development Report 2010, "The Real Wealth of Nation: Pathways to Human Development", 2010.

¹⁶⁵ Domanic S., "The Human Capital and the EU Integration: Lessons learned from Poland, Portugal and Spain", accessible at http://erg.sabanciuniv.edu/sites/erg.sabanciuniv.edu/files/HumanCapital_report_spain_portugal_poland_education.pdf.

¹⁶⁶ Definition taken from Oxford dictionary.

intelligence unit, judges, prosecutors, and all other relevant personnel;

- **Information society:** improve the use of Internet and online services by the citizens via public computer training programs;
- **Cross-border and regional level cooperation:** provide support to the development of human resources and other capacities in local and regional authorities to ensure efficient implementation of cross-border co-operation actions;
- **Capacity building:** establish a training programme for all staff involved in the DCFTA negotiations and the institutions which will implement and enforce new regulations and legislation;
- **Sanitary and phytosanitary measures:** evaluate the capacities of food safety testing laboratories, define management and organizational guides and train staff; evaluate training needs of the staff using the EU Rapid Alert System for Food and Feed.

Although most of the trainings planned for 2005 to 2011 formally took place, their impact and sustainability are questionable. There are several reasons explaining existing doubts:

- **Lack of strategic synchronizing of the capacity-building efforts at three levels: state (i.e. legal framework), institutional and individual level.** The legal framework is essential for all further interventions, while institutional changes and individual trainings should go hand in hand. One should not expect a positive outcome by only modernizing the institutional framework and not training the public servants to work in the

new framework; vice versa, one should not expect things to change only by training the employees and leaving them in a deficient institutional environment. A more efficient public service equally requires a change in the way of staff's thinking. Changing attitudes, values and the work ethics might be more challenging and require a longer-term plan. Moldova's track record of coherently implementing capacity-building reforms remains quite poor, as shown by the slow reform of the central and local public administration and unreformed public service. The Central Public Administration Reform was launched in 2005¹⁶⁷ and the initial action plan stipulated measures up to 2008. However, due to the lack of political will the reform is still going on seven years later, so far with limited impact. The decentralization reform is on the Government's agenda since 2009, but the Decentralization Strategy was approved only on April 5, 2012¹⁶⁸. As the development of the strategy involved a long process, its implementation may similarly take a long time due to politically sensitive issues, such as the necessity for a territorial-administrative reorganization that needs to be resolved. Although there is a common understanding of the need for decentralization at both a central and local level, the last two years saw no significant changes for the local administrations. Nevertheless, given the European integration aspirations of Moldova and the opportunities it might give to local and regional administrations, the pressure for effective decentralization are expected to intensify.

- **Low wages in the public sector.** Although in recent years there has been an increase in wages of the public servants in Moldova, they are still very low at the entry level. This equally reduces the incentives for a higher professional performance and serves as one of the key causes of

FOOTNOTES

¹⁶⁷ The Strategy of Reform of Central Public Administration in the Republic of Moldova was approved through Governmental Decision no. 1402 from 30.12.2005 <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=314855>.

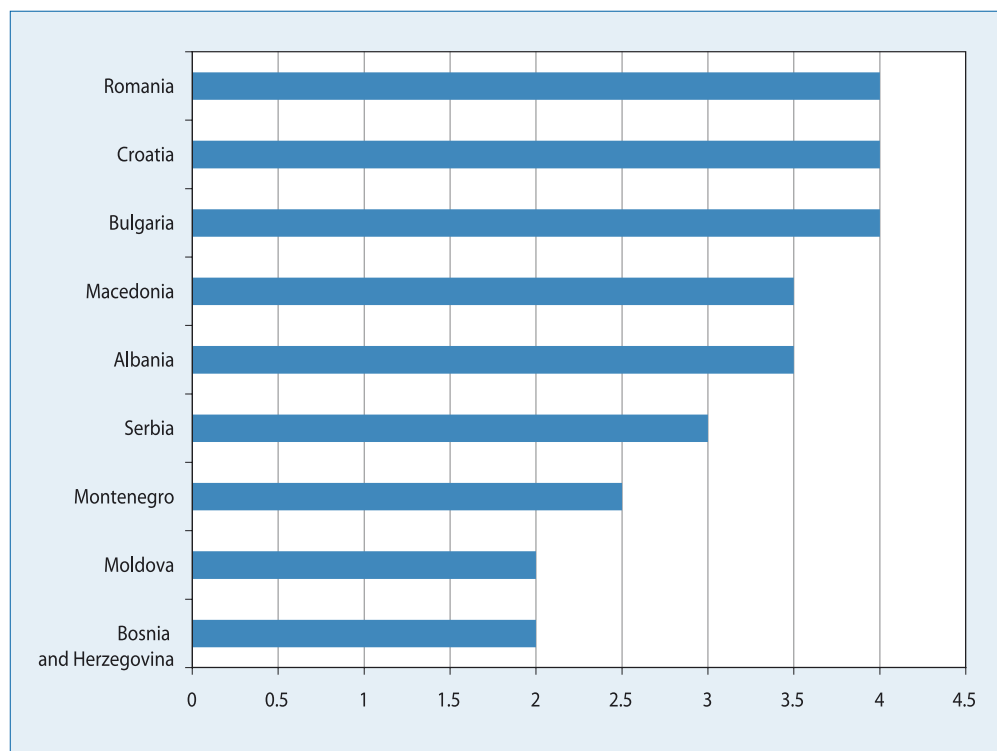
¹⁶⁸ http://www.descentralizare.gov.md/public/files/Strategia_Nationala_de_Descentralizare.pdf

corruption. Low wages also cause a high turnover of employees. Usually, the young inexperienced graduates start their careers in the public administration only as there are stricter requirements needed to enter the private sector. After gaining the work experience required they usually leave the public sector for the more rewarding private one. While some international donors are implementing projects indirectly providing higher income for selected public servants, this practice is not sustainable in the long-term. At the same time, considering the severe budget constraints Moldova faces, it is clear that achieving a higher level of

payment in the public sector is impossible without a real reform of the central and local public administration and without further optimizing the functioning of the administration, including through a wider use of ICT technologies and adoption of performance standards.

- **Delays and low coverage of the training programmes.** Although there are no recent data on the state of the public sector staff, an OECD report for 2006 gave Moldova the lowest score in South Eastern Europe for civil servant training (Chart 33). Even now, there are areas where the trainings lag behind due to the slow legislative and decision-making process.

CHART 33. SCORE FOR CIVIL SERVANTS TRAINING, YEAR 2006



Source: OECD.

Generally, the EU attaches high importance to human resource development and envisages the consolidation of the link between Public Administration Reform and European integration and the related legal approximation. Training programmes can

only have an impact and be sustainable in a stable administration in which training is an integrated part of human resource development policy¹⁶⁹. In this context the delay in the Public

The delay in the Public Administration Reform is one of the main impediments to the efficient use of existing human capital in the policy implementation process

FOOTNOTES

¹⁶⁹ Evaluation of PHARE Public Administration Reforms Programmes, 1999, accessible at http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/1999/951465_docs_en.htm.

Administration Reform is one of the main impediments to the efficient use of existing human capital in the policy implementation process. Further enhancement of the EU-Moldova relationship may give Moldova

access to other funds for human resource development from the Instrument for Pre-accession Assistance. Currently Moldova has no access to human resource development funds from this instrument.

6.2. LOCAL GOVERNMENTS – KEY ACTORS IN MOLDOVA’S EUROPEAN INTEGRATION PROCESS

Around 80 percent of European funds are designed for regional and local development...

...but in order to access these funds, Moldova needs stronger local governments.

Moldova’s European integration process has been traditionally approached through the lens of the central Government. The role of the local governments in Moldova’s European integration is often understated, even though local authorities are among the most ardent supporters of the European integration. In Moldova about 90 percent of local authorities surveyed think that European integration is a high priority.¹⁷⁰ Considering their Euro-optimism and their direct interactions with the citizens, the local public authorities can significantly shape public perceptions regarding the European perspectives of the country. However, this influence can be beneficial or detrimental depending on how effective local authorities are in exploiting the opportunities that European integration brings for the communities they represent. Around 80 percent of European funds are designed for regional and local development, including funds for infrastructure such as water, sewage and roads, which benefit both businesses and citizens. The National Indicative Programme for the Republic of Moldova for 2011-2013 within the European Neighbourhood and Partnership Instrument envisages that Moldo-

va will receive EUR 273.14 million from the European Neighbourhood and Partnership Instrument (ENPI). Between 35 and 40 percent of this amount will be allocated to Priority 3: Trade and Sustainable Development, including Local and Regional Development. If duly used, this may be a unique opportunity for Moldova to address its regional economic and social disparities and increase internal cohesion through support for region’s economic and social development.

In order to access these funds, Moldova needs stronger local governments. In this regard, the quality of the human resources employed in the local administrations is of paramount importance. European integration aims at improving the state of the local authorities by promoting policies giving them more authority and by offering financial support to implement local development projects. The experience of other countries that already joined the EU shows that European integration was hastened by local authorities expecting to gain more substantial authority.¹⁷¹ However, harnessing these benefits requires strong local public authorities. In this regard, the involvement of Moldovan local public authorities in the European integration process remains limited at best.¹⁷²

The limited involvement of local public authorities is particularly disappointing considering the EU’s Committee of Regions statement on local and regional authorities in the Republic of Moldova according to which they “enjoy greater competitive advantages in their relationship with the EU than do other members of the Eastern Partnership,

FOOTNOTES

¹⁷⁰ IDIS Viitorul, “Evaluation of Moldovan Authorities Attitudes, Capacities and Needs in Terms of EU Integration Process”, 2011.

¹⁷¹ UNDP, “Bulgaria National Human Development Report 2006: Are we prepared for European Union funds?”, 2006, accessible at <http://www.undp.bg/publications.php?id=1867>.

¹⁷² Opinion of the Committee of the Regions on “The implementation of the European neighbourhood policy and in particular the Eastern partnership initiative: modernisation, reforms and administrative capacity of the local and regional authorities of the Republic of Moldova” (own-initiative opinion) (2011/C 15/09), accessible at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:015:0046:0050:EN:PDF>.

owing to the country's proximity to the EU, its size and the central government's openness to European territorial cooperation. In line with the traditions formed when European Neighbourhood Policy instruments were implemented, such as the Moldova-Romania-Ukraine cross-border cooperation programme (2007-2013), given the limited size of the country, all of the Republic of Moldova and its local and regional authorities are eligible for cross-border partnership projects.¹⁷³

These competitive advantages are yet to be fully used by the Moldovan local public authorities, as these authorities meet equally tough disadvantages. In most of the cases local public administrations are aware of the existent problems and perceive the current system as being unable to provide solutions. At the same time, most local public authorities are insufficiently proactive and are not able to come with a systemic approach and concrete policy proposals allowing them, as representatives of local communities, a higher role in the European integration process. The

situation is slightly better in some cities which are the administrative centres for Moldovan districts, and where local public authorities have better trained human resources and know how they can benefit from European integration; but in most villages, there is a lack of awareness of how the European integration process can be used to the benefit of local community.

Currently the size of the staff of a Moldovan municipality ranges between 4 to 11 units, depending on the number of residents of the municipality. In most cases, the qualifications of staff are not adequate for elaborating a project to be proposed to the European programmes and its further implementation (Table 7). More than 84 percent of local authorities surveyed believe that lack of qualified staff is one of the main obstacles in implementing the projects supported financially by the European Union. To mention just one significant pitfall, there is also little knowledge of English, which in most cases is the mandatory language for the project proposals and other documents.¹⁷⁴

Most local public authorities are not aware of how European integration process can be used to the benefit of local community

TABLE 7. MAIN OBSTACLES IN IMPLEMENTATION OF EUROPEAN PROJECTS AT LOCAL LEVEL

Problem	Share, percent
The long period for projects' development	42.1
Bureaucracy	42.1
Lack of qualified staff	84.2
Lack of initiative from the population	73.7

Note: Distribution of answers to the question "What are the main obstacles in the implementation of European projects? (multiple answers);

Source: Evaluation of Moldovan Authorities Attitudes, Capacities and Needs in Terms of EU Integration Process, IDIS Viitorul, 2011.

Another culprit is that Moldovan local authorities are often not aware of the existing opportunities for channelling EU finances to local development projects. However, even under the assumption that all local governments in Moldova are aware of the financial opportunities offered by the EU as part of European Neighbourhood and other

policies, the financial situation of most local communities in Moldova would prevent them from fully benefiting of these opportunities. For instance, for Moldovan local authorities to be eligible in the EU-funded Joint Operational Programme Romania-Ukraine-Republic of

While eligible for some programs offered by the EU as part of European Neighborhood and other policies, most of the local governments do not have the human capital to manage such big projects and half of them cannot participate at all due to the co-financing requirement

FOOTNOTES

¹⁷³ Ibidem.

¹⁷⁴ IDIS Viitorul, "Evaluation of Moldovan Authorities Attitudes, Capacities and Needs in Terms of EU Integration Process", 2011.

Moldova 2007-2013, they have to submit projects in the range of 100,000 – 3,000,000 EUR, with a co-financing requirement of 10 percent. Data show that most of the local governments do not have the human capital to manage such big projects; half of them cannot participate at all due to the co-

financing requirement (Table 8). The latter finding corroborates with existing statistical data on local budgets: annual revenues of more than 50 percent of local municipalities in Moldova is below 150,000 EUR, leaving little if any funds to match the EU's co-financing requirement.

TABLE 8. PROBLEMS ENCOUNTERED BY LOCAL PUBLIC AUTHORITIES IN RELATION TO CO-FUNDING OF THE EU-AWARDED PROJECTS

Problem	Share, percent
Delays in financial transfers	25.0
We were not been able to identify staff for the implementation team	25.0
Passivity of the people in the community	65.6
Resources for co-financing could not be identified	50.0
None of above	6.3

Note: Distribution of answers to the question "What problems have you encountered in relation to co-funding of the awarded projects?" (multiple answers).

Source: Evaluation of Moldovan Authorities Attitudes, Capacities and Needs in Terms of EU Integration Process, IDIS Viitorul, 2011.

The territorial-administrative consolidation is one of the most important pre-conditions for a successful decentralization in Moldova.

Moreover, while not clearly regulated by national legislation, the European Charter of Local Self-Government allows local governments to co-operate and form consortia with other local governments to carry out tasks of common interest. This would allow them to accumulate resources and even facilitate territorial consolidation. Currently, most local governments do not have any experience of inter-municipal cooperation and, indeed, this form of cooperation is not actively promoted in Moldova. About 71.8 percent of local authorities surveyed stated that their community is not part of any consortium which would implement a common project.¹⁷⁵

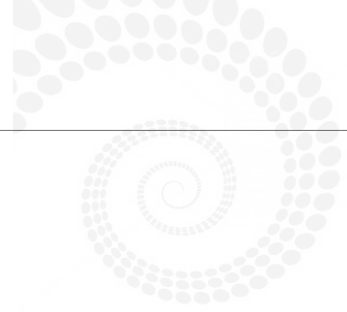
At the same time, in order to efficiently use the opportunities brought by the EU-funded programmes, there is need to rethink the role of local governments and Regional Development Agencies (RDA). Under the current system, projects are implemented by the

RDAs. This seems inefficient, as demonstrated by the low number of projects implemented and difficulties in finding local stakeholders to take over projects. The role of the RDAs has to change, as they are better placed to facilitate, evaluate and monitor the implementation of the projects, while the implementation of projects should be the local authorities' responsibility.

The negative impact of the lack of human and financial capital is magnified by the fragmented system of local government. Moldova currently consists of about 900 municipalities (first tier local governments), with 88 percent having less than 5,000 inhabitants. The 32 districts (second tier local governments) are also very small compared to the EU average. A territorial-administrative consolidation is one of the most important pre-conditions for a successful decentralization to take place in Moldova. The mayors, once the most outspoken adversaries of territorial-administrative reform, seem to increasingly understand the necessity of reforms and their beneficial impact on the welfare of the communities they represent.

FOOTNOTES

¹⁷⁵ Ibidem.



6.3. CIVIL SOCIETY: SOURCE OF HUMAN CAPITAL AND SUPPORTER OF THE EUROPEAN INTEGRATION

Civil society's role in European integration is to support and monitor the Government in implementing the European integration agenda. The relative young civil society is still in formation in the Republic of Moldova, with Non-Governmental Organizations (NGOs) being the most organized and active form of civil society.

Many Moldovan NGOs are actively involved in the monitoring of European integration agenda and they may benefit from European funds in case of successful development of EU-Moldova relations. The experience of other countries that already joined the EU shows an active role of NGOs in the European integration process and a high interest for integration, NGOs being even more active than the business sector¹⁷⁶.

However, in order to contribute more to and benefit more from European integration, Moldova's civil society, in general, and the NGOs, in particular, should become more mature and stronger. Since 2009 Moldova has seen the NGOs playing a more active role in the economic, social and political process by taking advantage of a more open atmosphere and opportunities for that were initiated by the Moldovan government. This has been reflected, among other sources, in Freedom House's rating on Moldovan civil society which has slightly improved from 3.5 in 2010 to 3.25 in 2011¹⁷⁷. Moldova is currently above other Eastern Partnership and some Western Balkans countries in the rating, but still below its two neighbours (Ukraine, Romania) and EU member states (Chart 34). In the latter, NGOs have traditionally been more active in advancing European integration, monitoring elections and promoting press freedom¹⁷⁸.

Despite the higher score for civil society organizations in the Freedom House rating,

confidence in local NGOs seems to have decreased over time, as indicated by the Barometers of Public Opinion. Currently, only 26 percent of respondents testified a degree of confidence in NGOs, putting them in 7th place in the list of 13 institutions assessed¹⁷⁹. To see the things in perspective, in May 2007 trust in NGOs was at its maximum level of 39 percent (Chart 35).

Moreover, as the same report notes, Moldovan NGOs remain heavily dependent on foreign funding and therefore face significant challenges related to their financial sustainability. Many organizations have recently called for legislative changes that would allow for direct state's or taxpayers financing of the NGOs, but such legislation has not yet been passed as these proposals did not obtain unequivocal political support.

Harnessing their more advanced capacities and by partnering with the local and central public authorities Moldovan NGOs could bring an important contribution to the country's European integration process. This partnership can be particularly fruitful to overcome the existing human and financial resources shortages which limit the possibility of Moldovan local public authorities from accessing EU funds. There is already some evidence that Moldovan NGOs provide assistance to local governments in defining and implementing EU-sponsored projects, however there is little systematic cooperation between the two stakeholders.

The most organized and active form of the civil society are NGOs...

...but they also need to become more mature and stronger.

FOOTNOTES

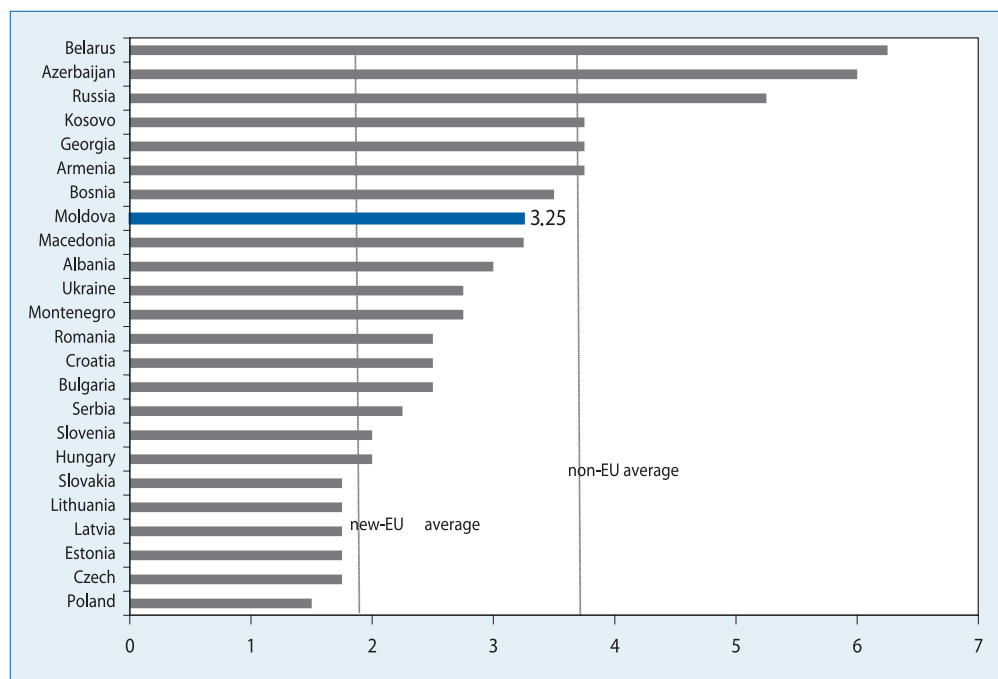
¹⁷⁶ UNDP, "Bulgaria National Human Development Report 2006: Are we prepared for European Union funds?", 2006, accessible at <http://www.undp.bg/publications.php?id=1867>.

¹⁷⁷ Freedom House, "Nations in Transit 2011", accessible at <http://www.freedomhouse.org/report/nations-transit/nations-transit-2011>.

¹⁷⁸ Freedom House, "Nations in Transit 2011. Moldova Country Report", accessible at <http://www.freedomhouse.org/report/nations-transit/2011/moldova>.

¹⁷⁹ Institute for Public Policy, "Barometer of Public Opinion, April 2012", accessible at <http://ipp.md/lib.php?l=ro&idc=156>.

CHART 34. SCORE FOR CIVIL SOCIETY IN NATIONS IN TRANSITION 2012 RATING



Note: Three ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest.

Source: Freedom House.

Moldovan NGOs could bring an important contribution to the country's European integration process by partnering with the local and central public authorities.

Moldovan trade unions are currently quite weak, with a limited impact on the economic and social life of the citizens. Hence, the low rate of trust expressed by the population which is complemented by a low employment rate. At the same time, business associations are coming out of the shadow and are becoming more actively involved in economic issues. As European integration advances, the business associations are expected to become more vocal and engaged in policy dialogue.

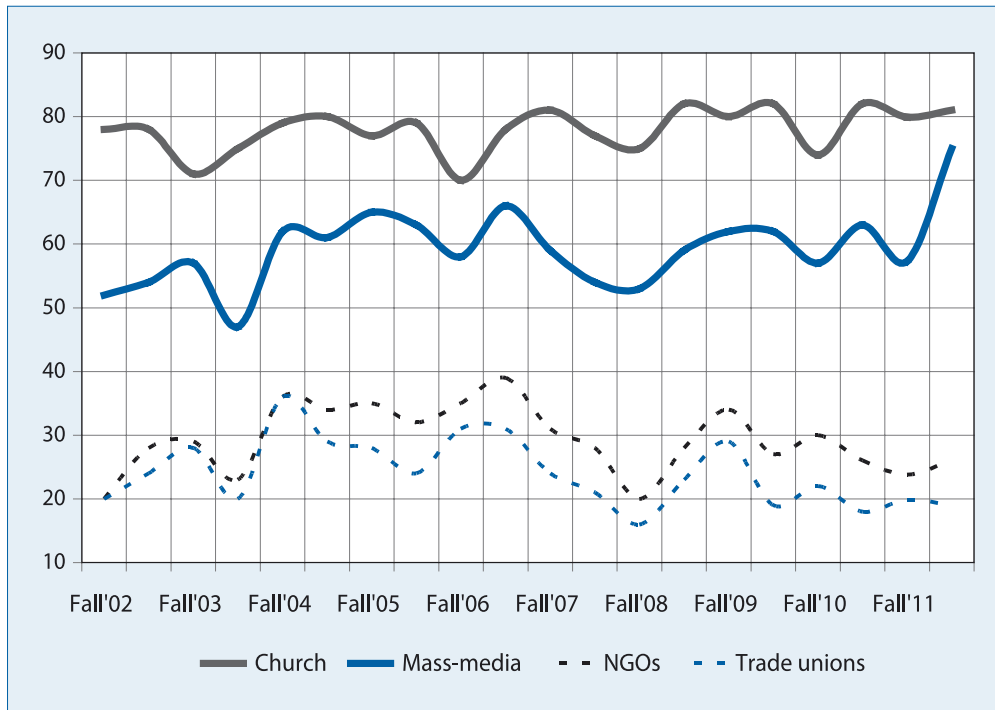
Press freedom has improved significantly since 2009 as the latest Freedom House Report on freedom of the press concludes, moving Moldova from the group of countries with “Not Free” to a “Partly Free” Press¹⁸⁰. Thus, according to the Freedom House assessment, “growing access to a variety of opinions in the media and efforts to improve public media and journalistic ethics have had a significant impact on improving media quality and pluralism, raising Moldova’s rating for independent media from 5.50 to 5.00”. More diverse media has marginally improved citizens’ trust in the media, following a more volatile period. However, the same report mentions that despite a mixture of privately owned and public print and broadcast media, there is still a lack of transparency in ownership and state media regulators at times remain highly politicized, while some improvement in the media’s professionalism and more initiatives to enforce regulations were also registered¹⁸¹.

FOOTNOTES

¹⁸⁰ Freedom House, “Freedom of the Press Report 2011”, accessible at <http://www.freedomhouse.org/report/freedom-press/2011/moldova>.

¹⁸¹ *Ibidem*.

CHART 35. SHARE OF POPULATION WHO TRUST THE CIVIL SOCIETY INSTITUTIONS, PERCENT, PERIOD 2002-2012



Source: *Barometer of Public Opinion, Institute for Public Policy Moldova, May 2012.*

The church remains the most reliable institution of civil society for most citizens, with over 80 percent of population expressing some degree of trust in it (Chart 35). It has recently become very active in issues pertaining to state policy,

advocating against the adoption of the law on equality of opportunities and the registration of the Islamism in the Republic of Moldova (See Chapter 5.1.).

6.4. EUROPEAN INTEGRATION THROUGH MORE COMPETENT AND COMPETITIVE LABOUR FORCE

In the past decade Moldova has experienced one of the most significant drops in employment in Europe. The employment rate among the economically able population fell from 54.8 percent in 2000 to 39.4 percent in 2011. In this period Moldova lost 341,100 jobs. This contraction of employment was determined by the agricultural sector, whereas the employment rate in most of the non-agricultural sectors did not deteriorate until the onset of the global economic crisis in 2008¹⁸².

In some sectors growth in employment and activity levels can be linked to such factors

as tax facilities (computers and related activities¹⁸³), a more favourable tax regime for certain exported goods (manufactured clothes¹⁸⁴), or the settlement of a single large foreign company in Moldova (manufacturing

FOOTNOTES

¹⁸² Non-agricultural employment rate is calculated as the number of employed population in non-agricultural sector to the total working age population.

¹⁸³ Since the introduction of fiscal facilities for companies with the main activity in IT sector in 2004 (facilities for personal and corporate income tax and social contribution) the employment in the sector started its strong upward trend, especially in formal sector of the economy.

¹⁸⁴ The reduction of elimination of import duties for some goods in the process of advance in EU-Moldova trade regimes, the European FDI in some sectors (including clothes) increased significantly determining higher demand for labour force.

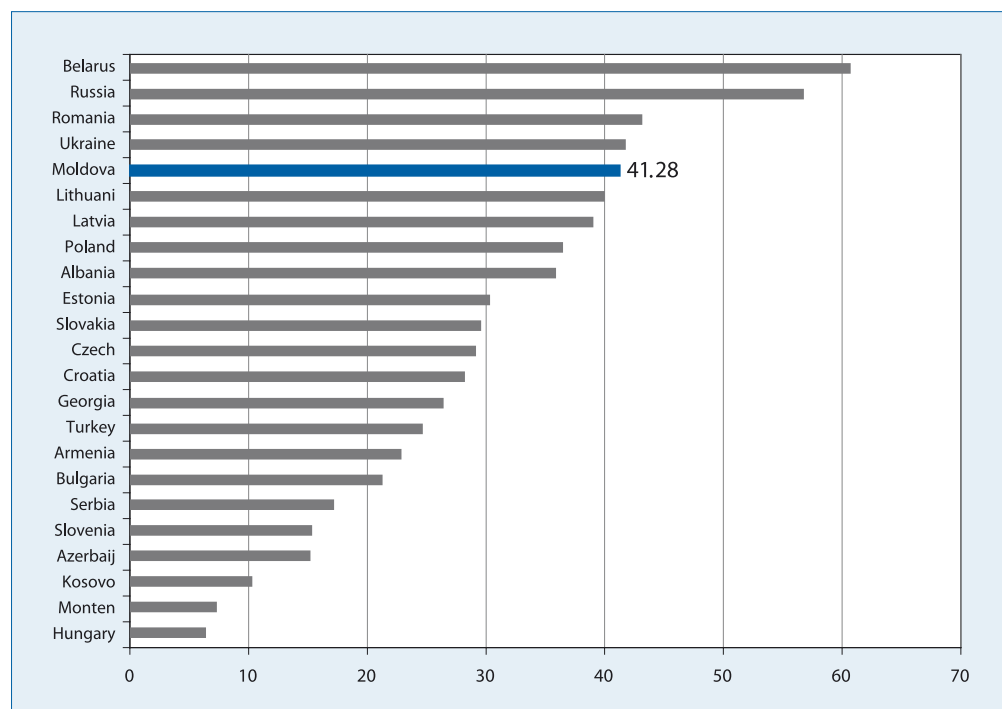
Almost 60 percent of the employers have problems in fulfilling vacant positions that require skilled personnel and over 40 percent of the employers consider the inadequate level of skills of the employees a key constraint to their activity

of electrical machinery and equipment¹⁸⁵). As these approaches have both their strengths and weaknesses, it is necessary to strike the right policy of balancing the interests of different stakeholders while maximizing the benefits of a more enhanced EU-Moldova relationship.

Despite the growth in employment in non-agricultural sectors, almost 60 percent of the employers have problems in fulfilling vacant positions that require skilled personnel. These problems are due both to the salaries that are demanded and offered and the level of qualifications¹⁸⁶. The relatively cheap and qualified labour force which was once considered a comparative advantage of Moldova, is currently losing its competitive

edge. More than 40 percent of employers consider inadequately skilled employees to be a key constraint to their activity¹⁸⁷. Many foreign investors mention the lack of a qualified labour force as an obstacle to their business in Moldova (Chart 36). Although many countries in the region, even EU member states, face difficulties in finding the appropriate employees, in Moldova as many as 41 percent of employers encounter this problem. The deficit has been determined both by the lack of specialist and skilled labour force in some areas and employers' inability to offer competitive wages for the existent labour force, whose reservation wage has been increased by the existent migration opportunities.

CHART 36. SHARE OF EMPLOYERS IDENTIFYING LABOUR SKILLS LEVEL AS A MAJOR CONSTRAINT TO THEIR ACTIVITY, PERCENT, DATA FOR THE LATEST YEAR AVAILABLE



Source: Enterprise Survey data for 2007-2009, World Bank.

FOOTNOTES

¹⁸⁵ A good example is the Moldovan subsidiary of a German company located in 2008. This caused an immediate increase in employment in manufacture of electrical machinery and apparatus sector by approximately 50%. By now the company has employed more than 2000 employees, which more than one half of sector's total employment (in companies with more than 19 employees).

¹⁸⁶ Centre of Sociological, Political and Psychological Analysis and Investigations CIVIS, The state of labour market in Moldova - 2008, 2008.

¹⁸⁷ According to World Bank Enterprise Survey 2009.

However, it is difficult to believe that with an employment rate of under 40 percent, with a rising rate of unemployment and under-employment, Moldova is indeed a country with a scarce labour force. Employers' complaints are



determined more by the structural mismatches on the labour market caused by low quality of education, youth preferences for higher levels of education and for social as opposed to technical fields of study, the under-estimated role of life-long learning and labour productivity falling short of the wage expectations.

The low level of the labour force participation, the high degree of informal employment and the low level of skills undermine the growth potential in Moldova and, consequently, will impact the potential benefits of the European integration process. The experience of countries that have joined the EU indicates that European integration requires significant transformations of human capital and a restructuring of labour markets¹⁸⁸. Although the transformation of the labour markets in these countries was also led by a level of integration

deeper than Moldova currently expects (also including the free movement of labour and a common labour market in the EU), these transformations started much earlier than their EU membership. This happens due to the enhanced economic relations between EU and partner countries as well as due to the emphasis the EU puts on human capital development.

Trade has been regarded as the most important factor modelling labour markets of EU countries before their accession¹⁸⁹ and, in this respect, it is the most relevant for Moldova in short and medium term. Indeed, theoretical analyses of the relationship of trade and labour markets have emphasized how deeply connected they can be, given the impact of a free trade agreement on the internal economic structure.

Trade has been the most important factor modeling labor markets of EU countries before the accession.

TABLE 9. EXPECTED IMPACT OF THE DCFTA WITH EU AND FTA WITH TURKEY ON LABOUR FORCE DEMAND

Sector	Growth in employment, percent	Sector	Growth in employment, percent
Clothing, leather and leather products	21.3	Machinery and equipment	7.4
Textiles	17.9	Financial activities	7.3
Oils and fats	14.1	Electricity, gas, water distribution	7.1
Fruits and vegetables	10.4	Paper and paper products	7.1
Other services	9.6	Rubber and plastics	7.0
Furniture and other products	9.4	Retail and wholesale trade	6.8
Hotels and restaurants	9.4	Dairy products	6.4
Cereal products	9.0	Extraction of raw materials	6.3
Tobacco products	8.6	Other food products	6.1
Real estate transactions	8.5	Wood products	5.9
Meat and fish products	8.4	Agriculture, fishery, forestry	5.9
Beverages	8.3	Products from other non-metallic minerals	5.7
Transport and warehousing	8.3	Waste recovery and recycling	4.0
Communications	8.1	Research and development	2.2
Coke, oil refinery, chemical industry	7.9	Constructions	1.9
Other commercial activities	7.4	Governmental services	1.8

Source: results of the CGE simulations.

FOOTNOTES

¹⁸⁸ Domanic S., "The Human Capital and the EU Integration: Lessons learned from Poland, Portugal and Spain", accessible at http://erg.sabanciuniv.edu/sites/erg.sabanciuniv.edu/files/HumanCapital_report_spain_portugal_poland_education.pdf.

¹⁸⁹ ILO, "The impact of European Integration on the development of national labour markets", 2000.

The DCFTA with EU and FTA with Turkey is expected to increase the overall employment as labor factor demand will grow in order to satisfy new internal and external demand for goods and services

There have been also positive social impacts on the labor market generated by the process of European integration in some countries...

...like higher women employment and reduction of informal employment

The CGE simulations suggest a positive impact of the DCFTA with EU and FTA with Turkey on trade on all economic sectors (see Chapter 3 for a comprehensive assessment of DCFTA between Moldova and EU). Consequently, an increase in overall employment is expected as labour factor demand grows in order to satisfy new internal and external demand for goods and services (Table 9). However, this effect should be expected only in the long term, while in the short term some disruption on the labour market is possible. Inter- and intra-sector flows of labour from the branches producing less competitive products to the more competitive ones should be realistically expected. As strongly suggested by the model, failing to provide the necessary labour force will result in nil gains for Moldova from further trade integration with the EU and Turkey. Nevertheless the population is more optimistic than pessimistic regarding the evolutions on Moldova's labour market in a potential scenario of Moldova joining the EU. Thus, while 24.1 percent of the population listed "job creation" among the three main advantages of European integration, only 15.3 percent listed "job losses" among the three main disadvantages. The most pessimistic are rural inhabitants, who are largely employed in agricultural sector or do not have a job at all. Also, 25 percent of the population is concerned about further losses of the labour force in the case that Moldova joins the EU due to significant migration flows that will continue or even intensify.

Labour productivity is also expected to increase as a result of a DCFTA with EU. One of the most obvious reasons for growing labour productivity in the CEE-8 countries in their pre-accession and after the accession was the significant amount of FDI flows¹⁹⁰. Thus, countries like Estonia and Hungary, which had the biggest gains in their labour productivity

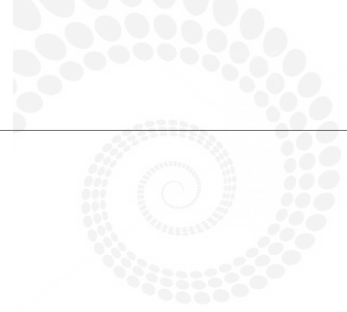
also received the highest average FDI flows with respect to GDP.

Other positive social impacts have been registered on the labour market in other countries that followed the path of European integration. Firstly, an increased participation of women on the labour market has been noticed in most states during and after their EU accession. This is an important factor for Moldova, given the currently poorer economic opportunities that Moldovan women have, as described in Chapter 1.3. As equality between women and men is an underlying value on which the European Union is founded, the ratification of ILO relevant conventions and EU gender-related directives was mandatory in the pre-accession stages. Gender equality is also included as a priority in the European Neighbourhood and Partnership Instrument, being traced and promoted before the pre-accession in this region. It seeks to ensure the necessary legal framework to ease the participation of women on the labour market. Moreover, the change in economic structure that accompanies the European integration can also contribute to more women being employed as some sectors which traditionally hire women (trade, light manufacture) experience a stronger growth in output and labour demand.

The reduction of informal employment has been observed as part of European integration of many countries. In the case of Moldova it might happen mainly due to the contraction of employment in the agricultural sector (in which 72 percent of employment is informal). Moreover, the European Union's tolerance towards the informal economy is much lower. European integration brings more favourable business conditions supporting the formal economy, including formal employment, while at the same time imposing more coercive measures to fight informality and tax evasion. This aspect is extremely important in the Western Balkans and the Eastern Neighbourhood countries, where the degree of informality is high and represents a reason for discontent and concern for the EU.

FOOTNOTES

¹⁹⁰ Taner M. Yigit, Ali M. Kutan, "European Integration, Productivity Growth and Real Convergence: Evidence from the new member states", 2004, accessible at <http://econstor.eu/bitstream/10419/39570/1/388856378.pdf>.



Human capital development and return migration is needed for the region to attract FDI and prepare for faster and more export-oriented growth. However, if this fails to occur, the replacement of the labour-force from other migrant-sending might be a fair solution to the human capital deficit and the Government should ensure the proper immigration policies, as advocated for in the Chapter 4. Human capital—both in terms of quality and quantity of skills—is critical to upgrade the skill content of exports and reduce vulnerability to low-wage competition (in exports as well as increasingly open domestic markets), to prevent human capital from becoming a bottleneck to the FDI inflows and investment in general, and to prepare for

faster and more export-oriented firm growth. It is urgent that this process of upgrading skills should start now, considering the region's poor level of education long gestation lags in human capital formation, the likely increase in demand for skills, and the fact that education and health are not part of the EU acquis. Apart from this, countries can also use return migration programmes to encourage people to return to their countries, which would help reduce skill and other bottlenecks because returning migrants could bring with them new skills, entrepreneurship abilities, networks of contacts, and financial resources. Nevertheless, these programmes could be of limited impact if the quality of governance does not improve.

Human capital is critical to upgrade the skill content of exports and reduce vulnerability to low-wage competition, to prevent human capital from becoming a bottleneck to the FDI inflows and investment in general, and to prepare for faster and more export-oriented firm growth.

6.5. ROLE OF EU-MOLDOVA COOPERATION IN THE AREA OF EDUCATION IN FOSTERING THE HUMAN CAPITAL

All the benefits for Moldova, as suggested by the CGE model in result of creation of the DCFTA with EU and FTA with Turkey, are expected to happen only under the assumption that Moldova can foster the necessary human capital for expanding economic activities. As mentioned above, many employers in Moldova already encounter difficulties in hiring more employees. At the same time the low employment rate suggests that there is massive unemployment of human capital. In order to benefit from opportunities given by the DCFTA and further relations with the EU it is critical for Moldova to upgrade the skills and knowledge of its labour force.

Human capital embodied in the labour force is created by a continuous process of learning. Five different levels at which human capital is created are distinguished thus¹⁹¹: (i) informal parental education; (ii) formal school education; (iii) formal university and higher education; (iv) formal and informal adult education; (v) informal learning on the job.

Education is the main sector fostering the human capital development and supporting long-term economic growth. In this regard, the recent evolutions of the educational indicators in Moldova are not very impressive. Additionally to a declining level of enrolment in the general compulsory education, Moldova does not perform very well in terms of the quality of education¹⁹². Moldova has received a very low score for the quality of educational system in the Global Competitiveness Report¹⁹³ (Chart 37). Although the score seems to be appropriate for the level of GDP per capita in Moldova, it is lower than expected for a country with a similar level of public investment in education as a share of the GDP. This is also reflected in the students' performance in Moldova. According to the OECD Programme for International Student

All the benefits for Moldova in result of creation of the DCFTA with EU and FTA with Turkey are expected to happen only under the assumption that Moldova can foster the human capital necessary for the expanding economic activities

FOOTNOTES

¹⁹¹ According to the European Human Capital Index, Lisbon Council.

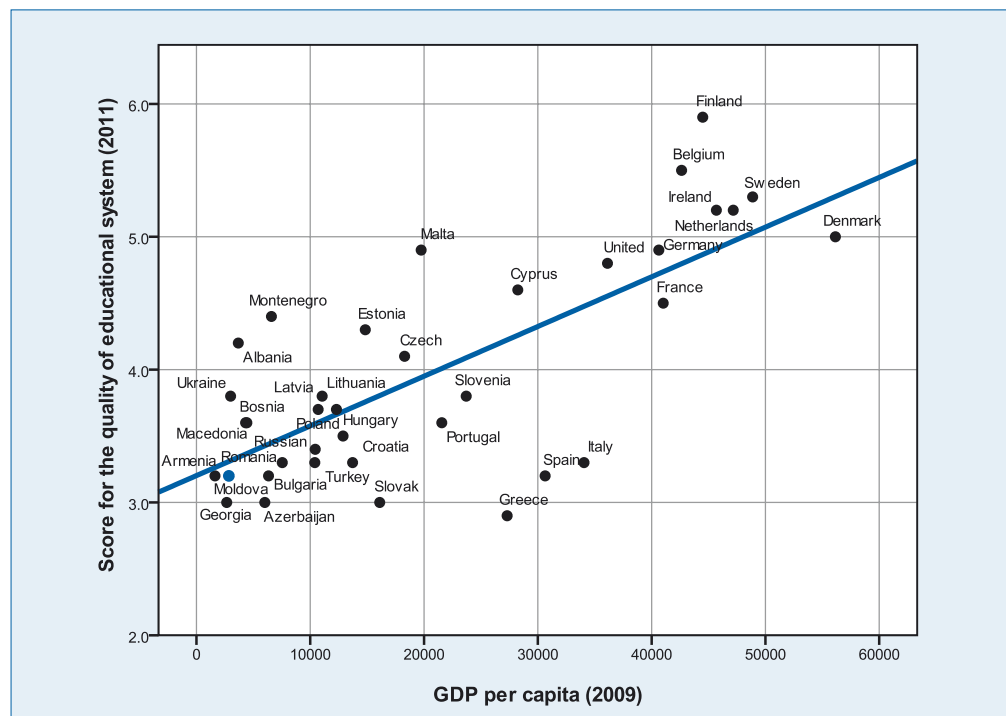
¹⁹² WEF score for primary education, TIMSS and PIRLS scores for mathematics, science and reading achievements.

¹⁹³ World Economic Forum, "Global Competitiveness Report 2011-2012", 2012.

Assessment (PISA 2009+), students in Moldova attained an average score on the PISA reading literacy scale of 43 percent, below the average attained in all OECD countries (of 81 percent). Only 39 percent of students

are proficient in mathematics (compared to the average of 75 percent in OECD countries) and 53 percent are proficient in science (compared to the average of 82 percent in OECD countries)¹⁹⁴.

CHART 37. CORRELATION BETWEEN GDP PER CAPITA, YEAR 2009, AND SCORE FOR THE QUALITY OF EDUCATIONAL SYSTEM, YEAR 2011



Note: Answer to the question "How well does the educational system in your country meet the needs of a competitive economy?" [1 = not well at all; 7 = very well] | 2010–11 weighted average.

Source: Global Competitiveness Report 2011–2012, World Economic Forum.

Moldova is also far behind the EU targets on education for 2020 and narrowing the gap requires some policy refinement at the governmental level.

Moldova is also far behind EU targets on education for 2020. Thus, while EU aims to reduce the drop-out rate¹⁹⁵ from 13.5 percent in 2011 to 10 percent by 2020, Moldova faces much higher drop-out rate of 22.4 percent in 2011, with higher prevalence among rural and male population. The drop-out rate has

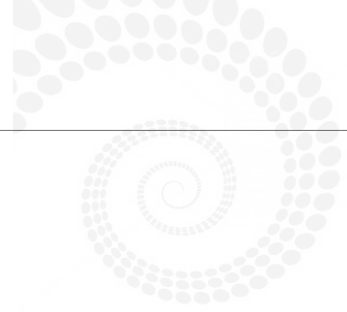
increased from 20.7 percent in 2000, thus underlining the inefficiency of educational policies in Moldova. The other target of Europe 2020 strategy to reach at least 40% of 30–34-year-olds completing third level education¹⁹⁶ (up from 34.6 in 2011) is more challenging for the male population in EU, where the rate is currently 10 percentage points lower. In Moldova, the indicator reached 21 percent in 2011, with a growth potential in the medium-term due to increase in tertiary education enrolment rate between 2001 and 2008. However, the significant gap between Moldova and EU average of this

FOOTNOTES

¹⁹⁴ PISA 2009 Plus Results, Australian Council for Educational Research, 2011; https://mypisa.acer.edu.au/images/mypisadoc/acer_pisa%202009%2B%20international.pdf

¹⁹⁵ The indicator is defined as the percentage of the population aged 18–24 with at most lower secondary education (ISCED levels 0, 1, 2 or 3 c short) and who were not in further education or training during the last four weeks preceding the survey.

¹⁹⁶ The share of the population aged 30–34 years who have successfully completed university or university-like (tertiary-level) education with an education level ISCED 5 or 6



indicator requires some policy refinement at the governmental level regarding the tertiary education in Moldova: the current demand for tertiary education should be met by adequate and high quality supply rather than administratively suppressed.

Education is recognized as a legitimate area of EU responsibility¹⁹⁷; however, the EU has a complementary role in this field, with member states having full responsibility over the education structure, curriculum and administration. At earlier stages of the EU-Moldova relationship, education was treated as a secondary subject¹⁹⁸. Currently, the Neighbourhood Policy promotes much more intense and deep cooperation in the field of education, research, culture and human capital development, with particular emphasis on high and vocational education. One of the main fields of action in the Eastern Partnership is education and the specific objectives are to¹⁹⁹:

- promote existing educational mobility programmes and maximize the usage of available resources;
- enhance cooperation between the universities in the EU and EaP countries to achieve further enlargement of the existent educational mobility programmes;
- improve the information flow from universities to students regarding the programmes;
- lobby for further development and equalization of student mobility programmes for EU and non-EU countries.

Furthermore, the European Neighbourhood and Partnership Instrument for Moldova (2011-2013)²⁰⁰ has a sub-priority of labour market reforms and education aimed at reforming the labour market system, management and services to enhance Moldova's competitiveness and ability to adjust to the economic challenges both at a national and international level. The ENPI also aims to

support the reform and upgrade of Moldova's education/training and research systems, including through exchange programmes, with a view to adapting it to the needs of the more demanding labour market.

Moldova has joined the European Education Area which is one of the most significant opportunities to give the country's educational sector a development boost. Funding has been provided for Moldova's participation in the TEMPUS Program for cooperation in higher education and Erasmus Mundus External Cooperation Window, which aims to encourage a greater mobility of students and the academic staff. However, the progress in modifying Moldova's educational system and curricula in line with European standards and good practices (university autonomy, decentralization of education, partnership between universities and employers) has been rather limited. The visa-free regime may become an important step towards reducing barriers for Moldovan students and teachers to engage in exchange projects and to be more actively exposed to European education standards²⁰¹.

So far, EU bodies have provided invaluable support for the reform of the educational sector. For instance, the European Training Foundation (ETF) has carried out a series of activities related to the development of the Vocational Education and Training System in Moldova and life-long learning process. In partnership with the Moldovan Ministry of Education, some important actions were undertaken:

- partial mapping of qualifications in Moldova;

FOOTNOTES

¹⁹⁷ Education was formally recognised as an area of European Union competency in the Maastricht Treaty which established the European Community in 1992.

¹⁹⁸ Directorate General External Policies of the Union, "Analysis of the EU Assistance to Moldova", 2008, accessible at <http://www.tepsa.be/download.pdf>.

¹⁹⁹ Eastern Partnership Roadmap 2012-2013: the multilateral dimension, http://ec.europa.eu/world/enp/docs/2012_enp_pack/e_pship_multilateral_en.pdf.

²⁰⁰ European Neighbourhood and Partnership Instrument. Republic of Moldova: National Indicative Programme 2011-2013 http://ec.europa.eu/world/enp/pdf/country/2011_enp_nip_moldova_en.pdf.

²⁰¹ Directorate General External Policies of the Union, "Analysis of the EU Assistance to Moldova", 2008, accessible at <http://www.tepsa.be/download.pdf>.

As reforms in the educational sector usually are expected to have effects only in long term, the role of life-long learning is crucial in modeling the labor supply in short and medium term.

- pilot testing of adult workers' skills in the construction sector;
- providing services to fill the database with information about the procedures of recognition and equivalence, used in some European states;
- launching of the "Clearing House Function," in July 2009, by the ETF, with the purpose of ensuring transparency and the compatibility of migrants' skills and qualifications.

The ETF initiative TORINO Process was launched in the Republic of Moldova on 30th March, 2010 that aims to analyze the efficiency of VET and contribution of the vocational education policies in every partner

country to the promotion of economic and social development sustainability objectives.

An important remark regarding policy impact is warranted. Even if all necessary actions are undertaken to reform and improve the outcomes of the formal educational system, most of the effects are expected in the long term. Therefore, the role of lifelong learning should be emphasized. Currently, it is almost ignored in Moldova and the share of adults involved in life-long learning is incomparable to any European countries (about 9 percent), being under 1 percent. Here the role EU has already helped Moldova in developing a framework for qualifications and developing life-long learning which need to become much bolder.



- **CLIMBING THE MODERNIZATION TREE: CONCLUSIONS AND POLICY RECOMMENDATIONS**



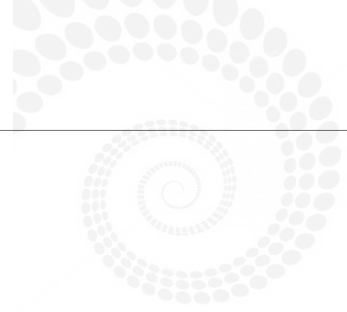
PROMOTE A HUMAN DEVELOPMENT–CENTRED POLICY-MAKING MODEL

Despite a high level of economic growth in the past decade, Moldova still remains the European country with the lowest performances in the human development as suggested by the level of the Human Development Index, Multidimensional Poverty Index and other indices. By engaging in European integration, Moldova may benefit from a significant boost in its human development process. However, low income levels, high income inequality, poor health, low enrolment in education, a low participation rate of women in social, economic and public life are key factors undermining both the process of human development of the Republic of Moldova as a process and the human capital as 'endowment'. As clearly demonstrated in this Report, deficient human capital stands as one of the most fundamental constraints likely to affect the efficiency, quality and the final status achieved by Moldova in its European integration. It is therefore imperative for the Government to focus on its development policies and the development of the country's human capital and on creating conditions for self-fulfilment of this capital. The policy should target the following aspects:

- Further improvement in the general business conditions, with a particular focus on conditions affecting the functioning of companies in rural areas and farms. In the institutional realm, the necessary improvements encompass a wide set of needs, but the most urgent are speedier and less expensive registration and liquidation of companies, the rationalization of the state control bodies, the adoption of internet-based fiscal reporting procedures and licensing, the promotion of real-time market information and development of payment mechanisms (including via mobile telephones). In the infrastructural realm, the development of companies, especially in rural areas, requires better access to roads, safe water, telecommunications and power grid. Only improved business conditions will result in more and better-paid jobs. And

by paying a particular attention to the rural economic activity the Government will support the transition of the rural economy from a model entirely based on agriculture to a more diversified one. In the short-term, this will help by achieving a more balanced economic growth benefiting a larger number of people and with a more equal distribution of the income generated. In the long term, this will ensure a smoother transition of the country from being a rural society to an urban one.

- Health is a public and private 'good' in itself, an intrinsic element of human development, which has to be carefully protected by individuals and the Government alike. At the same time, health can be seen as an important element shaping the quality of the human capital, with significant implications for the long-term economic and social development. For instance, individual health status is often an important determinant behind the choice a person makes between being economically active or inactive, with the latter option often resulting in an increased demand for social welfare. With all these perspectives in mind, the Government, NGOs, local public authorities, and other relevant stakeholders have to unite their efforts in promoting more healthy lifestyles, attitudes and behaviours. At the same time, because the health protection system plays an important role in public health outcomes, it is important for the Government to ensure a universal, corruption-free access to medical institutions, to ensure that motivations and institutions are in place to achieve a higher quality in the services provided and to actively promote the culture of health insurance among citizens. For the latter, both soft tools (like information, education, recognition of good practices) and more mandatory mechanisms can be used whenever is the case.



- Gender equality is an inherent element of the human development, a politically and socially desirable outcome. At the same time, gender equality can be approached from the same perspective of the human capital. In fact, gender inequality is one of the key deterrents of economic growth and modernizing society. This is why it is so important for the Government to ensure that Moldova ratifies all relevant ILO and other international conventions related to equal opportunities and equal pay and their proper implementation. It is also important to promote women's employment through information campaigns and NGOs can play a particularly important role in this regard. Apart from being fully in line with the EU requirements and having an empowering effect on women, with long-term social and cultural effects, a higher level of women employed, as said above, will significantly raise the productive capacities of Moldova's economy and will increase the competitiveness of the country within the more liberal trade regime with the EU. At the same time, a higher number of politically more active women is a promising enabler of a more superior model of policy-making and a more transparent and responsive political process.
- The education sector plays the most important role when it comes to shaping the human capital of any country. In the case of Moldova, education has an important role both in case of ensuring a smooth European integration for the country, but it also is inherently important for the long-term development of the country. From the European integration perspective, a better educated society is more able to adapt to new challenges and competitive pressures that European integration inevitably brings. From the development perspective, it has to be said that better educated individuals are not only more economically, socially and politically active and informed, but
- are also less inclined to rely on 'the state' when taking important decisions and are able to take the responsibility and risks of engaging in economic, social and political activities. Educated individuals are in fact the fundamentals of the long-term development of the country, as they are exactly those 'agents of change' creating new businesses, setting up new political parties, promoting new cultural values, and shaping social opinions. This is why it is just so important to more actively pursue reforms in the education sector, and, in the short-term, the professional education institutions deserve a special emphasis. Professional education (vocational schools, colleges, universities) need more autonomy, need to become part of the international academic and training circuit and adopt modern curricula. What is important for the sustainability of the reforms, is to have from the very beginning an active dialogue and participation of all stakeholders – students, parents, employers, educational establishments, local and regional public authorities and the Government. At the high policymaking level, there is a need for intensified inter-ministerial efforts to ensure a better connection between education and the labour market policies and to promote evidence-based dialogue on other cross-sector related issues.
- Moldovan integration into the European Integration Higher Education Area also has to be further and more actively promoted. This will contribute to the improvement of the quality of education through exchange programmes both for students and the teaching staff and the establishment of foreign universities branches in Moldova.
- At the same time, even with all above-mentioned reforms implemented, some people will still not be able to be part of the economic process, be it for reasons of structural unemployment, ill health, disability, retirement age or other reasons. It is important that adequate social safety nets are in place to aid people dealing with

temporary or permanent hardships while at the same time allowing them to remain dignified members of society. In this regard, the Government should further refine the social welfare policies, allowing for the best use of resources available while ensuring the highest possible social outcome. As the experience of 2011-2012 has shown, the testing of family means is the optimum principle allowing Moldovan Government to achieve a reduction in its poverty rate through its social welfare policy (social aid), while not dispersing the limited resources across those recipients which are not the poorest members of the society. Still, the Government has to further fine-tune the policy in order to reduce its exclusion errors, so that those most in need are part of the social aid scheme. With the same purpose in mind, the Government has to more actively promote the reform of

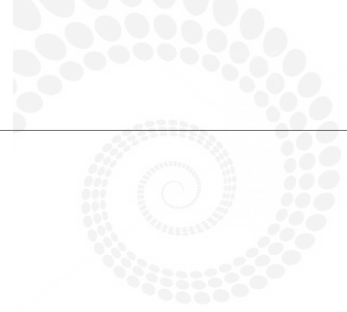
the pension system. The system has to be fairer (based on paid contributions rather than merits towards the state), effectively providing the resources sufficient for a decent living and being more sustainable in long run. With labour employment reaching historical lows, and a bleak demographic situation and outlook, the urgency of pensions' reforms is growing. The reform should include implementing a multi-pillar pension system (with a 'pay-as-you-go' pillar and mandatory and voluntary private cumulative pillars), abolishment of all unwarranted benefits and privileges and an alignment of the retirement age of men and women. A gradual increase in the retirement age for both genders should be seriously considered in the long-term. Despite low life-expectancy at birth in Moldova, the life expectancy at the age of 60 is closer to other countries and allows for a gradual increase in retirement age.

FURTHER CONSOLIDATE MOLDOVA'S EUROPEAN INTEGRATION TRACK

The Moldovan public is supportive to the European integration policy, but this support is rather intuitive, unstable and uninformed. At the same time, the political elites have recently become more divided regarding regional integration options, with some political parties actively promoting integrationist options alternative to the European integration. It is important for the Moldovan government to adopt a smart public communication strategy to educate the population towards a more informed and firmer social support that European integration needs to be successful in the long-term. The Government has to put institutions and rules in place to cultivate norms more in line with the underlying European values. Also, depending on the institutional evolution of the European Union, Moldova has to think how to build attitudes that are more sympathetic to Moldova's European integration vector among the EU members. A number of policy measures are called for:

- The Government of Moldova should develop and implement a communication strategy addressing the fears and false

expectations that Moldovan citizens have regarding the European integration vector, while, at the same time, better explaining the expected benefits and opportunities. It is important in this regard to adopt messages, channels and communicators able to touch peoples' hearts and minds. Messages have to be calibrated on the economic and social expectations of the citizens. It is important to explain how exactly European integration will improve the lives of every person. As suggested by the sociological survey, TV shows and internet-media look like the most effective and trustworthy channels targeting the highest number of people in the most efficient way. Because it so crucial that messages are frank and transparent, the Government should consider collaborating with NGOs, other civil society organizations and independent experts. Again, the sociological survey suggests these communicators would have a higher level of credibility than the Government or political parties.



- It is strategically imperative to cultivate the European self-identity and the sense of belonging to the wider Europe among Moldovan people and to promote the image of Moldova as being a European country. The survey has shown a weakly developed sense of being 'European' or living in a 'European country' among Moldovan people. It does not matter if these perceptions are about self-identity or people simply do not feel treated as Europeans. Both are of equal concern as they may undermine in the long term society's support provided to the European integration vector.
- Because a new regional integration option has been recently proposed by some influential political parties (joining the Russia-Belarus-Kazakhstan Customs Union), the Government has to engage in open discussions to clearly explain why this option is not actually the most optimal while considering all the development needs that Moldova has. In this regard, the present Report has brought evidence and arguments in favour of deepening the integration with European Union.
- The Government should also take the leadership to facilitate interreligious communication, to argue clearly against incitement to hate speech and to pursue the adoption of a more comprehensive anti-discrimination legislation in Moldova. Under no circumstances should the Government motivate the adoption of this measure as a mandatory requirement coming from the European institutions since this will only exacerbate the already existing scepticism and reservations about Moldova's European aspirations.
- How will the European Union evolve in the future is not entirely clear: will it go along the lines of the optimistic scenario of an 'ever closer union', will it rather become a 'multi-speed Europe' or follow a more in-between scenario? Moldovan authorities should keep a sharp eye on any important developments in this respect and react accordingly when necessary, by increasing administrative capacities in certain sectors and/or by increasing bilateral diplomatic efforts. It is highly recommended for the Government of Moldova to develop a non-paper outlining the most likely scenarios to occur at the European stage in the medium term, how would the Moldovan government react to each of these and what capabilities have to be built and/or strengthened?
- In relationship with the EU and individual EU members, Moldova should not necessarily expect to be officially recognized as candidate for joining the EU, but rather to behave like a candidate. To behave like a candidate means basically implementing full heartedly all commitments it undertook as part of the Association Agreement negotiations and even going slightly beyond these. This recommendation is addressed to the Government of Moldova as a whole, but also in particular to the Ministries of Foreign Affairs and European Integration, Justice, Economy and to the State Chancellery, which have a steering role in negotiating and coordinating European affairs. This behaviour should concern any cooperation area included in the Associations Agreement, from convergence with the *acquis* to full implementation of its requirements.

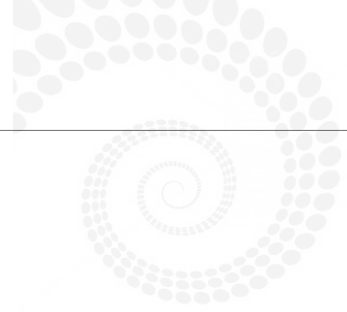
PREPARE FOR MANAGING THE IMPACT OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA

There are significant positive implications of further liberalization of the trade between Moldova and the EU for the Moldovan economy. At the same time, the Deep and Com-

prehensive Free Trade Area appears to be less politically appealing for the agrifood sector, as it will counterbalance the asymmetric trade liberalization between the EU and Moldova

in recent years. The core issues hampering the access of Moldovan agrifood producers on the European market are those related to the non-compliance with the sanitary and phytosanitary standards of agricultural products. Generally, the competitive shock of the Deep and Comprehensive Free Trade Agreement on industrial firms is likely to be insignificant due to an already very low protection level on the domestic market. However, the fact that women, in comparison with men, are employed in some industrial sectors likely to suffer a stronger competition shock (such as food industry, or wine making), reveals some important social implications of the trade liberalization with the EU. On the plus side, a series of industrial sectors which mostly employ women tend to be relatively competitive on the European market (e.g. textiles, clothing and footwear). To harness the development potential of the deeper economic links with the EU, while reducing the related risks, the Moldovan Government and businesses have to consider a number of actions:

- Despite the large amount of financial and technical resources, as well as time necessary to make the agrifood sector to align its international SPS standards, policy makers should consider as immediate priorities the adjustments of the quality standards for fruits and vegetables, which are among the most economically and socially important sectors. Introducing SPS in these sectors should not be financially very difficult, as standards are not very demanding.
- Moldovan trade policy should concentrate on enhancing the competitiveness of Moldovan agrifood producers, rather than protecting domestic markets through tariff barriers under an indefinitely long time-horizon. Bringing the domestic standards in line with the international ones and enforcing the domestic quality infrastructure are the key actions necessary for tapping the export potential of Moldova's agrifood sector. This is particularly related to SPS standards for meat products, dairy and live animals that are currently banned on the European market. As this is mainly related to low investments in the agrifood sector, increasing the investment attractiveness of these sectors should be a key policy objective.
- Introducing the SPS involves great challenges, because not all farms and producers will be able to afford them. To deal with these challenges, the Government has to negotiate exemptions or transition periods for the implementation of the SPS acquis by small- and medium-size farmers which sell only on the domestic market, a request from the EU and individual EU members technical and financial assistance for the implementation of the SPS and establish a safety net for small farmers and poorer consumers.
- On a more technical, but still important aspect, it is necessary to relax the requirements for meeting the criteria of rules of origin for the EU market, which would have a significant contribution to the exploration of industrial sector's export potential. This issue becomes even more crucial given the high importance of re-exports for the sector, especially for clothing and clothing accessories - the most important exported product category to EU. Therefore, it is necessary for Moldova to adhere to the Pan-Euro-Med cumulating of origin system, which could ease the access of Moldovan producers on the European market.
- While negotiating the removal of own customs tariffs against imports from the EU, the Moldovan government has to clearly understand what transition periods to negotiate with the EU for what specific products. This Report shows that Moldova really does not need any transition periods for most of its industrial products, except some specific products like essential oils, perfumes, leather manufactures,



non-metallic mineral products, but these transition periods should be short (up to 3 years).

- In the case of agricultural goods, Moldova can accept quite short transition periods of up to 3 years for such products like cereals, hides, skins, furs, oilseed, oleaginous fruits. The longest transition periods (around 10 years) are advisable for some agrifood products, including butter, pastry, cakes, biscuits, food preparations and sugar confectionery. And there is a group of in-between products, which are quite competitively produced by Moldova but at the same time are going to meet equally competitive products originating from the EU, including wine, spirits, vegetable preparations, tobacco products, jams and other products. For these products, a transition period towards full trade liberalization should be shorter than for those with comparative disadvantages, but longer than for products with comparative advantages and target the interval of 4-7 years.
- The relevant governmental, community-based and private institutions should undertake joint efforts in order to facilitate the transition of the workforce from the most vulnerable sectors to trade liberalization to those likely to benefit the most from DCFTA. Mostly, these actions should support training activities for professional requalification and the provision of ample information about existing opportunities on the labour market. The programmes should particularly target women which, given the employment structure, seem to be more exposed to the most vulnerable sectors, as well as the rural population where, usually, the information and economic opportunities are scarcer than in urban areas.
- At the same time, it is necessary to develop and adopt methods for the skills' anticipation on the labour market, using, inter alia, the European Centre for the Development of Vocational Training's

methodology and with contributions from all interested stakeholders. Special attention should be given to matching women skills on the labour market. Moldova's Government has to continue the work towards professional recognition of qualifications in line with the European Qualification Framework for life-long learning and to elaborate occupational standards in line with the EU standards. Apart from serving the legal employability of the Moldovan workforce in Europe, this will significantly increase the attractiveness of Moldova as a destination for European foreign direct investments into the Moldovan economy. A shortage of appropriate qualifications and skills are currently among the most important deterrents of these investments.

- Investment in life-long learning has to become a more prominent priority. Flexible formal education should be interconnected with the lifelong learning and adult education system. Creating incentives, including fiscal incentives, for the private investments in training is another right track to pursue. At the same time, as mentioned above, only a more friendly business environment will allow the business sector to divert financial flows from unofficial activities and unofficial payments to be spent more for staff development and the training of labour. One of the most significant challenges yet to be met by Moldova is the proper disclosure of property rights (particularly so in the banking sector). Another challenge is to ensure there are proper systems to access information about the company documents and to establish an electronic filing and access system. Probably the most significant challenge is to ensure the adequate protection of shareholders rights, particularly for minority shareholders. Lack of this protection is a significant factor deterring domestic investment.
- The DCFTA involve commitments to reforms and to improve consumers' welfare, empowering them to know and

defend their rights. Even though this will put additional pressures on businesses in the short term, in the long term, as all people are ultimately consumers, a proper enforcement of the consumers' rights as part of the DCFTA will lead to a socially more optimal equilibrium. In this regard, it is important to further consolidate the way public institutions deal with the problem of consumers' rights' protection and to ensure proper training of the judges on this matter.

- Moldova has adopted two important laws, on state aid and on competition. Again, their effective implementation will require institutional strengthening, including two key aspects: 1) the consolidation of the capacities of the National Agency for Competition Promotion (Competition Council) and 2) the training of judges to make rulings according to the provisions of the new laws.

PREPARE FOR THE VISA-LIBERALIZATION AND IMPROVE PUBLIC COMMUNICATION ON VISA

The visa-free regime will not boost large-scale labour migration because it gives no additional rights to work in the EU. Moreover, the migration phenomenon seems to have reached its apex. At the same time, the economic and social benefits of the potential visa-free regime will overcome the costs associated with some minor intensification of migration outflows. The economic benefits are expected to come mainly through the intensification of business and people-to-people contacts, a higher demand for tourism and transport services and reduced incentives for irregular migration. The main beneficiaries of the visa-free regime will be Moldovan citizens for whom the current visa regime is a major barrier for travelling to the EU and who can afford the associated travel costs. This category includes Moldovan migrants who are currently living and working illegally in the EU, scientists, university lecturers, students and other people engaged in international circuit of knowledge and ideas, people whose family members already migrated to a EU country.

- It is nonetheless important that the Government properly informs the

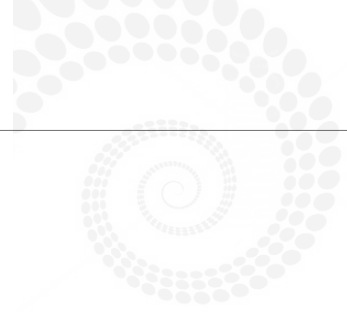
population about the limits of the visa-free regime. A clearer message should be sent that visa-free regime does not give any additional rights to work in the EU countries. Particularly, officials' statements on this issue should be free of any political bias, in order to make the population clearer understand the main advantages and limitations of this regime. As a result, it will diminish peoples' propensity to migrate after visa liberalization, mitigating the expected migration hump which is now overestimated as a result of many erroneous official declarations.

- The visa-free regime will not be granted without reforms undertaken by Moldova aimed at: (i) a substantial improvement of border control management between Moldova and Ukraine on the Transnistrian perimeter, and (ii) ensuring the full security of the civil status documents issued by the Transnistrian unrecognized authorities. Moldova's government should find the rights arguments and policies to ensure the collaboration of the Transnistrian authorities on these matters.

PROMOTE HUMAN RIGHTS AND NON-DISCRIMINATION POLICIES

Moldova has made substantial progress over the last two years in the areas related to governance, the justice system and media independence.

Notwithstanding the improvements that have been made - such as the adoption of the National Human Rights Plan of Action 2010-



2014, the establishment of the Centre for Human Rights of Moldova and the adoption of the Law on Freedom of Expression - there remain key issues to be further addressed:

- More efforts are necessary for the effective prohibition by law of any discriminatory behaviour, the consolidation of rights to freedom of religion or belief and securing the access to an impartial and efficient justice system. The effective implementation of these measures is essential for the internal transformation of the country, not only for successful European integration. Creating a legal framework that makes possible for people to achieve their individual goals is moreover conducive to higher living standards and human development.
- The Moldovan Government has to forcefully promote the eradication of the most outrageous practices such as

torture and ill-treatment. Despite many reports reflecting the large scale of this phenomenon in Moldova and many recommendations received from the Council of Europe, not enough has been made to expose the torture. In order to avoid the sentiment of solidarity affecting the independent investigations of cases of torture, it is top priority to create an independent institution in charge of investigating torture.

- The Moldovan Government, NGOs, local public authorities and media institutions have to unite their efforts to educate and promote the culture of appreciating the diversity within Moldovan society. In this regard, it is necessary to put in place not only the institutions able to prevent and eradicate all forms of discrimination from religious to financial to the work-place, but also to educate Moldovan citizens the intrinsic respect for these norms.

PROMOTE ACCESS TO JUSTICE

Access to justice lies at the heart of human rights' protection. Without it, human rights can be rendered meaningless. Access to legal advice and representation and fair trials are essential for a society that respects human rights. It is furthermore a specific right included in the Charter of Fundamental Rights of the EU. In article 47, the Charter states: "everyone whose rights and freedoms guaranteed by the law of the Union are violated has the right to an effective remedy before a tribunal". Moreover, the Treaty on the Functioning of the EU (TFEU) stipulates that the "Union shall facilitate access to justice, in particular through the principle of mutual recognition of judicial and extrajudicial decisions in civil matters". To promote access to justice, Moldovan government should consider the following measures:

- Further developing primary legal aid and expanding it to non-criminal cases. Donors have supported the emergence of paralegals in Moldova, but donors' funds are insufficient and the Government has

to identify the necessary tools and means to further promote this mechanism. The expansion of the legal aid system to non-criminal cases is an important step toward an effective enforcement of people's rights, in particular in rural communities. Furthermore, the potential litigants need to be informed about the availability of legal aid either when filing a lawsuit or at the moment of reporting damages claimed.

- Another notable track in ensuring access to justice in Moldova would be the development of alternative dispute resolution (ADR) mechanisms, such as quasi-judicial procedures. This is an economically efficient and socially beneficial institutional arrangement for it considerably reduces the workload of national courts, reduces litigation costs and hence gives more chances for a rapid and less costly trial for litigants that do not have the financial resources to go to court but have high interests at stake.

- Currently parties to a dispute can claim their rights before a mediator and thus avoid the public courts. This is a voluntary choice and according to Law nr. 134-XVI, article 5, paragraph (1) the claimants are not obliged to resolve their dispute through an alternative dispute resolution. However, making it a mandatory

requirement on a case-by-case basis, for instance in family, labour or commercial disputes, would develop the sector of ADRs and improve the public courts system by re-allocating an important number of cases from public courts to mediators.

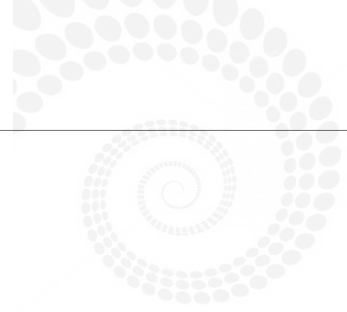
DESIGNING AN INDEPENDENT AND EFFICIENT JUDICIAL SYSTEM

With regard to the functioning of public courts, independent and efficient courts are both a precondition for Moldova's further cooperation with the EU and its further economic performances as compared to the member states. The main obstacles to a functioning justice system in the Republic of Moldova are related to: political interference in the judicial system (cited during the protests that followed the 2009 Parliamentary elections); arbitrary decisions in property matters; the excessive length of public proceedings; a high level of perceived corruption. As shown in our Report, significant improvements in Moldovan judicial system will appear when European aid and expertise will be focused on the accountability of single judges in their individual decision-making as opposed to the judiciary as a group. A number of steps are required to increase judges' public accountability and to set in place the right incentives for judges:

- An increase in the financial resources for the justice system is certainly necessary, including higher wages for judges. At the same time, other mechanisms that can affect courts' organization, the selection mechanism of judges and the sanctioning of non-adequate performance, are necessary.
- Since empirical evidence suggests that collective decisions are less likely to lead to erroneous and biased decisions, in

the context of the reform of the justice system, jury participation and involvement of non-judges should be considered as a complementary element to judges in the process of legal decision-making. However, careful attention should be paid to the trade-off between judges' specialized skills (the benefits from the division of labour) and the "general wisdom" in using popular juries.

- Special resources and attention should be paid to implementing a system of case-management and public access to the final decision rendered by the court. If a court is obliged to publish its decisions, then departing from the letter of the law becomes more costly. The necessity for judicial decisions be accompanied by an extended reasoning is closely related to this point.
- It is necessary to implement a system of judicial individual statistics. It will inform the public about the number of cases filed and the number of cases resolved, thereby facilitating the ability to measure the performance of individual judges. Another aspect of judicial accountability and the transparency of judges' decisions is whether court proceedings occur behind closed doors or whether they are open to the public. Transparent and open court hearings are crucial for restraining judges from engaging in arbitrary decisions.



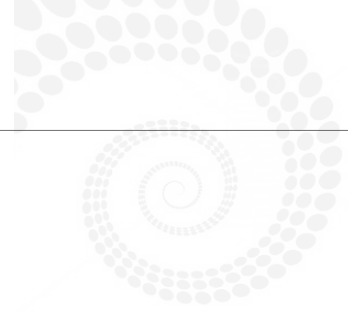
INCREASE ADMINISTRATIVE CAPACITIES FOR 'ABSORPTION' AND INTERNALIZATION OF EUROPEAN INTEGRATION

The benefits of European integration for human development will not come by themselves; a successful European integration process requires, first of all, a well-developed human capital to support the process of European integration. A responsible public service, a skilful and competitive labour force employed by the real sector of the economy and a strong civil society able to contribute to the achievement of the goals set - these are the fundamental prerequisites for European integration to bring new opportunities for Moldova and its population.

- Modern human resources management principles and practices should be applied in all public institutions. These should look not only at set technical tasks, but also the dynamics of European Integration process, for constant capacity development. It is necessary to introduce performance based indicators for hiring and remuneration. At the same time, it is important that capacity building measures are synchronized at the three key levels: legal, institutional and individual.
- Project partnerships between local authorities and civil society should be encouraged in order to compensate the shortage of human resources in the local public administration with competences and skills in the civil society. At the same time, in the long term the Government has to design appropriate mechanisms to consolidate the human and financial resources in the local public administration.
- Effective fiscal and administrative decentralization should be accompanied by the territorial-administrative reform of the country. The latter is an unavoidable measure in order to consolidate the capacities of the local public authorities. Even though it is one of the most painful decisions, it is a key requirement for decentralization. A fragmented territory does not allow for the efficient use of scarce human and financial resources that Moldova has. It should be understood that only after territorial-administrative optimization, fiscal decentralization may have a positive impact on the development of local communities.
- Decentralization of some public services to the extent possible for ensuring decent quality should gain strength and speed. The decentralization of public services ought to take into consideration the needs of each group of population, especially the underprivileged: women, disabled, ethnical minorities, etc. In this regard, it is important for the Public Administration Reform and Decentralization Reform to be jointly accomplished. The aim is to have a strong public service at every level performing their responsibilities as best they can based on an appropriate framework of financial resources.

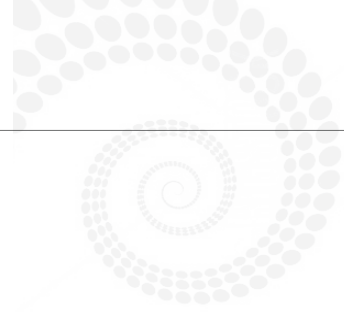
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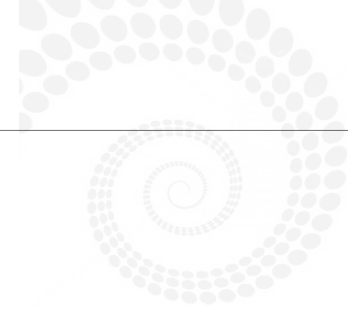


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ANNEXES

Annex 1. HUMAN DEVELOPMENT INDICATORS OF MOLDOVA, PERIOD 2000-2011

	2000	2005	2006	2007	2008	2009	2010	2011
HDI	0.586	0.631	0.637	0.638	0.644	0.638	0.644	0.649
HEALTH								
Expenditure on health, public (% of GDP)	...	4.2	4.4	5.2	...	5.2	...	...
Under-five mortality rate (per 1,000 live births)	24	20	...	18	17	17	...	...
Life expectancy at birth (years)	67	67.9	68	68.2	68.4	68.7	69	69.3
Health index (life expectancy)	0.741	0.755	0.757	0.76	0.764	0.768	0.773	0.778
EDUCATION								
Public expenditure on education (% of GDP)	4.5	7.2	7.5	8.3	8.2	9.6	...	...
Expected years of schooling (of children under 7) (years)	11.4	12	12.2	12.1	12.1	11.9	11.9	11.9 ¹
Adult literacy rate, both sexes (% aged 15 and above)	96.7	...	...	...	...	98.5	...	...
Mean years of schooling (of adults) (years)	9	9.4	9.4	9.5	9.6	9.6	9.7	9.7 ¹
Education index (expected and mean years of schooling)	0.675	0.708	0.715	0.716	0.716	0.714	0.716	0.716
Combined gross enrolment in education (both sexes) (%)	71.6	71.1	71.9	71.6	70.5	69.5	...	...
INCOME								
GDP per capita in PPP terms (constant 2005 international \$)	1657	2362	2482	2564	2768	2592	...	...
GNI per capita in PPP terms (constant 2005 international \$)	1662	2650	2778	2809	3033	2731	2923	3058
Income index (GNI per capita)	0.403	0.469	0.476	0.478	0.489	0.474	0.483	0.49
INEQUALITY								
Income Gini coefficient	...	...	...	...	38	...	...	...
Loss due to inequality in life expectancy (%)	...	...	...	...	...	...	13.1	11.2
Loss due to inequality in education (%)	...	...	...	...	...	...	7.5	6.1
Loss due to inequality in income (%)	...	...	...	...	...	...	19.4	18.9
Inequality-adjusted education index	...	...	...	...	...	...	...	0.673
Inequality-adjusted life expectancy index	...	...	...	...	...	...	...	0.691
Inequality-adjusted income index	...	...	...	...	...	...	...	0.397
Inequality-adjusted HDI	...	...	...	...	...	...	...	0.569
POVERTY								
Multidimensional Poverty Index (%)	...	...	...	...	...	...	...	0.007²
MPI: Intensity of deprivation	...	...	...	...	...	...	...	36.7 ²
Headcount of MPI poor (% of population)	...	...	...	...	...	...	...	1.9 ²



	2000	2005	2006	2007	2008	2009	2010	2011
Population living below \$1.25 PPP per day (%)	...	...	...	...	1.9	...	...	...
GENDER								
Population with at least secondary education (Ratio of female to male rates)	0.902	0.915	...	...	...	...	0.929	...
Adolescent fertility rate (births per 1,000 women aged 15-19)	58.1	37.4	...	...	33.8	...	33.8	...
Labour force participation rate (Ratio of female to male shares)	0.871	0.921	0.915	0.911	0.905	0.875	...	...
Gender Inequality Index	...	0.312	...	...	...	...	0.298	...
Shares in parliament, female-male ratio	...	0.14	...	0.278	0.312	...	0.232	...
Maternal mortality ratio (deaths of women per 100,000 live births)	39	25	...	...	32	...	...	...
SUSTAINABILITY								
Endangered species (% of all species)	...	...	...	...	...	...	6	...
Ecological footprint of consumption (global hectares per capita)	...	...	1.7	1.4	...	...	...	...
Adjusted net savings (% of GNI)	11.1	15.6	16.3	21.2	18.2	16.2¹	...	...
Greenhouse gases per capita (tones of CO2 equivalent)	0	1.1	...	...	...	...	...	...
Forest area (thousand ha)	324	363	368	372	377	...	...	...
Impact of natural disasters: number of deaths (average per year per million people)	...	...	...	...	...	...	1	...
Impact of natural disasters: population affected (average per year per million people)	...	...	...	...	...	...	6.532	...
Environmental Performance Index	...	...	...	...	...	...	58.8	...
Forest area (% of total land area)	9.9	11	11.2	11.3	11.5	...	...	...
Carbon Dioxide Emissions per capita (tones)	5.8	7.7	7.5	1.3	1.3	...	...	...
DEMOGRAPHY								
Population, total both sexes (thousands)	4106.7	3766.9	3715	3671.5	3635.1	3602.9	3572.9	3544.9
Population, urban (% of population)	43.2	43.9	44.7	45.4	46.2	47.0	47.7	54.2
Population, fe+E44:E53male (thousands)	2146.2	1976.3	1950.2	1928.2	1909.6	1893.0	1877.6	1863.6
Population, male (thousands)	1960.5	1790.5	1764.8	1743.3	1725.5	1709.8	1695.3	1681.7

Note: 1 - Data refer to 2011 or the most recent year available; 2 - Published in 2011 using data from 2000-2010.

Source: International Human Development Indicators, UNDP, 2011; Some missing data could have been collected from national sources, but they are not fully compatible with data published by UN; they cannot be used for international comparisons and computation of composite indicators. Therefore, they were omitted from the table.

Annex 2. COMPARISON OF MAIN MOLDOVAN AGRIFOOD PRODUCTS EXPORTED TO EU, YEARS 2006 AND 2010

2006				2010			
SITC code	Commodity	Share in total agrifood exports, percent	Main export destinations, percent of total	SITC code	Commodity	Share in total agrifood exports, percent	Main export destinations, percent of total
577	Fresh and dried nuts	20.80	France (56.8*), Greece (13.5), Austria (13.1)	577	Fresh and dried nuts	22.10	France (49.4), Greece (17.8), Austria (10.1)
1121	Wine of fresh grapes	19.70	Romania (68.0), Poland (11.5)	4215	Sunflower seed oil	12.60	Romania (83.5)
4215	Sunflower seed oil	10.60	Romania (69.7), Poland (21.7)	2224	Sunflower seeds	11.10	UK (39.3), Romania (14.5)
599	Fruit juices	6.70	Austria (59.1), Germany (30.0)	1121	Wine of fresh grapes	7.80	Poland (42.7), Czech Rep. (22.1), Romania (10.1)
2224	Sunflower seeds	5.60	Romania (48.0), UK (28.1), Hungary (13.3)	412	Other wheat and meslin	7.00	Romania (31.8), UK (18.7)
412	Other wheat and meslin	4.70	Hungary (78)	430	Barley, unmilled	6.10	Romania (54.2)
612	Other beet or cane sugar and chemically pure sucrose	4.50	Romania (100)	599	Fruit juices	5.90	Germany (37.8), Poland (28.3), Austria (24.7)
251	Birds' eggs, in shell	2.70	Romania (100)	2226	Rape, colza and mustard seeds	3.80	UK (63.8)
449	Maize	1.90	Hungary (48.6), Romania (40.9)	449	Maize, other	3.10	Italy (37.3), Greece (29.5)
579	Dried fruit, nes.	1.70	Romania (25.7), Germany (22.0)	579	Dried fruit, nes.	1.70	Austria (43.7), Greece (19.5)

Note: * - figures in parentheses represent the shares of the countries in exports of the corresponding commodity.

Source: Author computations based on UN COMTRADE database.



Annex 3. COMPARISON OF MAIN MOLDOVAN AGRIFOOD PRODUCTS IMPORTED FROM EU, YEARS 2006 AND 2010

2006				2010			
SITC code	Commodity	Share in total agrifood imports, percent	Main import origins, percent of total	SITC code	Commodity	Share in total agrifood imports, percent	Main import origins, percent of total
1110	Waters	6.1	Romania (91.5*)	0579	Fruits, nes	11.4	Greece (96.2)
2926	Bulbs, tubers and rhizomes of flowering or of foliage plants	4.75	France (36.6), Italy (34.8)	0989	Food preparations, nes	4.6	Germany (27.4), Romania (14.3)
0342	Frozen fish	4.3	UK (35.4), Netherlands (28)	1211	Tobacco, not stemmed/ stripped	4.0	Greece (60.9), Bulgaria (38.5)
0989	Food preparations, nes	4.1	Germany (28.1)	0541	Potatoes, fresh or chilled	3.8	Romania (35.8), Poland (26.6)
0567	Prepared vegetables, nes	4.0	Spain (40.3), Romania (37.8)	0819	Food wastes and prepared animal feeds	3.7	Hungary (45.8)
0577	Nuts	3.5	France (96.5)	1110	Waters	3.3	Romania (91.4)
1124	Spirits	3.3	France (82.5)	1124	Spirits	3.0	France (42.3), UK (21.9)
0482	Malt	3.2	Czech Rep (95.3)	0342	Frozen fish	3.0	UK (58.8)
0579	Fruits, nes	3.1	Norway (96.0)	1212	Tobacco, wholly or partly stemmed/ stripped	3.0	Greece (43.2), Italy (55.0)
2925	Seeds	2.6	Germany (59.8)	0122	Meat of swine	2.9	Germany (36.1), Belgium (22.6)

Note: * - figures in parentheses represent the shares of the countries in exports of the corresponding commodity.

Source: Author computations based on UN COMTRADE database.

Annex 4. REVEALED COMPARATIVE ADVANTAGE INDEX FOR MOLDOVAN AGRIFOOD PRODUCTS VIS-À-VIS THE EU-27, PERIOD 2005-2010

	2005	2006	2007	2008	2009	2010
Cereals	19.19	15.76	1.79	5.39	21.09	28.60
Hides, Skins, Furskins	458.17	14.80	13.31	7.98	7.73	13.65
Oilseed, Oleag. Fruit	7.61	7.50	7.67	8.50	10.78	12.15
Veg. Fats and Oils	7.13	11.70	12.50	9.10	8.67	11.61
Beverages	7.56	23.12	9.46	10.99	10.91	10.25
Vegetables and Fruit	8.58	8.32	10.47	5.39	6.05	7.38
Sugar, Sugr. Prep, Honey	7.79	11.70	2.69	11.52	13.09	3.04
Tobacco, Tobacco Manufact	1.17	3.06	1.97	3.69	1.98	1.62
Animal Feed	1.50	1.20	0.45	0.49	0.33	0.81
Cork and Wood	0.31	0.54	0.59	0.53	0.62	0.53
Crude Animal, Veg. Mater	1.27	0.40	0.68	0.35	0.44	0.48
Misc. Edible Products	0.47	0.33	3.43	1.52	0.35	0.46
Animal, Veg. Fats, Oils, nes	0.48	0.75	2.71	0.86	0.68	0.43
Coffee, Tea, Cocoa, Spices	0.80	0.65	0.47	0.50	0.47	0.41
Textile Fibres	0.36	0.14	1.36	0.15	0.04	0.37
Pulp and Waste Paper	0.18	0.04	0.09	0.10	0.25	0.13
Meat, Meat Preparations	0.13	0.07	0.15	0.05	0.04	0.04
Dairy Products, Eggs	23.41	25.10	0.07	0.00	0.00	0.03
Crude Rubber	0.00	0.00	0.01	0.00	0.11	0.01
Fish, Crustaceans	0.01	0.00	0.00	0.00	0.00	0.00
Live Animals	0.02	0.09	0.00	0.01	0.00	0.00
Animal Oils and Fats	0.00	0.00	0.00	0.00	0.00	0.00

Note: Sectors with revealed comparative advantages are marked with bold.

Source: Author's computation based on UN COMTRADE.



Annex 5. MOLDOVAN AGRIFOOD PRODUCTS WITH COMPETITIVE DISADVANTAGES IN COMPARISON WITH EU, YEAR 2010

SITC code	Commodity name	RCA index of Moldova	RCA index of EU-27	Custom duty applied by Moldova for imports (level of protection)
0222	Milk concentrated of sweetened	0.13	2.12	10 percent
0230	Butter and other fats and oils derived from milk	0.3	1.1	15 percent/20 percent + EUR500/t
0484	Bread, pastry, cakes, biscuits and other bakers	0.5	1.2	10 percent/15 percent
0622	Sugar confectionery (including white chocolate)	0.5	1.0	15 percent
0732	Other food preparations containing cocoa, in blocks, slabs or bars	0.7	1.1	15 percent
0739	Food preparations containing cocoa, nes	0.2	1.7	15 percent
0989	Food preparations, nes	0.04	2.1	0 percent/15 percent
1110	Waters	0.3	1.8	15 percent
1222	Cigarettes containing tobacco	0.9	1.4	EUR 3/1000 units
2321	Synthetic rubber	0.3	1.2	0 percent/5 percent
2925	Seeds, etc., for sowing	0.2	2.3	0 percent/5 percent/10 percent/15 percent
2926	Bulbs, cuttings, live plant	0.3	1.8	5 percent

Source: Author's computation based on UN COMTRADE and Law on Customs Tariff of Republic of Moldova.

Annex 6. MOLDOVAN AGRIFOOD PRODUCTS WITH COMPETITIVE ADVANTAGES IN COMPARISON WITH EU, YEAR 2010

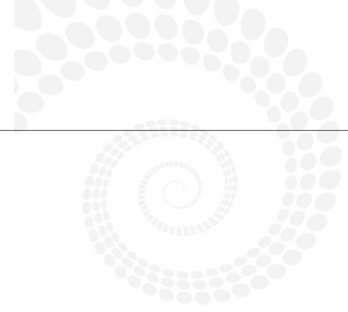
SITC code	Commodity name	RCA index of Moldova	RCA index of EU-27	Custom duty applied by Moldova for imports (level of protection)
0441	Maize seed	4.2	0.97	10 percent
0575	Grapes, fresh or dried	2.9	0.3	0 percent/10 percent/15 percent
0577	Edible nuts fresh, dried	8.0	0.2	10 percent
0579	Fruits, fresh, dried, nes	4.8	0.7	10 percent/15 percent/20 percent
0599	Juices, other than citrus	5.3	0.8	0 percent/10 percent/15 percent
0615	Molasses	3.0	0.1	15 percent
2111	Bovine, equine hides, skin	1.6	0.9	0 percent
2226	Rape, colza, mustard seeds	3.3	0.2	0 percent
4215	Sunflower seed oil	10.5	0.3	15 percent
2224	Sunflower seeds	37.4	1.2	10 percent

Source: Author's computation based on UN COMTRADE.

Annex 7. THE EXPORTED COMMODITIES WITH THE STRONGEST COMPETITION AND THE LIST OF MAIN COMPETITORS FOR MOLDOVAN EXPORTS, YEAR 2010

SITC code	Commodity	Main competitors
0412	Other wheat and meslin	Bulgaria, Czech Republic, France, Hungary, Latvia, Lithuania, Romania, Slovakia.
0430	Barley, unmilled	Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Romania, Slovakia, Sweden, Great Britain.
0441	Maize seed	Austria, France, Hungary, Romania, Slovakia.
0577	Edible nuts fresh, dried	Luxembourg, Spain.
0579	Fruits, fresh, dried, nes	Belgium, Greece, Italy, Lithuania, Netherlands, Portugal, Spain.
0581	Jams, fruit jellies, marmalades, fruit or nut pastes	Austria, Belgium, Bulgaria, Denmark, France, Germany, Greece, Italy, Latvia, Poland, Australia, China, Turkey, Ukraine, USA
0599	Juices, other than citrus	Austria, Cyprus, Germany, Hungary, Italy, Netherlands, Poland, Spain.
0615	Molasses	Lithuania, Poland, Slovakia.
1121	Wine of fresh grapes	Bulgaria, France, Italy, Luxembourg, Portugal, Spain, Australia, Chile, South Africa.
1124	Spirits	Bulgaria, Estonia, Finland, France, Ireland, Latvia, Sweden, Great Britain, New Zealand.
2111	Bovine, equine hides, skin	Austria, Czech Republic, Germany, Ireland, Romania, Slovakia, Slovenia, Great Britain, Australia, New Zealand, South Africa, USA.
2224	Sunflower seeds	Austria, Czech Republic, France, Hungary, Romania, Slovakia, Argentina, China, South Africa, Turkey, Ukraine, USA.
2226	Rape, colza and mustard seeds	Bulgaria, Czech Republic, Estonia, France, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Australia, Ukraine.
4215	Sunflower seed oil	Bulgaria, France, Hungary, Netherlands, Romania, Slovakia, Argentina, South Africa, Ukraine.

Source: Author's computation based on UN COMTRADE.



Annex 8. THE COMPARISON OF EXPORT PRICES OF MOLDOVAN PRODUCERS WITH THE MAIN PRODUCERS FROM EU AND NON-EU COUNTRIES, YEAR 2010

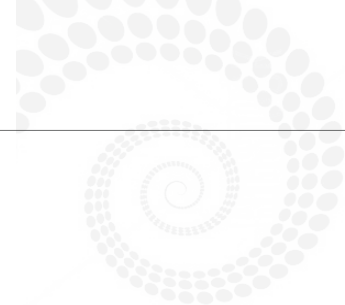
SITC code	Commodity Name	Export price of Moldovan producers	Export price of EU producers	Export price of non-EU producers
05776	Walnuts, fresh or dried, whether or not shelled or peeled	4.8	Germany: 4.2; Spain: 3.7; Italy: 3.3	USA: 3.3; Chile: 6.7
11217	Wine of fresh grapes (other than sparkling wine); grape must with ferment	1.2	Great Britain: 2.8; Germany: 1.8; Netherlands: 2.5; Belgium: 3.2	Australia: 2.3; Chile: 2.1
05994	Apple juice	1.1	Germany: 1.2; Netherlands: 0.9; Great Britain: 1.1	China: 1.0; Turkey: 1.3
2112	Whole hides and skins of bovine animals, weight per skin < 8 kg when dried	4.0	Italy: 2.3; Netherlands: 7.5; Great Britain: 1.6	USA: 1.9; Switzerland: 5.2; Australia: 2.1
02224	Sunflower seeds	0.3	Spain: 0.4; Germany: 0.7; Netherlands: 0.4	USA: 1.2; China: 1.1
42159	Sunflower seed or safflower oil refined and fractions thereof	1.0	Germany: 1.2; Belgium: 1.2; Great Britain: 1.2; Netherlands: 1.1	Ukraine: 0.9; Argentina: 1
42151	Sunflower seed or safflower oil, crude	0.8	Germany: 1.0; Netherlands: 0.9; Great Britain: 1.1	Ukraine: 0.8; Argentina: 0.8
0412	Other wheat (including spelt) and meslin, unmilled	0.1	Spain: 0.2; Netherlands: 0.2; Italy: 0.2	Ukraine: 0.1; USA: 0.2
22261	Rape or colza seeds	0.4	Germany: 0.4; Netherlands: 0.5; Belgium: 0.4	Ukraine: 0.4; Australia: 0.4
06129	Other beet or cane sugar in solid form, other than flavoured or coloured	0.6	Italy: 0.8; Spain: 0.8; Germany: 0.8	Brazil: 0.4

Source: Author computations based on COMTRADE.

Annex 9. COMPARISON OF MAIN MOLDOVAN INDUSTRIAL PRODUCTS EXPORTED TO EU, YEARS 2006 AND 2010

2006				2010			
SITC code	Commodity	Share in total industrial export, percent	Main export destinations, percent of total	SITC code	Commodity	Share in total industrial exports, percent	Main export destinations, percent of total
84	Clothing and clothing accessories	59	Italy (47.8 of total, 49 of which – re-exports), Germany (14.6 of total, 50 of which – re-exports), UK (12.3 of total, 47.5 of which – re-exports)	84	Clothing and clothing accessories	45.5	Italy (44.3 of total, 46.7 of which – re-exports), UK (26.8 of total, 44.9 of which – re-exports), Germany (11.3 of total, 49.6 of which – re-exports)
85	Footwear	10.5	Slovakia (44.3 of total, 50 of which – re-exports), Italy (36.3 of total, 49.9 of which – re-exports)	77	Electrical machinery	23.9	Romania (97)
67	Iron and steel	5.4	Poland (46.1), Slovakia (16.1)	85	Footwear	6.3	Italy (47.4 of total, 42.8 of which – re-exports), Romania (44.8 of total, 49.8 of which – re-exports)
89	Miscellaneous manufactured articles	3.8	Romania (72.4 of total, 38.8 of which – re-exports), Italy (11.6 of total, 33.2 of which – re-exports).	82	Furniture, bedding, mattresses	4.9	Poland (39.5 of total, 50 of which – re-exports), Romania (16.2 of total, 25.6 of which – re-exports)
65	Textile yarn, fabrics and related products	3.2	Romania (50.8 of total, 42.7 of which – re-exports)	89	Miscellaneous manufactured articles	2.9	Romania (77.4 of total, 41.8 of which – re-exports).
83	Travel goods, handbags and similar goods	2.8	Romania (62.8 of total, 23.7 of which – re-exports).	65	Textile yarn, fabrics and related products	2.3	Romania (35.1 of total, 47.9 of which – re-exports), Italy (29.8 of total, 46.2 of which – re-exports)
66	Non-metallic mineral manufactures	2.4	Romania (84)	66	Non-metallic mineral manufactures	2.1	Romania (65), Bulgaria (14.5)
69	Manufactures of metals	2.0	Romania (33.3 of total, 23.4 of which – re-exports), Italy (22.6 of total, 43.5 of which – re-exports).	83	Travel goods, handbags and similar goods	1.9	Italy (82.8), Germany (16.9)
77	Electrical machinery	1.5	Italy (26.3 of total, 48.1 of which – re-exports), Bulgaria (20.1)	72	Machinery specialized for particular industries	1.8	Germany (45.2 of total, 48.6 of which – re-exports), Romania (33.6 of total, 37.8 of which – re-exports)
82	Furniture, bedding, mattresses	1.2	Romania (47.1), Slovakia (33.6 of total, 50 of which – re-exports).	78	Road vehicles	1.2	Czech Republic (36.7 of total, 50 of which – re-exports), Belgium (23.9 of total, 17.6 of which – re-exports)

Source: Author computations based on UN COMTRADE database.



Annex 10. COMPARISON OF MAIN INDUSTRIAL PRODUCTS IMPORTED FROM THE EU, YEARS 2006 AND 2010

2006				2010			
SITC code	Commodity	Share in total industrial imports	Main import origins	SITC code	Commodity	Share in total industrial imports	Main import origins
65	Textile yarn, fabrics and related products	12.6	Italy (47.2), Germany (14.4), Belgium (13.1)	65	Textile yarn, fabrics and related products	9.9	Textile yarn, fabrics and related products
78	Road vehicles	7.7	Germany (47.8)	78	Road vehicles	9.7	Road vehicles
69	Manufactures of metals	7.4	Italy (26.9), Romania (24.8), Germany (17.7)	77	Electrical machinery	9.3	Electrical machinery
74	General industry machinery and equipment	6.8	Germany (31.1), Italy (25.4)	54	Medicinal and pharmaceutical products	9.0	Medicinal and pharmaceutical products
54	Medicinal and pharmaceutical products	5.2	Germany (20.2), Hungary (14.1), Italy (13.7)	74	General industry machinery and equipment	5.5	General industry machinery and equipment
89	Miscellaneous manufactured articles	4.7	Romania (22.9), Italy (21.8), Germany (17.1)	72	Machinery specialized for particular industries	4.8	Machinery specialized for particular industries
77	Electrical machinery	4.6	Italy (20.9), Romania (17.4), Germany (16.1)	69	Manufactures of metals	4.8	Manufactures of metals
55	Essential oils and perfume materials	4.5	France (18.8), Germany (18.1), Romania (16.9)	55	Essential oils and perfume materials	4.8	Essential oils and perfume materials
72	Machinery specialized for particular industries	4.3	Germany (34.1), Italy (20.5), Belgium (13.2)	89	Miscellaneous manufactured articles	4.5	Miscellaneous manufactured articles
58	Plastics in non-primary forms	3.6	Romania (39.8), Germany (20.1)	76	Telecommunication, TV, sound, video	3.2	Telecommunication, TV, sound, video

Source: Author computations based on UN COMTRADE database.

Annex 11. REVEALED COMPARATIVE ADVANTAGE INDEX FOR MOLDOVAN INDUSTRIAL PRODUCTS, PERIOD 2005-2010

	2005	2006	2007	2008	2009	2010
Clothing and clothing accessories	11.97	14.34	13.89	13.42	11.54	11.81
Footwear	12.60	12.48	12.86	13.00	7.11	7.44
Furniture, bedding, mattresses	1.06	1.44	2.23	3.11	2.67	5.90
Travel goods, handbags and similar goods	7.25	7.45	8.02	8.56	5.23	4.90
Electrical machinery	0.20	0.27	1.05	4.32	5.19	3.93
Essential oils and perfume materials	3.70	2.60	2.41	2.63	2.59	2.85
Textile yarn, fabrics and related products	1.26	2.43	2.14	2.59	2.28	1.96
Machinery specialized for particular industries	0.66	0.57	1.30	0.64	0.79	1.90
Paper, paperboard and articles thereof	1.28	2.02	3.55	1.76	0.95	1.86
Leather manufactures and dressed furskins	4.44	3.75	2.53	4.84	9.64	1.46
Non-metallic mineral manufactures	0.99	1.39	2.24	2.26	1.38	1.42
Miscellaneous manufactured articles	0.58	1.10	1.17	0.74	0.95	0.92
Cork and wood manufactures (excluding furniture)	0.29	0.23	0.39	0.77	1.00	0.86
Manufactures of metals	1.94	1.28	1.10	1.00	1.41	0.78
Prefabricated buildings, sanitary, heating, lighting	1.57	1.73	1.39	1.23	0.86	0.63
General industry machinery and equipment	0.15	0.21	0.18	0.26	0.30	0.46
Road vehicles	0.14	0.23	0.20	0.30	0.45	0.46
Metalworking machinery	0.13	0.28	0.44	0.47	0.27	0.44
Professional, scientific and controlling instruments and apparatus	0.15	0.35	0.67	0.72	0.36	0.26
Medicinal and pharmaceutical products	0.06	0.06	0.05	0.05	0.16	0.18
Plastics in primary forms	0.05	0.04	0.17	0.18	0.14	0.16
Rubber manufactures	1.40	1.17	0.13	0.20	1.52	0.16
Photographic apparatus and optical goods, clocks	0.08	0.16	0.11	0.08	0.03	0.13
Telecommunication, TV, sound, video	0.07	0.05	0.03	0.02	0.05	0.13
Plastics in non-primary forms	0.53	0.34	0.17	0.14	0.27	0.12
Iron and steel	1.82	2.58	1.34	1.60	0.17	0.12
Power-generating machinery and equipment	0.63	0.14	0.09	0.13	0.12	0.08
Dyeing, tanning and coloring materials	0.26	0.10	0.16	0.18	0.24	0.07
Other transport equipment	0.03	0.05	0.01	0.02	0.03	0.06
Chemical materials and products	0.09	0.19	0.07	0.05	0.07	0.05
Non-metallic mineral manufactures	2.03	0.24	0.20	0.09	0.15	0.03
Office machines and computers	0.03	0.03	0.03	0.03	0.03	0.02
Inorganic chemicals	0.00	0.02	0.01	0.01	0.00	0.01
Non-ferrous metals	0.01	0.00	0.01	0.01	0.01	0.01
Organic chemicals	0.05	0.04	0.01	0.01	0.08	0.00

Source: Author computations based on UN COMTRADE database.



Annex 12. MOLDOVAN INDUSTRIAL PRODUCTS WITH COMPETITIVE DISADVANTAGES IN COMPARISON WITH EU, YEAR 2010

SITC code	Commodity name	RCA index of Moldova	RCA index of EU-27	Custom duty applied by Moldova for imports (level of protection)
51	Organic chemicals	0.03	1.04	0 percent/5 percent
53	Dyeing, tanning and coloring materials	0.1	1.4	0 percent/6.5 percent
54	Medicinal and pharmaceutical products	0.8	1.8	0 percent
59	Chemical materials and products	0.1	1.2	5 percent
64	Paper, paperboard and articles thereof	0.8	1.1	0 percent/5 percent
71	Power-generating machinery and equipment	0.2	1.6	0 percent/5 percent
72	Machinery specialized for particular industries	0.5	1.9	0 percent
73	Metalworking machinery	0.6	1.8	0 percent
74	General industry machinery and equipment	0.5	1.6	0 percent
78	Road vehicles	0.2	1.0	0 percent/5 percent
79	Other transport equipment	0.1	2.1	0 percent
81	Prefabricated buildings, sanitary, heating, lighting	0.9	1.1	0 percent
87	Professional, scientific and controlling instruments and apparatus	0.5	1.2	0 percent

Source: Author computations based on UN COMTRADE database.



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