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FOREWORD



Nicola Harrington-Buhay, UNDP Resident Representative United Nations Resident Coordinator, Republic of Moldova

Moldova has a historic opportunity to modernize its economy and ensure inclusive and sustainable development for all.

The country has made significant progress in many of the United Nations Millennium Development Goals, such as reducing poverty and child mortality. Nevertheless, more remains to be done to achieve sustainable progress in health and education – two vitally important dimensions of human development. Furthermore, overall development progress has an important equity dimension. Recent economic growth and social progress has disproportionately benefited the bigger cities, while people in rural areas continue to have fewer economic opportunities and only partial access to essential services such as health, education, water and sanitation at best.

Moldova needs a truly transformational change if it is to overcome these challenges. Such a change cannot be achieved by any one actor. However, the role of the private sector is essential in driving development; this report argues that the private sector's contribution to economic growth, technological change and general welfare has yet to be fully harnessed in Moldova.

The private sector can have a transformative impact not only on the economic sector but also on social dynamics and on the quality of people's lives. This aspiration for sustainable and transformative development impacts has become part of the *modus operandi* of many visionary companies worldwide. In fact, for many of these companies it has become tantamount to what a resilient business model itself looks like. The United Nations and its development arms have been working with these businesses to ensure that development occurs through inclusive and equitable economic growth and income generation, respecting rights and ensuring environmental protection, in line with the United Nations Global Compact Principles.

The 2014 National Human Development Report clearly shows that the role of the private sector in generating human development transcends that of a tax-payer and a creator of jobs, important though these contributions are. The report presents a thoroughly documented review of global and national experience to demonstrate how the private sector can play the role of catalyst for change by promoting new approaches, technologies, services and policy proposals. We trust these examples will inspire all of the many actors who have a part to play in this and help to drive further the efforts of the Moldovan business community to advance the modernization of the country.

The sustainable and inclusive development of Moldova in a way which benefits all people will occur only if Government, the private sector and society at large join efforts to achieve this goal. The 2014 report seeks to identify what can drive the private sector's contributions to economic and social progress, what the obstacles are, and how an ecosystem conducive for stronger private-public development engagement can be attained. It provides a set of well-defined policy recommendations for all national actors, including central government and private companies, which we hope will continue the discussions started in the process of formulating the report.

Finally, as was the case with previous National Human Development Reports, I trust that this edition will inspire people across all sectors and help us all to achieve the Future Moldova Wants.



Nicola Harrington-Buhay
UNDP Resident Representative
United Nations Resident Coordinator
Republic of Moldova



Iurie Leanca, Prime Minister of the Republic of Moldova

“The individual prosperity depends on the prosperity of the others.”

The objectives of country modernization and human development cannot be reached without a functional market economy that is socially inclusive and environmentally sustainable.

The private sector is a crucial element of the economy. Therefore, the private sector development and the synergy with human development is one of our top priorities. Hence, according to the Government Activity Program for 2013-2014 - “Sizeable economic welfare for every citizen and stronger competitiveness will be ensured by: liberalizing the economic activity; establishing a friendly business environment; attracting investments in sectors with high potential; promoting pro-active industrial policies; supporting small and medium-sized enterprises with high value added production and export competitiveness; modernizing the infrastructure; developing the skilled and productive labor force.”

The main role of the Government is to create favourable conditions for every citizen to achieve their aspirations. A fundamental element in this respect is to empower companies to become genuine corporate citizens by motivating them to take on far-reaching objectives, rather than just maximization of profits.

Community development, solving certain social and environmental issues, conservation of ecosystems – these objectives are hard or even impossible to manage without the participation of firms. In terms of this report, it particularly means to incentivize companies to create decent jobs, pay properly their taxes, contribute to the modernization of health and education services, facilitate technological transfer and innovations, implement corporate social responsibility and social entrepreneurship projects, as well as to participate actively in the public-private dialogue.

Anchoring the private interest in the public one and mobilization of public resources in order to ensure their synergy are defining elements of a modern economy and of a wealthy and inclusive state. In order to support the private initiatives, the Government has

adopted a strategy for reforming the entrepreneurship regulatory framework for 2013-2020 that involves a very clear roadmap aimed at eliminating the constraints on entrepreneurial activities. The first results are already visible: according to the “Doing Business 2014-2015” report, developed by the World Bank, the Republic of Moldova advanced by 19 positions compared to the previous year, ranking 63rd out of the 189 countries. This amazing leap is thanks to the simplified procedure for setting up a business (e.g. the requirement to own a minimal capital upon business registration was removed) and fiscal reporting procedures. Also, in order to develop a proper framework for a dynamic, consistent and transparent public-private dialogue, the Economic Council has been launched, under the Prime Minister of the Republic of Moldova. It convenes periodically the competent public authorities, representatives of the most important economic sectors and development partners.

The efforts initiated during the previous years will continue in the near future. With this in mind, we welcome the policy priorities proposed by the authors of the report aimed at unleashing the private sector and strengthening its connections to the human development objectives. Thus, we will continue to modernize the tax policies by enhancing transparency, strengthening equity and ensuring predictability. We will ensure a policy continuity in order to improve the business environment; create the necessary incentives so as to allow the private sector to participate more actively in the health and education sectors; ensure a legal framework that will encourage technological transfer and innovations; facilitate and even encourage companies to assume social objectives (corporate social responsibility) and promote social entrepreneurship practices.

We opt for enhancing the functioning of the platforms necessary for the public-private dialogue. Taking into account the topicality of this issue, as well as the fact that we are now at the end of the electoral cycle, the policy recommendations included in this report will serve as a reference point for the Activity Programme of the next Government.

The private sector can and must become a crucial and trustworthy partner of the Government during the transformational processes launched across the country. This aim is especially topical in connection with the implementation of the EU Association Agreement that envisages the modernization of both public and private institutions. It is very important, in this respect, to build mutual trust through an intensive and open dialogue between all stakeholders.

In a modern, competitive and inclusive economy the companies, society and the public sector pursue objectives that correlate with a common interest and understand that the welfare of each of them depends

on the welfare of the others. The Government's role is to provide the necessary conditions in order for this multilateral partnership to be sustainable and to contribute to economic development and to the development of the country as a whole.



Iurie Leanca,
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, several in-depth interviews with top management of various national and multinational companies active in the Republic of Moldova and three Advisory Board meetings. Because of a broad level of 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: State Chancellery, Ministry of Labor, Social Protection and Family, Ministry of Economy, Ministry of Information Technology and Communications, Ministry of Education, Ministry of Finance, Ministry of Regional Development and Constructions, Ministry of Foreign Affairs and European Integration, Ministry of Agriculture and Food Industry, Academy of Sciences, National Bureau of Statistics, National Confederation of Unions, ODIMM, MIEPO, EU Delegation to Moldova, Embassy of the Federal Republic of Germany to Moldova, USAID, SDC Office to Moldova, IOM, UN Women, representatives of private companies and business associations, including Orange S.A., Moldcell S.A., Mobiasbanca Groupe Societe Generale, Endava, IM Gradalogistic Group SRL, MoldovaFruct Association, Introscoop, Banca Comercială Română Chișinău, Moldasig, European Business Association, National Confederation of Employers of Moldova, Starnet, Gas Natural Fenosa and local academia, including in particular the Academy of Economic Studies in Moldova.

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CONTENTS:

FOREWORD	IV
PREFACE	V
LIST OF FIGURES	X
LIST OF TABLES	XII
LIST OF ANNEXES	IX
EXECUTIVE SUMMARY	XVI
INFOGRAPHICS	XXIII
INTRODUCTION AND CONCEPTUAL APPROACHES	1
1. SUSTAINABLE HUMAN DEVELOPMENT IN THE REPUBLIC OF MOLDOVA: ACHIEVEMENTS AND CHALLENGES	13
i. Recent Economic, Social and Political Developments: Regional Comparison	13
ii. Progress in Implementation of Millennium Development Goals	24
2. THE PRIVATE SECTOR AND ITS ALLIES: A COMMON FRONT FOR HUMAN DEVELOPMENT	31
i. Tax Policies and the Funding of Human Development.....	33
ii. Private Sector Empowerment to Create Decent Jobs	37
iii. The Involvement of the Private Sector in the Educational System.....	42
iv. Private Sector Involvement in the Health Sector	49
v. Technological Progress and Innovation as Engines of Human Development.....	53
vi. Human Development and CSR.....	57
vii. The Role of Social Entrepreneurship in Human Development.....	61
viii. Consultations with the Government: The Voice of the Private Sector in Human Development	64

3. REALITY CHECK: ASSESSMENT OF THE BUSINESS ENVIRONMENT

IN MOLDOVA AND ITS IMPORTANCE FOR HUMAN DEVELOPMENT 68

- i. Recent Trends in Private Sector Development in Moldova:
- ii. Business Regulation Reform: Assessment of Progress and Challenges 71
- iii. Key Constraints with which the Private Sector Has to Deal 75

4. THE PRIVATE SECTOR AND HUMAN DEVELOPMENT:

EMPIRICAL EVIDENCE FOR THE REPUBLIC OF MOLDOVA 79

- i. Conceptual Milestones for Empirical Estimates 79
- ii. Contribution of the Private Sector to the Growth of People's Income 81
- iii. The Contribution of the Private Sector to the Improvement of the Population's Health 83
- iv. The Contribution of the Private Sector to Enhancing the Population's Education Level 84
- v. Mutual Influences Between the Private Sector and Human Development Level 85

5. STRENGTHENING THE ROLE OF THE PRIVATE SECTOR

AS AN AGENT OF CHANGE 87

- i. Shared Constraints in Human Development and Private Sector Development 87
- ii. Develop Pro-Human Development Tax Policies 87
- iii. Empowering Companies to Create More Decent Jobs 89
- iv. Ensuring Conditions for a More Extensive Involvement of the Private Sector in the Educational System and Labour-Force Development 91
- v. Efficient Management of Benefit–Risk Balance Under Public–Private Projects in the Health Sector 92
- vi. The Private Sector as an Engine of Technological Progress and Innovation 93
- vii. Advancement of CSR 95
- viii. Encouraging Social Entrepreneurship 97
- ix. Deepening the Public–Private Dialogue 97
- x. The Economic Empowerment of Women 100
- xi. Using Emigrants' Financial Savings and Remittances 103
- xii. How to Accelerate Development? An Assessment of the Implementation of the 2006 NHDR Recommendations 104

LIST OF REFERENCES	107
ANNEXES	110
Annex 1. Technical Note on calculation of Human Development Index (HDI)	110
Annex 2. Technical Note on calculation of Gender Development Index (GDI)	111
Annex 3. Human Development Index by regions	112
Annex 4. The relationship between the private sector and the revenue component of the human development dimension	117
Annex 5. The relationship between the private sector and the health component of the human development dimension	120
Annex 6. The relationship between the private sector and the education component of the human development dimension.....	121
Annex 7. The relationship between the private sector and the education component of the human development dimension.....	112

LIST OF FIGURES

Figure 1. Schematic representation of the passive forms by which the private sector can contribute to human development and motivations that guide companies' behaviour	6
Figure 2. Schematic representation of the passive and active forms by which the private sector can contribute to human development	7
Figure 3. Vertical integration of human development objectives in business strategies	7
Figure 4. Types of enterprises in terms of contribution to human development	9
Figure 5. The link between human development and economic development	14
Figure 6. Correlation between the non-income index of human development and gross national income (GNI) per capita in the region, 2012	15
Figure 7. Correlation between the non-income index of human development and GNI per capita at the global level, 2012.....	15
Figure 8. Correlation between the 2013 HDI and index change compared to 2005	16
Figure 9. The main components of the HDI, 2013 (GNI - right axis).....	17
Figure 10. Correlation between HDI and IHDI, 2013.....	18
Figure 11. The three dimensions of inequality, comparison between the Republic of Moldova and regional average	18
Figure 12. MPI components, by areas of residence, 2013.....	19
Figure 13. Contribution of MPI components to growth, by areas of residence, 2013.....	19
Figure 14. GII, 2013.....	20
Figure 15. Development of GDP per capita (PPP, USD), of HDI and number of employed persons (2000=100%).....	21
Figure 16. Relationship between GDP and employment dynamics during 2000–2012, by sectors.....	22
Figure 17. Share of the current account deficit in GDP, average for 2005–2012, %.....	22
Figure 18. Change in greenhouse gas and CO2 emissions versus GDP growth, 2005=100, %27	
Figure 19. Productivity of CO2 (GDP in USD 2005/kg CO2).....	28
Figure 20. PM2.5 in regional comparison, 2000–2012	28
Figure 21. Sensitivity to climate changes	29
Figure 22. The link between payment of duties by the private sector and human development.....	34
Figure 23. Distribution of answers to question “Is the tax burden (amount of direct and indirect taxes paid) a constraint for the enterprise development?”	35
Figure 24. Distribution of answers to question “Is the tax administration (computation and records keeping procedures, payment of taxes, reporting, etc.) a constraint for the enterprise development?”, %	36
Figure 25. The link between job creation by the private sector and human development...	38

Figure 26. The link between the involvement of the private sector in the educational system and human development	44
Figure 27. Evolution of the number of students enrolled in public (state-owned) and private (non-state) higher educational institutions	45
Figure 28. Evolution of the number of students enrolled in public (state-owned) and private (non-state) vocational training institutions	46
Figure 29. Distribution of answers to the question “Was the work of your enterprise affected by the shortage of workers?”, by the number of people employed by enterprises, in %	47
Figure 30. The link between PPPs and human development	51
Figure 31. The link between technological progress promoted by the private sector and human development.....	55
Figure 32. The link between CSR and human development	59
Figure 33. The impact of social entrepreneurship on human development	62
Figure 34. The link between private sector and Government consultations and human development.....	65
Figure 35. GDP structure by forms of ownership, %	69
Figure 36. Share of the private sector in GDP, %	69
Figure 37. Share of employment in the private sector, % of total employed people	70
Figure 38. Volume of loans extended to the private sector by the domestic financial sector, % of GDP	71
Figure 39. Share of time used to meet the regulatory requirements	72
Figure 40. Categories for which a cost-increasing trend was recorded (average costs, USD)	73
Figure 41. Categories for which a cost decreasing trend was recorded (average costs, USD)	73
Figure 42. Distance to frontier, total including electricity, %.....	74
Figure 43. Quality of regulation, score in percentile (from 0 [the lowest] to 100 [the highest]).....	74
Figure 44. Position of Moldova in the Global Competitiveness Index (GCI)	75
Figure 45. Moldova’s Competitiveness Index for 2013–2014, compared with the leaders from the reference group	75
Figure 46. Sales revenues of the private sector and the factors of influence, changes, %.....	80
Figure 47. Budget revenues without grants and corporate sales revenues, change, %	81
Figure 48. Budgetary salaries and public expenses, change, %.....	82
Figure 49. The correlation between public revenues and expenses on health care and education in the Eastern European and Black Sea Basin countries.	82
Figure 50. Overall prevalence rate (%) and factors of influence, change, %	84
Figure 51. Number of students, remitted revenue per capita, non-budgetary salary, change, %	85

LIST OF TABLES

Table 1. Examples of active involvement of the private sector in human development.....	8
Table 2. Perceptions of company directors regarding the difficulties related to record keeping and payment of various taxes (1 – not difficult at all; 5 – very difficult).....	36
Table 3. Possible institutional arrangements in the collaboration between the state and private companies working in the education sector.....	43
Table 4. Matrix of skills needed by Government to manage models of funding and service provision which involve the private sector	43
Table 5. Global Innovation Index – the best seven economies among medium and low-income countries.....	56
Table 6. Models of companies’ interaction with society – comparative analysis.....	57
Table 7. Specific constraints on human development elements.....	77
Table 8. The variables used in estimations	80
Table 9. Assessment of the implementation of the main recommendations from the 2006 NHDR “Quality of Economic Growth and Its Impact on Human Development”.....	105

LIST OF BOXES

Box 1. The opinion of business people.....	2
Box 2. The opinion of business people.....	3
Box 3. The opinion of business people.....	3
Box 4. The opinion of business people.....	3
Box 5. Examples of social entrepreneurship in the Republic of Moldova	10
Box 6. The HDI	13
Box 7. Inequality-adjusted HDI (IHDI).....	17
Box 8. MPI.....	43
Box 9. GII and Gender Development Index	20
Box 10. Millennium Development Goals	24
Box 11. The “Hai la Țară!” project	31
Box 12. Fiscal equity and agricultural producers	37
Box 13. What does the young generation expect from a job?.....	39
Box 14. Examples of the contribution of the private sector to human development via attractive jobs.....	40
Box 15. Albania: the company Edipack that is specialized in paper recycling offers employment opportunities for the unskilled labour.....	41

Box 16. Exploitation of child labour – a persistent phenomenon in Moldova	42
Box 17. Example of a partnership between a vocational school and private companies	44
Box 18. Programming engineering course developed by Endava at the Technical University of Moldova	48
Box 19. I Choose an IT Career campaign	49
Box 20. Operation of a network pharmacies with low prices, “The Child and Family Wellness Shops”, in Kenya on a franchising basis	50
Box 21. PPPs in the Republic of Moldova: opportunities, risks and pending problems.....	51
Box 22. ESOKO - Use of IT power to improve farmers’ lives	54
Box 23. Healthcare services at prices affordable for low-income households: telemedicine in Belarus	54
Box 24. CSR, communication and media institutions.....	58
Box 25. Collection of batteries for personal electronic devices	60
Box 26. How CSR promotes business associations	60
Box 27. Examples of social entrepreneurship in European countries	62
Box 28. Examples of social entrepreneurship initiatives in the Republic of Moldova	63
Box 29. Rural Finance Corporation – a profitable company that contributes to rural development.....	63
Box 30. Example of when public authorities have listened to the voice of the private sector only after the involvement of a large company	66
Box 31. Progress registered by the Republic of Moldova as compared to Estonia.....	75
Box 32. Supporting the rural development through coordinating public and private efforts	91
Box 33. Mobile Signature for Accessing Public Services Using Mobile Phone	94
Box 34. The French experience in encouraging technological R&D	94
Box 35. Global Compact - a strategic initiative for the association of socially responsible companies	96
Box 36. The result of the Public-Private Dialogue – reduction of the necessary time to connect to electricity.....	99
Box 37. Women who weave traditional carpets are becoming economically independent and contribute to environmental protection	102
Box 38. Women’s Empowerment Principles	103

ACRONYMS AND ABBREVIATIONS

AA	– Association Agreement	NBM	– National Bank of Moldova
CSR	– Corporate Social Responsibility	NBS	– National Bureau of Statistics
EBRD	– European Bank for Reconstruction and Development	NCSI	– National Commission for Social Insurance
EU	– European Union	NGO	– Non-Governmental Organization
GCI	– Global Competitiveness Index	OECD	– Organization for Economic Cooperation and Development
GD	– Government Decision	PPP	– Public-Private Partnership
GDI	– Gender Development Index	PPP	– Purchasing Power Parity
GDP	– Gross Domestic Product	RIA	– Regulatory Impact Analysis
GII	– Gender Inequality Index	SMEs	– Small and Medium-Sized Enterprises
GNI	– Gross National Income	UN	– United Nations Organization
HDI	– Human Development Index	UNDP	– United Nations Development Programme
ILO	– International Labour Organization	USA	– United States of America
ICT	– Information and Communications Technology	USM	– State University of Moldova
MDGs	– Millennium Development Goals	VAT	– Value-Added Tax
MPI	– Multidimensional Poverty Index		

EXECUTIVE SUMMARY

What is the purpose of this report?

Each company is free to choose what strategy to follow: to become a corporate citizen, which involves assuming responsibilities towards their communities and country as a whole, or to remain, limited to pursuing narrow private objectives. The first option requires more effort, but is the best strategy for ensuring sustainable and robust development of the company. At the same time, the second option condemns the firms to a long-term failure, taking into account the corporate image losses, due to worse attitudes from clients/consumers, suppliers, government and the entire society, as well as the self-isolation of the firm from the transformational processes within the country.

The final purpose of this report is to prove based on empirical evidence and practical examples how and why the private sector should play a bolder role in community development and in the modernization processes of the country, as well as to come up with feasible and proper public policy options. Considering that in countries with transition economies and weak institutions - like Moldova - there is a large unexplored potential that the private sector could use in order to contribute to human development, this report also has an inspirational goal. Thus, based on case studies, both from within the country and abroad, this report proves that a more active involvement of companies in social and community development activities provides the basis for a sustainable and inclusive corporate development. It has been empirically proved that companies that contribute more actively to human development are perceived more positively by the customers, providers and by the state. As a result, these firms benefit from a wider and more stable market, access to factors of production under more advantageous conditions and a more efficient public-private dialogue. These empirical examples and this evidence are expected to inspire companies that have not yet made human development a part of their corporate strategy.

The report also offers an additional motivational impulse for the Global Compact members to

revitalize the Global Compact. The network member-companies have the opportunity to demonstrate based on their own examples how good, inclusive and sustainable businesses should look. At the same time, they can prove, based on practical examples, the empirical evidence about the positive effects of integrating corporate social responsibility into the business model.

How and why should the private sector pursue public interests?

Amid intensifying globalization processes, strengthening competition and sophistication of businesses, the narrow objective of immediate profit maximization followed by firms loses its relevance. Thus, the report challenges Moldovan firms to adopt a new perspective of business models. In order to ensure a sustainable development and stay competitive, companies should set considerably broader objectives, corresponding to the human development objectives. In this respect, besides tax compliance and providing decent jobs (which are also very important for human development), companies can play a more active role in corporate social responsibility projects, they can get more involved in the health and education sectors, participate in public-private dialogue, develop social entrepreneurship projects, inclusive business models and other mechanisms that are discussed largely in this report.

A defining element of a modern economy is the commitments taken by the actors (society, companies, Government) to achieve shared prosperity, based on the mutual understanding that the private interest cannot be sustainably achieved at the expense of the public one. The private sector, which is the main employer, investor, source of innovations and taxpayer plays, in this respect, a crucial role as a driver of the modern economy. It also contributes to the formation of the public policies process, promoting certain initiatives in the areas where firms are active (*push* factors), determining proper actions from the Government (*pull* factors), resulting in a regulatory framework that is adjusted to the economic realities and public interest.

Sustainable development cannot be ensured where the private sector is weak and companies cannot prosper where the community is poor. Hence, private sector development and sustainable human development are inter-dependent processes: on the one hand, we cannot ensure people have decent living conditions and opportunities for self-assertion in the absence of a robust private sector that can accommodate people's aspirations; on the other hand, the private sector cannot develop in the long run in a poor community because such a community would provide limited access to the market, labour force, innovations and other factors that are crucial for any enterprise. Thus, the contribution of the private sector to human development brings benefits to both parties. In spite of this, this report finds a weak link between the two processes of private sector development and sustainable human development, suggesting a significant unexplored potential.

The empirical evidence for the Republic of Moldova proves that a healthier and better educated society is associated with a significantly higher level of economic development. The higher the level of human development in general, the deeper and stronger will be the social roots that foster private sector growth. In their turn, when companies contribute to the shaping of the socioeconomic environment at national and local levels this has a direct impact on the manner in which people are able to materialize their ideas, exploit their talents and forward their own development and accomplishment.

Most companies in the Republic of Moldova do not apply visionary thinking and they do not integrate human development objectives in their corporate strategies. Although there are some anecdotal examples of companies which apply an approach that is friendlier to human development principles, empirical evidence suggests that this is not common. Why do private companies in the Republic of Moldova not follow the "win-win" strategy of seeking to support human development? Why have they not yet become genuine corporate citizens? What hinders companies from integrating sustainable development objectives in their business strategies? To answer these questions, we must understand the motivations that guide the behaviour of businesses.

Most companies pursue the key objective of obtaining and maximizing profits for their shareholders. In this case, the firms' contribution to human development derives only from the profit maximization process (e.g. ensuring decent working conditions in order to motivate staff to be more productive; implementing

new technologies to reduce expenses and improve the efficiency of the enterprise). Companies who adopt this approach see it as the Government's role to ensure favourable conditions for the private sector (e.g. improve the business environment, ensure increased predictability as regards the macroeconomic and social situation and the legislative process, improve the protection of property rights, etc.), so that the private sector is motivated to adopt practices that are friendly to human development. However, it is questionable whether this approach is valid for all enterprises. It can be asked whether enterprises should wait for the Government to take the first steps which will empower enterprises to contribute more to human development. The alternative is for companies to adopt more pro-active strategies in this respect.

Making a profit is, in fact, not the only objective pursued by companies: when a company develops and its activities increase in complexity, the complexity of its objectives also develops and grows. When companies exceed a critical level of development and reach the stage of resilience and financial predictability they start to integrate other objectives into their business plans. Once the initially established objective is met, companies begin to be concerned about asserting themselves and enhancing their image as corporate citizens. At this stage companies may adopt active strategies that contribute to human development, for example by solving certain problems within the community in which they are situated or by undertaking activities that are not necessarily related to their principal business activity (e.g. making donations, forming partnerships with non-government organizations (NGOs), funding social services, constructing social infrastructure items, implementing awareness campaigns regarding environmental issues, etc.). When a company takes on such activities they not only make a direct contribution to the enhancement of people's level of living, they also act as a source of inspiration for other companies, encouraging them to adopt behaviour that is friendly to human development objectives.

Politicians in the Republic of Moldova are aware that there is still much to be done regarding human development in Moldova, and that progress must be made as soon as possible. In this context, politicians are keen to learn how to make full use of the potential offered by the private sector to push human development forward, and how to employ the results of human development in order to rethink the economic system. In

order to take active steps to enhance the positive link between human development and private sector development it is necessary to identify the main constraints that are obstructing both kinds of development, as well as their sources, and to identify the agents of change and the actions they might undertake in order to tackle the current constraints. It is not only the Government that can be an agent of change, through the policies it promotes: business associations and unions, the mass media, NGOs, donors and international development partners and companies that have reached the necessary level of social maturation all have a role to play. Therefore, the recommendations included in this report are targeted at a wide range of agents of change.

The critical constraints identified in this report, which are equally relevant for human development and private sector development, are as follows:

- **Low level of income in the society.** This is one of the main factors behind the low level of human development in the Republic of Moldova, and it is also an important obstacle that acts as a constraint on business – because business cannot flourish in a poor society. The main sources of this constraint are low labour productivity, the large technological gap in relation to competing countries, the very low employment rate, the high level of informal employment, widespread tax evasion, and narrow and poorly diversified economic base. Strategically, the solution to this problem lies in faster and more socially inclusive economic growth, as well as a more efficient system of income redistribution.
- **Unsatisfactory level of labour force education and training.** This constraint prevents personal accomplishment and human development in general. It is also an essential obstacle that prevents companies from reaching a higher level of competitiveness. This constraint has its roots in the unreformed educational system but it is also caused by the fact that companies lack the motivation to invest in the development of their staff, and by the fact that employees lack the motivation to pursue lifelong learning opportunities. This constraint will only be removed when companies and the Government begin to understand that the real value of a nation is its human capital, and thus start to invest considerable resources in the development of that human capital.
- **High level of inequality in the society.** Of most importance is obviously inequality in income, which, although it has been decreasing over the past four years, is still high. The aspect of inequality, however, goes beyond income. There is inequality in other areas, such as inequality between women and men, and between those who live in villages and those who live in towns/cities. This high inequality is generated by certain structural factors (cultural and geographical), but it is worsened by the non-inclusive economic growth in social and geographical terms. A more even distribution of opportunities would have a positive impact both on human development and the economy, as more people would have higher employment opportunities and the consumption base would be larger. The key to resolving the issue of inequality lies in a system of open and inclusive political and social institutions which are able to significantly reduce the risks resulting from personal failure during economic and social change, by providing protection to those who – as a result of various factors – experience difficulties during such change.
- **Living under conditions of stress and poor health.** Despite the fact that there has been a significant increase in life expectancy over the past two decades in the Republic of Moldova, this indicator remains at a level well below that reached by European countries. This is a major problem and undermines human development. A less healthy labour force also implies higher costs for employers and a lower productivity level. In the long run, this problem will be solved only when people are able to obtain a greater ability to cope with stress (which, as revealed by the experience of more developed countries, only occurs alongside improvements in income and standards of living) and have a healthier and more responsible lifestyle, coupled with health care staff learning how to put patients' interests before their own.
- **High pressure on environment and natural resources.** Damage to the environment and misuse of natural resources has an impact on the population's health, and also generates major problems for companies whose technologies make use of these resources. In the Republic of Moldova, the main causes behind this particular constraint on human and business development are related to the impaired protection infrastructure, the unclear definition of property rights and related responsibilities, and the lack of a system of credible penalties for environmental damage. Unfortunately, there is a risk that with more intense economic growth, the pressure on the environment and natural resources will only increase. An optimal blend of positive and negative incentives should be identified in order to ensure respect for future generations. The report has shown that this blend will involve: strengthening of control agencies' institutional capacities; revision of emission and pollution standards; revision of the penalties and fines system; the actual levying of penalties and fines; and the adoption of new financial and

tax tools to incentivize emission mitigation and minimize the impact on the environment.

Sustainable Human Development in the Republic of Moldova: Achievements and Challenges

The level of human development in the Republic of Moldova is improving every year. However, the progress has not been fast enough to narrow the development gaps compared to other countries in the region, which has meant that the Republic of Moldova is lagging behind. The main reason for this slow progress is related to the low income level of the population – one of the three dimensions of the Human Development Index (HDI) and the factor that most significantly undermines access to quality health care and education services. In addition to income level, another significant problem is income distribution. Thus, the difference between the standard and inequality-adjusted HDI is higher than the regional average, which indicates the existence of unexplored human development potential in the Republic of Moldova. *The defining factors of the inequality in Moldova are the development disparities between rural and urban areas, and gender inequality as regards opportunities.* Both issues have been identified as major development challenges in the 2013 monitoring of the implementation of the Millennium Development Goals in the Republic of Moldova.

These vulnerabilities are the outcome of the non-sustainable and non-inclusive economic growth of the past years. Thus, despite the robust Gross Domestic Product (GDP) growth in recent years, the number of jobs created has diminished, the number of migrants has increased, and the gaps in competitiveness have persisted. As a result, the Republic of Moldova is currently facing a series of significant development challenges. The Government needs trustworthy partners to overcome these challenges.

The private sector – as the main employer, investor, taxpayer (and thus contributor to the state budget), and generator of technologies and expertise – must become a crucial partner in this regard. Companies can assist in improving human development through both passive measures (e.g. providing well-paid jobs, providing significant social benefits, payment of taxes, implementation of new technologies, participation in public-

private dialogues and partnerships, etc.) and active measures (e.g. donations for social/community purposes, funding/construction of social infrastructure objects, promotion of healthy lifestyles, transfer of practical expertise in partnership with educational institutions, etc.). At the same time, private companies can maximize their contribution to human development by cooperating with other direct or indirect representatives of the private sector (NGOs, the donor community, academia, the media, etc.).

The Private Sector and its Allies: A Common Front for Human Development

An assessment of international best practices and an analysis of empirical evidence reveal that there eight basic channels through which the private sector contributes (voluntarily or involuntarily, and directly or indirectly) to human development:

- 1) payment of taxes
- 2) the provision of decent jobs
- 3) the provision of educational services
- 4) the provision of health care services
- 5) the development and implementation of technologies and innovations
- 6) the implementation of corporate social responsibility (CSR) projects
- 7) the development of social entrepreneurship
- 8) taking part in consultations and dialogue with government

All of these channels represent huge unexplored potential, by which the private sector could contribute more to human development in the Republic of Moldova. Thus, by demonstrating increased fiscal civic activism and intensifying their economic activity, companies could bring more funds to the public budget and thus generate resources that could be redistributed to pay for social aid to the poor, develop the water supply and sewerage network in rural areas, modernize the road infrastructure, and invest in health care and education – having a positive impact on human development. At the same time, companies could create more attractive jobs, and so improve people's welfare. They could participate more actively in the educational process, by investing more time

and resources in the continuous training of staff, participating in dual education, and ensuring a better correlation between enrolment plans and private sector needs. Private companies could facilitate a more active technological transfer, which would increase people's standard of living and extend the access of disadvantaged people to economic opportunities, education and health care services. The private sector could also make a greater contribution to social projects as part of CSR, which would have a positive effect on their communities. Finally, the private sector could ensure a more efficient legislative process, by participating more actively in a dialogue with public authorities.

It is obvious that private companies can contribute to human development by using several or even all of these available instruments simultaneously. Unfortunately there are currently few companies that are doing so. However, with improvement in competition, an increase in mutual trust between the private sector and public authorities, and an increase in managerial maturity on the part of entrepreneurs, we expect that the number of companies involved in human development could grow.

Generally, there is a series of deficiencies that prevent the private sector from contributing more actively to human development. These are (mainly): the low protection of property rights; high economic and political uncertainty; the lack of confidence in the relationship between the private and public sector; the imperfect, burdensome and unpredictable tax law; the lack of a strategic and long-term vision in many enterprises; high tax evasion; and perceptions that there are high levels of corruption.

Reality Check: An Assessment of the Business Environment in Moldova and its Importance for Human Development

The private sector represents the largest share of the Moldovan economy. However, its size as a share of GDP is far behind that of other countries in the region and the Baltic states. Thus, compared with other countries, the private sector in Moldova has a lower general capacity to contribute to human development. The vulnerabilities of the private sector are notably felt in its capacity to offer decent jobs: it employs only 28 per cent of the total

active population. This is one of the lowest rates among the comparable countries. The structure of employment in the private sector also raises serious concerns, with about 42 per cent of the labour force employed in agriculture and over 40 per cent employed informally.

To create better conditions for private sector development, in 2004 the Government launched a broad reform of the state regulation of the business environment. However, the results of this reform have been slow to materialize. After 10 years of effort and some significant results, Moldova has, nevertheless, made only half of the expected progress in this area. Thus, Moldova has progressed only 66 per cent of the way towards the frontier (best regulatory practices achieved by other countries), while the Baltic states are closer to the frontier (76 per cent). This has both qualitatively and quantitatively decreased the growth potential of the private sector, reducing its ability to contribute to certain human development areas, such as innovation and education. Consequently, in the Global Competitiveness Index 2014–2015, Moldova ranks eighty-eighth out of 144 countries: placing it among the lowest in Europe.

The private sector's poor performance has been due to several obstacles and constraints, the most important being: political instability, shortage of a properly trained labour force, the low quality of public institutions, limited access to funds and underdeveloped infrastructure. As this list makes clear, most of the obstacles reported by the private sector relate mainly to human factors. The link between private sector and human development is undermined by a high perception of corruption and injustice, low security of property rights, low quality of education and high level of shadow economy.

Private Sector and Human Development: Empirical Evidence for the Republic of Moldova

The need for a more resilient private sector is revealed by the fact that there is an empirically proven bidirectional link between private sector development and human development. First, corporate revenue becomes (through taxation) the revenue of the population and the state. In this way, both the population and the state have resources for expenses related to education, health care, environmental protection policies and other

projects that are significant for community and society. Second, the income of business entities is used to cover expenses related to maintaining proper working conditions, i.e. the creation of decent jobs. In their turn, people's health status and level of education has a direct impact on labour productivity.

The econometric evidence suggests that, so far, the private sector has been a beneficiary, rather than the driver of, human development, having a lower influence on human development, compared to the impact of human development on the private sector. This reflects the vulnerabilities of the private sector in the Republic of Moldova and is consistent with the conclusions given in Chapter 3 about the modest share of the private sector in the Moldovan economy, compared to other countries in the region.

Strengthening the Role of the Private Sector as an Agent of Change

In order to ensure pro-human development fiscal policies, the Government has to act as a model by ensuring budgetary fiscal discipline and transparency, simplifying tax administration, ensuring the mechanisms necessary for fiscal deductibility of private expenses incurred for providing public services, and encouraging charity.

Empowering companies to create more decent jobs involves providing a regulatory framework that is favourable to the development of companies, particularly small and medium-sized enterprises (SMEs); adopting clearer and fairer rules for labour relations; ensuring an enabling environment for developing a competent, flexible, mobile labour force that is ready for lifelong learning; connecting public strategies on education and employment with the strategies of companies in the real economy; and, as a technical – but also an essential, priority – defining occupational standards in critical areas.

Ensuring optimal conditions for the greater involvement of the private sector in the educational system and labour-force development involves more active involvement of private companies in the debate around policy initiatives relating to the educational sector – in particular, vocational education. It also involves ensuring the conditions for better monitoring by employers of the output of vocational educational institutions; ensuring fair

treatment for private and public service providers, including regarding certification and accreditation; and strengthening the connections between vocational education and industry.

Special attention should be paid to better managing the benefits and risks related to public-private partnerships (PPPs) in the area of health services.

This is connected to ensuring good coordination between the authorities that are related to PPPs, improvement of secondary legislation (including the definition of standards for various services proposed to be implemented under PPPs), and – an imperative factor – ensuring the transparency and the necessary conditions to exercise public control over PPP contracts.

To accelerate the absorption of modern technologies by the private sector, and thus to amplify their positive social impact, it is necessary to ensure a more open and transparent model of research and technological development. This also requires developing the technological skills and competences of the overall population, with a special focus on children and young people, to encourage innovation at the level of firms, business associations and economic sectors, and to provide the necessary support to companies that can afford to finance scientific research and technological developments.

It is also crucial to advance CSR in the national business culture. The essential dimensions held by the Corporate Social Responsibility are environmental management, eco-efficiency, responsible procurement, stakeholders' involvement, occupational standards and labor conditions, human rights, good governance and preventing corruption. A key principle underpinning CSR in the modern culture is the public reporting by each company which pretends to be socially responsible in terms of how are they implementing this responsibility in business and day-to-day activity. This major objective can be achieved if the wider public applies a benevolent pressure on the private sector to operate more responsible business models and technologies for the community and for the environment. In addition, the Government should act as a partner in dialogue about social responsibility, and should impose social responsible practices in the management of state-owned companies. In addition, it is necessary to activate the National Network of the Global Pact in the Republic of Moldova, and ensure a much higher public visibility of this Network in the media.

Social entrepreneurship is another area in which private companies could contribute to human development. This type of business approach is still little known and is not much encouraged in the Republic of Moldova – in spite of some positive practices that have been implemented in this area. To overcome this issue it is necessary to develop a law on social entrepreneurship so that all entities practicing social entrepreneurship to benefit of the opportunities provided by the Public Procurement Law.

Finally, in order to advance human development it is important to intensify the public-private dialogue (despite the fact the casual link between such dialogue and human development is not

direct, as this factor clearly also relates to the quality of governance). This will involve a series of enhancements of the institutional framework and existing practices, including: a clear definition of the mandate for, and institutions relating to, public-private dialogue; the existence of flexible structures and the participation of representative stakeholders in the dialogue; the facilitation of public-private dialogue by impartial and trustworthy experts; the monitoring and evaluation of the practical impact of the dialogue; the diffusion of the public-private dialogue at the local and regional level; and sustainable use in public-private dialogue of the resources provided by donors and NGOs.

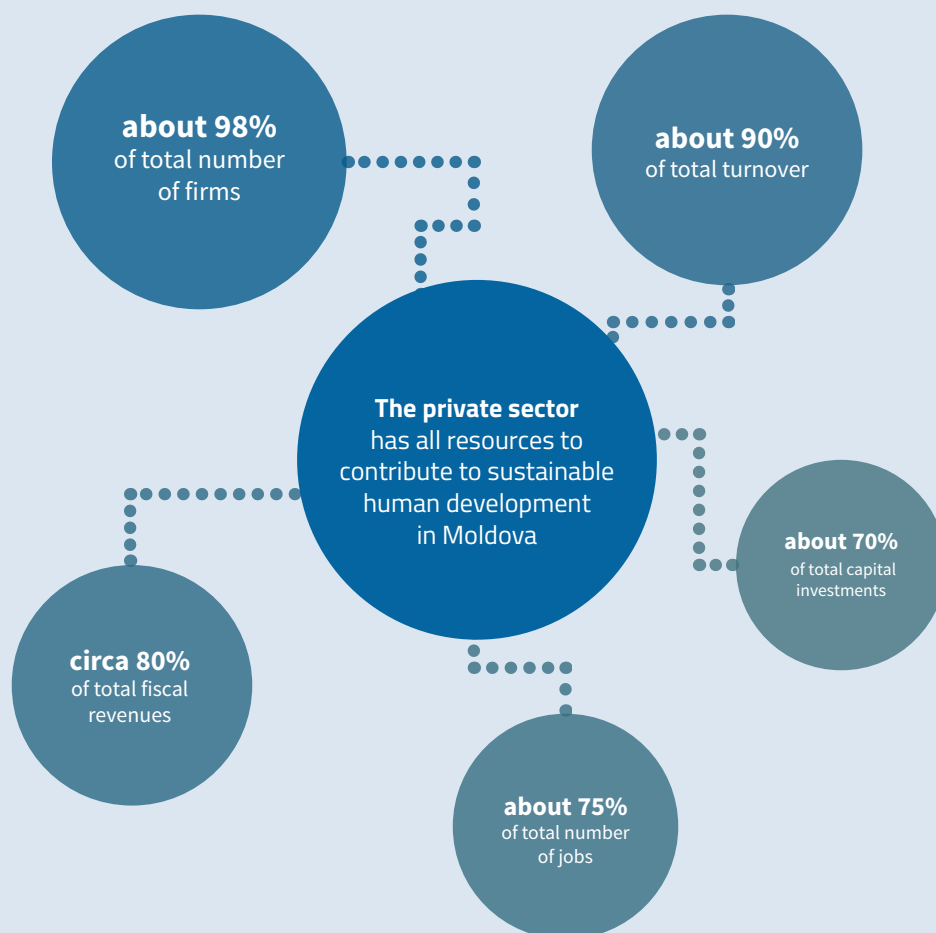
NATIONAL HUMAN DEVELOPMENT REPORT 2014

Good Corporate Citizens

Public and private goals
aligned for human development

ROLE OF PRIVATE SECTOR IN THE SUSTAINABLE HUMAN DEVELOPMENT OF THE REPUBLIC OF MOLDOVA

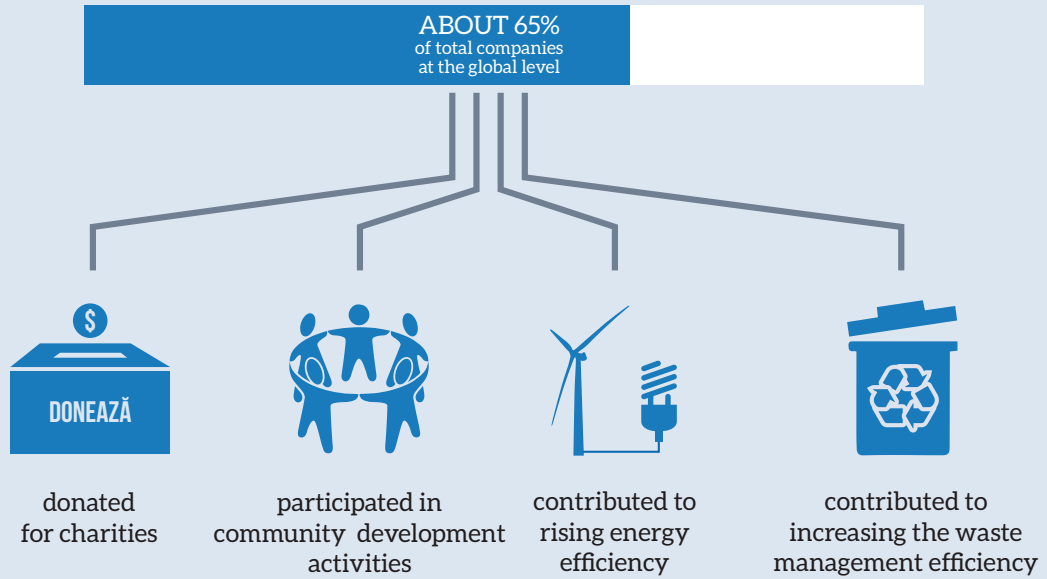
The Private Sector – a fundamental player in the Moldovan economy



Are the private firms concerned **only** with profits?

The classical hypothesis: the ultimate goal of any firm is to get and maximize the profit for its shareholders.

AT THE SAME TIME



*Is the **classical hypothesis** still relevant?*

Corporate citizen – more and more companies choose goals greater than maximizing profit and contribute to **community development**

How can the private and public interests **be merged**?

The higher is the complexity of firms, the higher is the complexity of their pursued objectives



3 main development levels of any company

3	ACTIVE FORMS	EXAMPLES
	Integration of human development objectives into the business strategies	<ul style="list-style-type: none"> - Donations and funding of charities - Partnerships with CSOs - Funding/construction of social infrastructure objects - Organization of public awareness raising campaigns on various social issues - Promotion of a healthy lifestyle - Free practical training in educational institutions
2	PASSIVE FORMS	EXAMPLES
	Positive externalities on employees and overall community	<ul style="list-style-type: none"> - Provision of well-paid jobs; - Generous social packages for employees; - Payment of taxes; - Implementation of new technologies; - Participation in public-private partnerships; - Participation in public-private dialogue
1	REACHING THE CORE OBJECTIVES	
	Obtaining and maximizing the profit for firms' shareholders	

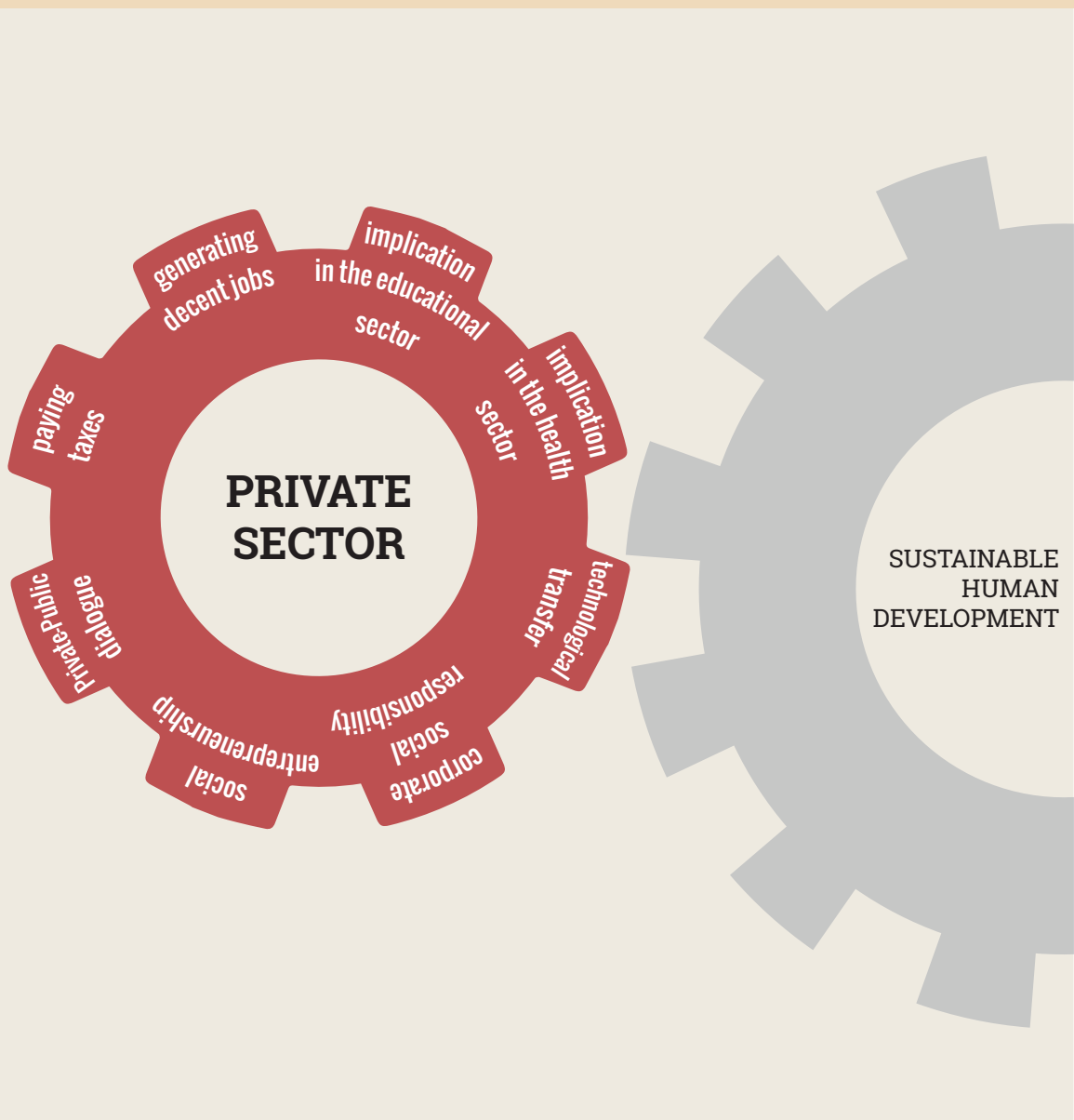


The companies can **contribute actively to HUMAN DEVELOPMENT** only after reaching their core objectives and ensuring a long-term financial resiliency

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HOW CAN THE PRIVATE SECTOR CONTRIBUTE TO HUMAN DEVELOPMENT?



*How can the private sector mitigate the **key development challenges** of Moldova?*



DEVELOPMENT DISPARITIES BETWEEN **VILLAGES** AND **CITIES**



PASSIVE FORMS

- ◆ Creation of well-paid jobs in the rural area;
- ◆ Provision of health insurance and social packages for the rural population;
- ◆ Development of modern technologies of irrigation, harvesting and post-harvesting or waste management;
- ◆ Contribution with taxes to the local budgets, which are subsequently redistributed for the interest of the community;
- ◆ Access to Internet and new ICT tools allow online teaching of lessons in the schools with shortage of teachers by the teachers from other villages;
- ◆ Provision of feasible transportation options to the employees/trainees from rural areas to the place of work/traineeship.

ACTIVE FORMS

- ◆ Financial support for charities;
- ◆ Donations to NGOs dealing with community development;
- ◆ Funding centers that provide social services to the elderly;
- ◆ Contribution to the development of water supply and sewerage network in villages.



UNEQUAL OPPORTUNITIES BETWEEN **MEN** AND **WOMEN**



PASSIVE FORMS

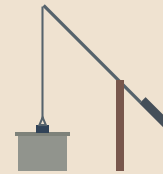
- ◆ Mainstreaming of the gender equality principle in the corporate Codes of Ethics and promoting it among employees;
- ◆ Making sure the salaries and promotions are based on meritocracy in the company;
- ◆ Implementing weights handling equipment, which does not require high physical efforts, allowing thus employment of women in positions, which used to be destined exclusively for men;
- ◆ Access to Internet and new ICT tools allow the women on maternity leave to work from home;
- ◆ Empowering young mothers, who are employed in the company (e.g. existence of play areas in the company, with care personnel, for mothers to have the possibility to bring their children with them at work).

ACTIVE FORMS

- ◆ Construction and maintenance of nurseries and kindergartens, in particular in rural areas;
- ◆ Supporting awareness raising campaigns on domestic violence;
- ◆ Organizing/funding trainings for economic empowerment of women.



ENVIRONMENT



PASSIVE MEASURES

- ◆ Implementation of new low-emission technologies in the enterprise, a more efficient waste management or more qualitative sewerage system;
- ◆ Development of waste recycling enterprises;
- ◆ Selling water purification equipment;
- ◆ Implementation of energy efficiency principles in the enterprises or in the constructed buildings (for developers);
- ◆ Giving priority to the providers of ecological products: organic foodstuffs, recyclable stationery, raw material with minimum impact on the environment;
- ◆ Implementation of the “green office” principles in the enterprises.

ACTIVE MEASURES

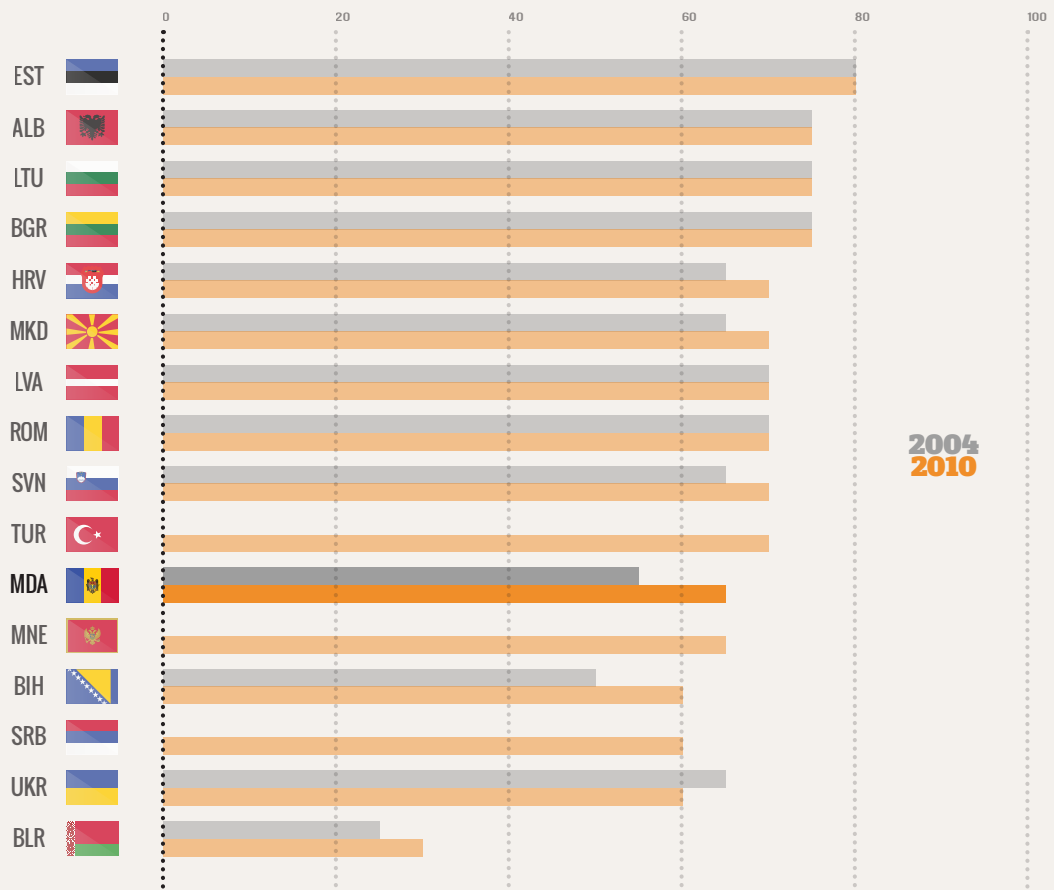
- ◆ Financial and organizational support for public awareness raising campaigns on various environmental issues (e.g. environmental protection, keeping clean the public areas, water and energy saving);
- ◆ A certain number of hours per year paid from the salary, which can be used by each employee for volunteer work in environmental protection;
- ◆ Organization of periodic sanitation activities with the participation of all employees.

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CONSTRAINTS OF THE PRIVATE SECTOR

Private Sector in Republic of Moldova: Reality Check

The private sector in the Republic of Moldova: **65%** of GDP



Despite some progress, the share of the private sector in the Moldovan economy remains relatively low compared to the region

Key challenges



Market dimension



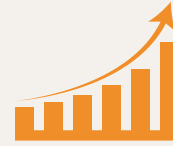
Innovation



Institutions



Business sophistication



Financial sector development

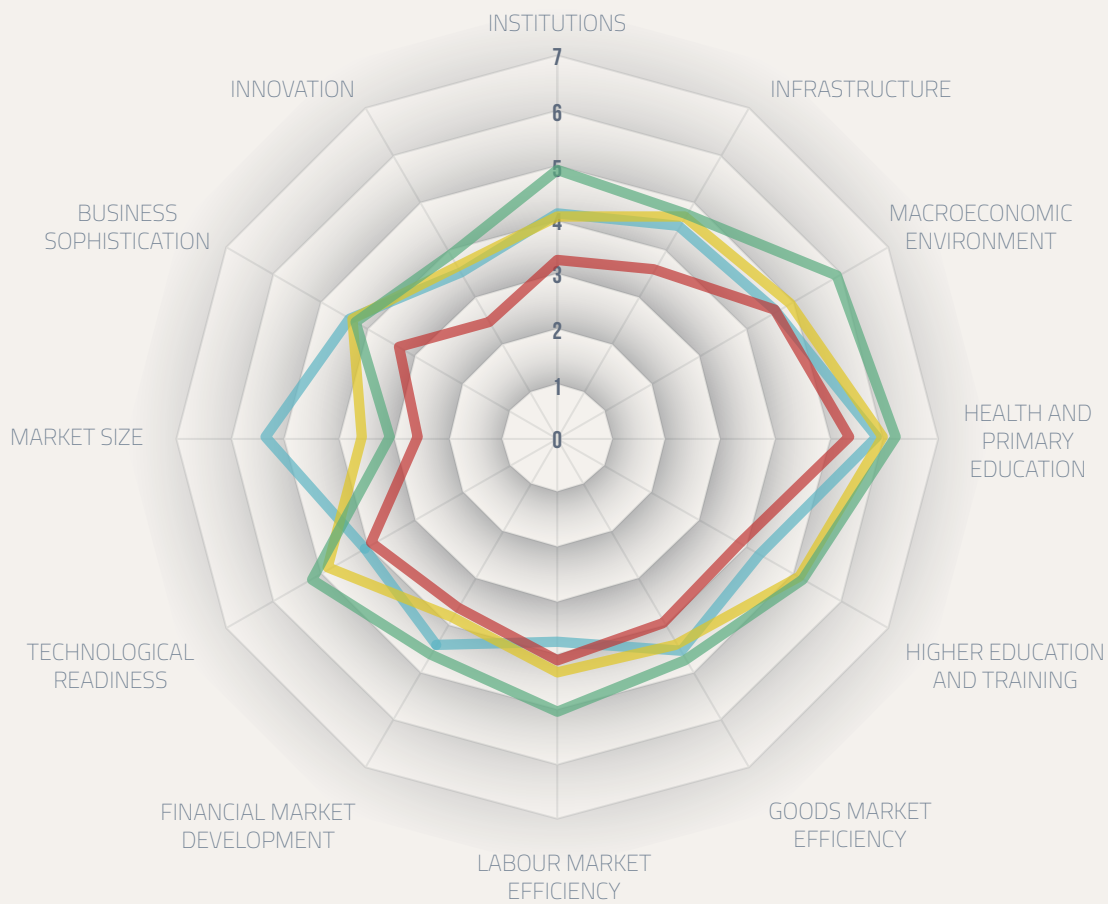
The Global Competitiveness Index of Moldova for 2014-2015 compared to the Baltic States

LATVIA

LITHUANIA

ESTONIA

MOLDOVA



Source: World Economic Forum

*Impact of private sector's challenges on the development of **the country**?*

POOR CAPACITY TO GENERATE DECENT JOBS



- Non-transparent labor market, caused by under-the-table payments and underground employment
- Lack of qualified labor force determined by the fundamental conditions of the educational sector, along with mass exodus of the population in the last decade
- Difficult access to funding
- Corruption

LOW ABSORPTION OF TECHNOLOGIES AND INNOVATIONS



- Lack of a sound competitive environment
- Low security of property rights, including copyright
- Corruption and injustice
- Lack of effective R&D financing mechanisms

LOW INCOMES FROM ENTREPRENEURIAL ACTIVITY



- Tax administration
- Tax level

INSUFFICIENT CORPORATE SOCIAL RESPONSIBILITY PRACTICES

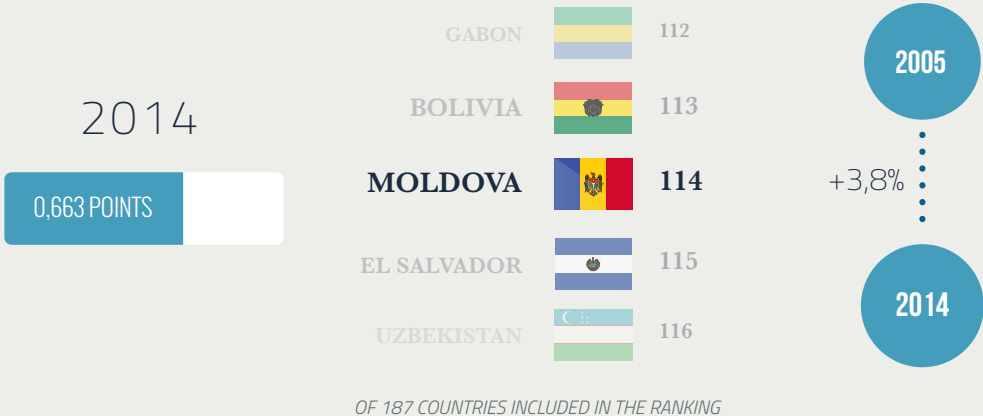


- The low level of incorporation of companies, due to the high corruption in justice, which does not allow for proper protection of property rights
- High level of shadow economy (does not allow to separate the owners from the management)

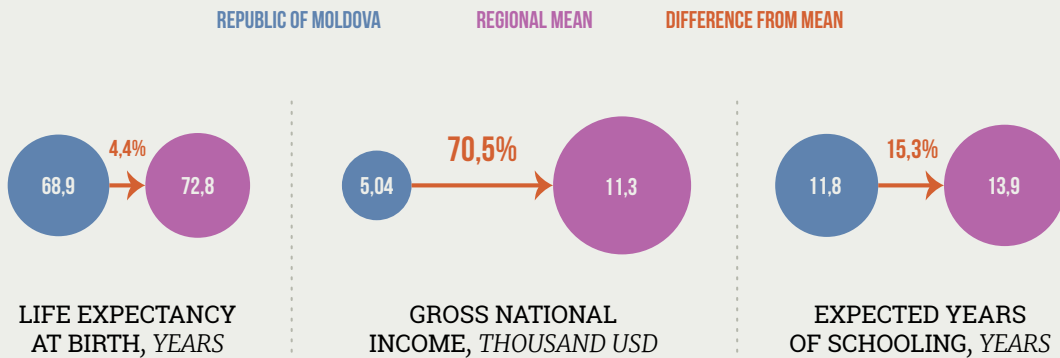
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**DEVELOPMENT
CONSTRAINTS
OF THE REPUBLIC MOLDOVA**

Moldova's Human Development Indexes



The major cause: **LOW LEVEL OF INCOMES**



Source: Human Development Report 2014

*The incomes are not only low, but also distributed **unequally***

LEVEL OF INEQUALITY

DIFFERENCE BETWEEN THE REGULAR HUMAN DEVELOPMENT INDEX AND THE ONE THAT IS ADJUSTED FOR INEQUALITY

REPUBLIC OF MOLDOVA

12,0%

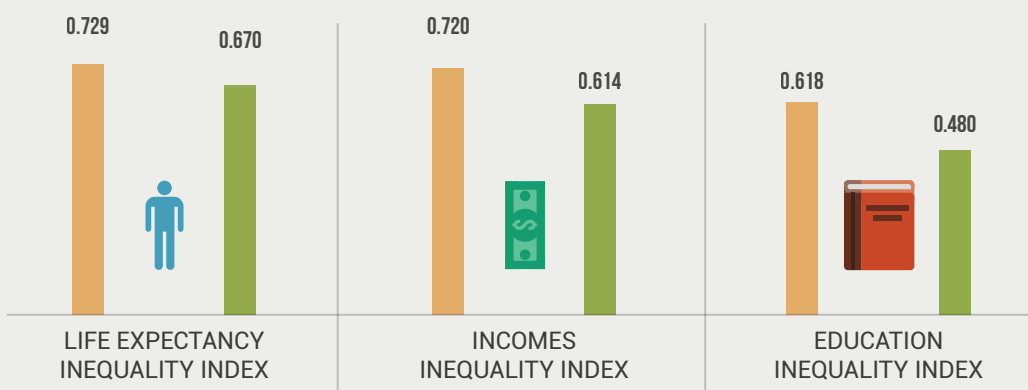


REGIONAL MEAN

10,6%



The 3 key dimensions of inequality: comparison between the **Republic of Moldova** and **Regional Mean**



Rural - urban divide

RURAL AREAS



URBAN AREAS

Absolute poverty rate



18,8% / 4,6%

Access to drinking water



22,8% / 68,9%

Access to sewage



1% / 50,1%

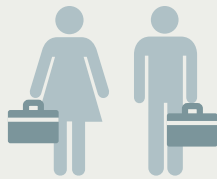
Unequal opportunities between **women** and **men**

WOMEN



MEN

Employment rate



37% / **41,8%**

Gross average wage **of women**



AS A SHARE OF MEN'S WAGE

Time allocated to unpaid works



4,9 / **2,8**

Environmental challenges



Share of forest area

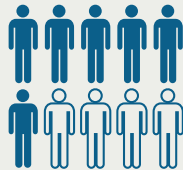


10,9%

MDG TARGET*
FOR 2015 – 13,2%



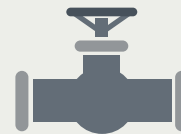
Share of the population
with access to clean water



MDG* - Millennium Development Goals

62%

MDG TARGET
FOR 2015 – 65%



Share of the population
with access to
improved sewage



56,6%

MDG TARGET
FOR 2015 – 65%

INTRODUCTION AND CONCEPTUAL APPROACHES

How does a *classic economy* look like? Firms deliver products and services to the households; the households receive wages and dividends paid by firms to procure goods and services; and the role of the State is to set the rules of the game (legislation), provide public goods and services from the collected taxes and mitigate the eventual market failures (social protection for the poorest and penalization of negative externalities and encouragement of positive externalities generated by firms); obviously, there is the civil society that promotes the public interest and various associations that promote the interests of employers, employees, consumers and other entities.

How does a *modern economy* look like and how does it differ from the *classic* model? The defining feature is that all the stakeholders in the system are committed to *common values and shared prosperity*. This is a significant difference from the classic models and is based on the idea that the population, firms, civil society and Government are not isolated, following their own interest, but rather feel themselves as integral parts of the system, community and country as a whole. For instance, the population understands that their own well-being depends on the firms' capacity to provide decent jobs or on the Government's capacity to deliver quality public goods and services for which taxes are collected; the Government understands that without high living standards and a robust private sector it cannot ensure high quality of public goods and services; and firms understand that they cannot develop without quality human capital, proper public policies or a higher level of living and an appropriate demand.

Understanding these inter-correlations by all of the parties is a defining element of a modern economy. At the same time, this determines the stakeholders' availability to contribute to the public interest with positive long-term effects. Thus, the population and firms pay fully the taxes in exchange for

proper public goods and services that allow them to develop and achieve their aspirations; the Government pays social benefits to the needy, promotes the necessary public policies, invests in the infrastructure in exchange for a higher level of living in the country which will allow collecting more taxes; and firms participate in the settlement of various social/community problems that are subsequently transposed on their sustainable development (healthier and better educated labor force ensure a better productivity and quality, a cleaner environment offers access to more quality factors of production, a higher level of living ensures a wider market etc.).

The modern economy is based on the mutual commitment of all stakeholders involved in the promotion of sustainable development principles, based on shared prosperity.

Adam Smith, the father of modern economy, is most well-known for his principle of the "invisible hand" that coordinates markets and the role of individuals who are interested in increasing their welfare. Smith is also the author of another fundamental economic concept: the theory of moral sentiments, according to which – contrary to commonly held views – individuals are not motivated by their own welfare only, but also by the welfare of the entire society. According to Smith, these two concepts are inter-correlated: individual welfare largely depends on overall welfare. This explains people's tendency to take actions that go beyond their individual interests, such as pro-civil behaviour, philanthropy, volunteering, etc. (According to the "World Giving Index", about 45 per cent of the global population help strangers at least once a year). Given that firms are created and operated by people, could we expect similar behaviour on the part of firms? Does the private sector pursue only its own private interests

or do firms also integrate community objectives into their strategies? Are firms worried about other objectives, besides increasing their profits – such as community development, improving people's health, improving the quality of education, helping the environment, eradicating poverty?

Conventional logic argues that the basic goal of an enterprise is to obtain profits for its shareholders, while the improvement of people's living standards is the main responsibility of the Government. However, does this hypothesis remain valid in a context where companies, throughout the world, have become more preoccupied with community problems and are investing efforts in building socially sustainable business practices? According to a survey published in 2014¹, over 65 per cent of world companies have donated money for charity, participated in community activities, or contributed to the enhancement of energy efficiency or waste management; while about 40 per cent of companies have adjusted their products in order to diminish the environmental impact, and 30 per cent of companies have established sustainable partnerships with charities.

Despite the conventional wisdom, not all companies blindly follow the goal of increasing profits. On the contrary, a large number of private firms all over the world are becoming more and more concerned by the social and community problems.

In fact, we are living in a period of developing *corporate citizenship*, with companies starting to pursue goals that are wider than merely increasing their profits. Rather, they are also preoccupied with solving community problems (see Box 1).

BOX 1. THE OPINION OF BUSINESS PEOPLE

“Throughout many years, community development represented the focus of philanthropic activities and was perceived as separated from the companies' objectives; increasing the shareholders' welfare and the society's welfare were regarded as totally different goals. I believe that this perception is changing. More companies begin to understand that the innovations and competitive advantages may derive from the integration of social and environmental issues in the business strategies from the very beginning. Thus, we can develop together a new generation of ideas, markets and employees”.

Carly Fiorina, Executive Director, Hewlett-Packard, during the Annual Conference on CSR, 12 November 2013

What factors cause companies to depart from the traditional objective of increasing profits and to move towards pro-community goals? According to the Grant Thornton International Business Report², there are several major causes:

- **Optimization of expenses** (a factor recognized by about 67 per cent of companies at the global level). This factor relates in particular to actions aimed at enhancing energy efficiency, improving waste management and other activities that could contribute to decreasing the impact of entrepreneurial activity on the environment. Thus, integrating environmental objectives in corporate development strategies sets the necessary preconditions for modernizing the business concept, in particular in the context of limited resources and markets³. For example, the energy conservation initiative launched by Cisco Systems, Cleaner Air and Millions in Savings, brought to the company annual operational savings of USD 4.5 million⁴. In the same vein, pro-community activities allow enterprises to save on advertising costs, thanks to the increased opportunities for free advertising. For example, as a result of the positive image gained by The Body Shop beauty products company from its support of the campaign against testing beauty products on animals, the company did not require any paid advertising⁵.

Integrating environmental objectives in corporate development strategies sets the necessary preconditions for the modernization of the business concept, in particular in the context of limited resources and markets.

- **Demand/pressure from consumers/customers** (a factor recognized by about 64 per cent of world companies). Companies can become active corporate citizens as a result of demand-side pressures. Empirical evidence suggests that such activities improve a firm's reputation among customers, investors, partners, community and even political decision makers and, as a result, the firm's business becomes more sustainable⁶. Moreover, a company's involvement in community development increases consumers' attachment towards the brand. The reason for this is that when choosing certain products or services, besides aspects related to the functionality or practical benefits, or even emotional and psychological aspect associated with a certain brand,

¹ "Corporate Social Responsibility: Beyond Financials", Grant Thornton International Business Report 2014

² Idem

³ "Making Sustainability Profitable", Harvard Business Review 2013

⁴ Case study: "Energy Efficiency in Design and Construction", Cisco Systems Inc., 2003

⁵ Financial Times, 21 July 2003

⁶ "Corporate Social Responsibility", Philip Cotler, Nancy Lee, 2005

consumers also analyse how companies tackle social/community problems. In such a way, consumers operate at the higher levels of Maslow's hierarchy of needs – self-respect and achievement. Thus, by buying the products/services of a company that actively promotes a certain social cause or contributes in various ways to human development, consumers demonstrate solidarity and identify with the actions of the respective company⁷ (see Box 2).

Empirical evidence suggests that community activities improve a firm's reputation among customers, investors, partners, community and even political decision makers and makes the firm more sustainable in the long run.

Box 2. THE OPINION OF BUSINESS PEOPLE

“Currently consumers monitor and pay attention to how companies' brands are promoted. Hence, if they like the business strategies or feel an emotional attachment towards the social cause promoted by a certain company, consumers tend to appreciate more positively the products/services of the respective companies. On the other hand, if the marketing strategy is “traditional”, based on paid advertising without any social dimensions, consumers tend to be more reluctant towards such companies”.

Paul Bloom, Steve Hoeffler, Kevin Keller and Carlos Basurto, “Consumer Responses to Social and Commercial Sponsorship”, 2013

- **Principles of morality** (a factor recognized by about 62 per cent of firms at the global level). Further empirical evidence of Adam Smith's theory of moral sentiments is found in this factor. Why should a company be concerned about morality? The reason is that when a business becomes more sophisticated, its increased interconnectedness, the tougher competition it faces and the higher role the private sector plays in a country's economic and social life all mean that its managers start to feel their responsibility as regards the community they work in⁸ (see Box 3).

Box 3. THE OPINION OF BUSINESS PEOPLE

“There is a difference between a good company and an excellent company. A good company offers goods and services of a good quality. An excellent company offers goods and services of a good quality, but simultaneously contributes to the development of a better world.”

William Clay Ford, Jr., Board Chairman and CEO, Ford Motor Company

Another essential condition which impacts the way the private sector contributes to human development relates to the capacity and desire of firms to assume certain responsibilities as regards the communities in which they operate. In this respect, corporate managers are accountable not only towards the *formal* shareholders, who have contributed their capital, but also towards the *informal* shareholders (central and local public authorities, the local community, educational institutions, etc.). The classic function of production of any enterprise (a product or service is obtained by combining three major factors of production: capital, a labour force and technologies), cannot operate only on the basis of the financial resources provided by the registered shareholders. Sustainable development depends on the quality of Government policies and the regulatory framework, people's education and health status, the capacity of the economy to absorb technology, the quality of infrastructure and, in general, people's welfare. All these factors, which relate to the unregistered shareholders, have an impact on a company's performance, at least to the same extent as the capital contributions transferred by registered shareholders (see Box 4).

The private sector is liable not only towards the formal shareholders but also towards the informal ones, as part of the company's sustainable development strategy.

Box 4. THE OPINION OF BUSINESS PEOPLE

“Good things = good businesses. (...) The companies' contribution to human development does not refer only to charity or philanthropy, but is also a good business. Healthy communities are important for the welfare of the society and overall economy. It allows creating an appropriate environment for companies, such as American Express, to grow and create innovation and attract the biggest talents”.

Harvey Golub, Board Chairman and CEO, American Express, 2000.

In the case of the Republic of Moldova, what are the factors that motivate companies to become genuine corporate citizens? Alternatively, what causes entrepreneurs to focus only on the narrow interests of the companies they manage, without feeling that they are part of the community, and that they have relevant rights and responsibilities? What are the opportunities that would allow companies to contribute to community development and simultaneously earn higher profits (the “win-win” effect)? And what can the Government do to create a favourable environment so that the private sector works for the public interest?

⁷ “Brand Spirit: How Cause-related Marketing Build Brands”, Hamish Pringle and Marjorie Thompson, London: Wiley, 2001

⁸ Idem.

The main goal of this 2014 National Human Development Report is to identify the link, both historical and potential, between private sector development and human development, and to recommend the necessary measures, both for the Government, for companies and for the society, to ensure a stronger interconnection between these processes. At the same time, the report envisages having an inspirational role as regards the private sector, by pointing to practical examples of corporate citizenship – both examples that have already been implemented and examples of ideas for possible implementation.

The main goal of the 2014 National Human Development Report is to identify the link between private sector development and human development and to recommend the necessary measures to ensure a stronger interconnection between these processes.

The active involvement of the private sector is even more important in developing countries, like the Republic of Moldova, than in developed ones, because in developing countries systemic issues arise against a background of institutional vulnerabilities, and because the Government lacks the capacity to solve these issues on its own. Indeed, the monitoring of the implementation of the Millennium Development Goals and the previous National Human Development Reports has revealed the persistence of some basic constraints, which undermine the multidimensional development of the Republic of Moldova. Despite the achievements that have taken place over the past few years, the inclusivity of economic growth, the distribution of revenue and inequalities among the population have remained weighty and omnipresent issues as regards economic growth and poverty reduction. This is particularly connected to the unequal access to economic opportunities (for example jobs and entrepreneurship), main infrastructure (for example drinking water and the public sewerage system) and the quality of public services (in particular education and health care services). The differentiated access to such facilities reflects huge discrepancies in the quality of life of the population who live in rural as against urban areas, and of the population with lower as against higher income. It also reflects persistent gender inequality.

The Government must assume the responsibility and leadership for solving these issues, but in order to ensure an efficient modernization of the

country, it needs competent and reliable partners – agents of change. One of the crucial partners in this regard should be the private sector, which represents about 98 per cent of the total number of enterprises, accounts for over 90 per cent of the total turnover, about three-quarters of the number of created jobs and about 70 per cent of the capital investments in the Moldovan economy.⁹ Thus, if we develop the metaphor of the 2012 National Human Development Report¹⁰, the private sector has the necessary tools to ensure a quicker ascent of the tree of modernization. Indeed, private firms can offer sufficient financial and human resources, as well as expertise, for improvement of human development. The Government's role is to create the necessary conditions to strengthen these capacities and to motivate the private sector to correlate the corporative interest with that of the community. At the same time, the Government should create a fertile environment to empower and motivate private initiatives, which could be both economic and social/community in nature.

One of the crucial development partners of the Government should be the private sector, which represents about 98 per cent of the total number of enterprises, accounting for over 90 per cent of the total turnover, about three-quarters of the number of created jobs and about 70% of the capital investments.

This report sets out the *passive* and *active* forms by which the private sector can contribute to human development.

The **passive forms** relate to companies' core activities, and have to do with turnover maximization and cost minimization functions. Thus, the contribution the private sector can make to the enhancement of people's income, access to health care and education services, as well as to the reduction of inequalities between villages and cities, rich and poor, women and men, is strictly related to the externalities that result from enterprises' core activities. These external factors can be both positive and negative, depending on the approaches used by the private sector to achieve profits. This concept can be easier understood by looking at the following examples:

- a waste treatment plant might decide either to implement new technologies which will allow it to have a minimum impact on the environment,

⁹ According to the data for 2013.

¹⁰ The 2012 National Human Development Report used the metaphor of climbing the tree of modernization in relation to the reforms that need to be implemented by the Republic of Moldova in connection with the EU integration process.

as well as to greatly increase efficiency, or it may decide to resort to informal payments so as to avoid compliance with environment regulations, which impacts both the environment and efficiency. In both cases, the plant manages to optimize the costs (operational in the first case and fiscal in the second case), but the externalities and, accordingly, the contribution to human development of each case is diametrically opposed.

- in order to increase its turnover a pharmaceutical company can either improve the quality of its products, with a positive impact on people's health, or increase its prices, which will negatively affect people's income and access to medicine.

In this context, the key question that should be addressed is: what are the motivations that cause the companies in each example to choose either the first or the second option? In the first example, access to financial resources and, accordingly, new technologies, the level of protection of property rights, the perception of corruption, rent-seeking behaviour of civil servants and many other factors can affect the strategy that the plant would choose to adopt in order to minimize the costs. In the second case, the competitive environment is the key factor that will determine the strategy adopted by the pharmaceutical plant.

The key question that should be addressed is: what are the motivations that drive firms' behaviour in favour of, or against, human development?

Although an approach that is focused on increasing profits, as sought by each enterprise, seems to be a narrow one at first glance, it is realistic and is natural when one considers the motivations underlying the firms' activities. However, the externalities of these activities are not narrow at all. Over and above the examples of these cases, firms can bring a variety of horizontal changes in society. Thus, certain inventions created by the private sector (e.g. the internet, digital telephony, etc.) can revolutionize society and bring quality changes in various areas, far beyond the activity of the enterprise responsible for the invention. In some cases the private sector contributes to streamlining the regulatory framework and to enhancing the quality of laws via an active communication with public institutions and transfer of sector expertise in the legislative process (provided that conflicts of interest are

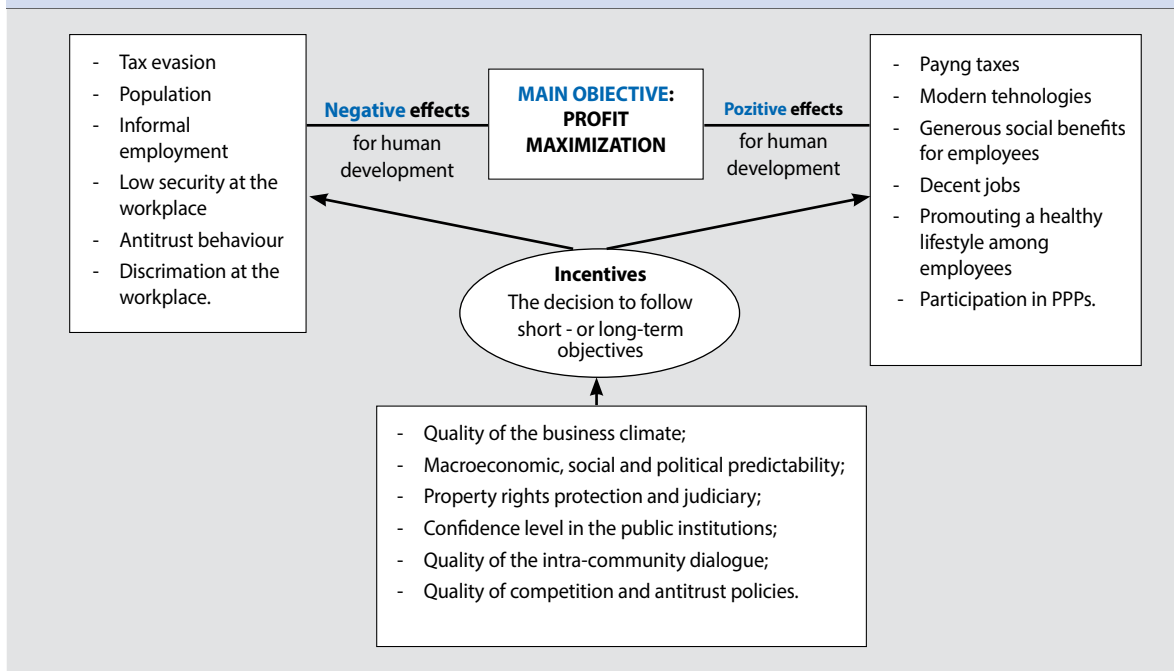
avoided). Therefore, the private sector, while seeking to maximize its profit, can trigger a series of important changes in the society – externalities that are not related directly to the purpose of the firms' activities, but which could impact their external environment (the environment, and the activities of public institutions, consumers, competitors, suppliers and the community in general).

Certain inventions created by the private sector (e.g. the internet, digital telephony) can revolutionize the society and bring quality changes in various areas, far beyond the activity of the enterprise responsible for the invention.

In the last resort, the way in which the private sector contributes to human development (positively or negatively) depends on the scope of development pursued by a company. Thus, if the goals are mainly short-term there is a higher probability that the company will adopt hostile behaviour (resort to informal payments, abuse market share and increase prices, save on food safety and security for its employees, etc.). In turn, the scope of the strategic development of companies depends mainly on the institutional framework, which ensures a favourable environment for the sustainable development of the private sector. This framework relates to the functioning of certain fundamental factors, like the effectiveness of the judicial system and its capacity to ensure the rule of law, the level of corruption in the state institutions, macroeconomic and political stability, as well as the perception of risk, the competitive framework, the level of transparency in public institutions and the quality of business climate in general. Consequently, the main condition for ensuring an interconnection between the private sector and human development relates to the motivations underlying the behaviour of companies when they are maximizing their profits; it is these motivations which may cause either positive or negative externalities for human development (see Figure 1).

The extent to which the private sector contributes to human development depends on the planning horizon of companies.

FIGURE 1. Schematic representation of the passive forms by which the private sector can contribute to human development and motivations that guide companies' behaviour



Source: *Developed by the authors.*

However, companies cannot limit themselves permanently to the objective of profit maximization, which serves as a basis for the passive forms of the private sector's contribution to human development. At a certain point, pursuit of profit maximization decreases a company's marginal utility. In a way that is similar to Maslow's hierarchy of human needs, corporate needs also evolve, once the basic needs have been met. Thus, after reaching a certain development level, firms become preoccupied with wider objectives (e.g. solving certain social/community problems). At this stage of development, the private sector usually employs **active forms** to contribute to various dimensions of human development.

In a way that is similar to Maslow's hierarchy of human needs, corporate needs also evolve, once the basic need have been met.

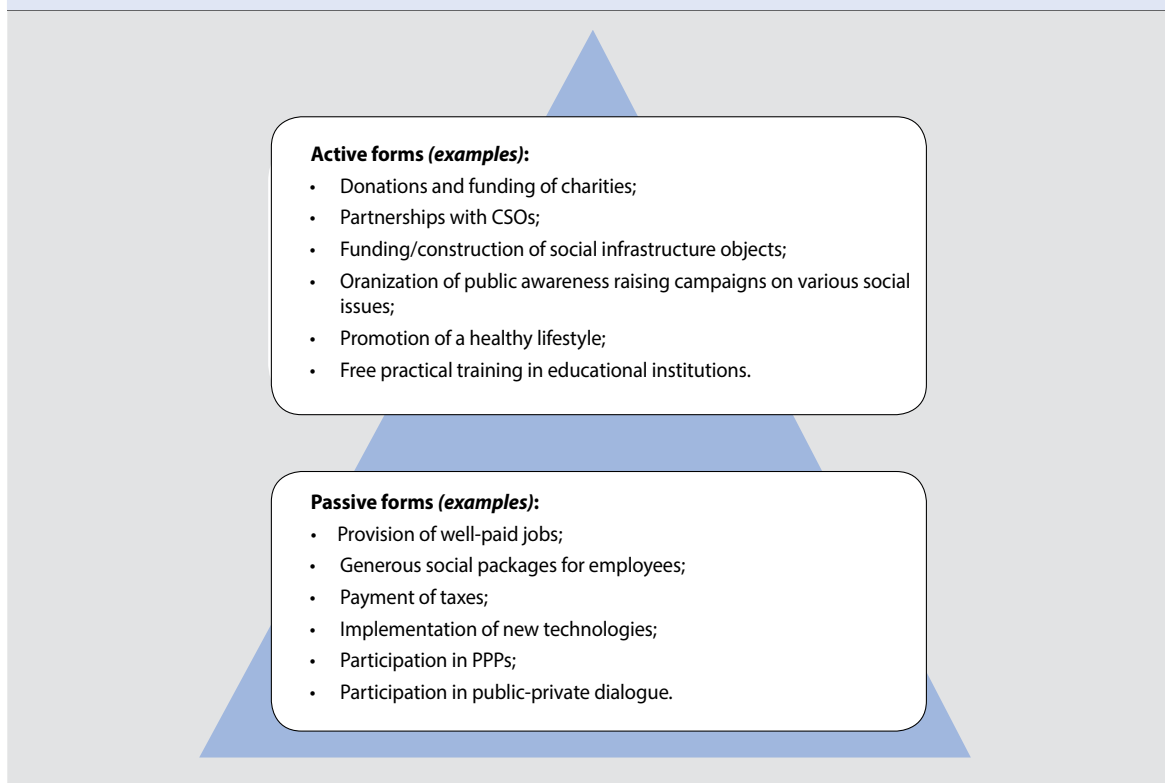
The active forms differ significantly from the passive ones in that companies purposefully integrate community development objectives into their business strategies. Thus, when reaching a development level that would allow a certain stability and financial predictability, companies start to carry out additional activities that could have a direct impact on human development. These may include: donations to civil society organizations

(CSOs) or funding certain charity activities aimed at solving various social problems (e.g. the promotion of universal access to education); the organization of campaigns promoting a healthy lifestyle; raising public awareness of the importance of the economic empowerment of women; funding or even building various social infrastructure objects (e.g. hospitals, schools, kindergartens, etc.); the establishment of partnerships with NGOs; and the provision of a certain number of salaried hours during which employees are encouraged to undertake volunteering work (see Figure 2).

Thus, companies *vertically* integrate the human development objectives into their business strategies: once the core objectives (earning and maximizing profits) are achieved, companies advance to new levels of development, where the main objectives become more diversified (e.g. increased loyalty from customers, employees or suppliers; improvements in the company's image in the community; the remedying of various social problems, etc.). Hence, along with the company's development, its potential to contribute to human development increases as well (see Figure 3).

Along with the company's development, its potential to contribute to human development increases as well.

FIGURE 2. Schematic representation of the passive and active forms by which the private sector can contribute to human development.



Source: *Developed by the authors.*

FIGURE 3. Vertical integration of human development objectives in business strategies.



Source: *Developed by the authors.*

International experience reveals a number of relevant examples of active participation of companies in human development. In most cases, companies have managed to reach the necessary level to be able to become more concerned about

community issues, and to implement active forms in this respect. Based on best international practices, we have developed a series of projects ideas, that are applicable in the Republic of Moldova and relevant for the local development needs (see Table 1).

Table 1. Examples of active involvement of the private sector in human development.

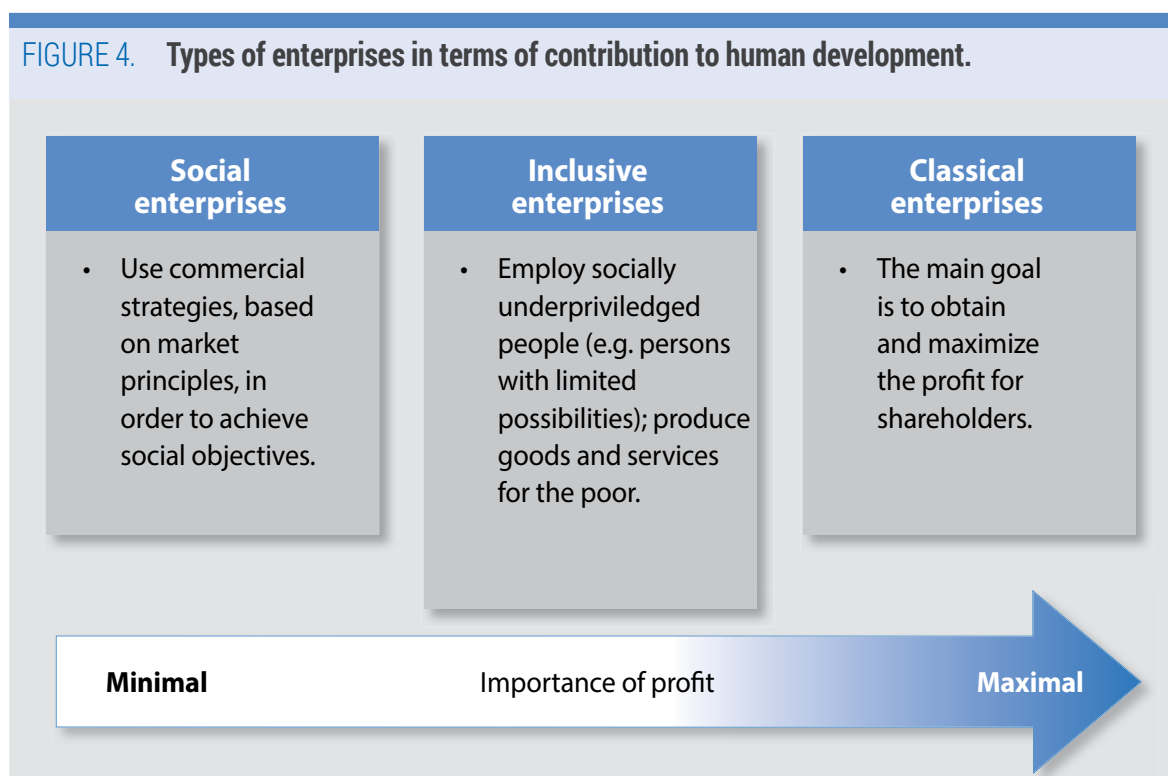
No.	Project idea	Stakeholders	Relevance for human development
1.	Implementation of inclusive business models. On the demand side, it involves employing economically and socially excluded population and cooperation with domestic suppliers, which respect the human rights, the environment and all forms of non-discrimination principles. On the supply side, the company can develop a dedicated product/service line for socially excluded consumers/clients.	Private companies	Raising economic and social inclusiveness of the most vulnerable categories of population.
2.	Offering employees the chance to take 40 paid hours per year for volunteer work. Thus, each employee (if they choose) can dedicate this time to community activities, carried out by one or several CSOs with whom an agreement of cooperation has been signed. The activities may involve sanitation work, public awareness campaigns on environment protection or energy efficiency, or social services for the elderly or other vulnerable groups.	Private companies, their employees and specialized CSOs.	Strengthened capacities of CSOs to solve difficult social problems (e.g. the environment, access of the vulnerable population to social services, a higher level of awareness about environmental issues, and energy efficiency).
3.	Companies active in more dynamic technological areas may pay their most experienced employees to teach for a certain number of hours in relevant universities/ colleges/vocational schools with whom an agreement of partnership has been signed.	Companies, qualified professionals from those companies, technical educational institutions.	Increasing student access to career-relevant studies; complement the necessary number of teachers for technical specialities.
4.	Banks may conclude cooperation agreements with schools/hospitals, and then issue special debit cards to customers. For each payment made with these cards, the bank would transfer 1 MDL to the account of a school/hospital selected by the holder of the respective credit card. The cards would be issued free of charge, and they would have a distinct design, to encourage people to use them more often. Companies would be able to join such a campaign as well, by issuing such cards to their employees for wage transfers.	Commercial banks, the population at large, companies, schools/hospitals.	Financial support for schools/hospitals and the raising of the necessary funds for their modernization; lower tax evasion and more budget funds for social projects, as a result of encouraging people to make their payments using debit cards.
5.	Financial support for programmes aimed at enhancing the professional qualifications of teachers from certain educational institutions, focusing on rural teachers and those specialized in areas experiencing rapid technological changes.	Firms, educational institutions, teachers.	Increase the quality and relevance of education.

6.	Funding, by financial institutions, of open courses at financial educations for secondary and high school students. The courses could be given by workers from financial institutions, these hours being regarded as working hours and covered by their salaries.	Financial institutions, secondary and high schools, students.	Improved financial and economic education of the population; popularization of payments by credit cards, with a positive impact on tax evasion; popularization of financial tools for savings.
7.	Computer vendors might acquire outdated equipment and donate this to community-based centres, schools, NGOs and other institutions that need equipment but cannot afford to buy that equipment.	Companies that sell computers, NGOs, schools, hospitals, community centres.	Improved capacities of schools, hospitals, community centres and other NGOs that work in social areas.
8.	Frequently passengers who come from other countries have coins/banknotes from the respective country. These can be donated. Thus, boxes can be installed in the airport to collect these resources, and in airplanes staff of air companies can distribute bags to passengers for voluntary donations. The collected resources can be donated to NGOs dealing with certain serious social problems (e.g. helping children with disabilities, supporting modernization of community centres, etc.).	Chisinau International Airport, air companies, specialized NGOs, airline passengers.	Solve various serious social problems; increase people's solidarity regarding community problems in the country.

Source: *Developed by the authors.*

The contribution of the private sector to human development is not, however, to be assessed only vertically: it is also horizontal. This depends on the

form of the business. Besides the classical business models described above, there are different forms of business (see Figure 4).



Source: *Developed by the authors.*

Box 5. EXAMPLES OF SOCIAL ENTREPRENEURSHIP IN THE REPUBLIC OF MOLDOVA.

Etno-Gastronomica promotes healthy nutrition, supports local agrifood producers, and preserves the ethnic and gastronomic potential of Moldova. To achieve these goals, Etno-Gastronomica:

- Organizes ethnic and gastronomic fairs and festivals
- Organizes closed or open social events
- Produces documentaries and promotional movies
- Publishes information and educational materials
- Carries out public caravans and other social actions
- Organizes public and private ethnic and gastronomic presentations
- Publishes articles and interviews in the media.

Motto: Company with profits for the society.

Mission: Development through enjoyment.

EduJoc promotes mental the development, and the ongoing and active learning, of children. The company distributes toys, games and bricolage items for children, manufactured in the Republic of Moldova as well as imported from Romania, Ukraine, Poland, Germany, Belgium and China. The products contribute to the development of essential skills in children. Moreover, the team accompanies and helps parents to select for their children the best and most appropriate toys, depending on the child's age and temperament.

Motto: Education by playing.

Mission: For each child in Moldova to have at home at least one educational game. At the same time, EduJoc intends not only to help parents offer their children the best and more appropriate toys, but also to dedicate more time to their children, play together, read to them, walk with them, exercise with them, listen to and encourage them, i.e. to offer them a beautiful childhood.

Social enterprises (which practice social entrepreneurship) solve social problems with the help of economic/business mechanisms, which can be both innovative and classical. Thus, earning profits is not an end goal for these companies, but rather a *means* to support social initiatives (see Box 5).

Inclusive enterprises may be regarded as hybrid enterprises because they pursue both traditional goals of profit maximization and social goals by employing underprivileged people and/or selling goods and services to low-income people. Profit is more important for these companies than for social companies, but less important than for classical companies. This type of entrepreneurship has a poor presence in the Republic of Moldova because few companies can cover the inclusion costs (e.g. costs of adjusting the workplace for persons in wheelchairs or blind people, etc.). In 2012 there were about 300 enterprises that employed persons with disabilities, and about 150 enterprises had around 600 vacancies for such people.

Regardless of their mission, *profit* remains a core concern of any enterprise; the only difference, therefore, is to the different roles assigned to that

profit. Thus, for classic companies earning and maximizing profits is an end goal which is diluted with the development of the company and the adoption of active forms of involvement in human development. For social companies, and partially for inclusive ones, profit is instead a way to solve preset social goals.

For classical companies, the profit is an end goal, whereas for social enterprises and partially for hybrid ones profit is rather a means for solving certain preset social goals.

In the process of achieving their social objectives, enterprises cooperate with **other direct or indirect representatives of the private sector:**

- **CSOs.** The collaboration of CSOs with private companies is very important for the efficiency of social actions, because CSOs know better what the real needs of the community/society are. There are different types of CSO: most often they are social service providers, charities, organizations dealing with the

environment, human rights and other pressing problems in the community or in the entire country. This cooperation between CSOs and private companies may operate at different levels of intensity. Thus, companies may limit themselves to one-off or periodic donations to certain CSOs, which use the respective resources to achieve their social objectives and mission. At the same time, firms might fund a certain project that has a social interest (e.g. a campaign to promote a healthy lifestyle or a programme for the economic empowerment of rural women). More intense cooperation involves the implementation in partnership with various CSOs of projects of social/community interest and involvement in monitoring and follow-up on the implemented projects (e.g. the development of a community centre together with a local CSO, the specialized provision of services to children left-behind or the provision of preferential loans to young entrepreneurs, who will then benefit from training provided by a specialized CSO).

- **The donor community and international institutions** frequently encourage a link between private companies, public authorities, academia and civil society. Thus, various networks and dialogue platforms have been created with donor support, via means of which the private sector (both firms and the civil society) can participate in exchanges of opinions and visions regarding various economic and social problems in the country. For example, since 2014 the European Bank for Reconstruction and Development has been financially supporting the work of the Secretariat of the Economic Council, under the Prime Minister of the Republic of Moldova, which convenes representatives of the most important investors and business associations, public authorities, academia and specialized civil society. Another relevant initiative is the Global Compact Project, supported financially by the United Nations Development Programme (UNDP) Moldova and implemented in partnership with the private sector, NGOs and the mass media. The project has created a network of the most important enterprises in the country in order to facilitate discussions on sustainable CSR strategies and the establishment of a favourable institutional environment in this respect.
- **The mass media** plays a crucial role in social projects that are implemented with the support of private companies. Its importance is at least dual: first, it ensures the efficiency of interventions that are aimed at raising

public awareness of various social problems (e.g. environmental protection, promotion of an energy culture, the combating of domestic violence and all forms of discrimination, etc.); second, it provides media coverage for the social actions implemented by companies, motivating them to get involved more actively due to positive implications for their public image. For example, an economic journal or television may include a permanent column/segment on CSR, which would reward the companies involved and motivate other companies to become aware of the importance of integrating social and community objectives in their business development strategies.

- **Academia** cooperates with the private sector on the basis of a mutual transfer of expertise. On the one hand, educational and research institutions (usually those with a technical or agricultural profile) may be involved in projects related to the development of various technologies that enhance production efficiency that are supported financially by private companies. On the other hand, private companies can bring practical expertise to educational institutions. For example, Endava Company has developed and is teaching a course on IT engineering at the Technical University of Moldova.

Structure of this report

The foregoing discussion has sought to set the scene for the rest of the report, by introducing the ways in which the private sector can contribute to human development. The rest of the report is structured as follows: there are five chapters. The objective of the first chapter is to identify the main constraints on development from the perspective of the HDI, and of the monitoring of implementation of the Millennium Development Goals. Chapter 1 focuses on a regional review of recent economic and social developments from the perspective of the main components of the HDI: income, health and education. At the same time, the horizontal development constraints (which relate to gender inequality, discrepancies between the living standards in rural and urban areas, as well as problems of sustainable economic growth from an environment perspective) are analysed. Thus, the chapter points out the main areas which should be tackled as a priority by development policies. At the same time, as the interconnection between the private sector and human development suggests, these are also the areas where the private sector can

contribute with a view to increasing people's living standards.

Chapter 2 identifies the feasible tools by which the private sector can get involved more actively in the human development process in the Republic of Moldova. Overall, seven ways are identified that can empower the private sector to contribute to human development and the modernization of the country. These ways encompass tax measures, employment, involvement in the educational system, technological and know-how transfer, PPPs, social responsibility and consultations with the Government. Using these instruments, the private sector can contribute positively to all key dimensions of human development: health care, education, revenue, gender equality, the rural-urban gap and environmental sustainability. For each of these mechanisms by which the private companies can participate more actively in the transformational processes of the country the main constraints and opportunities will be identified.

A weak private sector cannot contribute to community welfare. Thus, in order to ensure the active and inclusive involvement of the private sector in the human development process it is necessary to understand the main needs and constraints of firms operating in the Republic of Moldova. In this regard, Chapter 3 identifies the main obstacles preventing the development of the business environment and its connection with human development. In particular, the chapter analyses, through regional comparison, the recent trends in the development of the Moldovan private sector, the progress that has been made and the challenges in respect of regulatory reform implementation, the level of communication between the companies and public authorities and the main flaws in the business environment that

constrain the activity of enterprises and affect the link between them and human development.

Chapter 4 uses robust quantitative methods to provide an objective understanding of the historical link between the private sector and human development in the Republic of Moldova. Thus, based on correlations and econometric regressions, we analyse the link between private sector development and increases in people's earnings, improvement in people's health and enhancement of people's education level.

Chapter 5, which offers the conclusion of the report, identifies policies for empowering the private sector to contribute more actively to the human development process in the Republic of Moldova. It presents viable solutions for the identified problems. Although the chapter does not aim to provide a road map with specific measures, it identifies the policy priorities that should be pursued by the authorities in order to strengthen the role of the private sector in the transformative processes in Moldova.

Thus, the chapters of the report complement each other: Chapter 1 identifies the main areas where the Government needs the active involvement of the private sector as a key development partner; Chapter 2 proposes a series of viable tools that will strengthen this link; Chapter 3 emphasizes that in order to become a competent development partner, the private sector needs to eliminate the constraints acting on the business environment; Chapter 4 analyses how strong the link between the private sector and human development has been so far; and Chapter 5 summarizes the main policy recommendations intended to empower the private sector to contribute more actively to human development.

SUSTAINABLE HUMAN DEVELOPMENT IN THE REPUBLIC OF MOLDOVA: ACHIEVEMENTS AND CHALLENGES

1

During 2005–2013, the Republic of Moldova progressed in human development, recording a growth of about 3.8 per cent in the HDI. However, the HDI for the Republic of Moldova remained the lowest in the region¹¹, ranking Moldova 114th of 187 countries in 2013 (0.663 points). Moreover, the progress that was made was not fast enough to narrow the obvious development gaps between the Republic of Moldova and other countries in the region. This chapter will set out an empirical analysis of the main development flaws in the Republic of Moldova from the perspective of the HDI, by assessing the implementation of the Millennium Development Goals and the available statistical data.

i. Recent Economic, Social and Political Developments: Regional Comparison

The HDI offers a relatively comprehensive image of a country's development level and quality of life. The HDI is based on three main dimensions of human development: a long and healthy life, access to knowledge and decent standards of living. The index was developed from the hypothesis that a country's development should be analysed from the perspective of people and their skills, and not only on the basis of economic growth (see Box 6).

Although economic growth and development is only one component of human development, the strong link between this growth and human development has been confirmed empirically in the region (see Figure 6). This causal link between both indicators is bidirectional: the level of economic development can create the necessary opportunities for professional and personal self-realization, thus contributing to the human development, and vice versa: the private sector cannot develop without a higher level of living and an inclusive and equitable environment (see Figure 5).

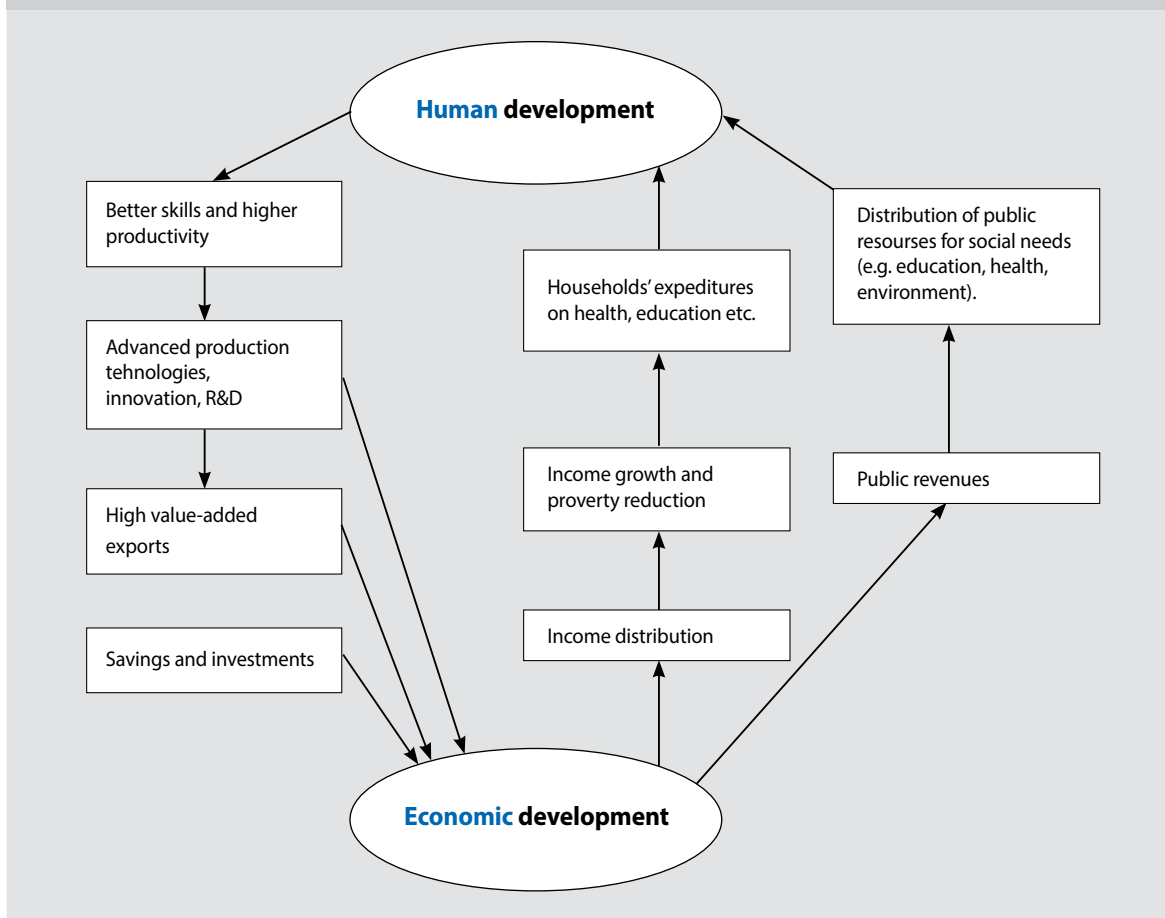
Box 6. THE HDI

The HDI measures the quality of life from the perspective of three relevant dimensions of human development: (i) a long and healthy life; (ii) the level of knowledge; and (iii) a decent standard of living. Thus, the index measures the progress of each country in terms of quality of life, focusing on people and their skills. In this respect, the HDI is a more appropriate measure of the level of welfare than GDP because it takes into account a wider range of factors that define the quality of life, not only economic growth. In addition, HDI contains a series of additional indicators that measure how resources are distributed among different categories of people (e.g. the rich and the poor, the rural and urban population, women and men).

The HDI is computed on the basis of the geometric average of normalized indicators for each of the three dimensions. The health dimension is estimated taking into account the average life expectancy at birth, using the minimum value of 20 and maximum value of 85 years. The education component is measured taking into account the average number of education years accumulated by people of 25 years of age and the number of expected years of education for children who are in the first year of schooling. The indicators are normalized, using zero as the minimum value and 15 and 18, respectively, as the maximum value. Both indicators are combined in a synthetic index – the Education Index – on the basis of the arithmetic mean. The dimension of income or standards of living is measured by the national gross income per capita. To normalize this, the minimum value is USD 100, and the maximum is USD 75,000 at purchasing power parity. The income level is expressed in logarithms to reflect the diminishing impact of larger incomes. Subsequently, the scores obtained for the three dimensions of the HDI are aggregated into a composite index, using the geometrical mean.

¹¹ Central and Eastern Europe and Central Asia.

FIGURE 5. The link between human development and economic development.



Source: Adjusted by the authors based on Ranis and Steward, 2000

Such a mutual link between economic development and human development reveals the essence of *virtuous* and *vicious* circles of human development. Thus, some countries have a *virtuous* link between human development and economic development – when the higher level of education, health care and earnings contribute to the economic development, and as a result more resources are generated for further improvement of human development. Other countries, by contrast, are caught in a *vicious* circle – when the low level of human development constrains the economy, causing a shortage of the resources needed to improve the quality of life for later generations.

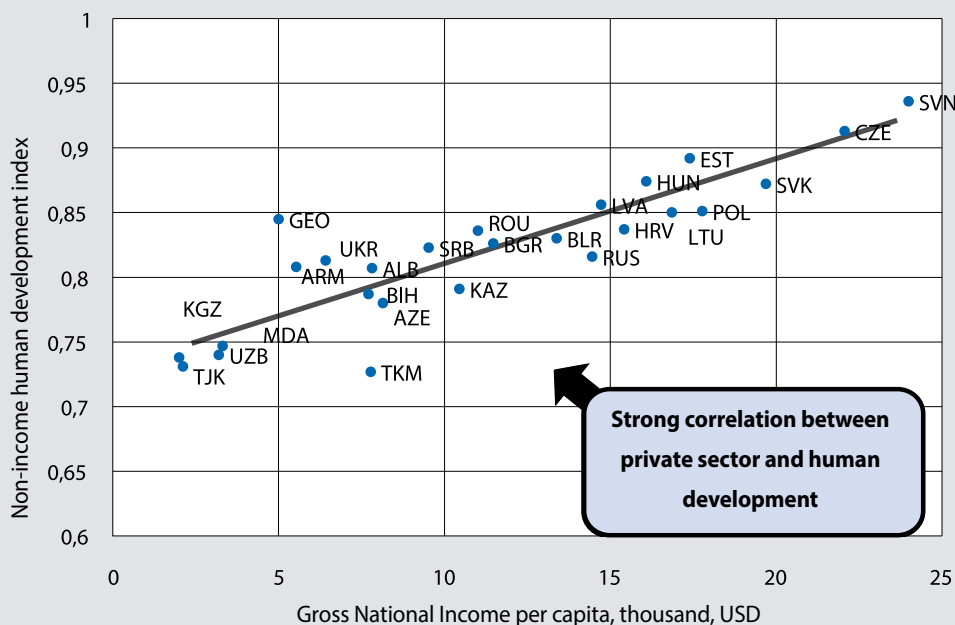
Besides the objective factors that explain the vicious and virtuous link between economic development and human development, one cannot omit the motivational aspects that guide people's behaviour in various circumstances. Thus, higher earnings and better standards of living motivate a population to request products that have a higher value added component and services of a higher quality, which further fosters economic growth and human development. Moreover,

this process facilitates the development of a meritocratic society, where work is remunerated properly – which motivates the population and entrepreneurs to be more productive, efficient and innovative. At the same time, a weak economy and low human development leads to weak demand for the main products and services, with a low value added component. Meanwhile, the fact that for the efforts they make the population does not receive proper monetary remuneration, and quality public services and infrastructure, negatively affects the motivation of entrepreneurs and employees as regards work.

Contrary to the experience on the global level, in the region the correlation between the economic and human development is very strong.

It is interesting that at the world level, the link between human development and economic development is not so linear (see Figure 7). Thus, while the correlation coefficient between the non-income HDI and GNI per capita for countries in the region is 0.95, it is only 0.62 at the global level.

FIGURE 6. Correlation between the non-income index of human development and gross national income (GNI) per capita in the region, 2012.



Source: UNDP database (<http://hdr.undp.org/en/data>).

The non-linear link between economic and human development is explained by the fact that economic growth is relevant for the increase in a population's welfare only up to a certain development level, above which the quality of life is influenced more by non-monetary dimensions (e.g. distribution of earnings, environmental problems, economic inclusion, the

quality of health care and education services, etc.). Therefore, the high level of correlation between both areas in the case of countries in the region reveals the still low level of economic development in the region, which highlights the high importance of economic growth and the enhancement of the monetary dimension of human development.

FIGURE 7. Correlation between the non-income index of human development and GNI per capita at the global level, 2012.

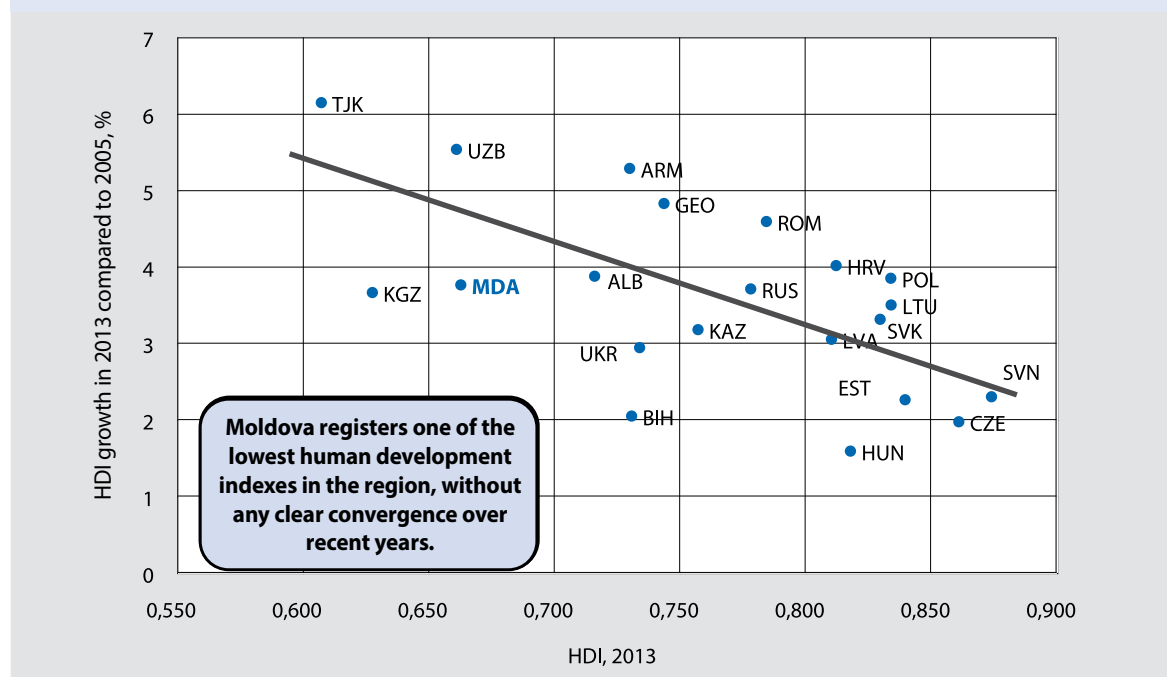


Source: UNDP database (<http://hdr.undp.org/en/data>).

According to the 2013 HDI, the Republic of Moldova accumulated 0.633 points¹², ranking it 114th out of the 187 countries included in the rating: two positions higher than in 2012. Thus, constant progress has been registered during the past years. However, progress is decelerating gradually: in 2000 the Republic of Moldova's index points were 0.598, in 2005 they were 0.639, in 2008 they were 0.652, in 2010 they were 0.652, and in 2012 they were 0.657 points. Nevertheless, during 2005–2013, the gap between the Republic

of Moldova and the regional average did not diminish significantly, which reveals that the progresses achieved during the past years was not quick enough to ensure the necessary convergence with the regional average. Thus, contrary to the principle that countries with a low human development should grow at higher rates in order to converge with the average, the Republic of Moldova advanced slower than many countries with higher a HDI score in the region – Romania, Poland, Croatia and Georgia (see Figure 8).

FIGURE 8. Correlation between the 2013 HDI and index change compared to 2005.



Source: Calculations based on UNDP data (<http://hdr.undp.org/en/data>).

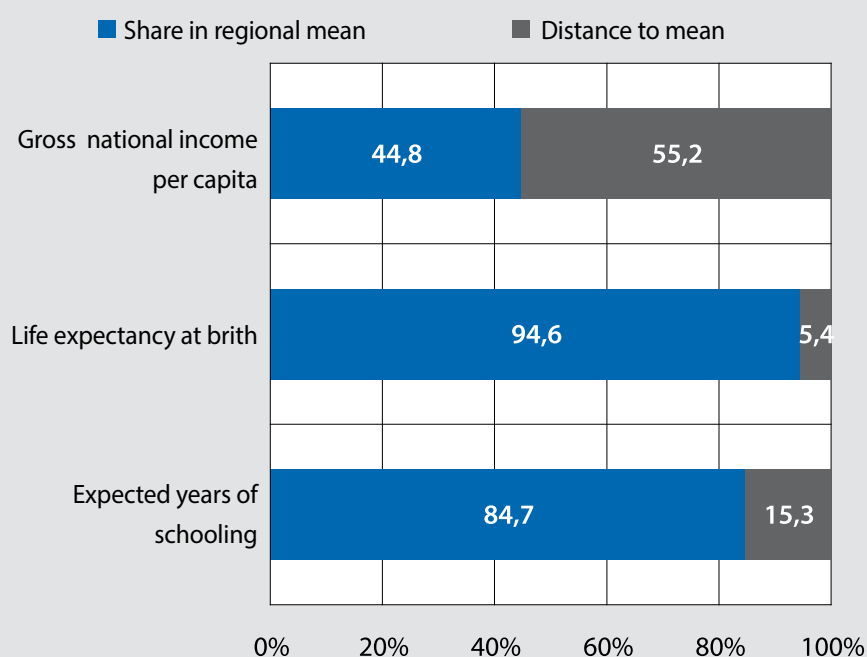
The major cause of the low HDI indicator for the Republic of Moldova relates to the low level of income in the country. This affects the indicator in two ways: (i) directly – the level of GNI per capita, which is only 32 per cent of the regional average (2013); (ii) indirectly – the high level of monetary poverty (especially in rural areas) affects the access to health care and quality education, as well as

increasing the gaps between the quality of life between rural and urban areas and between women and men (Figure 9).

The major cause of the low HDI indicator for the Republic of Moldova relates to the low level of income in the country.

¹² The indicator is estimated within the Global Human Development Report (GHDR) 2014. However, the index calculated by authors based on the NBS data is a bit higher (0.687 points for 2013). The source of this discrepancy is the „Mean years of schooling” indicator, which has a value of 9.8 according to the GHDR data and a value of 12 according to the NBS data. The authors’ calculations are experimental and the detailed methodology and visualization maps are described in Annexes 3 and 4.

FIGURE 9. The main components of the HDI, 2013.



Source: Calculations based on UNDP data (<http://hdr.undp.org/en/data>).

Besides being low, incomes in the Republic of Moldova are also distributed very disproportionately. Thus, the Republic of Moldova falls behind not only in regard to the classic HDI, but also as regards the inequality-adjusted HDI (Box 7).

In 2013 the value of inequality-adjusted HDI in the Republic of Moldova was 0.582 points, being 12.2 per cent lower than the standard HDI level. This loss is higher than the regional average (10.8 per cent in 2013). This level of inequality is the result of the non-inclusive model of economic growth that has persisted until now, which is based on consumption funded from remittances while economic opportunities within the country

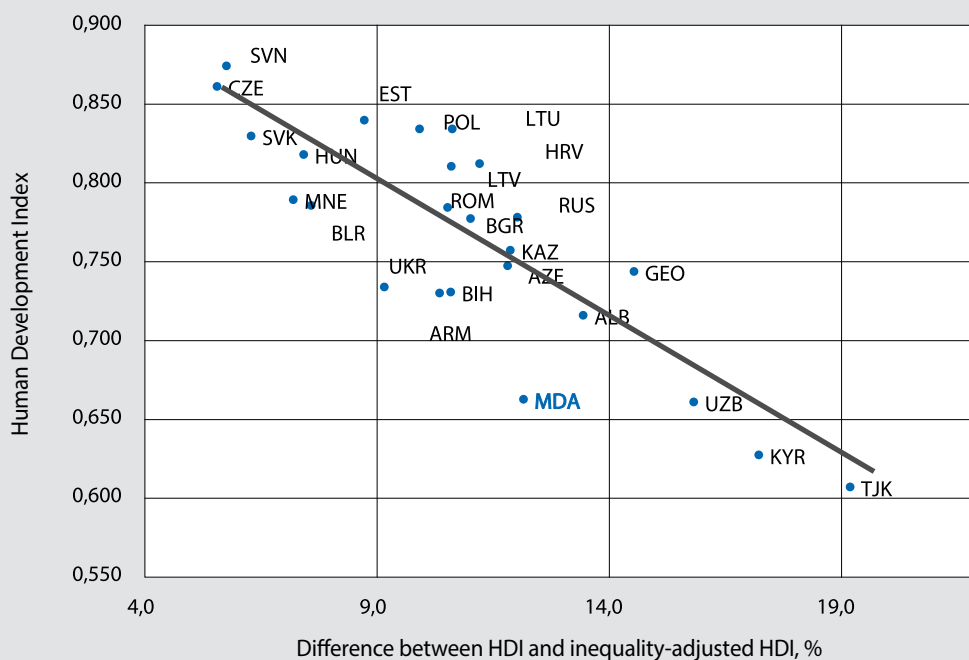
have remained low. Another cause relates to the weak economic and social system in the country, given that, as a rule, countries with a lower level of human development have the highest inequalities (difference between HDI and inequality-adjusted HDI). Thus, the Republic of Moldova, having among the lowest HDI indicator, has an accordingly high inequality (see Figure 10).

The non-inclusive model of economic growth has generated high inequalities compared to other regional countries, the highest disparities being registered with respect to income.

Box 7. INEQUALITY-ADJUSTED HDI (IHDI)

The IHDI takes into account not only the average achievements of a country on health, education and income, but also how those achievements are distributed among its population by "discounting" each dimension's average value according to its level of inequality. The IHDI is the distribution-sensitive average level of human development. Two countries with different distributions of achievements can have the same average HDI value. Under perfect equality the IHDI is equal to the HDI, but it falls below the HDI when inequality rises. The difference between the IHDI and HDI is the human development cost of inequality, also termed the loss to human development due to inequality. The IHDI allows a direct link to inequalities in dimensions, and can inform policies relating to inequality reduction, and it can lead to a better understanding of inequalities across population and their contribution to the overall human development cost.

FIGURE 10. Correlation between HDI and IHDl, 2013.

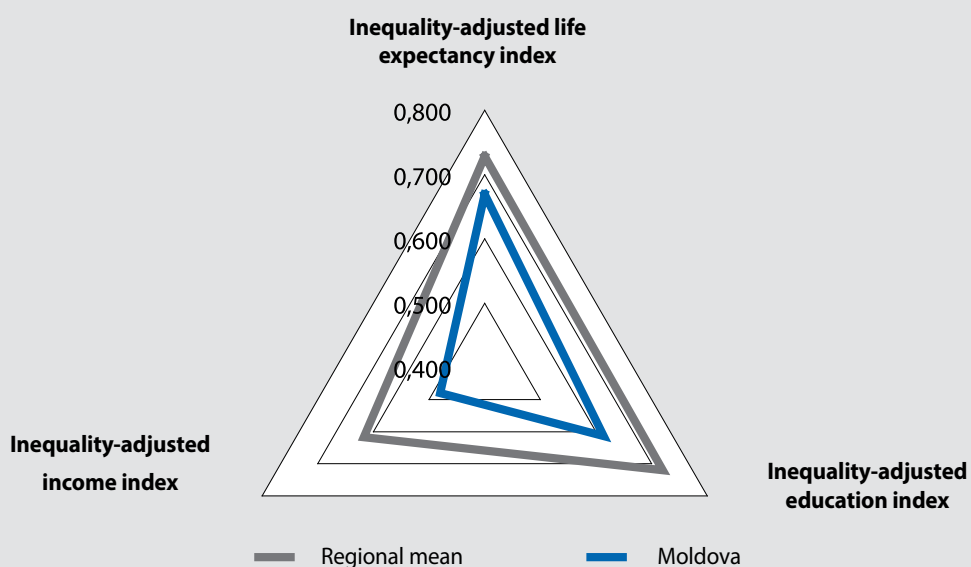


Source: UNDP database (<http://hdr.undp.org/en/data>).

The most pronounced inequality level is observed with respect to the income component, for which the Republic of Moldova had an index of only 0.48 in 2013. Here there is the largest gap between the

Republic of Moldova and the regional average compared to other dimensions of inequality (inequality in education and life expectancy) (see Figure 11).

FIGURE 11. The three dimensions of inequality, comparison between the Republic of Moldova and regional average.



Source: UNDP database (<http://hdr.undp.org/en/data>).

One of the defining factors of the unequal distribution of human development in the Republic of Moldova, which reflects the earnings inequality, relates to the rural–urban development gap. This

can be noticed by referring to the Multidimensional Poverty Index (MPI), which since 2010 has been computed by the UNDP (see Box 8).

Box 8. MPI.

The MPI complements the monetary poverty indicators by considering the various areas of deprivation that affect people simultaneously. This index identifies the deprivation level recorded for 10 indicators, which are grouped into three dimensions of the HDI (health, education, living standards), and reveals the number of poor people from a multi-dimensional perspective. The 10 indicators underlying the MPI are:

Education:

1. Years of school
2. Children enrolled

Health:

3. Nutrition
4. Child mortality

Living standards:

5. Electricity
6. Water
7. Toilet
8. Cooking fuel
9. Floor
10. Assets.

Thus, in 2013, the MPI computed for the rural population is over seven times higher compared to the urban one (0.0103 compared to 0.0014) (see Figure 12). According to Figure 13, the rural poverty level is determined by the low living standards, in particular related to owned assets, cooking fuel and

quality sanitation. At the same time, in the urban areas the multidimensional poverty is determined, mainly, by health-related aspects: child mortality and nutrition (nevertheless compared to indicators for rural areas, these are much lower).

FIGURE 12. MPI components, by areas of residence, 2013.

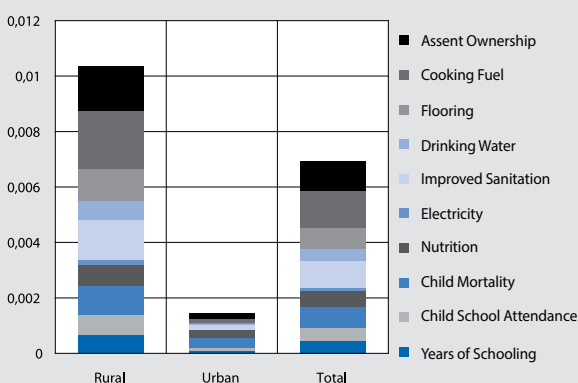
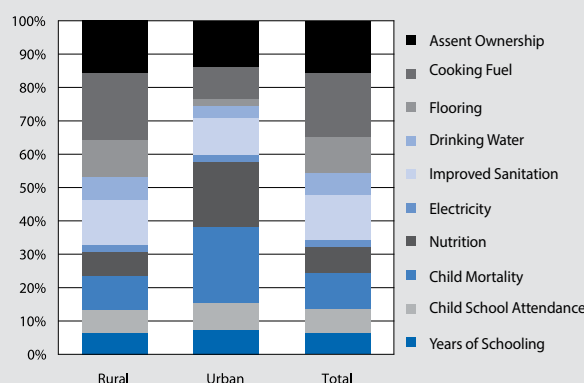


FIGURE 13. Contribution of MPI components to growth, by areas of residence, 2013.



Source: *Global Human Development Report 2014*.

Although there are some methodological limitations related to the computation of MPI¹³, the development gaps between villages and towns are also confirmed by the data of the Ministry of Economy and National Bureau of Statistics (NBS), which are analysed in section ii of this chapter.

Gender inequality is a key factor in human development inequality in the Republic of Moldova

(see Box 9). In 2013, the Gender Inequality Index (GII) in the Republic of Moldova constituted 0.302 points, higher than the regional average (0.232).

Gender inequality is a key factor in human development inequality in the Republic of Moldova.

¹³ However, the index has a series of limitations. First, it is based on the results of a 2005 survey and the data are therefore outdated. Second, the methodology focused more on people's health issues. Third, only about 1.3% of the population was included in the survey, which poses a high risk of error.

Box 9. GII AND GENDER DEVELOPMENT INDEX

The GII measures gender inequalities in three important aspects of human development—reproductive health measured by maternal mortality ratio and adolescent birth rates; empowerment, measured by proportion of parliamentary seats occupied by females and proportion of adult females and males aged 25 years and older with at least some secondary education; and economic status expressed as labour market participation and measured by labour force participation rate of female and male populations aged 15 years and older. GII measures the human development costs of gender inequality, thus the higher the GII value the more disparities between females and males.

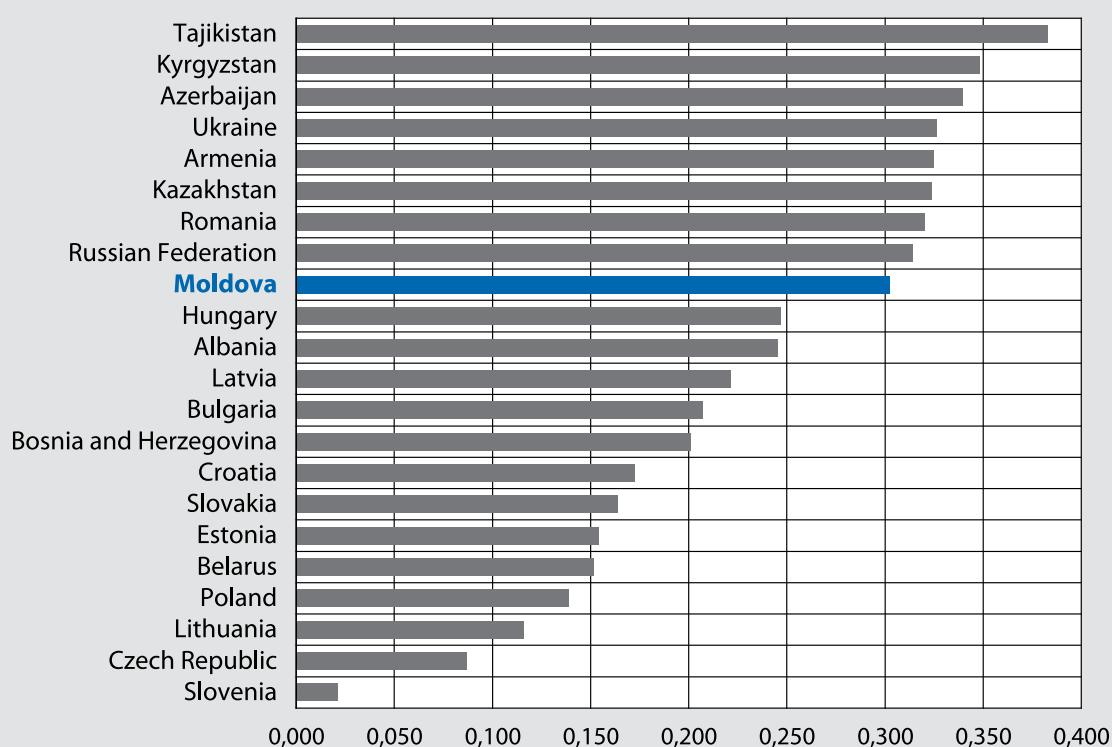
The **Gender Development Index** measures gender gap in human development achievements in three basic dimensions of human development: health, measured by female and male life expectancy at birth; education, measured by female and male expected years of schooling for children and female and male mean years of schooling for adults ages 25 and older; and command over economic resources, measured by female and male estimated earned income.

The main sources of gender inequality stem from the more limited economic opportunities available to women compared to men. For example, the employment rate of women was only 37% in 2013,

The main sources of gender inequality stem from the more limited economic opportunities available to women compared to men.

where the rate for men was 41.8%. The largest gap between men and women exists in urban areas, which is explained by the lower employment rate of men in rural areas. There are also gaps in relation to pay: in 2012 the monthly gross salary of women was only 87.1% of men's salary. In fact, the gap is higher if one considers the fact that men are more involved in informal employment and in the phenomenon of “under-the-table salaries” (EXPERT-GRUP, 2014).

FIGURE 14. GII, 2013.



Source: UNDP (<http://hdr.undp.org/en/data>).

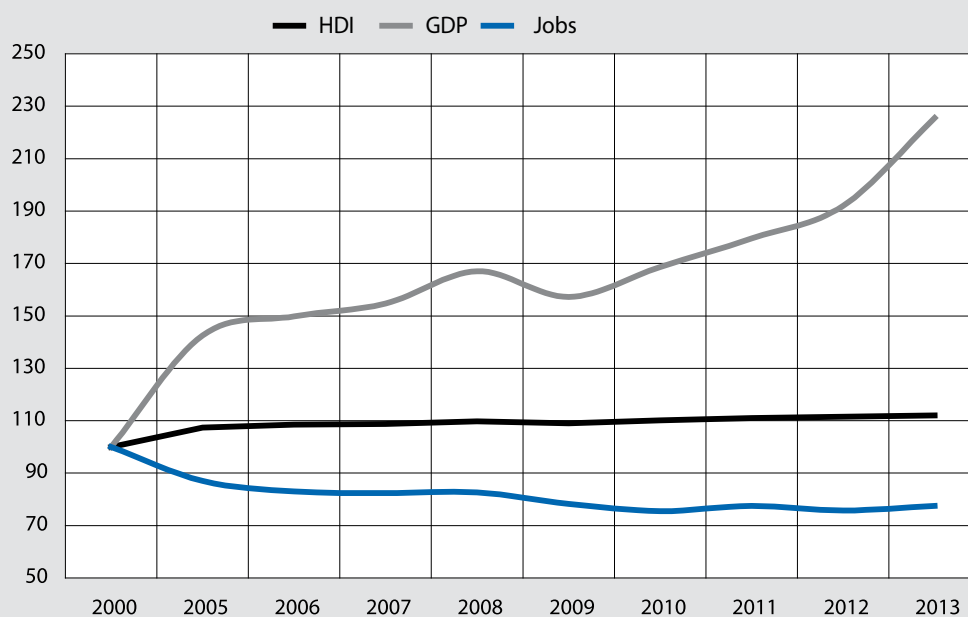
The Gender Development Index reveals issues related to inequality regarding, and economic inclusiveness of, women in the Republic of Moldova. Thus, the GNI computed in purchasing power parity for 2011 (according to the most recent available data) received by women accounts for only 70.2 per cent of the GNI received by men. This means that women participate to a lower extent in economic activity. This is due to various forms of discrimination against women in the workplace, as well as due to the traditional nature of Moldovan society. Women spend an average of 4.9 hours per day on unremunerated work (the figure is 2.8 hours/day in the case of men) and only 2.5 hours a day on remunerated work (the figure is 3.3 hours/day in the case of men), being responsible for about 64 per cent of the total amount of time spent for unremunerated work¹⁴ At the same time, women's life expectancy at birth is higher than men's (72.8 years compared to 65 years). This is the result of the

unhealthy lifestyle adopted by men, the fact that men carry out jobs with greater health risks and less frequent doctor visits due to gender stereotypes.

Women participate to a lower extent in economic activity, because of various forms of discrimination against women in the workplace and because of the traditional nature of Moldovan society.

As a result, even though economic growth in the recent years has been relatively robust, it has been non-inclusive and unevenly distributed and it did not create more employment opportunities (see Figure 15). Thus, during 2000–2013, the number of jobs – both in the formal and in the informal sector – has decreased, this phenomenon being more visible in the case of informal employment (the share of informal employment has decreased from 38 per cent in 2003 down to 30.9 per cent in 2013).

FIGURE 15. Development of GDP per capita (PPP, USD), of HDI and number of employed persons (2000=100%).



Source: Calculations based on UNDP data.

Even though economic growth in the recent years has been relatively robust, it has been non-inclusive and unevenly distributed and it did not create more employment opportunities.

The lack of jobs within the country has been compensated for by the intensification of labour-force migration. Thus, during recent years, migration has registered the highest “productivity”¹⁵

growth: during 2000–2012, the number of migrants increased by 137.4 per cent and the volume of remittances grew by 914.2 per cent. The agricultural sector was the most affected, with the number of the working population decreasing by 60.6 per cent, while production in this sector grew by 166.9 per cent, being the weakest growth sector after the public sector. The vulnerabilities of the agricultural sector have exposed the rural population to a greater risk of poverty, which explains why most

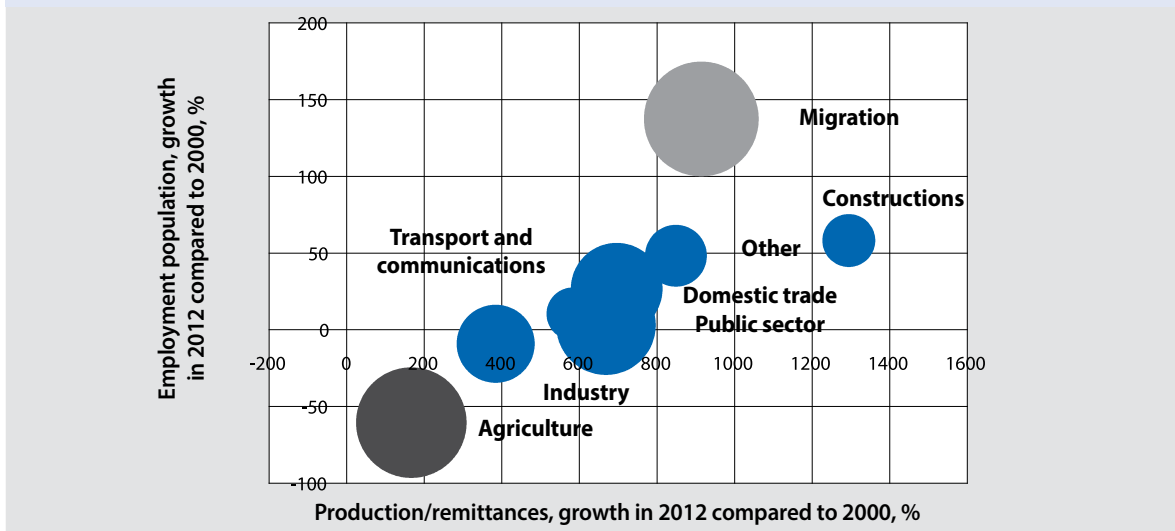
¹⁴ “Study on the Use of Time”, the National Bureau of Statistics, 2013.

¹⁵ We use a proxy indicator to estimate the productivity of migrants: inflows of remittances per number of people working abroad.

of the migrants (72 per cent in 2013) come from villages. Thus, as a broad outline, the increase in migration has been determined by the problems

that have emerged in the agricultural sector and due to the fact that there are not enough economic opportunities in rural areas (Figure 16).

FIGURE 16. Relationship between GDP and employment dynamics during 2000–2012, by sectors.



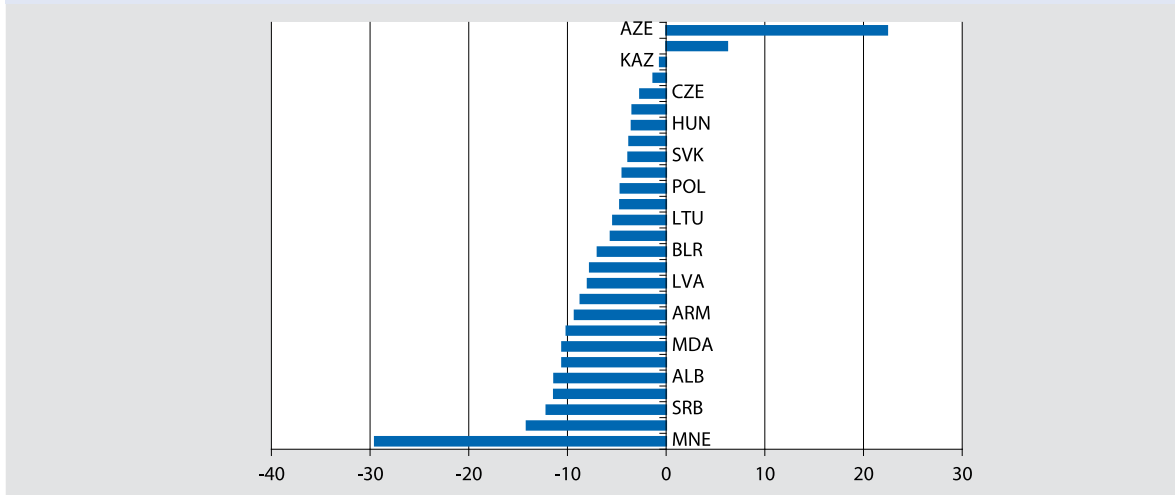
Source: Authors' calculations based on NBS and National Bank of Moldova (NBM) data.

Note: In the case of migrants, the inflow of remittances was taken into account as an economic outcome.¹⁶

Figure 16 also indicates that about half of the employed population (49 per cent in 2013) works in the agricultural and public sectors, which are, traditionally, the least efficient and competitive ones. Although the share of these sectors has been constantly decreasing (in 2000 they accounted for 67 per cent), the fact that they are regarded as the main employers indicates that there are several drawbacks as regards the quality and sustainability of economic growth in the Republic of Moldova in the recent period. A fundamental problem in this respect is the low competitiveness level, for which the trade balance of goods and services is evidence. It is clear from this balance that the demand financed out of remittances

– upon which the Moldovan economy is partially based – is not covered to a great extent by domestic goods and services, but by imports. As a result, during the past years imports grew constantly, at a faster rate than exports. The inflows of remittances or of foreign direct investments could not cover this gap, and as a result, during 2000–2013, the current account deficit grew by more than four times (from USD 98.19 million in 2000 to USD 398.59 million in 2013). Accordingly, the Republic of Moldova has a relatively high current account deficit as compared to other countries in the region (see Figure 17), which confirms the drawbacks in terms of competitiveness and economic growth sustainability.

FIGURE 17. Share of the current account deficit in GDP, average for 2005–2012, %.



Source: World Bank.

¹⁶ Remittances were calculated based on the inflows of personal transfers, migrants' transfers and compensation for work, from the balance of payments of the Republic of Moldova

In conclusion, the progress of the Republic of Moldova in terms of human development is relatively modest, and the dynamic of recent years has not ensured a convergence with the average of the countries of region. The main reason for this is the unsustainable model of economic growth which is based on consumption funded mainly from remittances and covered largely by imports, and the lack of robust internal development sources. Another fundamental problem is the non-inclusive nature of the economic growth, which does not provide enough opportunities for a large share of the population to realize their potential (especially women, young people and people living in rural areas). This explains the low level of earnings – the HDI component with the largest gap relative to the average values for the region. In its turn, it affects the access to quality health and education services, revealing the non-inclusive nature of economic growth, which generates inequality. The crucial dimensions of human development inequality in the Republic of Moldova are the disparities between the rural and urban population and between women and men. In both cases the main problem relates to unequal access to economic opportunities, including the chance of obtaining a decent job, level of pay and the chance of setting up a business.

The progress of the Republic of Moldova in terms of human development is relatively modest, and the dynamic of recent years has not ensured a convergence with the average for the countries in the region.

One of the main challenges is the development trap in which the Republic of Moldova is stuck: the low level of economic development means there is an insufficiency of resources for infrastructure modernization and to ensure quality health and education services, which, in their turn, affects the level of human development, which in its own turn acts as a major constraint on economic development. The main priority of the Government should be the transformation of this vicious circle into a virtuous one.

The main priority of the Government should be the transformation of the vicious circle, as regards development, into a virtuous one.

This problem (of the vicious circle as regards development) has been directly or indirectly tackled in the main strategic planning documents which have been recently drafted. In particular:

- The Government Activity Programme for 2013–2014. This stipulates sustainable and inclusive economic growth as one of the priorities. According to the document, “Ensuring a sizeable economic welfare for every citizen and increase of economic competitiveness shall be achieved by: liberalizing the economic activity; establishing a friendly business environment; attracting investments in sectors with a potential to grow; promoting pro-active industrial policies; supporting SMEs with high added value production and export competitiveness; modernizing the infrastructure; developing the skilled and productive labour force.”
- The National Development Strategy “Moldova 2020”. This establishes that a development paradigm shift is a basic goal, and the ultimate goal is to ensure qualitative economic development, and hence poverty reduction.
- The decentralization strategy. This aims at strengthening the financial and operational autonomy of local public authorities, which will increase the effectiveness of Government action and contribute to improvements in human development at the local level.
- The strategy regarding regulatory framework reform in relation to entrepreneurship during 2013–2020. This strategy focuses on developing a regulatory system which will produce a smarter business environment determined by clear competitiveness criteria.
- The National Gender Equality Programme for 2010–2015. This programme envisages a complex approach to mainstreaming gender equality in policy documents from all areas and at all decision-making and implementation levels. The goal of this programme is to ensure the promotion of gender equality in the economic, political and social life of women and men.
- The Environment Strategy for 2014–2023. This strategy aims at providing Moldovan people with a sustainable, uncontaminated and healthy environment, which is in harmony with economic development and social welfare. The general objective of the strategy is to create an efficient environment management system that will contribute to higher quality environmental factors and provide the population the right to an unpolluted, healthy and sustainable natural environment.

ii. Progress in Implementation of Millennium Development Goals

The human development constraints identified in the previous sub-chapter are confirmed by the conclusions of the Third Report on the Millennium Development Goals, drafted in 2013 by the Government of the Republic of Moldova with the assistance of United Nations agencies in Moldova (see Box 10). According to this report, the Republic of Moldova has made some significant progress towards achieving the Millennium Development Goals, such as the reduction of the poverty rate, the creation of a global partnership for

development, and the reduction of infant mortality. However, many backlogs remain, mainly with regard to ensuring gender equality, improving maternal health and combating HIV/AIDS, tuberculosis and other socially conditioned diseases.

Moldova's progress in terms of the implementation of Millennium Development Goals is mixed. The key backlogs relate to ensuring gender equality, improving maternal health and combating HIV/AIDS, tuberculosis and other socially conditioned diseases.

Box 10. MILLENNIUM DEVELOPMENT GOALS

The **Millennium Development Goals** were set in the Declaration adopted at the Millennium Summit in 2000, which was signed by 189 countries, including the Republic of Moldova. The Third Millennium Development Goals Implementation Monitoring Report for the Republic of Moldova, drawn up in 2013, covers the time period between 2010 and 2013 and analyses the progress against a set of objectives which were adapted to the local context:

1. Eradicate extreme poverty and hunger - *high progress*.
2. Achieve universal primary education - *modest progress*.
3. Promote gender equality and empower women - *modest progress*.
4. Reduce child mortality - *high progress*.
5. Improve maternal health - *modest progress*.
6. Combat HIV/AIDS, malaria and other diseases - *no progress/regress*
7. Ensure environmental sustainability - *no progress/regress*
8. Develop a global partnership for development - *modest progress*.

For more details on the progress made please see The Third Millennium Development Goals Report. Republic of Moldova: http://www.md.undp.org/content/dam/moldova/docs/Publications/UNDP_MD_3rdMDGReport_Rom.pdf.

Below we will summarize the main successes and failures in achieving the Millennium Development Goals adjusted for the Republic of Moldova.

Main successes:

- **Reduction of extreme poverty and hunger:** in 2013 the absolute poverty rate was 12.7 per cent (target for 2015: 20 per cent), a decrease from 30.2 per cent in 2006, and the extreme poverty rate was 0.3 per cent (target for 2015: 3.5 per cent), a decrease from 4.5 per cent in 2006. This was due both to state policies aimed at improving the effectiveness of the targeting mechanism for social assistance, and labour migration and, accordingly, the remittances which in 2013 amounted to about one-quarter of GDP.
- **Increase of the gross rate in the preschool education enrolment (three to six years):** In 2012, this was 82.1 per cent, being higher than the target of 78.0 per cent established for 2015. Moreover, no gender differences were found regarding the access to preschool education. This allowed for the required level of literacy (99.4 per cent in 2012, compared to the target of

99.5 per cent for 2015) to be attained. This level was similar for women and men.

- **Reduce child mortality:** in 2012, this constituted 9.8 per 100,000 newborns, with the target being 13.2 for 2015. This was achieved thanks to the implementation of compulsory health insurance and reform of primary health care, which improved access to these services.
- **Build an information society:** The penetration level of landline telephones doubled, increasing from 16.6 per 100 inhabitants in 2000 to 33.9 in 2012, and the penetration of mobile telephones witnessed an impressive advancement – from 10 per cent in 2003 to 114.6 per cent in 2012. At the same time, the penetration rate of internet access increased from 23.4 per 100 inhabitants in 2007 to 57 per 100 inhabitants in 2012. Note that these successes were determined to a high extent by the contribution of the private sector, which facilitated the technological transfer in this sector. As a result, the interconnection between people improved – a fundamental aspect that defines the quality of life in the context of the domestic and international mobility of people.

Main failures:

- **Modest representation of women in managerial positions:** in 2011, 28.7 per cent of women worked as local councillors (target for 2015: 40 per cent), 18.4 per cent as rayon councillors (target for 2015: 25 per cent), and 18.5 per cent as mayors (target for 2015: 25 per cent). Thus, the higher are the jobs in hierarchy the lower is the share of women in those jobs. At the same time, women are under-represented in central public institutions: in 2012, 19.2 per cent of Members of Parliament (target for 2015: 30 per cent), and 6.2 per cent of ministers were women.
- **Persistence of a high level of maternal death rate:** In 2012 this rate constituted 30.4 cases per 100,000 live births, with the target being 13.3 for 2015. This under-performance reveals fundamental flaws regarding the quality of the health care system, and the country's social and economic situation, given that poverty is one of the main factors of maternal deaths.
- **High incidence of socially conditioned diseases.** In particular, this is related to the increase of HIV/AIDS incidence: in 2012 this constituted 18.5 cases per 100,000 persons, with the target being 9.6 for 2015. There has been a decrease in mortality induced by tuberculosis, but the level has remained relatively high: 14.4 cases per 100,000 persons (the target for 2015 is 10). As in the case of infant mortality, this is mainly caused by flaws in the health care system, as well as by social problems and the low level of the standard of living.
- **Persistence of an unsustainable nature of environment policies.** In 2012 the afforestation level remained at 10.9 per cent (the target for 2015 is 13.2 per cent), the share of inhabitants with permanent access to improved sources of water constituted 62 per cent (the target for 2015 is 65 per cent), and the share of the population with access to improved sewerage was 56.6 per cent (the target for 2015 is 65 per cent). These constraints directly affect people's health status. Finally, in 2012 the forest cover percentage remained at 10.9 per cent (the target for 2015 is 13.2 per cent).
- **Limited access of young people to the labour market.** The employment rate among people of 15–24 years constituted only 18.1 per cent in 2013, with the average employment rate being 39.3 per cent, while the unemployment rate was 12.2 per cent, compared with the average of 5.1 per cent. Access is even more limited in the case of young women: the employment rate constituted 15.5 per cent (as opposed to 20.5 per cent in the case of men), and the unemployment rate was 12.7 per cent (as

opposed to 11.9 per cent in the case of men). The barriers preventing the integration of young people in the labour market are determined by insufficient labour demand due to domestic economic imbalances, and the quality of the labour offered, which is determined by the flaws in the educational system and its weak correlation with the needs of the real economy. Perpetuation of this phenomenon affects young people's living standards, which amplifies the repercussions of the demographic crisis and encourages emigration.

Beyond the success and failures summarized above, three fundamental development constraints can be identified, which could be overcome by the involvement of the private sector. These are: (i) large development gaps between towns and villages; (ii) gender inequality; and (iii) environmental issues.

Three fundamental development constraints can be identified: (i) large development gaps between towns and villages; (ii) gender inequality; and (iii) environmental issues.

Development gaps between towns and villages

Despite the decline in the overall poverty rate during 2000–2013, the share of the rural poor actually increased from 75.5 per cent to 84 per cent during the same period. Thus, in 2013 the absolute poverty rate constituted 18.8 per cent in the urban areas and only 4.6 per cent in the rural areas. There also gaps between the large cities (the municipalities of Chisinau and Balti), where the absolute poverty rate was only 1 per cent in 2013, and small towns, which have an absolute poverty rate of 9.1 per cent. The fundamental reason for these gaps relates to the much more limited economic opportunities in settlements outside the large cities, with the most critical situation found in villages: the employment rate in 2013 was 36.6 per cent in the rural areas (42.8 per cent in the urban areas), and the income level was 9.2 per cent under the subsistence level (in towns it was by 20.8 per cent higher than the minimum existence).

Despite the decline in the overall poverty rate during 2000–2013, the share of the rural poor actually increased from 75.5 per cent to 84 per cent during the same period.

In addition to monetary poverty, the quality of rural life is also affected by the lower access to health care services, as well as by the main infrastructure that is critical for people's health condition. Thus, in 2012 only 16.8 per cent of the rural population

had visited a doctor during the four weeks prior to the survey (22.9 per cent in towns), only 22.8 per cent had access to water supply services (68.9 per cent in towns) and only 1 per cent had access to the public sewerage system (50.1 per cent in towns). Due to the social-economic situation and limited access to quality health care services, the active tuberculosis morbidity and under five mortality rates are higher in villages than in towns. There are also some inequalities with regard to access to preschool education: in 2012, 28.6 per cent of rural children did not attend kindergartens, and due to the low-quality or absence of preschool education many rural families take their children to kindergartens in neighbouring towns.

The development gaps between rural and urban settlements were also underlined in the National Human Development Report 2010/2011 “From Social Exclusion to an Inclusive Human Development”, as well as in the Third Millennium Development Goals Report, developed by the Government. Both documents underline the economic factors that lead to the exclusion of the rural population (limited employment opportunities, subsistence agriculture, impaired infrastructure), which are aggravated by a social protection system which requires significant improvements in order to be able to cope with the identified challenges.

The problem of these gaps can be solved by private sector involvement through:

(i) passive forms:

- creation of well-paid jobs in rural areas
- provision of health insurance and social packages for the rural population
- development of modern technologies of irrigation, harvesting and post-harvesting or waste management
- contribution to local budgets through taxes, which are subsequently redistributed for the interest of the community
- access to internet and new information and communications technology (ICT) tools allow online teaching of lessons by teachers from other villages in schools with a shortage of teachers
- provision of feasible transportation options for employees/trainees to travel from rural areas to their place of work/traineeship

(ii) active forms:

- financial support for charities
- donations to NGOs dealing with community development
- funding centres that provide social services to the elderly
- contribution to the development of the water supply and sewerage network in villages

Gender inequality

The monitoring of the implementation of the Millennium Development Goals has revealed that, though at early life stages girls have the same opportunities as men, during the productive stage of life there are major gaps between women and men. Thus, statistics reveal that women have much more limited access to economic opportunities. In particular, women’s employment rate is lower than men’s (37.0 per cent versus 41.8 per cent, in 2013), and women’s average monthly salary accounted for only 87.8 per cent of men’s in 2011. These results corroborate the GII, which attests to a higher inequality level for the Republic of Moldova compared to the regional average (0.302 compared to 0.232 points). Moreover, the Time Use Survey, developed recently by the NBS, reveals that women devote about 66 per cent of their working time to unpaid work (taking care of the household and family), while men use half as much time for such activities.

Statistics reveal the much more limited access by women to economic opportunities: both, the employment rate and the average wages are lower for women compared to men.

The **passive forms** by which the private sector could contribute to resolving these problems include:

- mainstreaming the principle of gender equality in their corporate codes of ethics and promoting this principle among employees
- making sure salaries and promotions are based on meritocracy
- implementing weight-handling equipment which does not require high physical effort, thus allowing women to work in positions which used to be exclusively for men

- providing access to internet and new ICT tools to allow women on maternity leave to work from home
- empowering mothers who are employed in a company (e.g. by providing play areas in the company and providing care personnel for mothers who are able to bring their children to work with them)

The **active forms** by which the private sector can be involved in overcoming gender inequality might be:

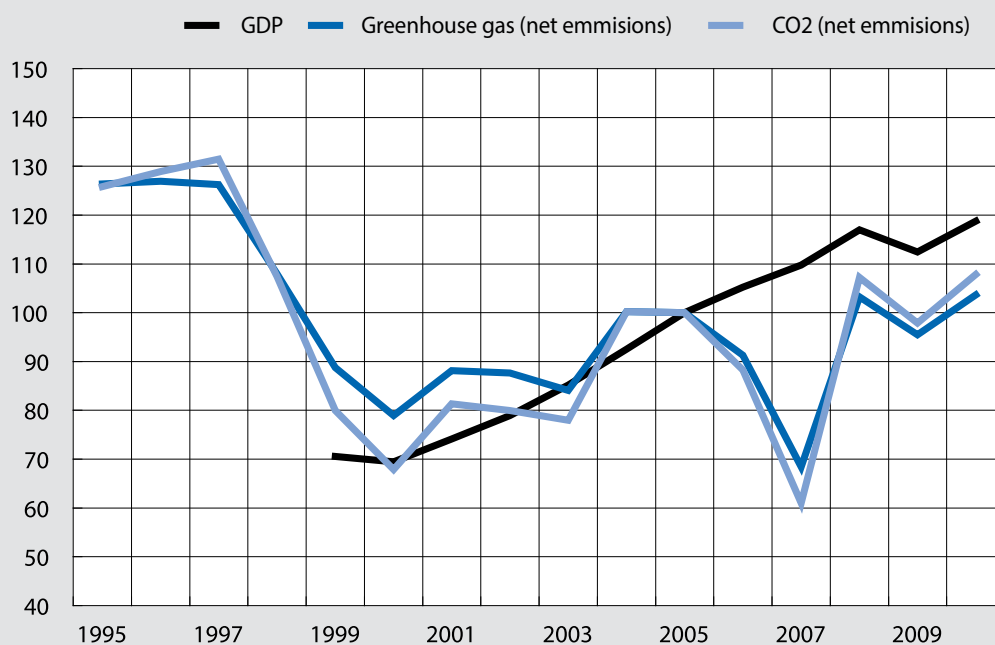
- construction and maintenance of nurseries and kindergartens, in particular in rural areas

- supporting awareness-raising campaigns regarding domestic violence
- organizing/funding training for the economic empowerment of women

Environment

During recent years the Moldovan economy grew more quickly than greenhouse gas emissions (GES), with a partial separation recorded in this respect (see Figure 18).

FIGURE 18. Change in greenhouse gas and CO2 emissions versus GDP growth, 2005=100, %.



Note: computed for the entire territory of the Republic of Moldova.

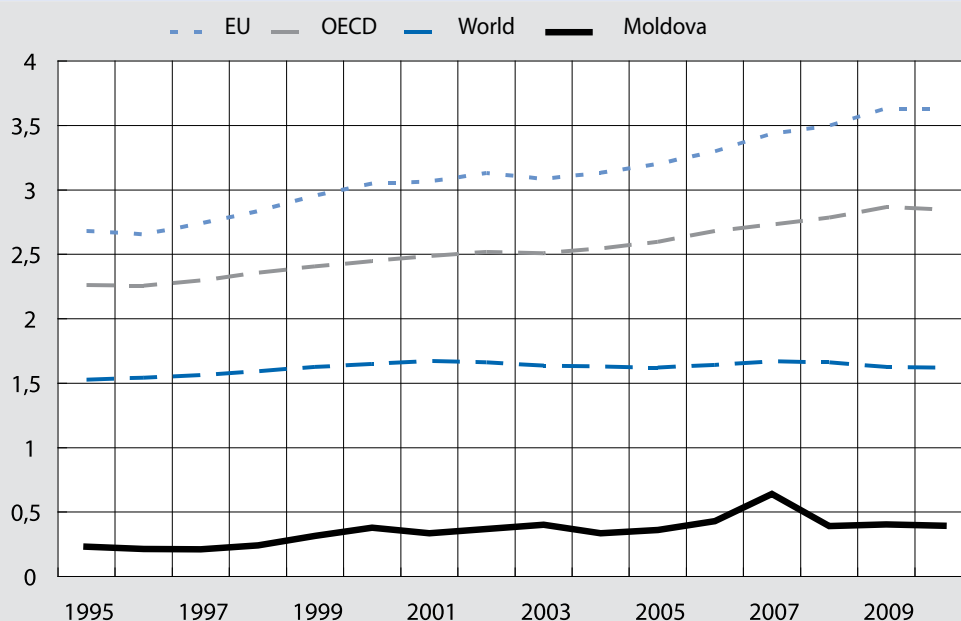
Source: NBS, Central Bank of the Left Bank of the Nistru River, Climate Change Office, authors' estimations.

However, this phenomenon is due to structural economic changes, with the increased share of less polluting sectors (service provisions) and the decreased share of polluting sectors (industry), rather than due to the technological modernization of enterprises. This is proved by the relatively low level of CO₂ emissions in the Republic of Moldova (see Figure 19). Thus, the value added component produced by companies for each unit of emissions is very low. This reveals an inefficient use of resources, which impacts negatively on the environment

and on people's health. The low efficiency of CO₂ emissions also reveals a low competitiveness, which affects employees' income.

The value added component produced by companies for each unit of emissions is very low. This reveals an inefficient use of resources, which impacts negatively on the environment and people's health.

FIGURE 19. Productivity of CO2 (GDP in USD 2005/kg CO2).



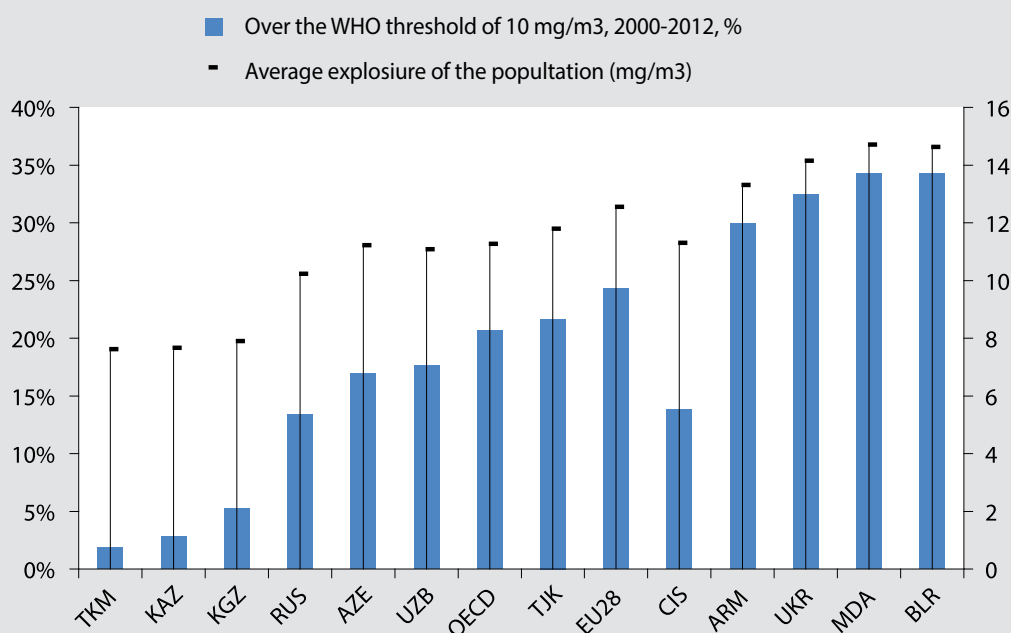
Source: EIA, NBS, Central Bank of the Left Banks of the Nistru River, Climate Change Office, authors' estimations.

Note: computed for the entire territory of the Republic of Moldova.

The air quality in the Republic of Moldova is worsened by the high concentration of fine PM_{2.5} particles in the atmosphere. These may enter into the breathing system and cause various

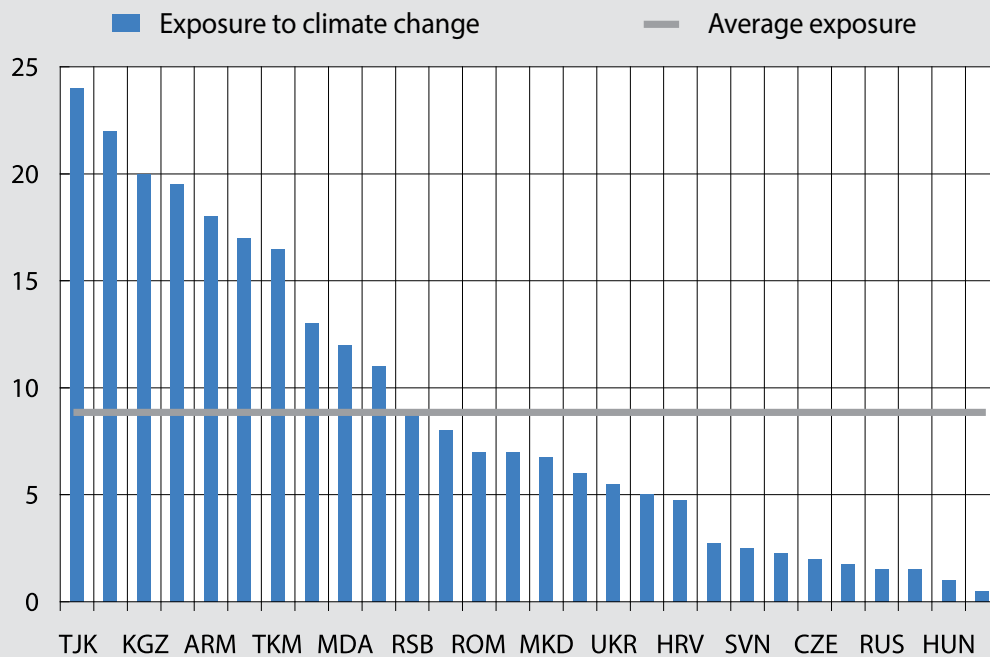
cardiovascular and lung diseases. During recent years the concentration level was the highest in the region (see Figure 20).

FIGURE 20. PM_{2.5} in regional comparison, 2000–2012.



Source: Organization for Economic Co-operation and Development (OCED), Aaron van Donkelaar, forthcoming.

FIGURE 21. Sensitivity to climate changes.



Source: Fay and Patel, 2008.

Due to the low quality air, limited access to enhanced drinking water and sewerage, poor infrastructure and high exposure of the economy to the agricultural sector, the Republic of Moldova is highly sensitive to climate changes. The calculated sensitivity index (Fay and Patel, 2008) exceeds the average, which reveals that climate change effects are usually amplified by domestic factors (see Figure 21).

The environmental issues can be solved only if companies integrate environmentally sustainable business objectives into their development strategies.

The **passive measures** by which the private sector may get involved in remedying environmental issues are:

- implementation of new low-emission technologies in the enterprise, and a more efficient waste management or more qualitative sewerage system
- development of waste recycling enterprises
- selling water purification equipment
- implementation of energy efficiency principles in enterprises or in constructed buildings (for developers)
- giving priority to providers of ecological products: organic foodstuffs, recyclable

stationery, raw materials with minimum impact on the environment

- implementation of "green office" principles in enterprises

The **active measures** are:

- providing financial and organizational support for public awareness-raising campaigns on various environmental issues (e.g. environmental protection, keeping public areas clean, water and energy saving)
- providing staff with a certain number of hours per year paid from the salary which can be used for volunteer work in environmental protection
- organization of periodic sanitation activities with the participation of all employees

In conclusion, the progress of the Republic of Moldova in implementation of the Millennium Development Goals has been mixed, recording some successes (poverty reduction, preschool education, macroeconomic stabilization, development of an information society), but shadowed by many regressions (high incidence of socially conditioned diseases, gender inequality, unsustainable environmental development, barriers hindering young people's access to the labour market, etc.).

To a high extent, the failures were determined both by a series of institutional problems (lack of understanding by public institutions of the importance of the Millennium Development Goals, limited capacities of some institutions, inefficient coordination between different institutions of the policies relevant for Millennium Development Goals), as well as by the shortage of financial resources¹⁷. In addition, three inter-sector development constraints were identified: (i) the issue of parallel realities as regards the level of living in towns and villages, which is obvious in all components of human development (income,

health care and education); (ii) gender inequality, which is especially visible in relation to earnings; (iii) environmental problems that affect people's quality of life in terms of earnings and health. It is obvious that the Government does not have the necessary resources to overcome all of these stated constraints; therefore the involvement of the private – by mobilizing its financial and human capacities – is crucial. In this context, the institutional framework needs to ensure the proper conditions that will encourage companies to get involved, either directly or indirectly, in the enhancement of human development.

¹⁷ "The Third Millennium Development Goals Report. Republic of Moldova". Government of the Republic of Moldova, 2013.

THE PRIVATE SECTOR AND ITS ALLIES: A COMMON FRONT FOR HUMAN DEVELOPMENT

2

This chapter is based on the findings from Chapter 1 regarding the main dimensions of the HDI and the main challenges for human development encountered by the Republic of Moldova, including the rural–urban discrepancy in social-economic development, gender inequality, and the lack of environmental sustainability and social inclusion of the economic process. The chapter also refers to the main conclusions from Chapter 3, which identifies the main constraints affecting the development of the private sector and its capacity to contribute more widely to human development. These chapters discuss, to the extent of the available statistical data, and estimate quantitatively the contribution of the private sector to human development in the concrete case of the Republic of Moldova. They prove that the private sector can bring a significant contribution to the service provisions and supply of goods that can contribute to the achievement of the Millennium Development Goals, including on such aspects as education, health care and sustainable poverty reduction.

The private sector is fairly diversified, even in the small Moldovan economy. In terms of organization and size, the private sector varies from small sole entrepreneurs and simple businesses to very large companies that have thousands of employees. Some enterprises have set profit generation for shareholders as their main objective, while others are exploring the niche area of social entrepreneurship. Some of these entities are formal, others act mainly in the informal economy. In their social-economic role firms inevitably interact or

cooperate purposefully with other development stakeholders – NGOs, local and central public authorities, academia, educational and health service providers, media institutions, donors and development agencies. Box 11 depicts the results of such cooperation in the area of rural tourism, as part of which the technical competences of the private sector, by synergy with the support of donors, Government and local public authorities, created some economic opportunities for the rural population practically from scratch.

Box 11. THE “HAI LA ȚARĂ!” PROJECT

“Hai la Țară!” (“Let’s go to the countryside!”) is a platform aimed at facilitating rural tourism, which was launched on 1 August 2013. hailatara.md provides a platform for people to advertise tourist accommodation in rural areas, and for tourists to identify and book such accommodation.

The project contributes directly to several human development dimensions:

- economic education for the rural population regarding hospitality, focusing on clients’ needs, use of IT, use of modern payment systems
- diversifying the source of income for rural population, especially given the fact that there are additional non-agricultural revenue from the provision of services
- increase the tax and duty revenue to local budgets, because “Hai la Țară!” involves online payment methods, offering at the same time support to tourist pensions to pay their taxes, thus contributing directly to the formation of local budgets.
- provide equal chances to inhabitants of both banks of the Nistru river, thus contributing to mutual knowledge and trust among inhabitants of both banks;
- generate household-related income for rural women, who thus have the opportunity to harness their ability to arrange the so-called “Casa Mare” (Guest Room).

One year after its launch, “Hai la Țară!” has a database of 253 houses participating in the project, simultaneously 2000 housing places. During December 2013–August 2014 over 150 tourists from 12 countries were accommodated in various rural houses in Moldova, totalling over 200 tourist-nights. The objective for the end 2014 is 1000 tourist-nights of accommodation.

The European Union Delegation and UNDP supported this project, offering a grant of USD 86,000, which allowed the project team to employ five regional consultants who work on increasing the number of project partners in the rural area and provide consultative support regarding hospitality and work organization under the project.

Importantly, the project contributes to the financial inclusion of the rural population by offering project partners bank cards (for those on the right bank of the Nistru river from Moldova Agroindbank, and those from the left bank of the Nistru river from a bank in Tiraspol), which are attached to bank accounts into which 67.5 per cent of the new sales revenue is transferred, after deducting taxes and marketing fees (which are necessary to ensure the project sustainability), and other fees for financial intermediation, including insurance related to tourist accommodation activity.

Finally, it is worth noting that the “Hai la Țară!” project, being an initiative of the private sector, following consultation with the Government, has also contributed to the elimination of certain barriers to entrepreneurship in Moldova: Law No 352 on the Organization and Conduct of Tourist Activity in the Republic of Moldova is about to be amended in order to allow private tourist pensions to offer not only accommodation, but also meals, without the need to comply with the complex authorization regime that applies to public catering services.

Sources: <http://hailatara.md/pages/view/about>, interviews with the project team.

The Government, along with all these actors of change, should act to fully harness the potential of the private sector in its various forms in order to maximize the impact on human development. This Chapter identifies and analyses the eight main ways by which the private sector, with the help of other agents of change, can contribute to human development and modernization of the country. These ways are:

1. the application of sound and well-calibrated tax mechanisms, focused on the needs of firms, in particular SMEs, which will encourage existing economic units to exist from the shadow, and thus extend the financial envelope available to the Government to fund human development
2. private employers ensuring decent employment practices and the minimum necessary conditions for the ongoing training of their staff
3. the full involvement of the private sector in the development of the educational system, including by providing services in areas where the private sector has comparative advantages compared to the public sector, or where a public–private cooperation would ensure a higher quality of the provided services
4. private sector involvement in the development of the health protection system, including by providing health services in areas where the private sector has comparative advantages compared to the public sector; like in the case of education, PPPs are one of the forms of interaction between the Government and firms, but not the only possible one
5. the transfer of technologies and know-how, as well as the adoption of innovative solutions in business process management – solutions that could be subsequently replicated and used on a wider scale in the society overall, and in the public sector in particular
6. the adoption of CSR, as adopted by firms from developed countries, which in the modern business culture tends to become more and more an intrinsic part of the core activities and is seen less as “social” activities which are subsidiary to the main goal of earning profits. A higher level of social responsibility from behalf of the businesses involves respect for fundamental human rights, zero tolerance for corruption and adopting practices that prove their attention for the environment and nature.
7. initiation of social entrepreneurship activities which aim at generating profit for people who, in other conditions, would lack the chance of being employed
8. consultations with the Government, by which the Government can not only check if the recommended solutions are relevant and accepted by firms, but also check how the effects of the adopted policies impact the society

i. Tax Policies and the Funding of Human Development

Though it is not a sufficient precondition, economic growth is a necessary condition for the funding of human development. According to the specialized literature, the largest share of the impact of economic growth on human development is transmitted by means of public budget spending¹⁸. Both the structure and the size of these expenses depend to a large extent on the amount of collected budget revenues. Applying a common sense understanding and seeking to establish the connection between the private sector and its contribution to human development, we unavoidably start from the assumption that companies are major taxpayers who contribute to the state budget. Thus whether the state does or does not have the resources needed for human development depends on the way businesses fulfil their tax liability. The impact of these resources is translated into state social protection programmes, public infrastructure and environment projects, budget subsidies for agriculture, etc. In such a way, companies contribute indirectly to human development, although the actual impact depends on the Government's efficiency in managing the public money, and on the share of the informal economy.

According to the specialized literature, the largest share of the impact of economic growth on human development is channeled by means of public budget spending.

Even if the payment of taxes can be perceived as a passive contribution by companies to human development (in the end, tax payment is a legal obligation, not an option), this should not by any means be perceived as an unworthy contribution. In fact, in an economy that features a high level of informal activities and tax evasion, the honest and integral payment of taxes is perhaps the most convincing proof of a spirit of "corporate citizenship" that a company can display. In such circumstances, companies giving up the opportunities that tax evasion offers and showing a civic spirit as regards tax, take, consciously, the risk to be overtaken by competitors with less moral sense, and contribute significantly to the human development of the community and country in which they work, and thus strengthen their competitive advantages in the long run. This is an area worth studying by companies who are hesitating about either working "white" or "black".

For this reason, it is of critical importance for Governments to adopt a tax policy model that would encourage businesses to work in line with the law and pay honestly and at minimum costs all tax liabilities. Such a policy, besides ensuring a maximum level of efficiency in collecting taxes, will also educate taxpayers in the idea of justice and social solidarity. Thus, the "ideal" tax policy should meet the following conditions: 1) it should impose an optimal tax burden – neither too big nor too small – that ensures the collection of the maximum possible level of tax revenues, but, at the same times, makes the risks of working "black" more costly than the payment of taxes¹⁹; 2) it should be simple in terms of administration both for taxpayers and for the state; 3) people who have the same level of income and meet similar conditions should pay the same amount of tax (horizontal tax fairness) and 4) high-wealth and better welfare individuals should pay higher taxes (vertical tax fairness)²⁰. Taken together, these conditions ensure a sound management of public finance and a transparent appropriation of public funds obtained through taxation, which would lead to the achievement of important goals from the social point of view. The end purpose would be to establish a predictable environment for the population and firms: an environment that would allow combing the production factors in an efficient way. Such a tax policy would generate the preconditions for a fair settlement of taxes, so that companies would tend to pay their tax liabilities in a transparent and consistent manner.

It is of critical importance for the Government to adopt a tax policy model that will encourage businesses to work in line with the law and pay honestly, and at minimum costs, all tax liabilities.

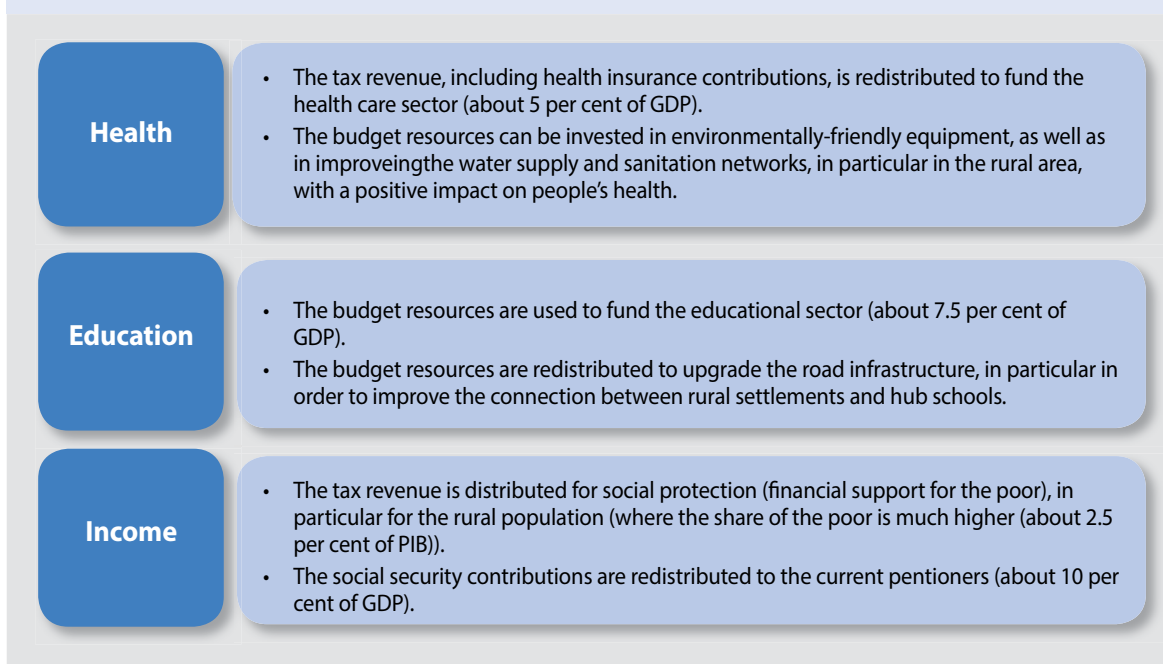
In the Republic of Moldova, the system of tax and fees paid by companies includes both direct taxes (income tax, ownership tax) and indirect taxes (VAT, excise taxes, taxes on the international trade). Companies are the main source of the state social insurance budget, from which pensions are paid (23 per cent of a total 29 per cent are paid by companies) and share equally with the employees the contributions to the compulsory health insurance funds (4 per cent of the total 8 per cent). Overall, the private sector provides about 80 per cent of the tax receipts to the national public budget, which in 2013 constituted a little over one-fourth of the GDP. Such a significant amount of resources can be redistributed for various social and economic projects, with direct and indirect impacts on human development (Figure 22).

¹⁸ Anand and Ravallion, 2003, quoted in Ranis, 2004.

¹⁹ The existence of an optimal level of taxation is predicted by the Laffer Curve, which fits perfectly in the logic of economic theory but which is hard to estimate it in practice.

²⁰ In an accessible manner, horizontal and vertical tax fairness is discussed in Hilman, Arye I., 2009.

FIGURE 22. The link between payment of duties by the private sector and human development.



Sources: authors' calculations.

Overall, the private sector provides about 80 per cent of the tax receipts to the National Public Budget, which in 2013 constituted a little over one-fourth of the GDP.

How optimal is the fiscal pressure in the Republic of Moldova? The answer to this question is unclear, since the existing data lead to opposite conclusions. On the one hand, the statistical indicators show that, compared to other countries, the fiscal pressure in the Republic of Moldova is moderate, the tax payments accounting for about 40 per cent²¹ of companies' profits (close to the average level in Europe and Central Asia of 38.7 per cent). However, individual income tax and social contributions are 35 per cent higher than the regional average, which could explain the tendency to pay salaries under the table. And subjective perceptions reflect a high fiscal pressure (Figure 23): for 68.8 per cent of the managers questioned the fiscal burden is a major constraint for the development of the company. Interestingly, companies outside the capital city (77.6 per cent) are the most affected, where the infrastructure is underdeveloped and the shortage of human capital increases the unit cost even more²².

The authors of the report believe that this apparent contradiction between the objective data and individual experiences is caused by the fact that

taxpayers suspect that the state treats unfairly the contract between the state and the taxpayer: while the taxpayers honour their tax liabilities, the state contribution to the provision of high quality public services is often below expectations. For instance, in April 2014, according to the results of the Public Opinion Barometer, only 32 per cent of the respondents were happy with what the Government of the country is doing in the area of education, 31 per cent were happy in the area of culture and 25 per cent were happy in the area of health care²³. This perception of injustice leads not only to such harmful phenomena as bribes to obtain, on priority terms or at a higher level, public services that are closely related to human development (education, health care), but also to the development of a parallel economy that has negative effects on human development. According to the statement of a public official, in 2012 about 30 to 40 per cent of economic processes were in the shadow economy²⁴ and this estimation is consistent with another evaluation conducted as part of an international comparative study²⁵.

About 30 to 40 per cent of economic activities take place in the shadow economy, which implies large costs for the state budget and limits the opportunities of human development projects.

²¹ World Bank, 2014.

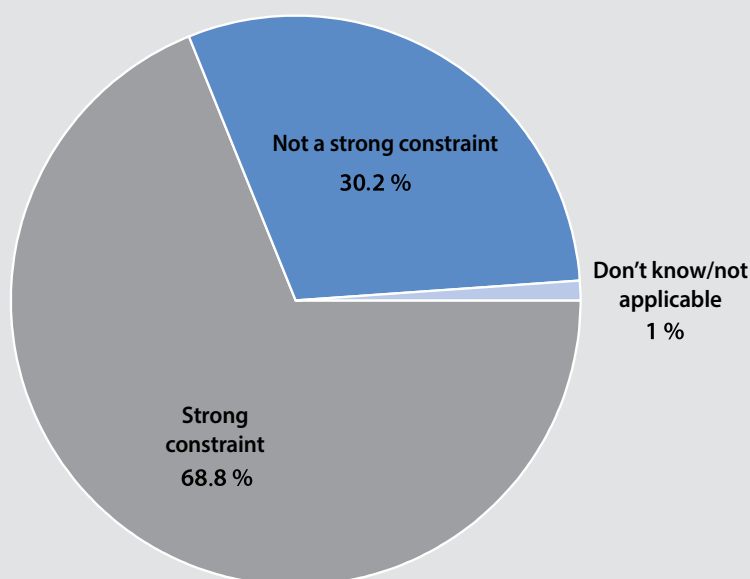
²² National Employers' Confederation of Moldova, 2013.

²³ Institute for Public Policy, 2014.

²⁴ Interview "Economic Crimes: They Keep Being as They Were" conducted by Mr. Viorel Chetaru, Director of the Centre for the Combating of Economic Crimes and Corruption (National Anticorruption Centre) on the radio station "Europa Libera" on 27 February 2012, <http://www.europalibera.org/content/article/24497121.html>.

²⁵ Schneider, 2012.

FIGURE 23. Distribution of answers to question “Is the tax burden (amount of direct and indirect taxes paid) a constraint for enterprise development?”.



Source: *National Employers' Confederation of Moldova, 2013.*

Regarding the potential gaps in the fiscal pressure between villages and towns, it is worth mentioning that the tax system in Moldova is relatively uniform in terms of area. However, the rural areas are affected to a high extent, not only because agriculture has a special tax regime, but because such areas are also dominated by transactions that fall beyond the tax flow, while industry is very poorly developed in rural areas. These two factors make the tax base in rural areas very narrow, preventing the local public authorities from investing in the extension and modernization of the basic infrastructure on which the quality of life depends (e.g. water supply and sewerage, roads, irrigation systems, etc.). This reveals the vicious cycle of the underdevelopment of rural settlements: the massive dependency on agriculture causes a relatively narrow tax base at the local level, which in turn deprives the public authorities of the necessary resources for the modernization of the main infrastructure; in turn, this is a barrier to economic activities in villages, which remain dependent on agriculture.

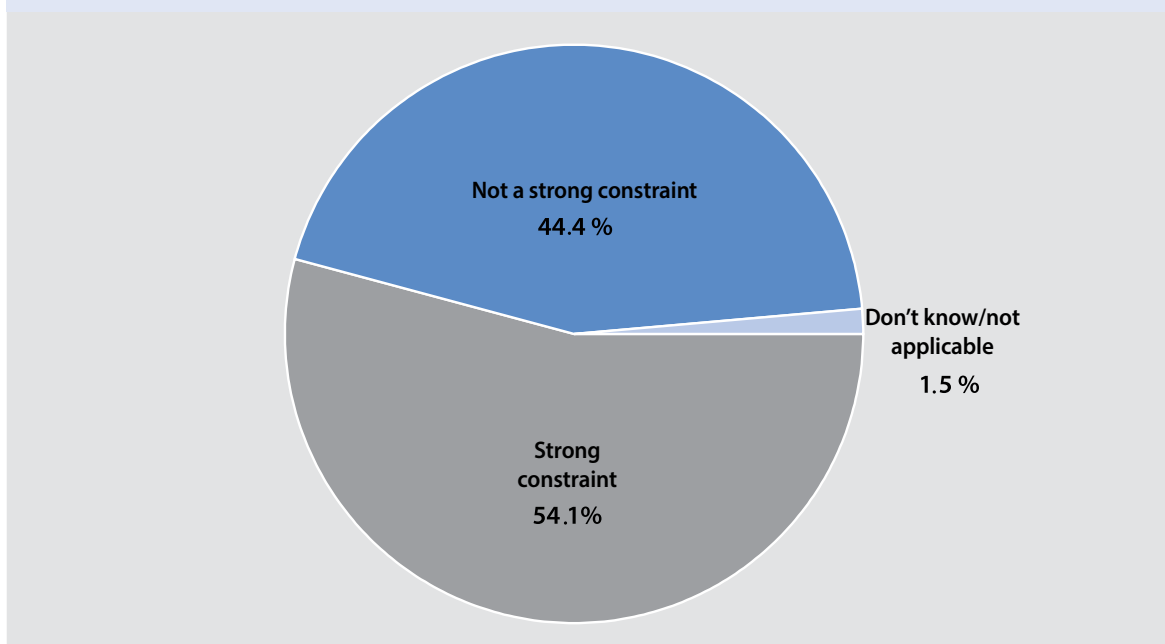
Due to the narrow fiscal base in villages, the local authorities are short of resources for investing in infrastructure that is critical for boosting the living standards.

Since in Moldova the pace of development of the market economy is lagging behind and there are major misbalances in the development of law enforcement institutions, tax administration is perceived by companies to be a major constraint both for ensuring fair taxation and for creating a predictable business environment. These conclusions are also confirmed by the results of the survey that has been mentioned: for 54.1 per cent of the managers interviewed, tax administration is a significant constraint to enterprise development (Figure 24).

Fiscal administration and overall pressure form a critical constraint for the development of most firms in the Republic of Moldova.

The national report “Costs of Business Regulation 2013” reveals the perceptions of companies. Companies are of the opinion that in 2013 the tax administration was more complicated than in 2007, for all types of contributions, both regarding individual income tax and National House of Social Insurance (NHSI) contributions (see Table 2). At the same time, in managers’ opinions, the administration of profit tax is the most serious issue.

FIGURE 24. Distribution of answers to question “Is the tax administration (computation and records keeping procedures, payment of taxes, reporting, etc.) a constraint for the enterprise development?”, %.



Source: *National Employers' Confederation of Moldova, 2013.*

Table 2. Perceptions of company directors regarding the difficulties related to record keeping and payment of various taxes (1 – not difficult at all; 5 – very difficult).

Taxes	2007	2008	2009	2010	2011	2012	2013
VAT	2.1	2.4	2.8	2.9	2.7	2.5	2.7
Individual income tax	2.2	2.2	2.6	2.6	2.5	2.5	2.6
Tax on corporate profits	2.2	2.2	2.6	2.6	2.5	2.9	3.0
Contributions to the National Social Insurance Fund	2.4	2.0	2.8	2.4	2.2	2.5	2.5
Territory development tax	1.5	1.8	1.7	1.9	1.8	1.9	1.9
Contributions to the National Social Insurance Fund	-	-	-	2.3	2.1	2.3	2.2

Source: *World Bank, Costs of Business Regulation 2013.*

The main problems are generated by the non-uniform implementation of tax law during tax audits. Cases are reported of some tax auditors taking advantage of the poor knowledge of tax law by taxpayers and asking for bribes in relation to invented violations. In the case of large companies, where things are relatively in order, the biggest losses generated by tax audits are not the fines imposed, but rather the time dedicated to audits, when the staff are not performing their core duties.

Aspects of horizontal and vertical tax fairness have not been investigated seriously in the Republic of

Moldova so far, and there is no pool of evidence to be able to draw pertinent conclusions. However, the large amount of tax exemptions and facilities provided to sectors or companies, many times in suspicious or non-transparent conditions, speak for themselves. Furthermore, when the authorities take measures to eliminate sources of injustice and impose universal rules for everyone, the respective groups, which risk losing their preferential treatment, invest maximum efforts to preserve the status quo. Box 12 offers details about a recent conflict between the objective of fiscal fairness and the interests of large sectors.

Box 12. FISCAL EQUITY AND AGRICULTURAL PRODUCERS.

In 2012 the Government initiated changes to the budgetary and fiscal policy, recommending to introduce, from 1 January 2013, 20 per cent VAT for agricultural products and sugar, for which an 8 per cent rate was currently applied. The Ministry of Finance of that period argued that this would ensure fiscal equality for all producers in the country. This initiative faced a high level of resistance from agricultural producers, who declared that this measure would only increase production costs, smuggling and tax evasion.

These debates did not progress to serious public discussions, based on arguments. The Government's argument related to the increase of the VAT rate was answered by the counterargument that most countries in this region, for various reasons, have low VAT rates for sugar. Indeed, a standard VAT rate in the Republic of Moldova could contribute to more smuggling. On the other hand, the producers' argument that a higher VAT rate would increase the costs of production was not trustworthy. As VAT impacts end consumers fiscally, rather than producers.

Currently, the agricultural sector is still enjoying a much more favourable fiscal treatment than other economic sectors. And if the subsidies allocated to agricultural producers are taken into account, it may be the case that the taxation of this sector could be actually negative, with the Government collecting fewer taxes from agricultural producers than the volume of subsidies injected into the sector.

Sources: *interview offered by the former Minister of Finance Veaceslav Negruta to Free Europe radio station on 3 July 2012, <http://www.europalibera.org/Account/article/24634052.html>.*

Inefficient fiscal administration and high fiscal pressure creates incentives for tax evasion, which undermines the role of the private sector in human development.

In conclusion, the private sector, as the main payer of taxes to the budget, can contribute significantly to human development²⁶. In the case of the Republic of Moldova this function is distorted because the tax burden and administration are perceived by most firms to be major constraints on their own development. In addition, no clear, well established and universally applicable rules have yet been established. This adds to companies' motivations for tax evasion, which limits their contribution to human development. Chapter 5 shows how some of these deficiencies could be corrected.

ii. Private Sector Empowerment to Create Decent Jobs

In the global economy the private sector is the main employer, and decent and well-paid jobs, as proved by empirical research, are an essential precondition for sustainable poverty reduction. The concept of decent work has been advanced by the International Labour Organization as "opportunities provided to men and women to obtain decent and productive work in conditions of freedom, equity, security and human dignity"²⁷. This concept rests on four essential inter-correlated

pillars, which envisage that everyone deserves: a) to have access to greater employment and income opportunities; b) to enjoy all rights at the workplace, including those related to minimum security and health standards; c) to enjoy all rights of social insurance and protection; d) to have a clearly heard voice in the social dialogue with the employer²⁸. Recognizing the huge value of decent jobs for sustainable poverty reduction, in 2007 the United Nations Secretary-General initiated, via the Commission for Social Development, an effort to update the first Millennium Development Goal. As a result, a new target was introduced in Millennium Development Goal 1 at the global level: achieve full and productive employment and decent work for all, including women and young people. Four new progress indicators were also introduced. It is important to note that the Republic of Moldova joined the Agenda for Decent Work launched by International Labor Organization while launching in 2012 a new Country Program on Decent Work for 2012-2015²⁹. The priorities of the current program include ensuring a better governance in the labor market, promoting decent work and employment opportunities and ensuring a better system of social protections for employees.

"Decent jobs encompass the following inherent features: decent remuneration, job safety, legality and full formal pay." Vitalie Arvinte, Head of Department of Marketing, Communication, Community, Banca Comercială Română Chişinău

²⁶ Inchauste, Gabriela et al., 2014.

²⁷ ILO, 1999.

²⁸ Bell, Stuard and Newitt, Kirsten, 2010.

²⁹ http://www.ilo.org/wcmsp5/groups/public/@europe/@ro-geneva/@sro-budapest/documents/policy/wcms_183427.pdf

The importance of this issue is underlined by the fact that during the consultations regarding the priorities for the post-2015 development agenda in the Republic of Moldova, about 90 per cent of respondents unanimously answered that the population needs more decent jobs in order to live longer and better lives in Moldova.

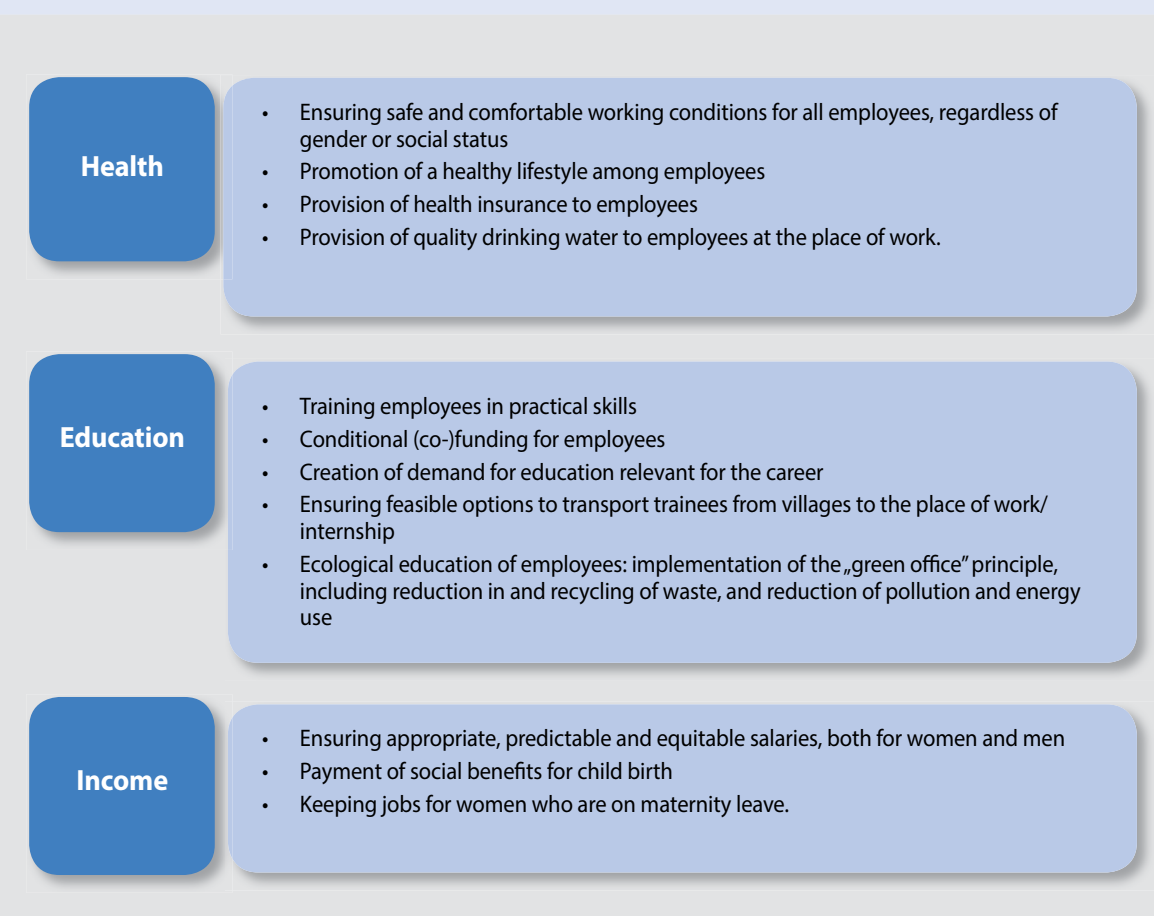
More decent jobs are crucial in order for Moldovans to live longer and better lives.

Private companies that adopt a wider horizon for their strategic planning – and this philosophy may inspire Moldovan firms as well – think about how they can create safe and attractive jobs that allow the sustainable harnessing of the potential of their staff. In such a way, firms contribute directly to human development and promote behavioural models that are taken over by their shareholders, suppliers and customers. Note that salary is neither the only, nor the most important, channel for the transmission of this impact. In

the modern business culture, the competent and competitive employees represent a real source of strategic advantages for a firm. Companies that adhere to this culture promote a healthy lifestyle among their staff, supporting employees' efforts to stay in good shape and prevent various diseases, invest in the professional or even personal development of their staff, adopt policies aimed at changing the mindset regarding gender equality and actively promote actively, as well as educate employees on environmental protection and the preservation of natural resources. Figure 25 presents the connection between jobs and human development, revealing only the most important aspects of this complex relation.

Private companies that adopt a wider horizon in their strategic planning think about how they can create safe and attractive jobs that allow the sustainable harnessing of the potential of their staff.

FIGURE 25. The link between job creation by the private sector and human development.



In the Republic of Moldova, private sector firms ensure about two-thirds of the jobs that are created in the economy. But to what extent do these jobs correspond with the above definition of a decent job? Statistics confirm that, if compared to the public sector, the jobs created by private companies are more attractive. According to the Third Millennium Development Goals Report for the Republic of Moldova, the private sector ensures a higher level of remuneration, and therefore better chances to escape poverty, than the public sector (in 2012 the average salary in the public sector constituted 89.2 per cent of the average salary in the private sector). These data corroborate World

Bank estimations that jobs created by private enterprises are paid better, thanks to the higher labour productivity in private enterprises than in state-owned enterprises.

However, if the jobs created by the private sector are more attractive than the jobs in the public sector, in terms of remuneration, they are not as attractive in a regional comparison. In the Republic of Moldova, where salaries are comparatively lower than in the region, and the rural–urban and men–women income gaps are considerable, salary is still the main factor in jobs attractiveness, especially for young people, who will not agree to start working at a salary that is lower than the average salary for the economy (see more details in Box 13). Other factors, such as possibilities of professional development and growth, pleasant working conditions, job safety, appropriate relationships between the employer and employees, formal payment of the full salary, are stated more seldom as being inherent elements of attractive jobs.

The jobs created by private enterprises are paid better, thanks to the higher labour productivity in private enterprises than in state-owned enterprises.

Box 13. WHAT DOES THE YOUNG GENERATION EXPECT FROM A JOB?

Job fairs for young people are one tool used annually by the Government of the Republic of Moldova in order to streamline the labour market and provide an organized framework in which supply and demand of the labour force meet. During the fairs, young people have the possibility to choose their job and directly to negotiate an employment contract with a potential employer. Also, consultations in the field of labour legislation are provided, including consultations on how to run a business. During Job Fair 2012, the national daily “Timpul” performed a micro-survey with nine people who visited the fair: they were asked about what they expect from the upcoming job and that would be the starting salary they want to start their professional careers. The salary was stated to be the determinant factor when choosing a job. Below are the expectations that young people have from their upcoming job (the average salary in 2012 was about 3,500 lei).

Petru, student, College of Engineering from Chisinau. “I would like to find a job in the field of construction. At the beginning, I would accept a salary of 4000 lei. I hope to find such a job. If not, I will have to go abroad to find a job.”

Veronica, student, Faculty of Journalism and Communications, SUM. “I want a job that will allow me to have a healthy family-life, not to be obliged to work till night. I would start negotiations with future employers for a salary of 5000 lei upwards. If the potential job does not meet these conditions, I would prefer to go abroad.”

Diana, unemployed, 23 years. “I have graduated from the Faculty of Urbanism and Architecture and I hope to find a job in the field that I have graduated in, and where I would have a suitable salary. I hope to find such a job, in order not to have to go abroad to work illegally.”

Constantin, unemployed, 21 years. “I returned from the army and I am looking for a job as a security guard, with a salary of 2500 lei, in order to survive in this expensive city. If I had the chance to leave Moldova for a better job, I would do it without any doubts.”

Mariana, student, Faculty of Psychology. “I want a well-paid job and to have a private office. I believe that I will find a job in the Republic of Moldova, as the saying goes: “seek, and you shall find.”

Dumitru, student, Faculty of Economic Sciences, SUM. “I am counting on a salary of a minimum 5000 lei, which would involve working in an office, at a computer. Anyway, if I do not find such a job in Moldova, I will definitely go abroad.”

Natalia, unemployed, 25 years, "I have graduated from the Faculty of Business and Administration, ASEM, and I want to find a job with a salary of a minimum of 5000 lei monthly. Even if I do not find immediately what I am looking for, I will not give up, because I do not want to leave the country."

Vasile, unemployed, 21 years, "I am a wood builder – carpenter, but I do not intend to work in this area. I am looking for a job with an initial salary of 4000 lei, in order to meet my needs."

Anastasia, student, Faculty of Biology and Soil Science, SUM, "I want a job with a flexible schedule and a decent salary. I consider that for a person with higher education it is not difficult to find such a job in Moldova."

Source: Survey "What does the young generation expect from a job?" performed by Ana-Maria Pancu, probationer at the national daily "Timpul" 31 May 2012, available online at <http://www.timpul.md/articol/ce-asteapta-tinerii-de-la-viitorul-loc-de-munca-34185.html>.

Although, the premium for skills is relatively high in Moldova (about 9 per cent³⁰), the continued brain drain reveals internal drawbacks, with efficiency and salaries lower than in the region more widely. This is corroborated by the comparative data on efficiency in the IT services sector, which amounts to about EUR 30,000 in Moldova and EUR 70,000 in Romania³¹.

There are some peculiarities regarding the occupational expectations of women and men. The statistical data suggest that women prefer jobs in financial services (banks, insurance), as well as other types of jobs which, besides safe working conditions, also ensure stable and legal employment in accordance with the Labour Code. Overall, fewer women of working age are employed (in 2013 the employment rate was 41.8 per cent for men and only 37.0 per cent for women), which is the result both of barriers hindering their access to the labour market and the maternity period, which often interrupts the working period for a certain time.

"Ensuring equitable treatment at the workplace in parallel with the possibility to have both maternal and paternal leave are determinants of a decent job for women and men". Vasile Nedelciuc, President and co-founder, Endava Moldova

Companies' limited capacities to create decent and attractive jobs are also caused by the low labour productivity, which means that companies are unable to pay higher salaries and offer a more generous social package. The low labour productivity is caused by low business sophistication, low efficiency in the use of production factors and shortage of technologies and know-how in local enterprises. The latter is a result of the traditional drawbacks in areas of property rights protection, the operation of institutions of the rule of law, and the high economic and political volatility in the Republic of Moldova, attested to during the entire transition period. Nevertheless, although overall the private

Box 14. EXAMPLES OF THE CONTRIBUTION OF THE PRIVATE SECTOR TO HUMAN DEVELOPMENT VIA ATTRACTIVE JOBS.

The Moldovan branch of the international company Endava (member of the Global Compact National Network) offers its employees MDL 300 each month to cover the costs of any sports activity practised by them. At the same time, it organizes periodic internal tennis championships, thus promoting a more active lifestyle and ensuring a higher cohesion among employees.

The local subsidiary of the Spanish company Gas Natural Fenosa (also a member of the Global Compact National Network) covers its employees' costs for health care services provided by a modern private health care centre, MedPark. In this way, the employees have access to quality health care services, which has a positive impact on their health status and, in turn, increases their productivity. Importantly, it fosters a higher loyalty to the company, ensuring a lower staff turnover.

Sources: *interviews with representatives of above-mentioned companies.*

³⁰ Bozu, Garagia and Gotișan, 2009.

³¹ Lazarescu, Madalin and Samson, Dana, 2011.

Box 15. ALBANIA: THE COMPANY EDIPACK THAT IS SPECIALIZED IN PAPER RECYCLING OFFERS EMPLOYMENT OPPORTUNITIES FOR THE UNSKILLED LABOUR FORCE.

Edipack was included in the international compilation "Business solutions to poverty. How inclusive business models create opportunities for all in Emerging Europe and Central Asia", as a positive example of a newly established company, specialized in paper recycling and production of paper packages in one of the most polluted area of Albania. The owner of the firm launched the business as an alternative to the more expensive imported packages.

The company established a network of 120 suppliers, whose activity is coordinated by three local NGOs, and a significant part of the raw material is provided by two waste management companies. The providers offer about 600 tons of raw materials a month, being paid by about EUR 120. In addition, 75 low-qualification people are involved in processing and package production.

The firm is lucrative, with a turnover of about EUR 2 million, producing about 370 tons of paper and carton products, delivered to about 370 local customers, most of whom are SMEs. Organizing the collection and processing of paper waste and adopting production technologies that use recycled water, Edipack contributes significantly to the enhancement of the environment conditions in the community.

Source: UNDP 2010, „Business solutions to poverty. How inclusive business models create opportunities for all in Emerging Europe and Central Asia“.

sector capacity to create decent jobs is limited, there are positive and even inspirational examples in this respect (see Box 14). Unfortunately, it seems that these examples are more common among foreign firms than the local ones. The experience of other countries that are similar to Moldova reveals that the local firms, focusing on employing people with a low education level, may reach high performances on the market and simultaneously contribute to the social inclusion of the poor and to the enhancement of environmental conditions.

Companies' limited capacities to create decent and attractive jobs are largely caused by low labour productivity, which means that companies are unable to pay higher salaries and offer a more generous social package.

Remuneration is only one side of decent employment. There are some statistical data, although limited, which allow some conclusions to be drawn about other aspects of the quality of employment in Moldova. Thus, statistical data on security at the workplace reflects an important side of decent employment: this security is reported to have slightly improved but the situation remains disturbing. The expenditures of business entities related to labour protection increased from MDL 61.3 per employee in 2001 to MDL 367.3 per employee in 2011, which means – if rising prices are taken into account – a real increase of 2.2 times. In 2013, 445 work accidents occurred³², which

represents an improvement compared with the average of 600 work accidents during 2002–2012³³. The concern is that 40 of the accidents registered in 2013 had a fatal outcome (with eight cases more than in 2012), and 254 resulted in temporary or permanent incapacity to work. The main causes of workplace accidents in the Republic of Moldova are violations of safety standards in the workplace on the part of employers.

During recent years firms' expenditures on ensuring security at the workplace increased, and the number of workplace accidents decreased.

Another indicator that shows the employment culture in a negative light is the widespread phenomenon of dangerous or harmful working conditions for children. According to legislation in force, it is forbidden to engage children in work that is not appropriate for their capacities or which, by its nature or condition, is likely to harm the health, security or morality of children. According to statistical research, in 2009 almost one in five children aged between 5 and 17 were engaged in a work arrangement³⁴. Two in three working children were involved in dangerous conditions, including: carrying heavy objects, working with dangerous tools at very high or very low temperatures without protective equipment, in dust or in smoke. Unfortunately, the most recent data are from 2009, but Box 16 shows the persistence of this reprehensible phenomenon in Moldovan society.

³² According to "Work accidents in Moldova: Material injuries remain on the paper", prepared by the Agora portal, on 25 April 2014, available at <http://agora.md/stiri/990/accidentele-de-munca-in-moldova-prejudiciile-materiale-raman-doar-pe-hartie/>.

³³ Authors' calculations based on the NBS publication, 2012.

³⁴ NBS, 2013.

Box 16. EXPLOITATION OF CHILD LABOUR – A PERSISTENT PHENOMENON IN MOLDOVA.

The exploitation of child labour is a widespread phenomenon in Moldova. Sometimes the consequences of this phenomenon are tragic: in 2012, there was a case of a 17 year-old teenager from a village in Moldova committing suicide because he could not withstand the physical and mental exhaustion caused by the work that he had to do to help his family.

Cases of child labour are identified annually, most in the agriculture and household sectors. Due to the fact that they do not have permanent jobs, parents work alongside their children on various temporary jobs in order to buy them clothes and shoes. Often the minors work without being paid, in hot conditions, without water or protective clothing.

As reported by jurnal.md, in 2012 one economic operator from a village from Anenii-Noi rayon, who formally does not have any employees, has allegedly exploited children in recent years at his greenhouses. Minors were found to be working alongside older persons for over 10 hours a day. A canning factory from the same rayon was entered on the blacklist for exploiting children through work. For 1.5 years a number of mothers with their little girls have been seeking justice in a court of law in relation to this practice. Since 2010, more than 10 girls of 13–14 years have worked from early spring to late autumn on the farmland of the enterprise and to this day have not received a penny for the exploitation they endured.

In a village from Anenii-Noi rayon every year several owners and tenants of agricultural land cultivate pumpkins and gather them using children of 12–14 years of age from all neighboring villages, at temperatures of 40 degrees and without giving them water. This procedure of pumpkin gathering is troubling: there are cases where minors go home with no payment or are deceived. If adults employed during high heat work from 6 am to 10 am, children are working from daybreak till lunch, with their water brought from home. "Employers" agreed to pay about MDL 40 per day, but in fact gave these children only MDL 20 per day.

Source: <http://jurnal.md/ro/news/exploatarea-prin-munca-a-copiiilor-un-fenomen-in-rm-219874/>.

iii. The Involvement of the Private Sector in the Educational System

Private sector involvement in the educational sector is a phenomenon that is present in most of the world's countries and is associated with the diversification of the educational offering and a better alignment to the real needs of enterprises. Human development can be accelerated by a more efficient educational system, which provides the set of abilities and skills needed for self-assertion and the harnessing of a person's talents³⁵. It implies a continuous process of exploring new ideas and challenging old ones, which is difficult in the state sector. Alternatives should be explored in order to find the best ways of enhancing educational performance. The private sector is more open to exploring innovations because it always tries to achieve better operational efficiency.

The private sector is more open to exploring new ideas and innovations, because it always tries to achieve better operational efficiency.

The literature shows that in most countries and regions of the world during the past three decades the contribution of the private sector in the provision of educational services has increased, as revealed by the increased rates of enrolment in preschool, elementary and secondary education.

Private sector participation in the provision of services in secondary and vocational education is typically higher. Examination of international experience in this area shows that this cooperation between the state and private sector in the provision of educational services (as well as health services) may take various forms, as is summarized in Table 3. For example, in the Netherlands, education is financed from the state budget, including private institutions where two-thirds of pupils and students are studying. In Chile, the private sector also plays a remarkable role as a service provider, but the state subsidizes only certain categories of students. There are a lot of models where individual contributions and company sponsorships have an important role; one distinct example is Pakistan³⁶.

To digress momentarily from this description of the international experience regarding private sector involvement in education, it should be mentioned that private resources play an important role in the funding of the educational sector in the Republic of Moldova. Parents have to complement the Government's provision through formal and informal payments to the parents' associations established at schools and kindergartens, in order to ensure compliance with the minimum equipment needs for the educational process. Data from the Household Budget Survey implemented by NBS and data from the National Accounts and from the reports of the Finance Ministry, allows us to estimate that in 2013 private expenditure for education

³⁵ Ranis, 2004.

³⁶ This paragraph is based on the international experience as presented by the World Bank, 2009.

Table 3. Possible institutional arrangements in the collaboration between the state and private companies working in the education sector.

		Provision	
		State	Private sector
Funding	State	<ul style="list-style-type: none"> Instituții publice finanțate din bugetul public. 	<ul style="list-style-type: none"> Private providers financed from the state budget Subsidies from the state budget for low-income users of private services
	Private sector	<ul style="list-style-type: none"> Individual contributions for the use of services Community contribution for service provision (buildings, land for construction purposes) Private loans to use public services 	<ul style="list-style-type: none"> Private institutions that provide services in market conditions

Source: *adjusted according to World Bank, 2009.*

amounted to about MDL 740 million to 750 million, approximately 10 per cent of the total public and private expenditure for education services.

Private payments play a vital role in financing the educational sector. Parents have to complement the Government's provision through formal and informal payments to the parents' associations established at schools and kindergartens.

However, as the empirical experience shows, the involvement of the private sector in the educational area has both advantages and risks³⁷. Private companies are an excellent source of innovation and can complement the Government's efforts and help increase access to education. At the same

time, involvement of private stakeholders – both at the level of funding and service provision – creates new challenges regarding ensuring the quality of the services provided and everybody's access to these opportunities – not only those who pay tuition fees. To maximize the advantages offered by working with the private sector, the Government should put in place institutional infrastructure (such as a quality assessment and accreditation agency, which would be credible and impartial in relation to all actors in the educational services sector) and establish a consistent and feasible set of requirements and minimum educational standards. An overview of the skills needed for the Government to properly manage the risks and maximize the public benefits of private sector participation in the education sector is provided in Table 4.

Table 4. Matrix of skills needed by Government to manage models of funding and service provision which involve the private sector.

		Provision	
		State	Private sector
Funding	State	<ul style="list-style-type: none"> Improvement of financial and operational management and of public responsibility mechanisms for better services 	<ul style="list-style-type: none"> Ability to prepare, negotiate, grant, monitor and evaluate funding contracts, compensatory mechanisms and other similar arrangements
	Private sector	<ul style="list-style-type: none"> Ability to collect, manage and keep records on individual contributions and donations within an integer and corruption-free framework Ability to use in a more effective way the collected private funds, including those at the local and institutional level 	<ul style="list-style-type: none"> Ability to monitor and regulate the activities of private providers to ensure quality and compliance with standards

Source: *adjusted according to World Bank, 2009*

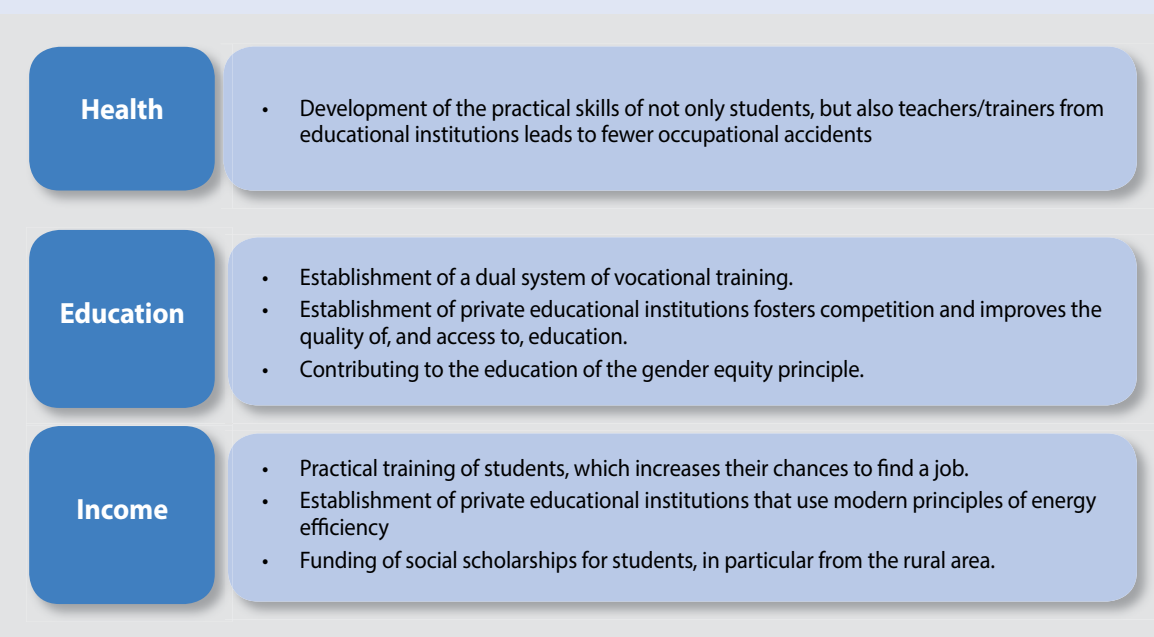
³⁷ World Bank, 2009.

The link between the educational sector and private firms is bidirectional. On the one hand, there is a crucial role for the private sector in the educational sector, in particular in such countries as the Republic of Moldova, with its limited natural resources, where the labour-force quality literally defines the competitiveness of companies. But the private sector should not be perceived only as a beneficiary of the activity of the educational system: they can also be an important actor in the system, and can make a valuable contribution in terms of updated practical expertise and the necessary technologies and equipment. Therefore, the facilitation of an interaction between the private sector and the educational system is indispensable. This can manifest itself in private sector companies sharing equipment and practical experience, funding scholarships for talented students or for

students from socially vulnerable families, providing education about gender equality, developing a dual training mechanism or even establishing private educational institutions (see Figure 39). It should be noted here that recently an increasing number of concrete examples of such interactions have been found in the Republic of Moldova, as is presented in Box 17 and Box 18 (see later). Unfortunately, the examples are exceptions rather than the rule: the interaction between industry and vocational education in Moldova can still be classified as latent³⁸.

The private sector should not be perceived only as a beneficiary of the activity of the educational system, but also as an important actor in the system, which can make a valuable contribution.

FIGURE 26. The link between the involvement of the private sector in the educational system and human development.



Sources: *developed by the authors.*

Box 17. EXAMPLE OF A PARTNERSHIP BETWEEN A VOCATIONAL SCHOOL AND PRIVATE COMPANIES

Vocational school No 8 in Chisinau provides training in the textile industry (including tailoring, sewing, fancy leather goods making and technological equipment adjustment). In order to make the institution more attractive and to increase the relevance of the education offered, the institution has established partnerships with a number of companies in the textile and footwear industry, offering relevant training modules. The main aim of the agreements is to enhance the employability of students in the private sector immediately after graduation. A private company, which is part of these agreements, provides scholarships of about MDL 500 for students who want to work for at least 1.5 years for that company after graduation. With the support of private partners, the hostels of the schools have been rehabilitated, and 20 new sewing machines and 30 industrial irons have been purchased.

Source: *World Bank, 2010.*

³⁸ World Bank, 2013.

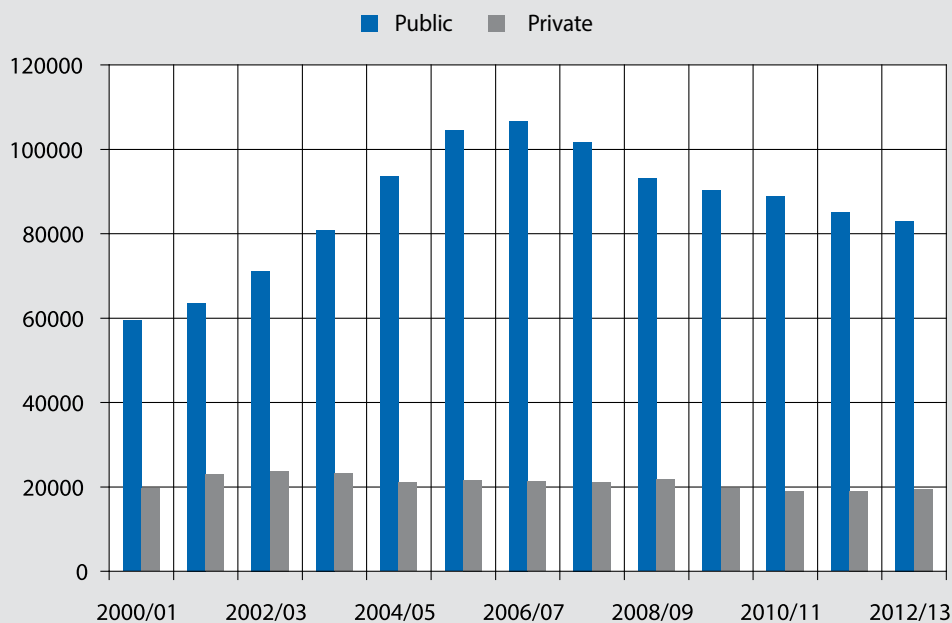
Since the private sector of Moldova is facing the problem of graduates who do not live up to companies' expectations in terms of knowledge and skills, it is crucial for the private sector to participate to a higher extent in the educational system. Besides the examples provided in Box 16 and Box 17 (see later), in the Republic of Moldova there is some experience of PPPs in the educational sector, from preschool and school levels (Waldorf school, Prometeu, Orizont, Elimul Nou high schools) to higher education (Free International University of Moldova, IMI-Nova, Humanistic University). However, these initiatives are relatively limited and although the private initiatives in primary and secondary education are recognized as efficient, their development is limited by the limited demand.

It is crucial for the private sector to participate to a higher extent in the educational system of the Republic of Moldova.

In the Republic of Moldova there are only a few private institutions at pre-university level. At the preschool level, there is no officially registered kindergarten, although there are a lot of such institutions which operate as private kindergartens.

At this stage, the main constraint in the development of private services is the imperfect legislation which places expensive conditions on the property and the status of institutional property and establishes extremely rigid hygienic standards, which are not observed by the state preschool institutions. Of the 1,374 mainstream primary and secondary institutions only 18 of them are non-state (1.3 per cent); out of the 67 secondary vocational educational institutions only two are non-state (3 per cent); out of the 45 colleges, four are private (9 per cent). In contrast, 13 of the 32 universities (40 per cent) are private. Are private providers of higher education able to meet the needs of the real economy? As our interviews show, private universities are treated sceptically in Moldova, as there is a belief that they have opportunistic behaviours, replacing the requirements for academic achievements with the capacity to pay for the tuition fee. Problems related to the quality and the relevance of studies explain why in the last decade the number of students in private universities has stagnated, whereas the overall demand for higher education has increased (see Figure 40). However, enrolment ceilings in the private universities, established by the Government, were another factor that inhibited private universities.

FIGURE 27. Evolution of the number of students enrolled in public (state-owned) and private (non-state) higher educational institutions.



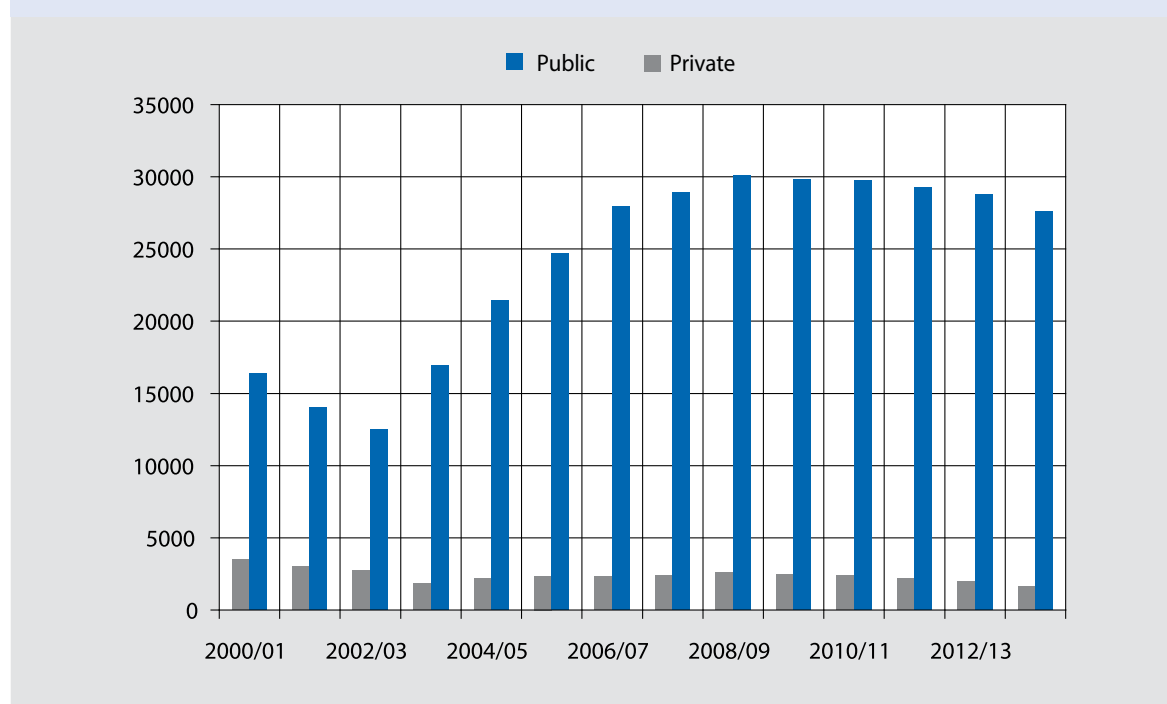
Source: NBS, 2014.

The private initiatives in vocational training are much more limited, as proved by the relatively small number of private institutions and the declining number of students (see Figure 28). But the interviews suggest that in this area there is still an unexplored development potential, as vocational training has a relatively lower duration and develops practical skills that can be applied immediately in enterprises. The low interest of private companies in establishing industrial and vocational schools remains a mystery. Among the possible causes are the regulatory entry barriers in the market (for

example, to open a private college it is necessary to submit statutory capital in the amount of 1 million lei minimum), as well as the lack of economies of scale (for any possible technological specialty offered at the college level there is a very small number of potential employers).

Private initiatives in vocational training are much more limited, as proved by the relatively small number of private institutions and the declining number of students.

FIGURE 28. Evolution of the number of students enrolled in public (state-owned) and private (non-state) vocational training institutions.

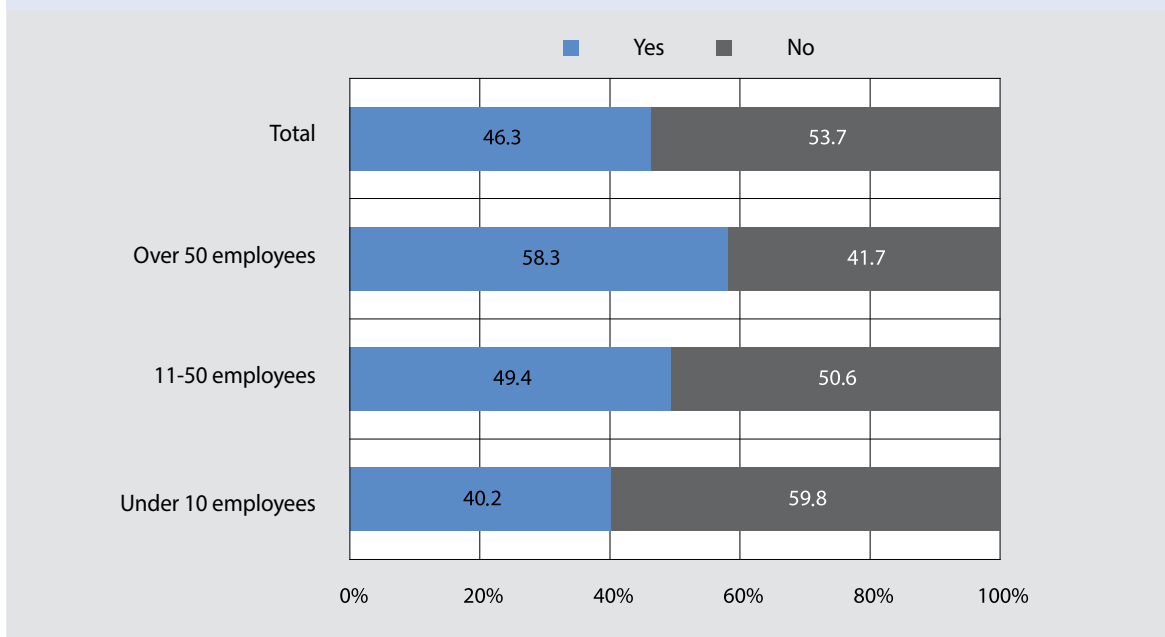


Source: NBS, 2014.

To align staff training to the existing and future needs of the economy, private sector involvement in the educational system is indispensable. The inappropriate training of the labour force has permanently been cited by employers as a major constraint on the higher competitiveness of enterprises. These constraints become more acute with the increase in the company size: the shortage of workers affected the work of 40.2 per cent enterprises with up to 10 employees, and 58.3 per cent of companies with over 50 employees (see Figure 29).

The inappropriate training of the labour force is permanently cited by employers as a major constraint on the higher competitiveness of enterprises.

FIGURE 29. Distribution of answers to the question “Was the work of your enterprise affected by the shortage of workers?”, by the number of people employed by enterprises, in %



Source: *National Employers' Confederation of Moldova, 2013.*

Although companies criticize the education system for its failure to provide a quality labour force, they get too little involved in the educational system, as revealed by interviews with the Ministry of Education and university representatives. Companies are even reluctant to provide internship opportunities. One of the reasons is low business sophistication and the short horizon of strategic planning, which prevent enterprises from engaging pro-actively with the educational system³⁹. Because of the low profitability of their business, enterprises do not have funds for training. According to the survey⁴⁰, over half of companies (57.5 per cent) do not have any budget for training – for which lack of funds is cited as the main cause. Another reason is the high turnover of employees, which is caused by the low salaries and lack of efficient motivation and maintenance mechanisms.

Low business sophistication and profitability, high turnover of employees and the short horizon of strategic planning prevent enterprises from engaging pro-actively with the educational system.

In their turn, due to their arrogant attitude towards business, universities are reluctant to cooperate with enterprises, claiming that the latter do not

have the necessary level of sophistication to provide the knowledge and skills demanded by universities. Universities therefore do not even bother to understand what skills are required by enterprises⁴¹. As a result, the educational system is isolated from the private sector. Student enrolment plans are made by the Ministry of Education and the private sector has a negligible role in the planning process.

Regarding the concrete modalities of the involvement of the private sector in the educational system, they are sporadic and range from the provision of internship opportunities and participation of managers in graduation commissions to a more active and continuous involvement in the teaching process by delegating members of their staff as teachers and, in some cases, the provision of material and laboratory equipment. Notably, in the IT area there are examples which prove that the private sector can get involved pro-actively in the educational system. A number of ICT companies have recently started to delegate members of their staff as teachers, with the goal of encouraging students to study the technologies that are demanded and to integrate the best students as soon as possible in the productive circuit. Thus, Moldovan ICT companies are so far the most pro-actively involved in the educational sector.

³⁹ World Economic Forum, 2013.

⁴⁰ National Employers' Confederation of Moldova, 2013.

⁴¹ O'Sullivan, Grimaltschi, and Sedelkov, 2012.

Software development companies are represented both at the Technical University of Moldova and the State University of Moldova by lecturers who are employed full-time in these companies, and

also work part-time as teachers, teaching courses in critical areas such as the engineering of applications introduced at the Technical University (Box 18).

Box 18. PROGRAMMING ENGINEERING COURSE DEVELOPED BY ENDAVA AT THE TECHNICAL UNIVERSITY OF MOLDOVA.

Endava is a member of the Global Comact network from the Republic of Moldova. During its rapid growth, the company faced two challenges that limited the company's growth: a shortage of engineers and inappropriate practical skills possessed by young graduates from the Universities of Moldova. Therefore, Endava allocated a budget of eight man-hours weekly to provide a course of 170 hours for third-year students from the Computers Chair of the Technical University of Moldova. The course ended with an exam. The course consisted of theoretical classes and practical workshops.

Endava decided to get deeply involved in this course for the following reasons:

1. The company had ambitious development and growth plans, but the technical graduates employed by the company had poor skills and not enough knowledge to work on real software development projects for demanding external customers;
2. The expenses of "retraining" the young specialists were high. Endava has a trial period for newly employed staff, lasting between three and six months, when the employee gets a salary and enjoys other facilities, a well-developed workplace, and training in various technologies. The company would have incurred significant costs if a high number of new people were employed.
3. To employ professionals from other companies was a costly option, as the IT engineers do not have a common set of skills/practices: staff are not "interchangeable";
4. Endava organized frequent medium and long-term trips to the United Kingdom and the USA to work in their local teams (onshore teams). The customer's teams were working according to international standards for programming, software development and service delivery, and the Moldova specialists were not able to work according to these standards;
5. The company's manager, Mr. Vasile Nedelciuc, and other members-founders of Compudava – which was later re-named Endava – concluded that such a course should be introduced in universities in order to train better and more engineers, to make the Republic of Moldova more competitive in the market for outsourced IT services.

As a result, Endava and other companies obtained a higher quality labour force and over 500 students have had the possibility of attending this course during the first free years since its launch. The University, in its turn, has modernized its curriculum and has become a more competitive higher educational institution.

Sources: *interviews with Endava company representatives.*

It should be mentioned that the involvement efforts of ICT companies have materialized in coordinated actions at the whole sector level. Thus, the association of ICT private companies is promoting

a wide awareness-raising campaign to encourage graduates of secondary education to enrol in specialized departments that will allow them to make a career in the ICT area (Box 19).

Boxa 19. I CHOOSE AN IT CAREER CAMPAIGN.

The ICT sector of the Republic of Moldova is very dynamic and can foster economic growth and social development. The ICT industry has recently developed quickly, reaching a volume of MDL 7.7 billion in 2012 and a share of about 8.7 per cent in GDP. The shortage of qualified specialists is one of the main obstacles preventing the ICT sector from reaching its full potential. The ICT sector offers very attractive working conditions and salaries, as well as continuous professional growth. The employment demand is increasing continuously, and the demand for professionals significantly exceeds the available workforce.

In order to inform the wider public about the perspectives and real employment opportunities in the ICT sector, the National Association of ICT companies has launched a campaign aimed at promoting IT careers. The initiative is implemented under the auspices of the Ministry of Education of the Republic of Moldova with the support of the Ministry of Youth and Sports via the 2014 Grants Program, USAID CEED II Program, and the Austrian Development Agency (ADA) (from the funds of the Austrian Development Cooperation).

The general goal of the campaign for IT career promotion 2014 is to inform, guide and enrol young people in a sector that offers real employment opportunities, a satisfactory salary and professional growth. Among the goals are the following: 1. inform an audience of about 400,000 people about the perspectives of developing a career in ICT; 2. motivate and guide about 2,000 future high school graduates to select an IT speciality for their higher education; 3. inform about 2,000 young people who study in ICT specialties about the career paths that they could follow and actions they should take while studying at the university in order to increase their employment chances after graduation; and 4. promote the ICT sector as an attractive option for the young generation.

According to the sector representatives, currently only 30 per cent of ICT graduates can be employed immediately after their graduation. The IT career project aims at increasing the level of information and motivation of future and current ICT students about the perspectives and requirements that they will have to meet after graduation, so that they fully and consciously dedicate themselves to the learning and development of the skills necessary for employment. As a result, the share of students employed immediately after graduation will increase from 30 per cent to 60 per cent during the next five years.

Sources: *interviews with companies' representatives and experts.*

iv. Private Sector Involvement in the Health Sector

The cooperation between the public and private sectors in the area of health has significant advantages for both public and private partners, the health care sector and for the human development of the country generally. The potential benefits encompass a reduction of Government expenses (for example, expenses for auxiliary services, such as feeding patients, cleaning rooms, washing bedclothes, etc.), a higher technical and financial efficiency when providing services (as a result of the higher operational efficiency of private partners) or a more skilled management of real estate and infrastructure. This cooperation can ensure an important transfer of expert review, management and technologies from private companies to the public sector. Taken together, these advantages can improve the quality and increase the volume of the provided services.

But, as in the case of education discussed in the previous section, the involvement of the private sector in the provision and financing of health

„Social and Corporate Responsibility help and amplify the enterprises' sustainable development strategies. At the same time, it would bring additional motivation for employees.” Vitalie Arvinte, Head of Department of Marketing, Communication, Community, Banca Comercială Română Chișinău

services, besides the substantial advantages documented in the specialized literature, also involves some risks that cannot be neglected⁴². The matrix of challenges with which Government needs to cope in order to manage better the risk and advantages balance is broadly identical to that shown in Table 4. Compared with the educational sector, the involvement of private companies in the provision of health services occurs, however, on a much larger scale. One explanation for this is that this sector offers much higher profit opportunities than education, and the number of potential customers is significantly higher, which enables higher sales figures. Unlike the education sector, where the “customer” is specific, in the case of the health sector the customer is universal.

⁴² A good discussion of the lessons offered by PPPs in health is provided in Nikolic and Maikish, 2006.

The involvement of the private sector in the provision and financing of health services, besides the substantial advantages documented in the specialized literature, also involves some risks that cannot be neglected.

But, as is shown in Box 20, based on the example of the low prices of a Kenyan network of pharmacies, the private sector can identify unexpected opportunities in the health sector and can generate

innovative business models which are financially viable, even in countries with low levels of income, in niches where at first glance business reasons appear to be lacking. This example shows that the aim of ensuring access to health services for poor people is fully compatible with the aim of efficiency and financial sustainability underpinning private sector activity. Taking into account the investment and operating costs, which are relatively low, we believe that this could inspire the private business community in the Republic of Moldova.

Box 20. OPERATION OF A NETWORK PHARMACIES WITH LOW PRICES, "THE CHILD AND FAMILY WELLNESS SHOPS", IN KENYA ON A FRANCHISING BASIS.

Despite the impressive progress in medicine during the past five decades, approximately 18,000 children from underdeveloped countries die every day due to lack of access to basic medicines, some of which cost less than a cup of coffee. Several diseases that can be treated with basic medicines are the cause of deaths and diseases of about 70 per cent to 90 per cent of children in these countries. Most of these medicines are not available to them because they are not affordable, or pharmacies are located too far away, or because of a lack of quality control.

In order to solve this problem, the pharmacist in 1997 Eva Ombaka and her business partner the HealthStore Foundation, which in 2000 launched a network of 11 low-price micro-pharmacies, "The Child and Family Wellness Store", which operates on a franchising basis and ensures access to basic medicines and health care services in isolated or remote communities. The network is based on uniform systems of training and operation, careful selection of locations (in localities with at least 5000 inhabitants, where agricultural fairs are held) and strict quality control by regular controls. Each commercial unit – micro-pharmacy or micro-hospital – is built in such a way that it allows physical expansion, to achieve the maximum effect of economies of scale. As a franchiser, HealthStore can withdraw the rights to use the franchise to those units that violate its standards.

Currently, "The Child and Family Wellness Store" network consists of 17 pharmacies and 48 hospitals, which provide services to about 40,000 patients and customers each month. Since its launch in 2000, this network has served over 4 million people in Kenya.

HealthStore plans to expand significantly the network in Kenya and enter the market in Rwanda, under a PPP with the Ministry of Health of Rwanda. The foundation works with world class pharmaceutical networks to continuously improve its operating model. In addition, HealthStore intend to adopt innovative tools and technologies, including implementation of a third party electronic payment system. Just as the 1980 Grameen Bank (Bangladesh) has shown that the traditional banking system can be adjusted to serve people with low income through micro-financing, in the first decade of the twenty-first century HealthStore proves that micro-franchising can be applied to poor people.

Source: *adjusted by the authors from <http://www.cfwwshops.org/overview.html>.*

One of the indicators attesting to the market opportunities that might be harnessed by private firms is the amount of private expenses, both formal and informal, for health and medical services. According to the Household Budget Survey carried out by the NBS, in 2013 the expenses for health and medical care amounted to 5.7 per cent of the total consumer expenditure of a typical household in Moldova. Extrapolated to the entire society and in conjunction with data from the National Accounts and the reports on the public budget, we estimated that the annual amount of private expenditures on health and medical care is about 5.3 billion MDL. For comparison, in the same year the total amount of public expenses allocated to the health sector was 5.2 billion MDL: in other words, more than 50 per cent of the total

amount of health spending. (Due to the lack of data, this estimation does not comprise individual private health insurance or contributions made by the employer on behalf of employees). This indicator is half the average for low and middle-income countries⁴³. In the Moldovan case, a large part of the private expenses are not made for related or secondary health services, but for basic services, including those covered under the compulsory health insurance policy. The huge amount of private contributions paid for health services by patients in the Republic of Moldova contrasts strikingly with the constitutional provision that guarantees basic medical services for all citizens. Another concern is that a large part of these resources is paid informally and thus is not part of the taxable economic flow.

⁴³ World Bank, 2009.

The volume of private expenditures on health is similar to the expenditures of the public sector (about 5 million MDL per year).

In the Republic of Moldova the private sector acts both as a founder of health services (through private payments, as detailed in the paragraph above, but also through the private health insurance system) and as a service provider. In 2010 most of the legal provisions and regulations that severely limited the provision of medical services by the private sector were cancelled. The results were immediate: the endocrinology section in the Republican Clinical

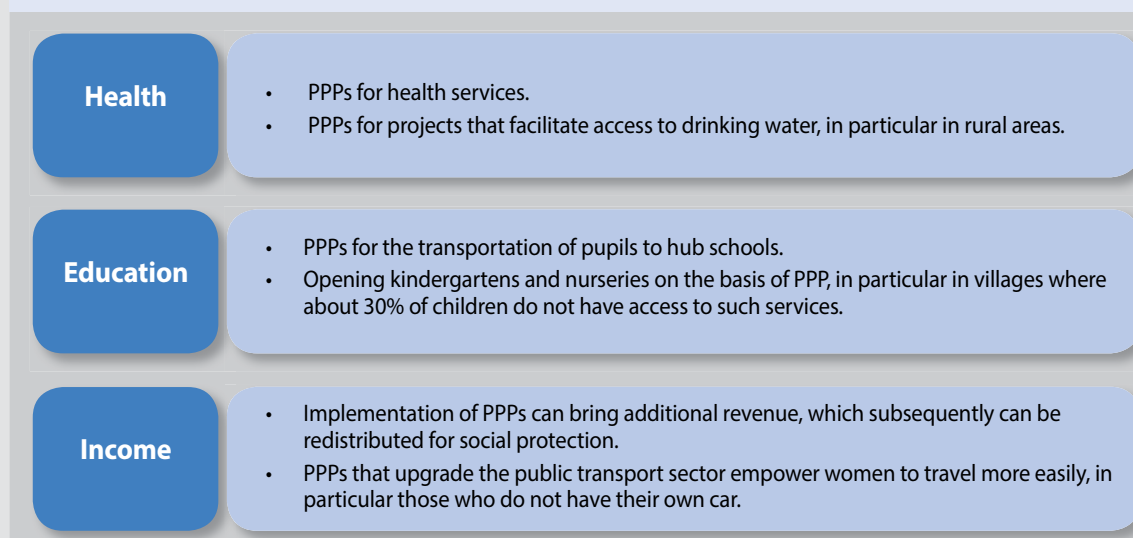
Hospital was opened in 2013 under a PPP. Other PPPs established a radiotherapy Centre in the Institution of Oncology, and a dialysis centre in the Republican Clinical Hospital⁴⁴. Currently, the authorities intend to develop the emergency medical service under another a PPP⁴⁵. However, even though they have become more frequent in the health area, as shown in Box 21 the PPPs in the Republic of Moldova still face various difficulties.

Besides these casual examples, the basic indicators reveal not only the important role played by the private sector as a service provider, but also its positive dynamics. Thus in 2013 in the Republic of Moldova, 13 private hospitals were officially

Box 21. PPPS IN THE REPUBLIC OF MOLDOVA: OPPORTUNITIES, RISKS AND PENDING PROBLEMS

PPPs can ensure wider involvement of public assets in the economic arena. PPPs can be used to launch infrastructure projects that can significantly improve the quality of life, in particular of the rural population (e.g. the development of water supply and sewerage systems, the building of public-private schools and hospitals), the modernization of public transport infrastructure and health and education services, the promotion of energetic efficiency – all of which finally improve the quality of life (see Figure 30). In addition, the PPPs contribute to additional contributions both to the central and local budgets. However, PPPs are not a panacea for all human development problems⁴⁶.

FIGURE 30. The link between PPPs and human development.



Source: *developed by the authors.*

PPPs are welcome in areas – like large infrastructure projects – that require massive investment and technological capacity, where the Government does not have the necessary capacities. On the other hand, the Government of the Republic of Moldova owns non-performing assets, which need to be integrated into the economic flows or improved. The managers we interviewed do not have any experience with PPPs. Leaders of business associations know the potential of PPPs, both for economic and human development, and stated that there are opportunities for PPPs in education and health care.

Representatives of the private sector and political decision makers believe that PPPs in education risk not being trustworthy, as there are plenty of cases where kindergartens were privatized and subsequently the educational profile of the institutions was not maintained. Although a Law on PPPs is in place, there have been very limited

⁴⁴ Ministry of Health of the Republic of Moldova, 2014.

⁴⁵ Draft Government Decision available at http://www.cna.md/sites/default/files/rapoarte_expertiza/proiectpart_pprivaserv_asist_medice_urgenta.pdf.

⁴⁶ See "A New Mantra for Human Development?" by Richa Singh, Executive Director of Centre for Democracy and Social Action (New Delhi), regarding the impact of PPP projects in India: <http://www.livemint.com/Opinion/7ASsF13DjdsnifgJGZPSck/A-new-mantra-for-human-development.html>.

– and sometimes bad – experiences with PPPs. A fundamental barrier for PPP development in the Republic of Moldova is the low trust between the private sector and public authorities. A major cause of this lack of confidence is the high level of perceived corruption, as confirmed by the survey. Given that PPPs require a high level of interaction between companies and the state, a high corruption level negatively affects the interest of well-intentioned companies to participate in tenders announced by the authorities.

However, initiating and completion of a PPP based project requires an advanced level of technical, analytical and administrative capabilities from the public authorities. Or, one of the basic principles of PPP is to identify, quantify and clearly divide the various risks between the public and private sector. Efficient forecasting and management of these is perhaps the most difficult aspect of a PPP. Given the still limited experience of the Republic of Moldova, existence of a certain caution is obvious, both from businesses and the authorities. Still, with the experience and necessary knowledge acquired, we are confident that PPPs will also take root in the

Source: *authors' calculations.*

registered (in addition to the 72 public hospitals). If in public hospitals, the number of beds is decreasing (from 21,869 in 2012 to 20,419 in 2013), then in private hospitals the demand seems to show an increase: the number of beds increased from 293 in 2012 to 341 in 2013. In 2013, 590 individual outpatient clinics were registered, compared with 511 in the previous year. Compared to 2012, in 2013 the number of patients treated in private hospitals increased by 8.5 per cent, the number of ultrasound investigations increased by 13.4 per cent, endoscopic investigations increased by 23 per cent, and laboratory tests increased by 19 per cent. The number of doctors who work in private medical facilities has increased from 1,994 in 2012 to 2,223 in 2013, one-third of whom hold part-time jobs. For comparison purposes, in 2013 the system of health care facilities under the Ministry of Health employed 10,560 doctors⁴⁷. Probably thanks to the positive examples provided by the private sector in 2013 a performance-based payment mechanism was introduced in the primary health care system.

Whereas in public hospitals the number of beds has registered a continuous decrease, the demand for private hospitals is rising.

Private health care facilities employ 54 paediatricians (11.6 per cent of the total number of such specialists in the country) and 119 obstetricians and gynaecologists (18.5 per cent of the total), which serves as an indirect indicator of the important contribution of the private sector to achieving the national targets of the Millennium Development Goal 4 (child health) and Millennium Development Goal 5 (maternal health). Thus, these data prove clearly that the private sector can make an essential contribution to increasing access to health services. However, a potential concern would be

equity and the access of the poor population. This judgement is based on the fact that in the private medical facilities there are only six family medicine centres that are operating on the basis of a contract signed with National Health Insurance Company (compared to five centres in 2012).

The access of the poor population to private hospitals is a major issue of concern.

Following international best practices and on the basis of the economic rationale, the Government / Ministry of Health decided to outsource certain auxiliary services related to public health care facilities. Thus, in 2013 laundry services were outsourced in nine republican hospitals and one municipal hospital. It can therefore be said that private sector involvement in the provision of health care services is on a good path, thereby contributing to national development objectives. The competition between private and public health care facilities is a key factor that is already positively impacting the performances of the latter. The main challenge for the authorities is to ensure the minimum required equipment for public health care facilities in order to successfully cope with this healthy competition. For example, the first private hospital founded in Moldova – Medpark – received first class international accreditation from the JCI⁴⁸, less than three years after it commenced operation. Such accreditation has not yet been achieved by any public medical facility, which may harm the image and credibility of the system.

Competition with the private health care facilities is a key factor that is already positively impacting the performance of the public sector in this area.

⁴⁷ Ministry of Health of the Republic of Moldova / National Centre for Health Management, 2014. The structural and annual dynamic indicators have been calculated by the authors.

⁴⁸ Permanent Representative of the Republic of Moldova to the United Nations Office in Geneva, press release "National premiere: Medpark – the first internationally accredited medical institution in the Republic of Moldova", 23 June 2014, <http://www.geneva.mfa.md/announcements/497945/>.

At the same time, it should be noted that the contribution of the private sector still has room to grow, as some estimations suggest that it could ensure provision of up to 15 per cent the services on the market, which is well above the quota of 2 per cent to 3 per cent estimated for 2011⁴⁹. According to a Moldovan official, the main challenge for the authorities is to ensure a functional and trusted system to monitor the quality of medical services that exist in the public sector⁵⁰.

The contribution of the private sector still has room to grow, as some estimations suggest that it could ensure provision of up to 15 per cent of the services on the market, which is well above the quota of 2 per cent to 3 per cent estimated for 2011.

Another challenge that is highly relevant in terms of achieving higher levels of human development is, as mentioned above, the identification of mechanisms to ensure equity of access to private health services. The extremely high tariffs that are currently charged by private providers constitute a big problem. Also, the public-private projects recently launched in the health sector are often viewed inaccurately by the general public and media as attempts to privatize the health system⁵¹. The Government could communicate better to the public its health strategy in order to eliminate unjustified concerns, and also to obtain relevant and qualitative feedback on the examples of public-private collaboration already under way.

v. Technological Progress and Innovation as Engines of Human Development

The development of human capital – i.e. the accumulation of new knowledge, experience and skills – combined with technologies, can ensure major gains as regards the inclusion and sustainability of economic growth, which in turn can ensure the advancement of human development⁵². The most important leaps in the development of human civilization have been based on technological inventions (some of which appear trivial today), such as: the wheel, metal nails, the compass, printing, the internal

combustion engine, the telephone, the light bulb, penicillin, contraceptives, the internet⁵³. These inventions have helped us to save a colossal number of work hours, extend significantly our distance and transmission capacity, extend the duration of economic activity throughout the day, save millions of lives, and empower women.

The link between human development and technology is strong, sustainable over time. On the one hand, technology enhances the impact that economic growth has on the family and state savings allocated to education, health and other purposes that enhance human development. On the other hand, a higher level of human development strengthens the competitiveness of an economy and technology plays a central role in this. Intensifying the transfer of technologies and industrial know-how involves the absorption of new knowledge and technologies in enterprises and involves increasing the technological sophistication of educational institutions, which contributes to job sophistication and enhanced productivity, and in turn higher salaries. A crucial role in the technological transfer is played by the environmentally sustainable technologies, as well as the managerial skills.

In societies that are open to innovation, the private sector is an engine of technological progress. Not coincidentally, the level of business sophistication is one of the five pillars which are considered in the Global Innovation Index as catalytic factors for innovation⁵⁴. Openness to innovation is determined mainly by people's capacity to accept change and to constantly look for more efficient ways to do their work. Another factor that determines the openness to innovation is the level of competition in the market. Monopolies or companies with significant market power do not have incentives to innovate. On the other hand, technology can have a huge impact on the structure of markets, and can contribute to solving the problem of informational asymmetry, to streamlining and making transparent market information, to shortening supply chains and thus to increasing the income of those who are directly involved in creating added value. The creation and successful implementation of the agricultural information platform ESOKO – first in Ghana and then extended to several other African countries – has led to a noticeable increase in farmers' income and to the improvement of the living conditions of their families. More details

⁴⁹ Declaration of Liliانا Barbarosie "Private medicine: a future market coverage of 15% in Moldova", Europa Libera Radio, 18 March 2011 <http://www.europalibera.org/content/article/2343072.html>.

⁵⁰ Idem, declaration of Mihai Hotineanu, Minister of Health of the Republic of Moldova during 2009–2010 (now the Head of the Parliamentary Committee for Social Protection, Health and Family).

⁵¹ Unimedia news portal, "(doc) Ministry of Health wants to privatize the Emergency Service", a news item which was posted on 30 May 2013, <http://unimedia.info/stiri/doc-ministerul-sanatatii-vrea-sa-privatizeze-serviciul-de-urgenta-61368.html>.

⁵² Ranis, 2011.

⁵³ See Lifescience.com, "Top ten inventions that Changed the World", <http://www.lifescience.com/33749-top-10-inventions-changed-world.html>.

⁵⁴ See Global Innovation Index Conceptual Framework, prepared by Johnson Cornell University, INSEAD and World Intellectual Property Organization, <https://www.globalinnovationindex.org/content.aspx?page=GII-Home>.

Box 22. ESOKO - USE OF IT POWER TO IMPROVE FARMERS' LIVES.

Farmers from developing countries are still poor, in spite of the billions of dollars allocated for development, improvement of agricultural production and raising living standards over the past five decades. This situation is caused by two factors: 1) disorganization and fragmentation of agricultural value chains in terms of availability of market information; and 2) lack of a cost-effective, fast and robust system to provide data regarding product prices, agricultural inputs and services.

ESOKO is a company and a communicational platform which uses the SMS services of cellular phone service providers to help farmers in several African countries (including Ghana, Nigeria, Benin, Kenya, and Malawi) to provide relevant information about approximately 30 agricultural markets and thus increase their bargaining power. Taking into account the low level of internet penetration in African countries, ESOKO was developed especially for use on mobile phones. The company provides about 10 applications running on mobiles and offering warnings regarding market conditions (prices, stocks, brokers, offers of sale and purchase, etc.), weather alert services, and exchange of information, and to establish social networks connected interested people and other services. Additionally, ESOKO provides training, consulting and a component dedicated to the agricultural sector. This platform was described in 2007 by "The Economist" as "a kind of simple eBay for a dozen African countries." ESOKO was selected by the United Nations as the winner of the World Summit Awards 2009.

The impact of the services provided by ESOKO is substantial and statistically significant. The bargaining power of farmers- beneficiaries has increased. Thus, unlike the others (non-members), about 20 per cent of platform users are able to sell their products as a group. Preliminary statistical research conducted by the French National Institute for Agricultural Research suggests that for at least two crops analysed – maize and cassava – producers using the ESOKO platform managed to sell output at prices about 10 per cent higher than non-users.

Sources: <https://esoko.com>, Deloitte, 2012 and Subervie, 2011.

about this platform which has been awarded with numerous international awards, and which could inspire Moldovan agricultural unions and software developers, can be found in Box 22.

The private sector is a key engine of the technological progress, while the level of business sophistication, peoples' capacity to adapt to changes and competition are major drivers of innovation.

The potential of technologies to support human development are significant, in particular in societies where firms have incentives to innovate. Regarding the contribution to people's health, when modern treatment or prevention technologies have been

applied they have diminished adverse effects on health or contributed directly to a curative process in hospitals. Recently, the development of telemedicine and telemetric solutions for monitoring vital parameters have become huge areas for creative involvement of the private sector. Information technologies have come to play a huge role in the health sector, including helping patients to attend treatment, follow a healthier lifestyle, monitor key vital parameters, etc.

The potential of technologies to support human development are significant, in particular in societies where firms have incentives to innovate.

Box 23. HEALTHCARE SERVICES AT PRICES AFFORDABLE FOR LOW-INCOME HOUSEHOLDS: TELEMEDICINE IN BELARUS

Cardiovascular diseases widespread in Belarus. In this country, the health centers from rural settlements and remote towns lack rapid diagnosis services and qualified staff, who could ensure a competent diagnosis and prescribe the most appropriate treatment.

Telemedicine is a good solution for this problem, ensuring the connection between the doctor and local health center and a professional located somewhere in specialized national centers, sending to the latter the essential data and diagnosed parameters (such as the electrocardiogram and its description) in order to receive quick solutions for the treatment. Such services are extremely valuable for low-income people, because they will not have to visit specialized central clinics and spend money and time.

Though many of the essential elements of telemedicine existed in Belarus, it is only in 2008 when a mobile service provider - Mobile TeleSystems (MTS) - identified the opportunity to establish virtually a new market, by providing

telemedicine services and, at the same time, contributing to the enhancement of people's health. A pilot project was launched in 2008 by MTS in partnership with the Local Network of the Global Pact and the Belarus Ministry of Health. One rural health center was equipped with a portable electrocardiograph, free Internet access and a special mobile phone for data transfer. During the first seven months of the project about 270 patients were diagnosed and treated via the system.

Later other several regional and local hospitals started to use the system provided by MTS, most of them accepting to pay to MTS for the provided services. MTS is currently extending this service in other regions of the country, including the region that was affected significantly by the nuclear disaster of Chernobyl.

Source: UNDP 2010, „Business solutions to poverty. How inclusive business models create opportunities for all in Emerging Europe and Central Asia“

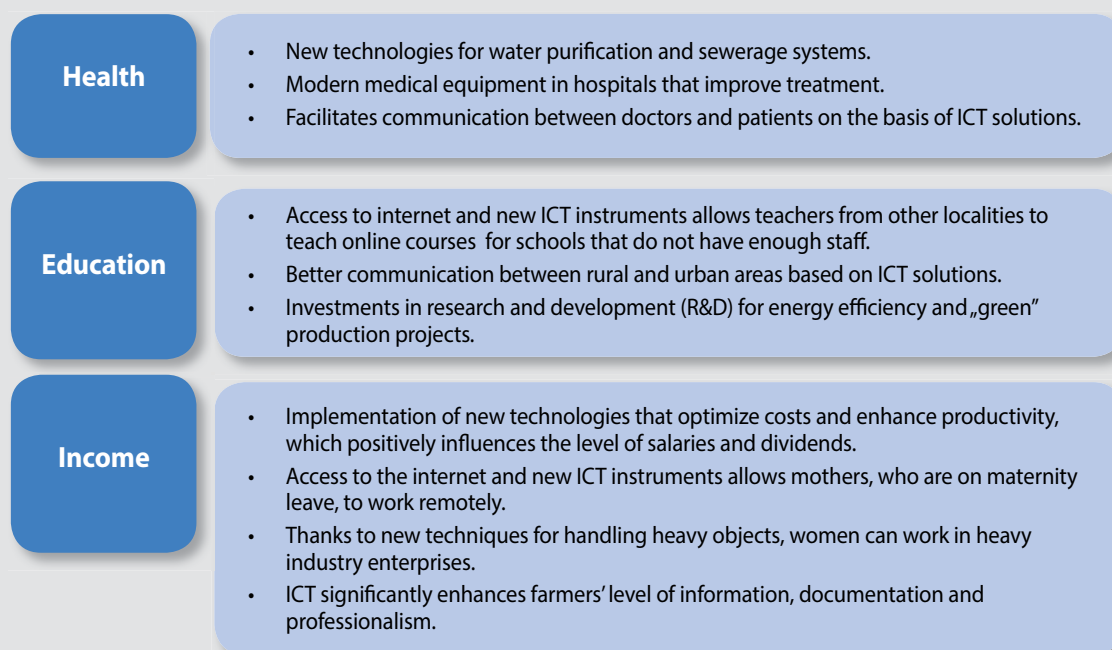
The potential of technologies to support human development are significant, in particular in societies where firms have incentives to innovate.

Regarding education, technologies (in particular IT) improve the educational process not only by providing computer-based stimuli, but also by offering the best teachers the possibility to run certain courses for a remote group of pupils and students (Massive Open Online Courses or MOOCs). In the Republic of Moldova such technologies for remote interaction between instructors and students have the potential to contribute not only to the enhancement of the teaching quality, but would also offer feasible alternatives to the closure of schools

in communities affected by a demographic decline and with shortage of teachers. Unfortunately, the Draft Education Strategy 2020, though it places an important and pertinent emphasis on the use of ICT as an effective tool in the educational process, does not consider this possibility⁵⁵.

In terms of employment, on the one hand technologies contribute to a better inclusion of women and persons with disabilities in the labour market, and on the other hand technologies change the organization of companies, offering the possibilities of distance work. It also helps to improve the internal organization firms when the workplace is not attributed rigidly to a certain employee, but is rather shared among several employees on a first come, first served principle (see Figure 31).

FIGURE 31. The link between technological progress promoted by the private sector and human development.



⁵⁵ Strategy Draft is available at http://particip.gov.md/public/documente/137/ro_1112_Educatia-2020.pdf.

The interviews conducted when preparing this report revealed that all company owners believe that their companies are agents of technological progress. But when asked about the R&D budget, none could state its amount or else they replied that they do not have any R&D activities. Some managers admitted that their companies are only implementing the commercially available technologies, but this still means their companies are agents of technological progress.

Private investments in R&D in Moldova are insignificant.

Local companies believe that they advance technological progress when they implement new technologies, in particular IT solutions, even though these technologies only support the administrative work of the company and do not necessarily improve the offering of products and/or services. In Moldova, where the coverage of the internet and mobile services is much higher than in the countries referred to in Box 21, an effective and accessible agricultural marketing system, such as the system discussed above, is lacking. This represents a big failure, both as regards the functioning of markets and as regards coordination by policy authorities.

What should be the role of the private sector in fostering technological progress in the Republic of Moldova? As proved by the Third Millennium Development Goals Report for the Republic of Moldova, technology has a crucial role in the enhancement of people's level of living. For example, while only 1 per cent of the rural population has access to the public sewerage system, 33.2 per cent of village inhabitants have built their own sanitation systems. Likewise, the constraints related to the quality of the road infrastructure for inter-connectivity were compensated for by a higher penetration of mobile telephony, and the implementation of new technologies has improved the quality of health care services.

In conditions described in the previous paragraph, the short-term development potential of the country lies in public utilities infrastructure projects through PPPs. Obviously, for this it will be necessary to first evaluate villages' development potential, which will result in identification of a list of rural communities with the demographic and economic critical mass necessary for development. It will then be necessary to ensure that the engineering infrastructure is anchored in feasible and environmentally sustainable technological and economic parameters. Another clear niche would be the development and implementation of agricultural marketing systems that would operate along the lines discussed in Box 21.

The short-term development potential lies in public utilities infrastructure projects through PPPs.

What are the chances that such solutions and partnerships will take root in Moldova? The relatively positive position of the country in the Global Innovation Index provides some grounds for optimism (Table 5). The Republic of Moldova, for its medium to inferior level of income, surprisingly produces a lot of innovation outputs and is characterized by a high level of innovation in the use of its few available innovation inputs.

However, for Moldovan companies which are more advanced from the technological point of view it is important to understand that ongoing sophistication and innovation development is a key for survival in the Moldovan economy, which is increasingly influenced by trends in the global economy. Only a society characterized by a high level of human development can provide an environment in which such companies can emerge and consolidate.

Table 5. Global Innovation Index – the best seven economies among medium and low-income countries.

	Global Innovation Index	Innovation Input Sub-Index	Innovation Output Sub-Index	Innovation Efficiency
1	Moldova (45)	Mongolia (49)	Moldova (28)	Moldova (2)
2	Armenia (59)	Georgia (62)	India (42)	Swaziland (5)
3	India (66)	Armenia (71)	Armenia (47)	Indonesia (6)
4	Ukraine (71)	Fiji (72)	Vietnam (54)	Nigeria (7)
5	Georgia (73)	Moldova (76)	Guiana (55)	India (11)
6	Vietnam (54)	Albania (77)	Ukraine (58)	Sri Lanka (13)
7	Guiana (76)	Ukraine (83)	Indonesia (62)	Guiana (15)

Source: Cornell University, INSEAD, and WIPO, 2013.

vi. Human Development and CSR

Although the stated purpose of any entrepreneurial activity is to maximize profit, global and national experiences show that companies often deviate from this objective, investing in projects that do not bring immediate dividends but improve the company's image, a community's prestige and, ultimately, the customer base. This behaviour is fully consistent with the theory of social morals advanced by Adam Smith as being an integral element of the functioning of an economy, as discussed in the Introduction to this report. CSR is the modern embodiment of this ethic; nowadays companies are forced to consider more and more aspects of social and ethical morality in their production processes. CSR is – along with the models of philanthropy and unintended positive externalities – one of the three main models of interaction between a business and society (see Table 6). Over time, CSR has become a very important element in the business culture. This has led to the creation of the International Association for Business and Society and to the foundation of a prestigious international professional magazine – Business & Society – which since 1960 has dealt almost exclusively with the interaction between business and society through CSR, including business ethics, business–Government relations, corporate governance, corporate social performance and issues related to environmental management practices⁵⁶.

CSR is adopted by companies that have reached maturity as regards direct shareholders and where the managers understand the concept of “indirect” shareholders (as discussed in the Introduction of this report). The key dimensions of CSR are environmental management, environmental efficiency, responsible procurement, stakeholder involvement, occupational standards and working conditions, human rights, good governance and zero tolerance of corruption. A key principle underpinning CSR in the modern business culture is the public reporting of how companies implement this responsibility in business and operational activities. As shown in Box 24, it is essential that companies that purport to be socially responsible achieve a better communication and collaboration with media institutions. This dimension related to the integration of the social responsibility ethos in the company's core activity and transparent reporting of CSR practices marks the essential difference between CSR and philanthropy and sponsorship activities – the latter are more occasional charitable practices, rather than an integrated part of the ethics and integrated values of the company (Table 6).

The key dimensions of CSR are environmental management, environmental efficiency, responsible procurement, stakeholder involvement, occupational standards and working conditions, human rights, good governance and zero tolerance of corruption.

Table 6. Models of companies' interaction with society – comparative analysis.

	Positive externalities model	Corporate philanthropy model	CSR model
Ultimate goal pursued by the company	Profit	Profit	Social and economic development
Financial versus social performance	Positive externalities	Performed simultaneously	Performed simultaneously
	Correlation < 0	Social benefits => financial	Social benefits => financial
Decision-making model	Shareholders' decision	Shareholders' decision	Shareholders' vision
Criteria of resource allocation	Maximizing shareholders' profits	Short-term+ financial impact Short-term social impact	Long-term social impact and short-term financial impact
Type of activities with a social impact	No activity, only if necessary	Special projects only	Incorporated in all current activities of the company
Motivation for social activities	Protection against risks	Income growth opportunities	Fully integrated

Source: Culiuc, Sirghi and Prohntchi, 2011.

⁵⁶ The magazine is available at <http://bas.sagepub.com/>.

Box 24. CSR, COMMUNICATION AND MEDIA INSTITUTIONS.

In polarized societies and in those where the majority of the population lives in poverty, private companies are accused of excessive selfishness and a lack of any interest in society's problems. This is often caused by both an absence of communication tools in relation to the business community and society, a lack of transparency in activities, and poor coverage in the media of businesses' social projects.

If CSR is a part of a company's business strategy, it must be addressed along with another absolutely indispensable component – communication. Communication and media outlets are the most important tools that can be used by a company to promote the principles and values of appropriate social responsibility.

Transparency of the business environment is one of the CSR components. Unfortunately, not all Moldovan companies realize the importance of good communication with the external environment. Most companies, even members of the Global Compact Network in Moldova, do not properly use communication tools with customers, partners or media.

Only a small number of companies post on their websites a complete and explicit description of the services they provide, or a news section to reflect their activity, while the number of those who post information about their own contribution to the development of society is even smaller. Moreover, many companies do not even use sources that are available for free (press release dissemination services, specialized business networks, social networking, etc.) to enhance the visibility of the projects and social initiatives that they carry out.

Media outlets play a double role in relation to CSR. On the one hand, they can promote good practices of social responsibility and examples of companies' involvement to solve society's problems. On the other hand, media institutions can serve as a source of identification of the most acute areas that require attention from the business environment.

Currently, the local media does not have a clear vision of CSR. Moreover, if other stakeholders recognize that companies are getting involved in a disinterested way in the development of the society, media representatives are often likely to qualify ab initio any involvement/social event of the private sector as public relations (PR), advertising or promotion.

Source: Culiuc, Sirghi and Prohntchi, 2011, adjusted by the authors.

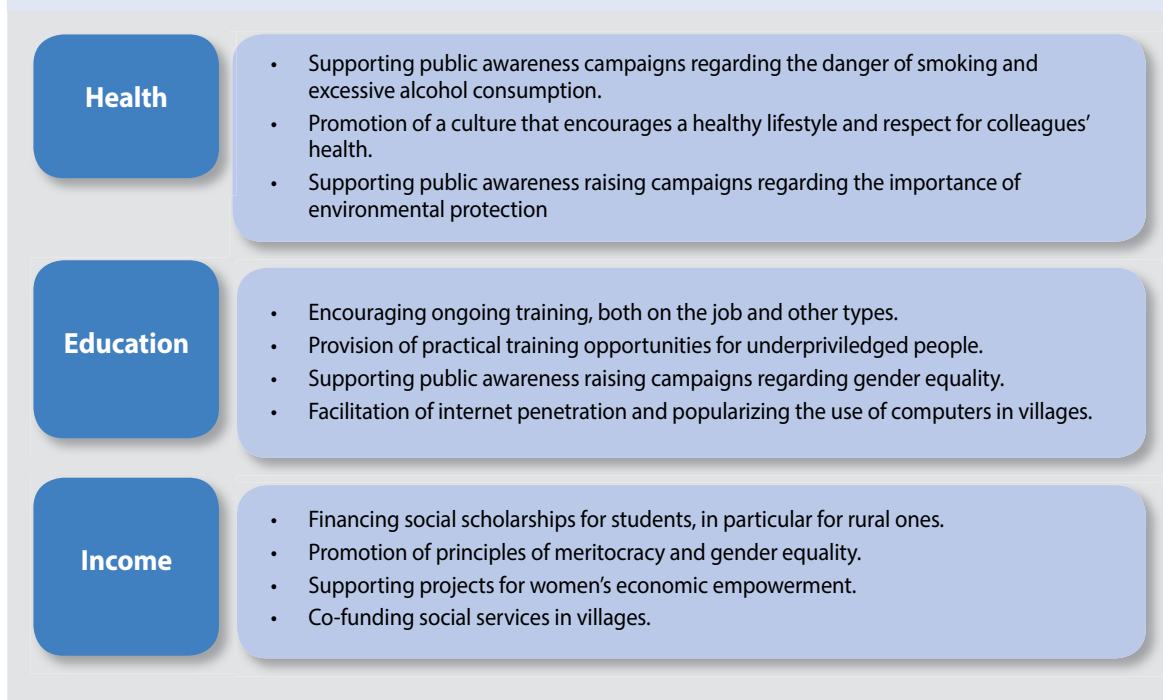
A pertinent question sometimes arises: why do some companies pursue long-term earnings in situations where immediate profit opportunities are more tangible? The results of a range of research presented in the Business & Society magazine certifies that the opportunities resulting from skilful implementation of CSR can be materialized in a series of competitive advantages: easier access to capital markets, higher revenue and profits, optimized operating costs, increased productivity and quality, an increased base of employment, higher customer loyalty, improved decision-making and risk management processes. Thus, a company that adopts social responsibility principles pursues the maximization of its profit *in the long run*, and amplifies the impact of its activity on human

development through implementation of this strategic planning philosophy.

It is obvious that if a larger number of companies are operating on the basis of ethics and social morality principles this has a positive impact on human development (Figure 32). CSR can contribute to better public health by supporting public awareness-raising campaigns regarding, for example, the dangers of smoking, or the promotion of a healthy lifestyle among employees and clients. At the same time, as part of their CSR efforts, companies can encourage ongoing internal training or offer internship opportunities for underprivileged people, fund social scholarships and support various public awareness campaigns regarding gender equality, environmental protection, ecological education, or contribute to the funding of social services in villages. CSR may ultimately be a way of the private sector promoting itself, but it simultaneously has positive outcomes for the community. The tax and economic policies should therefore be supportive in this respect.

The skilful implementation of CSR can bring a series of competitive advantages (e.g. easier access to capital markets, higher revenue and profits, optimized operating costs, etc.).

FIGURE 32. The link between CSR and human development.



Sources: *the authors' calculations.*

In the Republic of Moldova, the low level of private sector development and its poor integration in global supply chains mean that not enough pressure is exerted upon management to adopt sustainable business strategies and thus the economic opportunities resulting from sustainable principles are missed. In particular, firms fail to use sustainable and inclusive business models in order to capitalize on the economic opportunities offered by the consumption potential of the low-income households. Targeting and providing goods and services for this category of population holds mutually beneficial effects for both the society and the company, which penetrates these niches.

However, with the internationalization and strengthening of the business culture in Moldova, we expect business sustainability and CSR to progress.

In Moldova, the private sector has not yet reached the necessary level of development that would ensure an effective integration of durable business strategies.

The interviews we conducted reflect a lack of business sustainable development strategies or, even worse, a confusion regarding a sustainable development strategy and business continuity procedures (the latter are an indispensable element for every company whether it has a sustainable development strategy or conducts a short- and medium term opportunity strategy). However, it is encouraging that CSR is regarded as an opportunity rather than as an additional burden upon businesses.

When we talk about how CSR is implemented in enterprises, we most often look at collateral voluntary and charitable activities; we rarely look at actions aimed at a holistic approach to responsibility with respect to the provision of services or the sale of goods. One illustrative example of the lack of CSR results from the unwillingness of businesses in Chisinau to share communication infrastructure: some of these business have a dominant or significant position in the market; in this situation the pillars of the city are overloaded with fibre-optic cables and at least double the number of mobile communication antennae are mounted on buildings compared to if telecommunication operators shared infrastructure. Nevertheless, sporadic elements of responsibility are noted, and need to be promoted (see Box 25).

Box 25. COLLECTION OF BATTERIES FOR PERSONAL ELECTRONIC DEVICES.

The service centre for mobile phones of an operator of mobile telephony in Chisinau has a special bin for used batteries. It is known that modern batteries contain elements that are extremely harmful for people. On the other hand, battery collection and recycling by battery producers allows savings of up to 80 per cent in relation to the necessary materials for battery manufacture. Therefore, a holistic approach to the battery life cycle should necessarily include collection of used batteries in dedicated places. The potential to replicate this initiative goes beyond cellular phone service centres, where batteries are repaired and not necessarily replaced. Shops that sell batteries and other electronic devices are the most appropriate places to collect used batteries.

Source: *Interviews with companies' representatives and experts.*

The few studies conducted on the subject of CSR in the Republic of Moldova show that despite all donors' efforts, CSR remains a nebulous concept for most Moldovan companies. At the same time, Moldovan companies do carry out some philanthropy, even if it is done in an unstructured way. The aforementioned study shows the main role in CSR promotion should be played by business

associations, instead of by the Government. In this connection, Box 26 shows two positive examples in the Republic of Moldova.

CSR remains a nebulous concept for most Moldovan companies.

Box 26. HOW CSR PROMOTES BUSINESS ASSOCIATIONS.

A good example of CSR promotion at the level of business associations is the American Chamber of Commerce in Moldova. One of its six permanent committees is specialized precisely in CSR. This committee consists of eight active members, and in 2013 three specific projects have been reported as having been implemented at association level.

Another good example is the Chamber of Commerce and Industry of the Republic of Moldova. The Organizational Council of the "Trademark of the Year 2012" Contest has decided that the tenth edition of the contest should promote the concept of social responsibility of businesses. The Deputy Chairperson of the Chamber of Commerce and Industry of the Republic of Moldova, Mr. Tudor Olaru, who is also the Deputy Chairperson of the Organizational Council, has mentioned that social responsibility had not been chosen as the topic of the contest unintentionally. He states: "It is not possible to assert at this moment that the activities related to CSR are typical of the business environment in our country. The members of the community do not know enough about the business entities' social activity level and about the CSR activities carried out by companies both for their employees and for the entire society. In their turn, the entrepreneurs need to be aware of the fact that long-term business success should not be focused on obtaining a maximum of profits, but rather on the social responsibility, which is a trend that has already escalated in the developed markets". The awards for the socially responsible trademark have been handed out as part of the Trademark of the Years 2012 and 2013 contests. The winning companies are included in the Official Catalogue of the most famous trademarks of the Republic of Moldova, published by the Chamber of Commerce and Industry⁵⁷.

Source: *AmCham, 2014 and the Chamber of Commerce and Industry of the Republic of Moldova, the "Trademark of the Year 2012, for social responsibility of business"; <http://www.chamber.md/ro/nout%C4%83%C8%9Bi/231-concursul-%E2%80%9Dmarca-comercial%C4%83-a-anului-2012%E2%80%9D,-pentru-responsabilitatea-social%C4%83-a-businessului>.*

Moldovan NGOs, along with business associations, can play a central role in Moldovan companies' maturation process, from a social responsibility standpoint. For instance, the National Network of the Global Pact in the Republic of Moldova has been launched with the participation of the Independent Think Tank EXPERT-GRUP, which

has provided logistical, information, basic training and communication support in order to motivate the first members to participate in the process of network building. The organization has drafted three analytical studies on CSR in Moldova. Another relevant example is the information portal, civic.md, which contains a module on

⁵⁷ The Official Catalogue of the most famous trademarks of the Republic of Moldova 2013 is available in three languages, Romanian, English and Russian, at http://www.chamber.md/files/catalog_2013.pdf.

social responsibility⁵⁸ where, since September 2009, all the relevant news about philanthropic activities (which are numerically predominant within this module) is collected, as well as news about the social responsibility of companies carrying out business in Moldova. The East-European Foundation has published, in 2011, a Social Responsibility Bulletin in Moldova, which contains information about CSR and the various partnerships between corporations and Moldovan communities, informing and educating NGOs, mass media, community leaders and Government officials about the social activities carried out by companies⁵⁹.

Moldovan NGOs, along with business associations, can play a central role in Moldovan companies' maturation process from a social responsibility standpoint.

vii. The Role of Social Entrepreneurship in Human Development

The concepts of social entrepreneurship, social enterprise, social economy and social entrepreneurship are penetrating to a greater extent into the political and economic thinking that are typical of the EU and the USA. According to the definition used in European structures, a social enterprise is an economic operator that pursues the objective of having a social impact that is favourable for human and social development and that is less focused on making profit for the social enterprises' owners or shareholders⁶⁰. A social enterprise works by providing goods and services on the market in a business-like and innovative manner, and uses its profits for the achievement of social objectives. The enterprise is managed openly and responsibly, it involves and consults its employees, clients and stakeholders and those affected by its commercial activity.

According to the European Commission Communication, from which the aforementioned definition has been quoted, the social economy employs over 11 million people in the EU, i.e. 6 per cent of the total number of employed persons. This segment of the economy brings together entities that have a specific legal status (cooperatives,

foundations, associations, mutual associations), of which many are also social enterprises due to possessing the above-mentioned features, as well as social enterprises that behave like private companies. According to the sources used in the Commission's Communication, about one out of every four enterprises created in Europe is likely to be a social enterprise. These figures are so impressive because the European Commission includes in the social category enterprises that provide social services and/or goods for vulnerable persons (such as access to dwelling, medical assistance for the elderly or for persons with disabilities, the inclusion of vulnerable groups, childcare, access to employment and training opportunities, dependency management). Additionally, it includes the firms that resort to methods based on social and professional integration by hiring marginalized people (due to certain social and professional issues). Some typical examples of social entrepreneurship in six European countries are presented in Box 27.

The social economy employs over 11 million people in the EU, i.e. 6 per cent of the total number of employed persons.

Several European countries have commenced to also include certain precise terms in their national legislation defining social entrepreneurship, the aim being to provide state support in different ways so as to bolster its activity. France, Belgium, the United Kingdom and other West European countries use a large range of instruments to support social entrepreneurs, including subventions for employed persons (with disabilities, previously unemployed), VAT reduction and VAT refund facilities, more advantageous rules concerning tax deductibility and income tax reductions, as well as a series of professional programming and training and counselling services. However, the experience has not been solely positive as regards such instruments. In Romania, for instance, a draft law regarding social entrepreneurship gave rise to many controversies and harsh debates in the society on the grounds that it mistook social entrepreneurship for CSR; it included in the definition of social entrepreneurship the state and multinationals, and that it was proposing generous tax facilities for vaguely defined social investments⁶¹.

⁵⁸ <http://www.civic.md/csr.html?limitstart=0>.

⁵⁹ The last issue of the Bulletin, published in September 2011, is available at <http://eef.md/images/Buletinul%20RSC%2033.pdf>.

⁶⁰ The European Commission, 2011.

⁶¹ The Institute for Social Economy, "The Law on Social Entrepreneurship Reloaded", 24 April 2014, <http://www.ies.org.ro/info-stiri/vrs/IDstire/947/t/legea-antreprenorului-social-reloaded>.

Box 27. EXAMPLES OF SOCIAL ENTREPRENEURSHIP IN EUROPEAN COUNTRIES.

In Italy, a health facility provides a high level of specialized care and cultural intermediation and adaptation services, especially in areas poorly addressed by public services. The target category that the enterprise is working with consists of persons in a situation of social and economic fragility (e.g. migrants).

In Romania, the "Cartea Calatoare" Foundation, having only five employees and five volunteers, since 1996 has provided cultural services in Romanian to blind people by adapting media (audiobooks and films adapted for the sightless especially) for an audience of around 90,000 individuals.

In France in 2004 an enterprise implemented the innovative concept of providing car washing services without using water, by means of biodegradable products, employing unqualified or marginalized people in order to reintegrate them into the labour market.

A foundation in Hungary has founded a restaurant that employs persons with disabilities (40 employees), offering them training and childcare services in order to ensure their transition to a stable job.

There is an enterprise in the Netherlands that teaches people to read by use of innovative digital tools and ludic methods (by playing games). The method is especially adapted for hyperactive or autistic children, but also for the illiterate and for migrants.

In Poland a social cooperative comprising two NGOs employs long-term unemployed and disabled staff and provides a variety of services: catering and food services, small construction and handicraft services and training for disadvantaged people, to help them find new jobs.

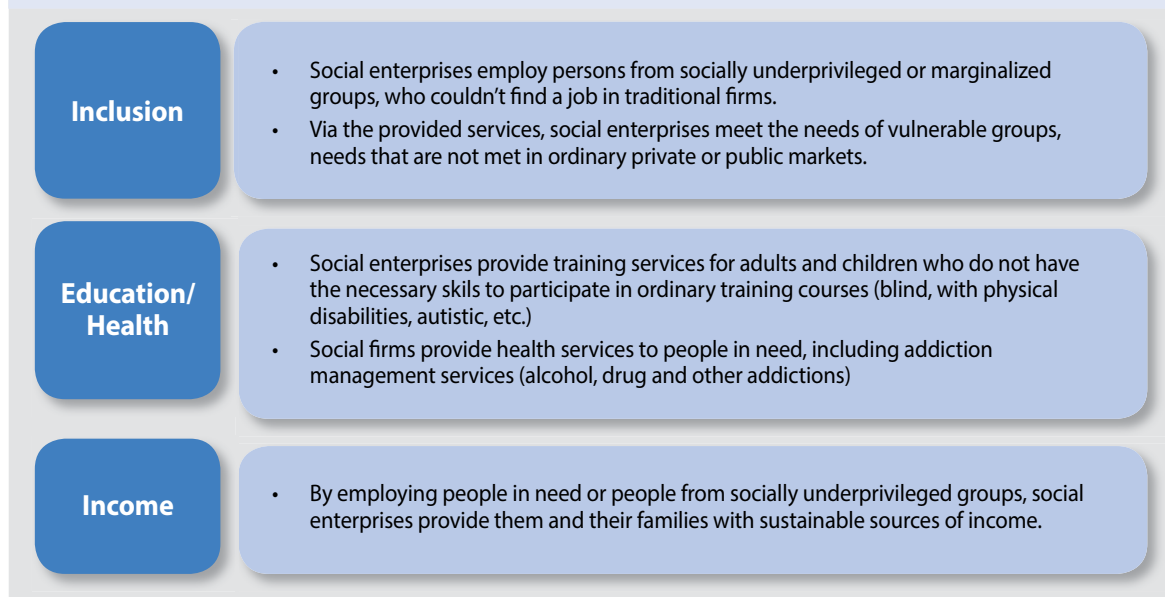
Source: *The European Commission, 2011.*

As shown in Figure 33, social entrepreneurship has many positive impacts on human development. These impacts especially relate to ensuring the social and economic inclusion of underprivileged persons due to issues related to education, or of those who come from socially marginalized groups, by providing training and health care services, as well as by offering these persons employment opportunities. Considered in the light of these modalities, services and goods that

influence human development, it is encouraging to find out that social entrepreneurship is gaining ground in the Republic of Moldova, led by certain national and local NGOs (see details in Box 28). "Traditional" companies might learn a lot from these NGOs.

Social entrepreneurship has many positive impacts on human development.

FIGURE 33. The impact of social entrepreneurship on human development.



Source: *The authors' calculations.*

Box 28. EXAMPLES OF SOCIAL ENTREPRENEURSHIP INITIATIVES IN THE REPUBLIC OF MOLDOVA

The shop "Nou din Nou" is a social business, launched in June 2012 by "Proability" Centre for Business Support Provision to the Blind, situated on 11/8 Moscow blvd. in Riscani district, Chisinau. This shop sells quality and affordable second-hand household products. Among the goods for sale are household appliances, furniture, tableware, ceiling lighting and souvenirs. By opening this shop, "Proability" intended to help increase the level of economic inclusion of visually impaired persons living in Moldova, offering them employment and self-employment opportunities. The shop is also providing the "Proability" Centre with a finance source by attracting several private organizations for cooperation purposes. Moreover, "Nou din Nou" contributes to environmental protection by extending the useful life of outdated household products, reconditioning and reusing them. (<http://proability.md/ro/nou-din-nou.html>)

"Edujoc - Edicatia prin Joc" (Edujoc - Educating through games) is an innovative business set up by two young Moldovans which, besides giving the owners the opportunity to make a profit, meets several acute social needs – providing educative toys for children, developing their intelligence capacity, attention, creativity and imagination – at a price that is affordable for most parents. The toys are tested before being put on sale, and the right toys are selected according to the abilities of the children. Psychologists and psychotherapists are employed within the team to this end. In the enterprise's shops there are both imported and non-imported products, as the enterprise has signed delivery contracts with two Moldovan workshops specializing in wooden toy manufacture. (<http://www.edujoc.md/>, <http://agora.md/stiri/2063/video--afacere-inovativa-pentru-moldova--doi-tineri-vand-jocuri-educative-atat-pentru-copii--cat-si-pentru-adulti>).

The social enterprise "Floare de Cires Catering" Ltd. was set up in December 2012 by the public association "Eco-Razeni" (village of Razeni, Ialoveni district) with the support of the Austrian Federal Minister For Labour, Social Affairs And Consumer Protection (BMASK), of the "Volkshilfe Solidarität" Association and of the Austrian social enterprise WienWork. The enterprise "Floare de Cires Catering" focuses mainly on providing catering services (catering in Chisinau and Ialoveni district) and on cultivating vegetables in greenhouses. From the moment it was founded, about 30 persons with different kinds of disabilities and vulnerabilities have been provided with social and professional capacities' assessments, counselling, and vocational training or employment within the enterprise. There are currently 10 young people with disabilities employed (five young women and five young men with different kinds and degrees of disability). (<http://ecorazeni.wordpress.com/antreprenoriat-social/>)

Sources: *Stated in the box.*

Box 29. RURAL FINANCE CORPORATION – A PROFITABLE COMPANY THAT CONTRIBUTES TO RURAL DEVELOPMENT

In 2010, the UNDP Regional Center in Bratislava published the Report "Business Solutions to Poverty. How inclusive business models create opportunities for all in Emerging Europe and Central Asia". The Report includes 15 case studies from countries of that region, including one from the Republic of Moldova - Rural Finance Corporation. This is a micro-finance organization, which defines its mission as follows: "provide financial support to farmers and entrepreneurs in favorable conditions, and contribute thus to rural development in accordance with poverty reduction strategy of Moldova". With a market share of about 55 per cent, Rural Finance Corporation is the main player in the rural finance segment.

The Corporation was established and is owned by the Loans and Savings Associations, for which the Corporation acts both as a financial umbrella and a creditor. In 2013 the Corporation worked with about 170 Loan and Savings Associations, the provided loans averaging at MDL 9500.

At the same time, in 2013 the Rural Financing Corporation credited more individual and corporate entrepreneurs, who benefited of MDL 120 thousand on the average. The company provides loans for the entrepreneurs, who are not privileged by the traditional banks.

The company minimizes the credit risks by balancing carefully the credit portfolio by economic sectors. Thus, about 17% of loans were provided for investments in agriculture, 8% - in food and non-food industry, 25% - in trade, 21% - services and about 29% - in real estate and consumption. At the same time, the Corporation intends to be the first micro-finance institution connected to the Credit Bureau, which will help it improve significantly its risk management.

Source: UNDP 2010, "Business solutions to poverty. How inclusive business models create opportunities for all in Emerging Europe and Central Asia" și Corporația de Finanțare Rurală, "Raport anual 2013", <http://file.microfinance.md/rfc/Annual-Report-2013-ro-eng.pdf>

The analysis of the available data regarding the current condition and the issues related to social entrepreneurship development in Moldova reveals three major challenges that hinder the development of social entrepreneurship in Moldova:

1. making access to financial resources easier, referring both to private and public resources. Assuring a free and transparent access to public procurement and to state aid represents an essential priority in this context. While the problem concerning the access to public resources could be relatively easily solved by means of proper regulations, there are more difficulties to overcome when it comes to facilitating access to private funds. These difficulties are not necessarily objective, determined by the disabilities of the persons or by the persons working within these enterprises. The enterprise "Floare de Cireș", which was given as an example in Box 26, proves that as long as social enterprises are managed correctly and professionally, they can compete very efficiently with "non-social" enterprises.
2. when entering the competition for bank credit, social enterprises need to break the stereotypes that private funders might have as regards social businesses as a whole. Successfully overcoming this challenge will make people better acquainted with the social economy sector and will strengthen management skills, professionalism and social entrepreneurs networking.
3. the provision of an optimal legal niche, due to which social entities would be able to accomplish their mission as efficiently as possible. Only a small number of active NGOs are currently urging the adoption of a draft law on social entrepreneurship. These efforts, however, have not been embraced by the Government⁶².

viii. Consultations with the Government: The Voice of the Private Sector in Human Development

Transparent decision-making is one of the essential prerequisites of good governance. It is not by chance that the famous World Governance Indicators contains as one of its main pillars the elements of Voice and Accountability⁶³, the evaluation of which implies the involvement of the people in decision-making and the transparency of the decision-making process in the area of public policies⁶⁴. Consultation meetings between the Government and society are, thus, becoming an element that is essential for assuring political equality and for dealing with the new challenges

emerging in different areas of social and economic life. Consultations between the private sector and public authorities may improve the quality of public policies and enhance human development as a result of at least two factors: 1) by ensuring a closer correlation between the actual needs of companies and public policies; 2) expertise is transferred from the private sector in various areas.

Consultations between the private sector and public authorities may improve the quality of public policies and enhance human development.

As the private sector is the main generator of value, it is also subject to Government regulations regarding entrepreneurship. In order for enterprises to be productive, they require non-burdensome and fair regulations. They should ensure free and correct competition in order to avoid abuses in the relationship with consumers. The Government plays a decisive role in the development and implementation of regulations that meet the above criteria, and the safest way to ensure this development and implementation is a participatory approach, involving as many stakeholders as possible.

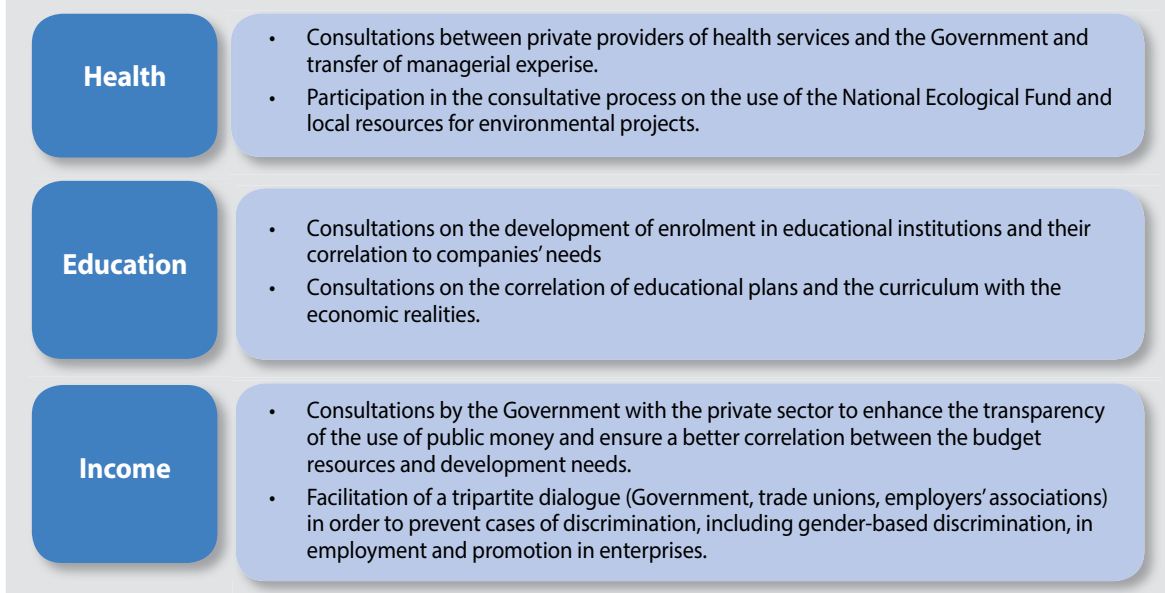
Thus, the private sector's role in human development will be limited unless companies' voices are heard and listened to by the Government (see Figure 34). Companies can share extremely valuable and indispensable expertise for quality public policies, which is appropriate for the real needs and realities. Consultations between the Government and the private sector are crucial because they serve as a bridge for information transfer. For instance, such consultations could contribute to a more efficient matching of the educational offer with employers' demands, could improve health care policies, could enhance the efficiency of public money management, could prevent discriminatory practices in the workplace (including on the basis of gender), could contribute to regional development and to more efficient allocation of budgetary funds for environmental projects. At the same time, consultations improve the mutual trust between public authorities and companies, which is a defining element for the investment attractiveness of any state. Hence, considering the approach of this report, which does not see companies in an isolated manner, but rather as integrated elements of a community, consultations between the private sector and Government are indispensable for human development.

⁶² Tamara Grejdeanu, "Social entrepreneurship is not given yet a clear definition in the Republic of Moldova", 26 April 2013, <http://www.europalibera.org/content/article/24969734.html>.

⁶³ <http://info.worldbank.org/governance/wgi/index.aspx#doc>.

⁶⁴ <http://info.worldbank.org/governance/wgi/va.pdf>.

FIGURE 34. The link between private sector and Government consultations and human development.



Source: *The authors' calculations.*

Companies can share extremely valuable and indispensable expertise for quality public policies, appropriate for the real needs and realities.

What is the current status of public-private consultations in the Republic of Moldova? Coming from a socialist economy, where the Government was the owner of all economic activities and regulations were developed using a top-down approach, the Moldovan Government still finds it difficult to engage in a genuine participatory process when developing regulations. The existing legal framework allows for establishing a number of platforms, structures and mechanisms for a dialogue between the Government and business people on all dimensions. The main structures at the country level are:

1. The National Commission for Consultation and Collective Bargaining, consisting of representatives of employers' associations, Government, trade unions and sector and regional commissions for consultation and collective bargaining with equal participation, and their executive bodies. Meetings are deliberative if attended by two-thirds of the members, with at least four members from each Party to the National Commission and three from the rest. Decisions are made, depending on the subject, by consensus or by a three-quarters majority of the present members;

2. The State Commission for Entrepreneurship Regulation aims at ensuring the continuous optimization of the legal framework regulating entrepreneurial activity. The Commission is not actually a viable one, but the working group it founded works very efficiently,⁶⁵ being assisted by the Regulatory Impact Assessment Secretariat. The State Commission has not convened any meetings since 2008 and therefore has excluded itself from performing its tasks. The Working Group also operates based on the principle of 50/50 representatives of public authorities and businesses;
3. Economic, line or sector councils, under the Prime Minister, Minister of Economy, other ministries and agencies, including the recently founded Economic Council under the Prime Minister of the Republic of Moldova.

By ensuring a higher transparency, representatives of business entities can participate in the decision-making process by submitting proposals to draft policies and decisions proposed for consultation. During recent years, especially after 2009, the dialogue between the Government and the private sector has become more intense and this trend still persists. Currently, there are several well organized and functional associations, but most of these are represented by larger companies. At the same time, it is important to mention that the most active existing business associations are open for the participation of business entities, including SMEs.

⁶⁵ Regulated by the Government Decision of the Republic of Moldova No 1429 of 16 December 2008 on the review and streamlining of the regulatory framework regulating entrepreneurial activity.

Box 30. EXAMPLE OF WHEN PUBLIC AUTHORITIES HAVE LISTENED TO THE VOICE OF THE PRIVATE SECTOR ONLY AFTER THE INVOLVEMENT OF A LARGE COMPANY.

In spite of the Tax Code's provision that "It is allowed to deduct the ordinary and necessary expenses, paid or incurred by taxpayers during the fiscal year, exclusively as part of the entrepreneurial activity", it was difficult for companies to establish such expenses, including expenses for staff nutrition and transport. Experts and representatives of many enterprises pointed to the need to remedy this situation, but it remained unchanged. The problem was settled recently, after a conflict between one of the most important investors in the country and the tax authority. As a result, the Tax Code was amended in respect to expenses for nutrition, transport and the professional education of employees, and the Government approved a regulation in this regard. Without going into details regarding the entrepreneurs' satisfaction with the regulations, we ascertained that the existing dialogue mechanisms are not efficient enough, in particular in relation to SMEs.

Source: *Interviews with companies' representatives and experts.*

In this context it is worth noting that SMEs, even if they are not well represented in the dialogue with the Government, in some cases achieve results when it comes to issues that coincide with the interests of certain large companies (see Box 27).

During recent years, especially after 2009, the dialogue between the Government and the private sector has become more intense and this trend still persists.

At the same time it is necessary to be clear that SME interests do not always coincide with those of larger companies, even if they activate in the same sector. SMEs have specific interests that are determined by their small business size and they have a rather limited self-organization capacity to defend their interests. Therefore, it is important to facilitate dialogue with the SME sector.

As a result, managers of Moldovan companies and representatives of employers' associations believe that the Government only hears, but does not listen to, the voice of the private sector. However, to what extent is the private sector ready for a dialogue? To ensure an effective dialogue, that would bring benefits for human development, the Government needs a competent and trustworthy partner. Associations of business people and/or enterprises need to strengthen their capacities to hold a transparent and productive dialogue with the Government in order to improve the business environment.

Managers of Moldovan companies and representatives of the associative sector believe that the Government only hears, but does not listen to, the voice of the private sector.

Many private companies, in turn, being still at the level of accumulating primary capital, have neither the time nor the capacity to get involved in a dialogue. Like the Government, which can be criticized for its limited capacity to communicate policies and its limited participatory process as regards policy development, the private sector can be criticized for the low level of its legal culture and its inability to stay informed. Although there are already a significant number of associates of business people and enterprises from various areas, they have, so far, limited capacities to hold a dialogue and sometimes are not aware of or do not use the existing communication platforms. The low level of business associations is another reason for the poor dialogue between the private sector and the Government. Less than one-fifth of Moldovan enterprises interviewed were members of employers' associations.⁶⁶ Such a low participation is caused by the low level of information and trust, in particular among business entities, regarding the benefits of participation in such platforms. As a result, over 40 per cent of the managers interviewed stated that the tripartite dialogue with the Government and trade unions was not efficient; almost 50 per cent said they did not know if it was efficient, while only 9.3 per cent declared that the dialogue was efficient. This perception of an inefficient social dialogue with the authorities can be easily understood, given that over two-thirds of respondents claim that they have never been consulted by the authorities during decision-making⁶⁷.

Companies participate only moderately within the existing dialogue platforms with the Government, due to poor information and low confidence.

The main constraints to improving the dialogue come from the low quality of governance, the lower

⁶⁶ National Employers' Confederation of Moldova, 2013.

⁶⁷ Idem

ability to understand the problems and the lack of knowledge about efficient ways to find solutions. In addition, although the central authorities are open and accessible for dialogue, they often do not take account of views, and fail to explain this behaviour. Some of these problems are caused by the fact that issues related to fiscal policy have until recently failed to pass through the filter of the Working Group of the Government Commission for Entrepreneurship Regulation⁶⁸. The inactivity of the Government Commission for Entrepreneurship Regulation is also an institutional constraint that does not allow for the full and effective implementation of Government-private sector, and which has finally led to the poor outcomes of the regulatory reforms. It should be noted that there are still large segments of the private sector that do not yet have associations, or where the associations do not have the capacity to represent them at the required level. In addition, in the opinion of private sector representatives, the poor outcomes of the dialogue with the Government can be partially explained by the bad image of business people in the society. Thus, in their dialogue with the authorities, business people are deprived of the support of the widest social strata.

The main constraints to improving the dialogue come from the low quality of governance, the lower ability to understand the problems and the lack of knowledge about efficient ways to find solutions.

Transparency is another issue related to Government-business dialogue. Certain recent developments have proved the good capacity of the private sector to defend and promote their interests in all state institutions, including the Parliament - actually, we are referring to lobby activities that should not have any chances of success. For example, the developments in certain segments - for instance producers and traders of tobacco products - as regards successfully promoting their interests at the expense of other social segments⁶⁹. In this context, the practice of taking decisions behind "closed doors", with the participation of representatives of business people and authorities only, without any representatives of trade unions or other representatives of the society, is a threat to social stability and human development.

Given the administrative decentralization, the local public authorities (LPA) have an

important role to play in business regulation and development. The role of the private sector for the life of the community increases, as well. However, an analysis of the problems and constraints encountered by the private sector when trying to obtain from LPAs the necessary authorizations for their work and the recent developments related to the role of these authorities in setting local taxes reveal that the situation is far from ideal. A number of private sector representatives stated in interviews that very few LPAs have institutionalized and/or transparent mechanisms of interaction with the private sector. The general conclusion on this subject is that there is no dialogue at the local level and decisions are taken in a non-transparent manner.

Although, in the context of administrative decentralization reform, the local public authorities play a larger role in private sector regulation and development, there is a lack of a functional public-private dialogue at the local level.

In addition, the quality of public services provided at the community level is often very low, and the general picture of cities is not conducive to developing more demanding and sophisticated businesses with the involvement of foreign prestigious companies. The poor quality of transport services limits companies' abilities to increase access to the labour force, and poor urban sanitation seriously affects business premises and damages the reputation of local partners in interactions with socially responsible companies.

In conclusion, public-private dialogue still needs to be improved significantly. Thus, on the one side the Government is not ready to listen attentively to the voice of the private sector, and on the other side the private sector is not sufficiently articulate as to be listened to, because of the modest participation of companies in communication platforms. Overall, there is a vicious cycle caused by a mutual lack of trust that generates an inefficient dialogue, which in its turn worsens the problem of lack of trust between the private and public sector. As a result, this limits the role of the private sector in human development, because companies are not genuine community members, and because public policies do not cover fully the real development needs of the private sector.

⁶⁸ The amendment to the Tax Code, with regards to the preparation of the RIA report for the preparation of draft legislative and regulatory acts in the fiscal area that regulating the entrepreneurial activity, was approved by Law No 324 of 23 December 2013 on Amendments and Addenda to Certain Legislative Acts.

⁶⁹ See, for instance, the opinion expressed by Ghenadie Turcanu, programme coordinator at PAS Centre (the Centre for Health Policies and Analyses), in the article "In the Parliament of Moldova the mice come out and play even when the cat is not away" published at <http://www.e-sanatate.md/SanoClub/Post/57df9ec6-87cc-4ca8-99a9-7b56759bb9b3/in-parlamentul-moldovei-soarecii-joaca-pe-masa-si-cand-pisica-e-acasa>.

3

REALITY CHECK: ASSESSMENT OF THE BUSINESS ENVIRONMENT IN MOLDOVA AND ITS IMPORTANCE FOR HUMAN DEVELOPMENT

In order to mitigate the challenges highlighted in Chapter 1, the Government needs trustworthy and competent partners and the private sector has a critical role to play in this respect. However, the contribution of the private sector to human development depends on its share in the national economy and also on the business environment, which needs to be friendly and even encouraging, in order to motivate companies to integrate the goal of human development into their business strategies (as discussed in Chapter 2). This chapter provides a systematic assessment of the private sector: its size, profit, the quality of the business environment in the Republic of Moldova, as well as the main business constraints, the measures undertaken so far and their impact, and the quality of the dialogue with the Government. In addition, it shows how the existing constraints on private sector development influence human development.

i. Recent Trends in Private Sector Development in Moldova: A Regional Comparison

The private sector is often defined in terms of the ownership of organizations. Thus, the private sector can be regarded as consisting of all institutions (organizations) that are not owned by the Government or in the public sector⁷⁰, including not-for-profit organizations and households⁷¹. The aggregate indicator that expresses most appropriately the size and role of the private sector in a country's economy is its contribution to GDP. Because of data limitations, this indicator will be presented in the form of a proxy indicator calculated based on contributions to the GDP of companies with foreign property, mixed Moldovan-foreign property and private property⁷². The private sector in the Republic of Moldova has a dominant share in its economy and, thus, determines to a high

extent the human development processes. Figure 35 shows that during recent years the private sector has developed thanks to direct foreign investments, while the role of domestic investments has remained constant. This is why we notice a quicker increase in the GDP of the proxy indicator of the private sector versus the share of the private sector that includes only domestic companies. It can also be noticed that the years 2002–2007 were marked by an expansion of the public sector, primarily on account of the share of the domestic private sector which slowed down the private sector development in Moldova.

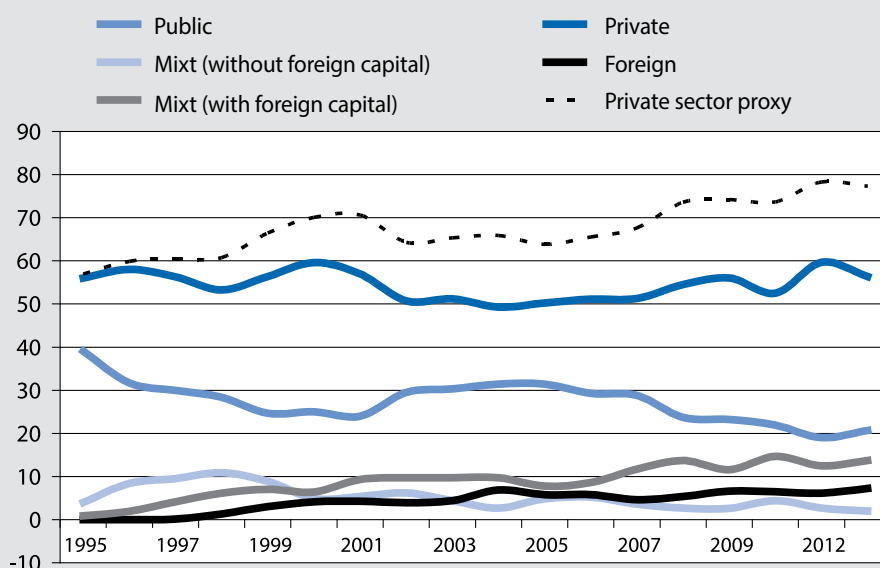
The private sector in the Republic of Moldova has a dominant share in its economy and, thus determines to a high extent the human development processes.

⁷⁰ Global Monitoring Report: A Development Emergency, 2009, The International Bank for Reconstruction and Development / The World Bank, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1327948020811/8401693-1327957271159/8402499-1328647404729/GMR09_book.pdf

⁷¹ Given the structure of the Classification of Ownership Forms (COF) of the Republic of Moldova, it is not possible to keep strict records of private institutions and organizations. The GDP structure by ownership forms in the Republic of Moldova is provided in accordance with the COF, which highlights three groups of ownership: (1) property of the Republic of Moldova, (2) foreign and (3) mixed Moldovan-foreign. At the same time, in the first group, contribution to GDP is also calculated by sub-groups: (1.1) private, (1.2) public and (1.3) mixed public-private without foreign participation. Thus, because the classification of enterprises in group (3), Moldovan-foreign, and sub-group (1.3), mixed public-private (without foreign participation), does not take into account the major share of public or private property, it is not possible to make a precise assessment of the private and public sector contributions.

⁷² The proxy indicator is estimated in order to highlight the private sector development trends in Moldova. This indicator is not comparable with other countries. Hence, for comparison reasons, we use the EBRD estimates of private sector share in GDP (the latest data are for 2010).

FIGURE 35. GDP structure by forms of ownership, %.



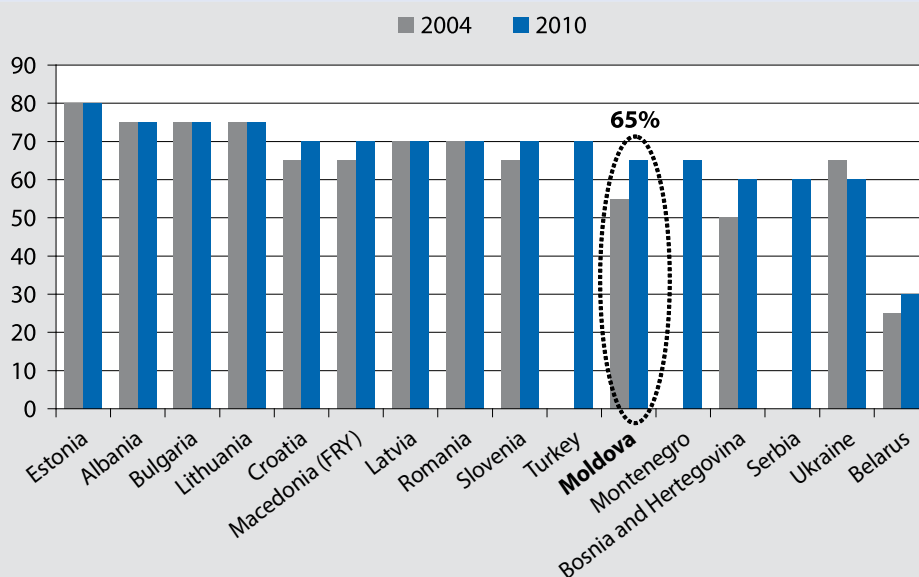
Source: *The authors' calculations on the basis of NBS data.*

Compared to other countries, at its 2010 level Moldova's private sector had a relatively small share in GDP, but it was still higher than the private sector in Ukraine, Serbia, Bosnia and Belarus. At the same time, in comparison with other states, Moldova is significantly lagging behind in structural reform, having in 2010 the level that most countries attained and exceeded in 2004. As a result, the private sector has an important but as yet unrealized potential of

contributing to human development, at least from the perspective of its role as a taxpayer in supplying the public budget which will then be redistributed for social and economic purpose that are meant to raise the living standards of the population (see Chapter 4).

Compared to other countries in the region, the share of the private sector in Moldova's GDP is rather low.

FIGURE 36. Share of the private sector in GDP, %.



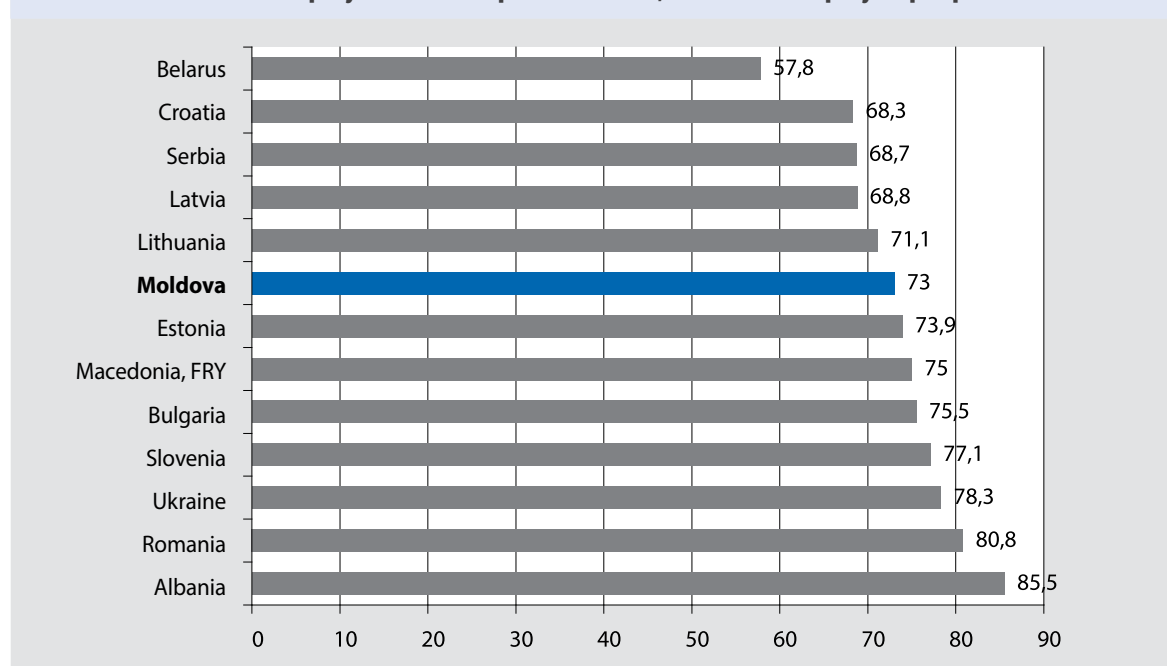
Source: *European Bank for Reconstruction and Development (EBRD).*

Note: *The share of the private sector in GDP is estimated by EBRD and is an approximate one, based on available statistical data from official and unofficial sources. The general approach is that the added value of the private sector includes revenues generated from the activity of private companies, as well as private institutions that are a part of the informal economy (where accurate information about this exists).*

The share of the private sector in employment is another indicator of its contribution to job creation. This topic was discussed in detail in Chapter 2 of this report and is a critical one. By this share the private sector can influence human development. Thus, salaries determine the level of income, on-the-job training determines the level of education and social packages added to the financial remuneration

can contribute positively to the health level of the population (e.g. health insurance, sports subscriptions, etc.). In the last 10 years the share of employment in the private sector out of the total employed people decreased slightly, within 2 per cent to 3 per cent, having settled in the last three years around the level of 72 per cent 73 per cent – lower than the average in the region (see Figure 37).

FIGURE 37. Share of employment in the private sector, % of total employed people.



Source: ILO, ILOSTAT.

Note: For most of these countries the data are from 2012–2013, except for Romania where data are for 2010.

At the same time, the structure of employment also raises concerns: over 40 per cent of employment in the private sector is informal. Another concern, which is actually related to the high level of informal employment, is the high level of employment in the agricultural sector⁷³. After a decrease of about 20 percentage points compared to 2001–2002, from 2009 about 28 per cent to 29 per cent of total employment (i.e. about 42 per cent of the employment in the private sector) was in the agricultural sector. In order to have a more complete image, it is also important to mention that over 37 per cent of the people employed in agriculture are employed in households that produce for their own use and agriculture generally supplies about 69 per cent of the total informal workplaces⁷⁴.

The employment rate in the last four years has settled at around 39 per cent, after a long period of decline. Having analysed the employment rate in the private sector compared to the total number of active people, it was found that Moldova has a rate of about 26 per cent to 28 per cent, one of the lowest in the group of countries compared. At the same time, the Baltic countries had levels of over 35 per cent, while in 2012 Estonia had over 40 per cent⁷⁵. Thus, we can conclude that the private sector in the Republic of Moldova has not coped well with the challenges related to overall job creation and, in particular, the challenges related to the creation of decent jobs. At the same time, as in the case of the contribution to the budget, there is a huge undiscovered potential as regards the contribution of the private sector to human development by means of creating decent jobs-- a critical finding for the public policies process in this regard (see Chapter 5).

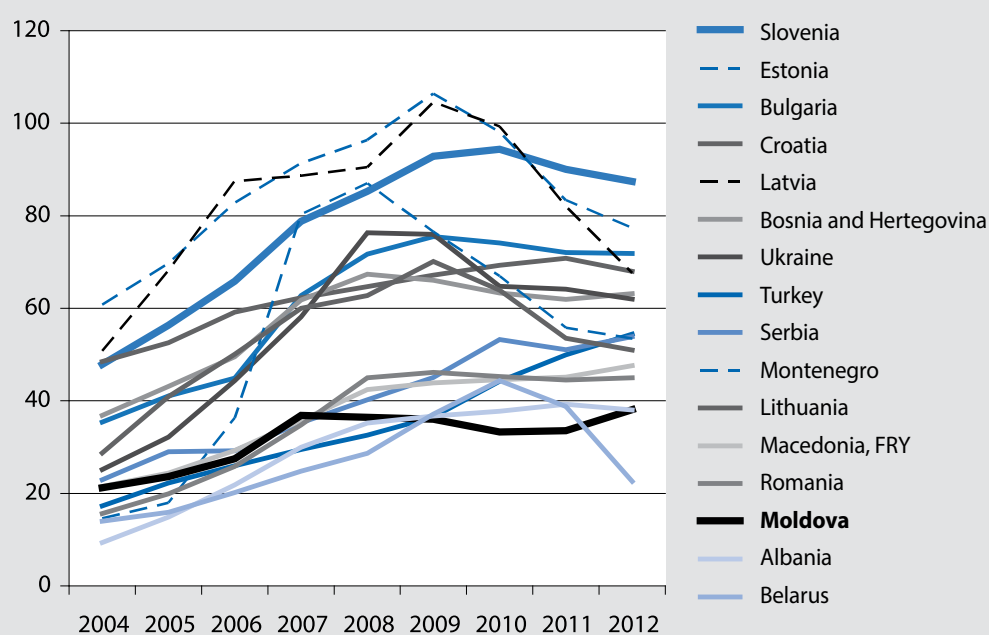
The employment structure raises serious issues of concern: over 40 per cent of total employment in private firms is informal.

⁷³ Out of the group of countries compared, only Albania (with 47 per cent) and Romania (with 29 per cent) exceed the level of employment in agriculture existing in the Republic of Moldova, the vast majority being under 11 per cent. Turkey is around 24 per cent and Ukraine is 20 per cent.

⁷⁴ NBS data related to 2013

⁷⁵ Data regarding the employment rate were taken from NBS and data regarding the employment rate in the private sector compared to the active population were calculated by the authors based on ILOSTAT data for 2012–2013.

FIGURE 38. Volume of loans extended to the private sector by the domestic financial sector, % of GDP.



Source: World Bank, representation by the authors.

One of the causes of deficiencies in the development of the private sector results from limited access to financing. The Republic of Moldova has one of the lowest levels of private sector credit advanced by the financial sector (see Figure 38). However, more serious is the fact that Moldova has the slowest growth rate out of the countries compared. Compared to the situation in 2004, Moldova's position worsened versus Montenegro, Albania and Romania. This has also affected the capacity of the private sector to create jobs and, in general, to participate more actively in the human development process. This issue is even more serious in the case of SMEs, which cannot cope with higher interest rates on credit and have fewer assets available for pledging.⁷⁶

One of the major factors hampering the development of the private sector is the poor access to financing.

ii. Business Regulation Reform: Assessment of Progress and Challenges

People's prosperity depends decisively on the possibility of using their knowledge and skills in the best way in order to accomplish their dreams.

However, individual prosperity is closely related to collective prosperity (community, region, country) through a complex and dynamic relation. In this context, the role of public and private institutions lies in establishing the proper conditions for individuals and companies to access the necessary factors (including knowledge, skills, resources, etc.) for their economic activity, and, on the other hand, to use them in a competitive and sustainable manner. The quality of business regulation is an important policy area for the Government in its position as a driver of economic development, which determines to a high extent the productivity and competitiveness of business operators, by diminishing transaction costs, facilitating access to resources and markets, and protecting the right to ownership.

Although the business regulatory framework of the Republic of Moldova began to change from the very first days after the country gained its independence, the framework was reformed much later. The reform process started officially in 2004⁷⁷ and, so far, it can be divided into four phases:

The regulatory framework, with its aim of simplifying bureaucratic procedures for entrepreneurial activities, started too late.

⁷⁶ "Financing of Small and Medium Enterprises in the Republic of Moldova: Problems, Trends and Perspectives (II)", 2013, IDIS "Viitorul", www.viitorul.org

⁷⁷ Government Decision (GD) No 141 of 17 February 2004 on the Reform of the Entrepreneurship Regulation by the Government.

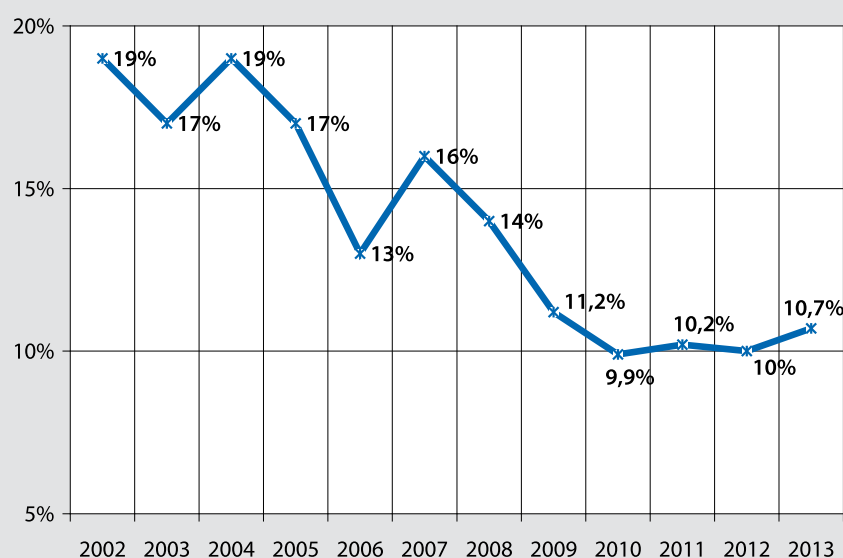
1. Establishing the foundation, known as “Guillotine 1” (February 2004 to July 2006)⁷⁸: the concept of midterm regulatory framework reform was established and the main reform directions were identified, some of them being relevant until nowadays.
2. “Guillotine 2” (July 2006 to December 2007): the establishment of the mechanism for ongoing streamlining of the regulatory framework review (Guillotine 2). As a result, about 80 laws were reviewed⁷⁹ and a methodology for conducting a Regulatory Impact Analysis (RIA) was approved⁸⁰.
3. “The Guillotine 2+” (December 2007 to December 2013): approval of the Business Regulatory Reform Strategy⁸¹. Law No 160/2011 was approved (Guillotine 2+). As a result, the Register of Authorities, Permits and Certificates issued by relevant issuers to legal entities and individuals practising entrepreneurial activities was established (currently there are 283 permits), others were excluded (about 100). At the same time, the legal framework⁸² for the institution of one-stop shops was set up, and the conditions under which the public authorities must set up a “one-stop shop” have also been established.
4. The Business Regulatory Reform Strategy for 2013–2020⁸³. This Strategy aims to replace the regulatory paradigm implemented before 2013 with an “intelligent regulatory paradigm”. This

implies that (i) the regulation is efficient and produces social and environmental benefits, improving at the same time the conditions necessary for a competitive and innovative economy, (ii) it is more receptive to scientific, technological and global market advancements as regards the discharge or the prevention of risks and facilitation of innovations; (iii) it envisages a shared responsibility, with the state, citizens and the private sector playing an active role in improving system efficiency; (iv) clear rules will be set up that must be fully observed.

What has been the impact of the reforms?

The reforms carried out during the period analysed improved most of the main indicators of the business environment. In the first place they allowed companies to spend less time on observing the regulatory requirements and more time on the enterprises’ basic activities. This has had positive effects on human development as well. Thus, the share of time spent by an enterprise to meet the regulatory requirements decreased from 2005 to 2010. However, it stagnated after 2010 at the level of about 10 per cent (see Figure 39). The biggest decreases in the time required for compliance were recorded in the case of “Business registration” (and amendments to incorporation documents), “Constructions”, “Import”, and “Sanitary Certificates”.

FIGURE 39. Share of time used to meet the regulatory requirements.



Source: *Cost of state regulation of enterprises’ work, 2013.*

⁷⁸ Carried out by Law No 280 of 14.12.2007 on Amendments and Addenda to Certain Legislative Acts

⁷⁹ Carried out by Law No 280 of 14.12.2007 on Amendments and Addenda to Certain Legislative Acts

⁸⁰ GD No 1230 of 24.10.2006 on the Methodology for Regulatory Impact Analysis and Monitoring of the Regulatory Process Effectiveness and Monitoring of the Regulatory Process Effectiveness

⁸¹ GD 104 of February 01, 2007 Approving the Business Regulatory Reform Strategy

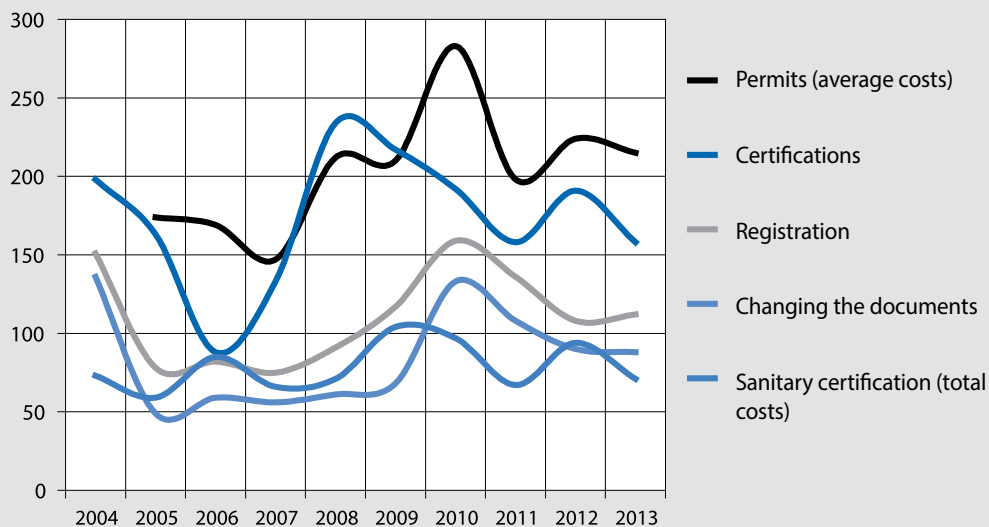
⁸² The Law 161 of July 22, 2011 on the Implementation of a One-Stop Shop for Entrepreneurial Activity

⁸³ The Business Regulatory Reform Strategy for 2013–2020 and the Action Plan for its implementation during 2013–2015 were approved by Government Decision No 1021 of 16 December 2013

During recent years we can notice some improvements in most of the business climate indicators, primarily due to the lowering of costs and time required to meet the regulatory requirements.

In addition, in general it is possible to state that the compliance cost also decreased. But this decreasing trend was not deep, and in some cases even an increasing trend was recorded for certain categories (see Figure 40). The increase in compliance costs for obtaining permissive documents (authorizations and certificates) is definitely affecting the development of entrepreneurship activity.

FIGURE 40. Categories for which a cost-increasing trend was recorded (average costs, USD).

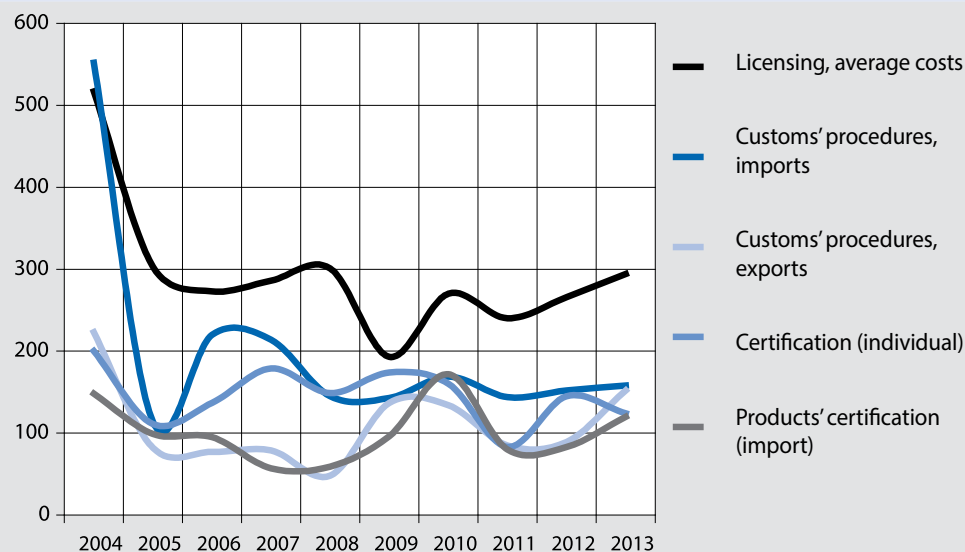


Source: *Cost of Doing Business, 2013*.

The highest decreases in compliance costs were noticed in 2005–2006. Subsequently, the costs have fluctuated a lot, with minor increases or

stabilization. Thus, an overall conclusion is that the reforms implemented after 2005 impacted the compliance costs to a small extent (Figure 41).

FIGURE 41. Categories for which a cost decreasing trend was recorded (average costs, USD).

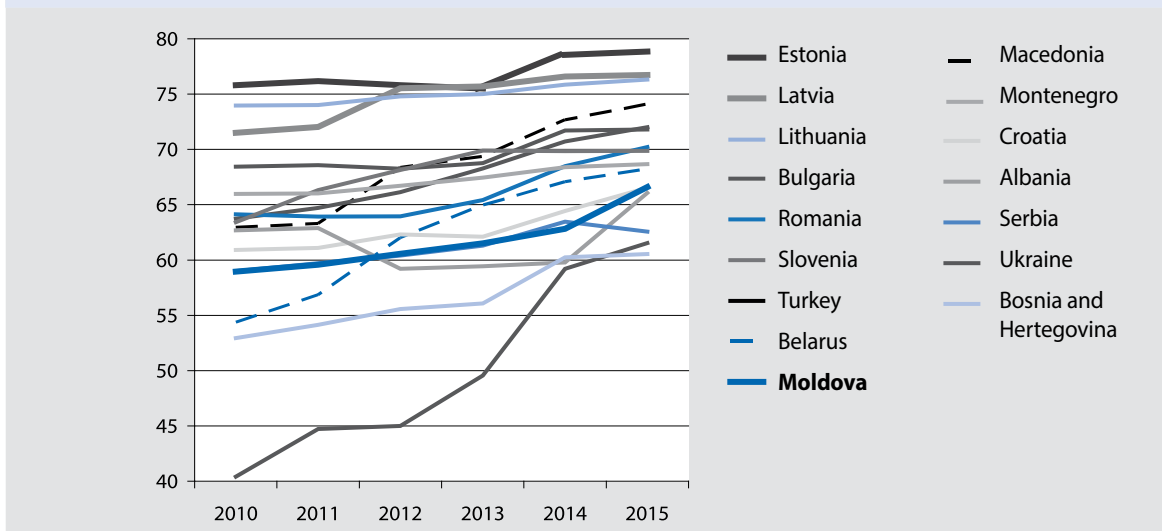


Source: *Cost of Doing Business, 2013*.

According to the Doing Business 2015, Moldova ranks the 63rd out of the 189 analyzed economies⁸⁴, compared to the 82nd of the same number of analyzed economies in DB 2014 ranking. If globally the situation is not bad, then a regional analysis shows that the progress is disappointing (Figure 42). But, the position itself in the ranking does not matter, but rather the score that expresses the performance of the regulatory framework. If we were to analyze Moldova's evolution in terms of "Distance to

Frontier" indicator⁸⁵, than Moldova is placed in the last category, compared to the analyzed countries. Though the speed of recovery was relatively good, in particular over the past two years, it was still not enough to reach the level of the Baltic countries. This trend also corroborates with the modest performances of the Republic of Moldova regarding the Human Development Index: in spite of some progresses, it is lagging behind most of the countries in the region (Chapter 1).

FIGURE 42. Distance to frontier, total including electricity, %.

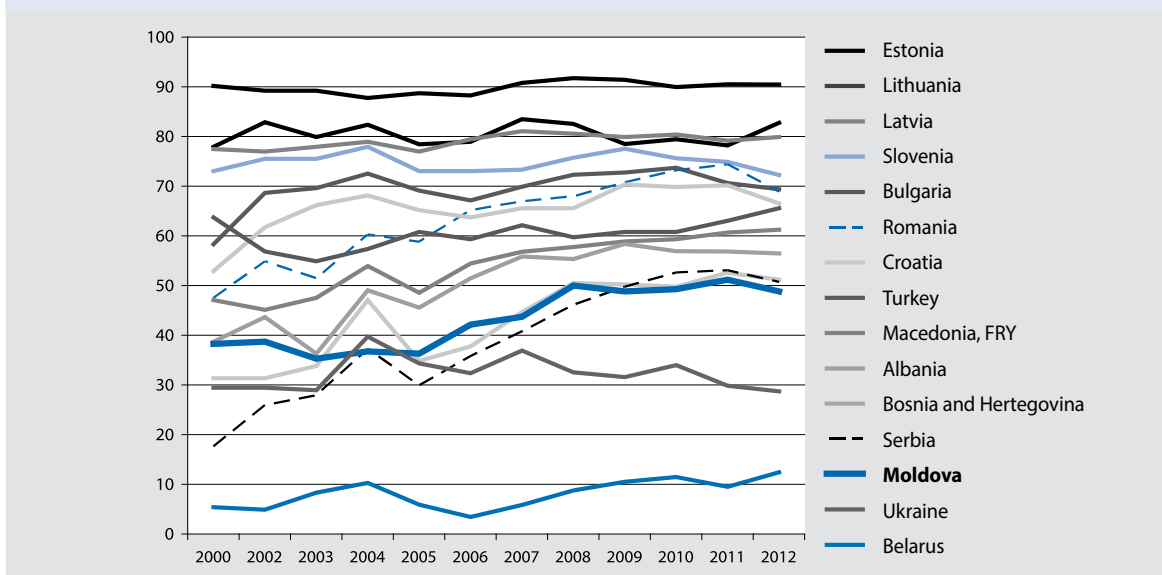


Source: *Doing Business 2014*

In addition, the aggregate analysis of the quality of regulation⁸⁶ shows that the Republic of Moldova has not progressed quickly enough to catch up with the Baltic countries (see Figure 43). Moreover,

since 2008 the score has been stagnating. It is true that other economies from the reference group had similar trends, but most of these rank higher in the classification.

FIGURE 43. Quality of regulation, score in percentile (from 0 [the lowest] to 100 [the highest]).



Source: *The Worldwide Governance Indicators (WGI), Quality of regulation.*

⁸⁴ The data for 2014 are taken from the DB 2015 Report and are adjusted. In DB 2006, Moldova ranked the 83rd out of the 155 assessed economies. www.doingbusiness.org.

⁸⁵ Distance to frontier is an indicator that expresses in percentage the achievements of the economy versus the current best practices (which represents the best performances registered for each of the indicators for all economies assessed since 2005), which are expressed as 100%. Singapore, who was in the top of this ranking in DB 2015, had 88.27% for this indicator. Note that Singapore had a DFT of 92.5% in DB2013. This is explained by the fact that other countries contributed more to the formation of the "frontier" over time than Singapore.

⁸⁶ "Quality of regulation" governance indicators at the global level include the following sections: "Voice and Accountability", "Political Stability/Violence Free", "Governance Efficiency", "Quality of Regulation", "Rule of Law" and "Corruption Control". These values combine evaluations from a wide range of sources and organisations, using an econometric procedure.

Thus, the impact of the regulatory reform in terms of the presented indicators reveals insufficient progress in this area, with Moldova being unable to attain at least the level of the Baltic countries in 2000. Although improving the situation in certain regulated areas, the reforms did not significantly improve the regulatory conditions. This underlines the persistence of several constraints on the private sector.

The impact of the regulatory reform in terms of the presented indicators reveals insufficient progress in this area.

iii. Key Constraints with which the Private Sector Has to Deal

To establish a competitive and dynamic business environment that is able to create decent jobs and incomes, it is critical for the Government to be proactive, not only in order to eliminate the regulatory barriers, but also to create incentivizing business conditions. In this process the business regulation part is relatively simple, being fully under the Government's control. When it comes to such phenomena as corruption in justice, geopolitical constraints, market size and other factors that also define the quality of the business environment, these are more difficult to manage and require an effort from all of the society's forces.

FIGURE 44. Position of Moldova in the Global Competitiveness Index (GCI)

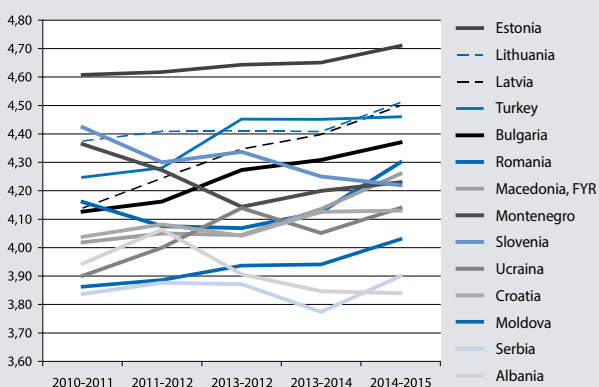
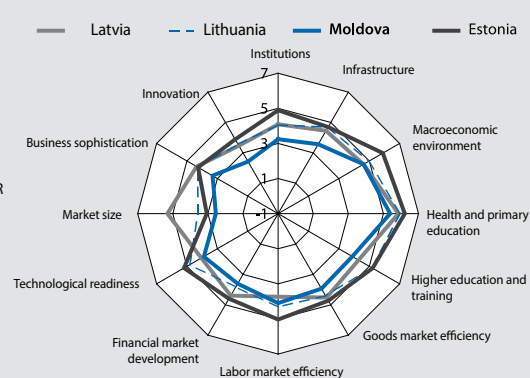


FIGURE 45. Moldova's Competitiveness Index for 2013-2014, compared with the leaders from the reference group.



Source: World Economic Forum, www.weforum.org

Box 31. PROGRESS REGISTERED BY THE REPUBLIC OF MOLDOVA AS COMPARED TO ESTONIA.

The comparison with Estonia, the leader of the group of countries analysed, is very significant for the Republic of Moldova. This comparison clearly shows the difference in competitiveness that was obtained as a net result of better governance. Estonia, with fewer inhabitants than Moldova, has a larger sales market. The Republic of Moldova lags behind Estonia exactly with regard to the pillars that underpin sustainable development: *Institutions*; *Higher education and training*; *Innovation*. It is necessary to note that the main problem consists in the low quality of public institutions. The worst situation, compared to Estonia, is recorded in pillar 1, as follows:

- Judicial independence (in advance by 3.7 points),
- Corruption (bribing) (2.8),
- Diversion of public funds (2.3)
- Reliability of police services (2.2)
- Property rights protection (including intellectual property) (2.0 and 2.1)

In the Global Competitiveness Index 2014–2015, Moldova ranks the eighty-second out of 148 economies, which means a bad rather than a medium-level situation from the global perspective (Figure 45). But if we compare Moldova with the European countries, Moldova's ranking certainly represents a dramatic situation in terms of its competitiveness. This is ascertained not only by the low ranking, but also by the lack of any positive trend that might improve the outlook (Box 28).

In addition, there are other factors affecting almost all businesses, which were identified based on a representative survey among enterprises in the Republic of Moldova⁸⁶. The most frequently mentioned factors are “**Political instability**” and “**Shortage of a properly trained labour force**”.

Corruption, political instability, and the shortage of a qualified labour force are the critical constraints on private sector development in Moldova.

Business people's perceptions that *political instability* affects them most, besides making it difficult to implement reforms and create instability at the political level, also reveals an excessive presence of the Government in the economy and shows that business activity depends more on the people in public structures than on public institutions. This explanation is supported by the fact that the macroeconomic conditions are viewed as being only half as significant a constraint factor as political instability.

The shortage of a properly trained labour force is the direct result not only of delayed reforms in the educational system, but also of the systemic problems in the public sector, which is, in turn, a consequence of the failure to understand the importance of performance in the public sector and use of public positions to promote hidden interests. In addition, this problem arises due to the lack of transparency in the labour market and the low quality of private management, which focuses on developing businesses with a low value added component. Therefore, in order to solve these problems it is crucial to reform the educational system, improve the capacity of the private sector to offer attractive jobs and develop the general conditions of life (social and cultural services, security, etc.). Education is the starting point in this process, but the social and economic environment completes the picture as regards the solution of

this problem. In addition, given that companies' demands regarding the labour force are different and are changing continuously, companies' contributions to this process should be supported by central and local government policies.

The difficult access to finances is another major barrier to business development. This problem is mainly generated by the underdeveloped financial sector. Implementing Roadmap for removing the barriers for the entrepreneurial activity, the Government came up with some initiatives related to the development of credit guarantee mechanisms and the non-banking financial market. However, although these measures are necessary, unless the competitive environment is improved and corporate governance is fostered in this sector the progress will be slow and most likely will not reach the necessary level to facilitate access to finance. It is worth mentioning that it is the NBM that has the main role here, rather than the Government.

Difficult access to finance is another barrier to business development, which can be removed after strengthening the competition in the domestic financial sector.

The next most important issues relate to the establishment of sound **competition**. More and more often business people regard corruption as a problem in relation competition⁸⁸. Corruption limits the access of honest business people to public procurement contracts, land and facilities, and creates disparities in business protection and compliance with legal requirements. Another important phenomenon that affects honest competition is the shadow or informal economy, unofficial employment, and “under-the-table” salaries. Honest companies, in particular in labour-intensive sectors, are most vulnerable to this phenomenon, being frequently forced into bankruptcy. Inappropriate regulation of competition is often stated as the main cause leading to monopolies.

The poor quality of institutions is another significant barrier to businesses. This was stated in particular by companies with a high value added margin. This poor quality is characterized not only by the low quality of documents and procedures, but mainly by the attitude and level of qualification. Thus, the private sector frequently encounters the problem of the erroneous interpretation of various legal provisions or erroneous solutions to contested subjects.

⁸⁷ “Key Constraints on the Business Environment in Moldova”, 2013, EXPERT-GRUP and National Employers' Confederation of Moldova.

⁸⁸ According to the Transparency International Corruption Index 2013, Moldova ranks 102nd out of 177 countries, in contrast with Estonia which ranks 28th. Out of the countries compared, the ones that rank lower than Moldova are Albania (116), Belarus (123) and Ukraine (144).

In addition, underdeveloped **infrastructure** is one of the most significant barriers. However, this has recently started to improve.

How do the identified constraints hinder the private sector from contributing more actively to human development?

The analysis of the constraints identified above shows that many are closely linked to human development; at the same time, the factors that influence human development have a decisive impact on the private sector as well. This is stated and recognized by most business people, though not always directly. For this reason, private companies take actions that contribute directly to human development, but this can take various forms and will depend on their needs. At the same time, given the complex and bidirectional relationship between human development and private sector development, it is obvious that the constraints on business development hinder human development as well. This is done in two ways: (i) indirectly, when these constraints diminish the private sector

development, making the latter to contribute to a lower extent to human development, and (ii) directly, when some constraints affect to a larger extent directly one or more dimensions by which the private sector contributes to human development.

Given the complex and bidirectional relation between human development and private sector development, it is obvious that the constraints on business development hinder human development as well.

All elements (dimensions) related to the contribution of the private sector to human development (job creation, technologies, corporate culture, dividends, experience and skills, and other positive transfers to the society) are influenced if businesses do not develop and are not competitive, regardless of the constraints. At the same time, some of the mentioned dimensions are impacted directly and much harder by some constraints, the most important being described in Table 7.

Table 7. Specific constraints on human development elements.

Elements by which the private sector contributes to human development	Specific constraints for each element
Jobs	<ul style="list-style-type: none"> • Non-transparent labour market, caused by under-the-table payments and underground employment • Lack of qualified labour force caused by the fundamental conditions of the educational sector, along with the mass exodus of the population in the last decade • Difficult access to funding • Corruption
Technologies	<ul style="list-style-type: none"> • Lack of a sound competitive environment • Low security of property rights, including copyright • Corruption and injustice • Lack of effective R&D financing mechanisms
Dividends	<ul style="list-style-type: none"> • Tax administration • Tax level
Corporate culture	<ul style="list-style-type: none"> • The low level of incorporation of companies, due to the high corruption in the area of justice, which does not allow for proper protection of property rights • High level of the shadow economy (does not allow owners to be separated from management)
Management experience and skills	<ul style="list-style-type: none"> • Social infrastructure (the living environment is not sufficiently attractive or prestigious to employ top managers) • Security and corruption (lack of protection of property rights does not encourage investments in innovations) • Low quality of the institutions (Moldovan conditions are not understood and accepted by managers who have worked in developed countries)
Positive externalities	<ul style="list-style-type: none"> • Corruption • Low quality of the institutions

Source: *Developed by the authors.*

Thus, for a qualitative improvement of the business environment and, in turn, for an improvement of the factors that lead to human development it is necessary, in addition to regulatory measures, to increase the transparency in the functioning of markets and to drastically reduce corruption, in particular to increase the transparency about reforms in judiciary.

In an independent economy, where companies play a vital role, the identified problems are not related only to the private system, but bring negative repercussions to the public budget, the income levels of the population and to citizens' quality of life more generally. The reason for this is that the

constraints on private sector development affect, in turn, firms' capacity to contribute more actively to human development (e.g. to create decent and well-paid jobs, implement innovations, contribute to social projects, and other levers mentioned in Chapter 2). These constraints need to be addressed by consistent public policies, as discussed in Chapter 5 of this report.

In an independent economy, where companies play a vital role, the identified problems are not only a burden for private companies but affect the society as a whole.

THE PRIVATE SECTOR AND HUMAN DEVELOPMENT: EMPIRICAL EVIDENCE FOR THE REPUBLIC OF MOLDOVA

4

In the introductory chapter, we defined the passive and active forms by which the private sector can contribute to human development. The objective of this chapter is to evaluate this link, based on measurable indicators and robust regressions to determine, in statistical terms, how close the link between the private sector and human development is. Obviously, we have not been able to incorporate in the regressions all the dimensions of these interconnections. Thus, we focused only on the measurable components.

i. Conceptual Milestones for Empirical Estimates

Conceptually, the analysis of the connection between private sector activity and human development was divided into several levels. The revenue of business entities was one of the main indicators used to make the estimations. Sales revenues directly and indirectly influence human development. Thus, a company's revenues are the source of income that ensures the payment of salaries. The salaries paid in the real sector represent a component part of people's income, but can be treated simultaneously as an item associated with corporate activities. This approach is plausible because the company's management ultimately decides the remuneration scheme and modality. Salaries are used to cover expenditures related to education and health. Also, business entities' revenues cover expenditures aimed at maintaining comfort in the workplace (to provide drinking water or to arrange spaces for recreation) and to ensure employees' health (organization of sports events, offering food vouchers, payment of medical insurance premiums under contracts with private clinics). On the other hand, business entities' revenues are the main source for budget revenue. Thus, the private sector influences, indirectly, the

education and health through budget funding. The quantitative connections between these variables were revealed through regressions. Finally, people's health status and level of education have a direct impact on labour productivity.

According to the methodology, a set of econometric regressions were made. Data on economic indicators were taken from the NBS, the NBM, the Ministry of Health, the Ministry of Finance and the World Bank. The variables used in the regressions were expressed in the prices of 2000 (Table 8).

The changes in enterprises' income are determined by the change in the labour productivity level and goods and services exports. Productivity reflects the size of the offer, so higher efficiency increases the volume of goods and expands the sales opportunities. According to the estimates, the productivity growth by one per cent increases the sales revenues by 1.1 per cent. On the other hand, an increase in the external demand causes an increase in business entities' revenues. Given that the Republic of Moldova is a small open economy (in 2012 foreign trade in goods and services represented 125 per cent in relation to GDP) the foreign trade relationships, and particularly exports, has a considerable influence on business entities' performance within the country. A growth of goods and services exports by one per cent causes an increase in enterprises' revenues by about 0.7 per cent (Annex 1).

The total sales turnover of the private sector is one of the main indicators used to make the estimations, which influence directly and indirectly human development.

Productivity growth by one per cent increases the sales revenues by 1.1 per cent.

Table 8. The variables used in estimations.

INDICATORS	DESCRIPTION
Remitted income (<i>REM</i>)	Remittances from persons who work abroad. The remittances are calculated by adding the three components of the balance of payments: compensation for working abroad, private transfers from abroad and migrants' transfers.
Exports (<i>EXPORT</i>)	Exports of goods and services.
Sales revenue of the private sector (<i>RPS</i>)	Revenue from sales of products, goods, works and services, without VAT and excise duty, that were obtained by enterprises in the private sector.
Sales Revenues of the Public Sector (<i>RPS</i>) (<i>RPSb</i>)	Revenue from sales of products, goods, works and services, without VAT and excise duty, that were obtained by state-owned enterprises.
Labour productivity (<i>PROD</i>)	Gross added value expressed in constant prices reported to the employed population.
Salaries in the real sector (<i>SALR</i>)	The average salary paid in economic units, regardless of the type of ownership and legal form of organization.
Salaries in the budgetary sector (<i>SALB</i>)	The average salary paid in organizations financed by the national public budget.
Budgetary revenue (<i>BR</i>)	National public budget revenue without including grants.
Budget expenses (<i>BE</i>)	Total expenses of the national public budget.
Public expenses for health care (<i>PEH</i>)	Expenses for the area of health care paid out of the national public budget.
Public expenses for education (<i>PEE</i>)	Expenses for the area of education paid out of the national public budget.
Students and pupils enrolled in secondary vocational, secondary specialized and higher education (<i>STUDENT</i>)	Secondary vocational education includes vocational and professional schools; secondary specialized education is provided in colleges; higher education is provided in the universities and consists of two levels: bachelor and masters.
Graduates (<i>GRADs</i> , <i>GRADu</i>)	Graduates from secondary vocational educational institutions and from universities.
The overall prevalence rate (<i>PREV</i>)	The number of persons that developed new cases of diseases and whose impairments were registered previously, as related to the total population.

Source: *Developed by the authors.*

FIGURE 46. Sales revenues of the private sector and the factors of influence, changes, %.



Source: *NBS, authors' estimates.*

Thus, the connections between the business environment and human development indicators have been analysed in several areas. The revenues obtained in the private sector are transferred, as salaries, to the revenue of the population. Likewise, enterprises incur expenses related to employees' health maintenance and training. On the other hand, enterprises' revenues are indirectly targeted towards education and health care by means of labour remuneration and tax payment, as household expenses and budgetary payments. In its turn, a population with good health status and a high level of education promotes private sector development, as it helps to improve the labour productivity.

ii. Contribution of the Private Sector to the Growth of People's Income

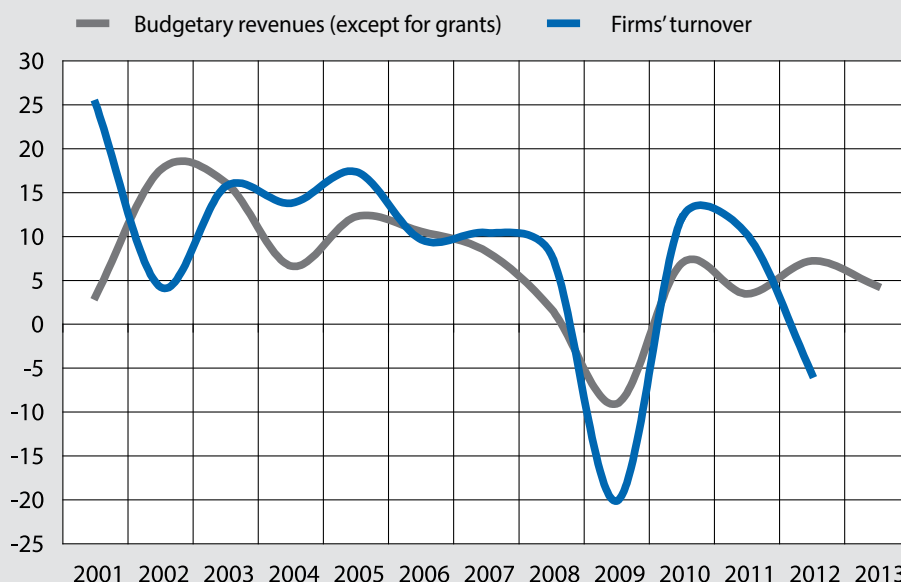
Salaries are the main component of people's income, having a share of 41.6 per cent in 2013. The greatest share of the working population are salaried employees: in 2013 they constituted 68.8 per cent. 70 per cent of salaried employees work in the real sector and the salaries in the real sector are higher than those in budgetary institutions:

in 2013 budgetary remuneration was 84 per cent of private sector remuneration. In this way, the salaries received in the real sector represent the gross income of the population. Three-quarters of the real sector's employees work for private sector enterprises. Thus, the size of the salaries in the real sector is determined by the evolution of income in the private sector. There is a direct logarithmic relationship between the salary level in the real sector and sales revenues in the private sector (see Annex 1).

The budget revenues, which are used to fund salaries in the public sector, depend on corporate revenue. Sales revenue in fact constitute the main source for the collection of budget revenues. Thus, a growth of private institutions' revenue by one per cent increases the budget revenues by 0.46 per cent (see Annex 1).

Sales revenue is the main source for the state budget: the growth of private institutions' revenue by one per cent increases the budget revenues by 0.46 per cent.

FIGURE 47. Budget revenues without grants and corporate sales revenues, change, % .

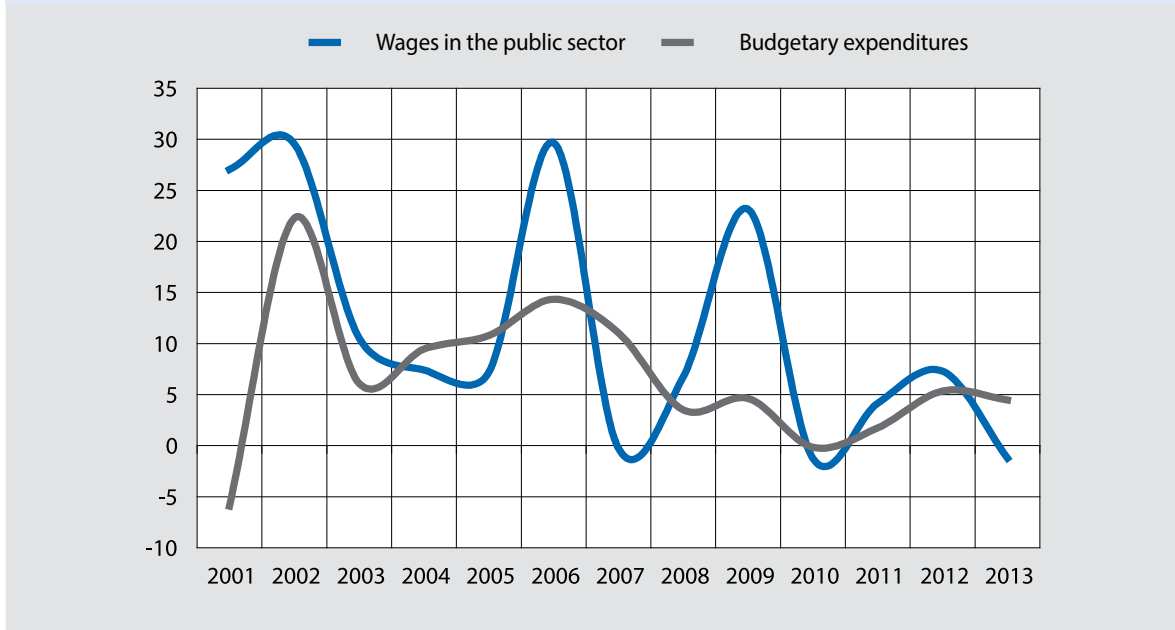


Source: NBS, Ministry of Finance, authors' estimates.

There is a direct connection between budgetary salaries and the level of budget spending. In general, the growth of budgetary salaries is similar to the increase in budget expenses. However, changes in budgetary salaries are quite volatile, which causes frequent deviations from this causal

relationship. Therefore, the regression that reflects the ratio between changes to budgetary salaries and the dynamics of budget expenses contains many dummy variables, which are included to eliminate the significant oscillatory developments (see Annex 2).

FIGURE 48. Budgetary salaries and public expenses, change, %.



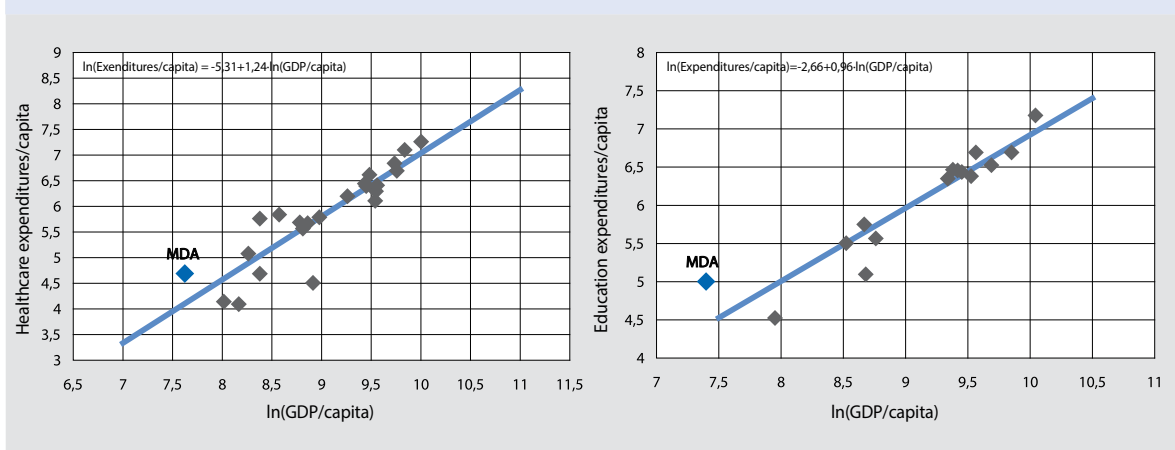
Source: NBS, Ministry of Finance, authors' estimates.

However, the low level of revenues causes low funding of education and health care. The Republic of Moldova is in the lower part of the dot cloud⁸⁹ around the regression line, which shows the dependence on revenue in relation to expenses for health care and education. An increase of the

country's revenue will lead to higher funding of public social expenses.

The low level of incomes undermines budgetary revenues, which, in turn, causes a shortage of funds for improving human development.

FIGURE 49. The correlation between public revenues and expenses on health care and education in the Eastern European and Black Sea Basin countries.



Source: World Bank, authors' estimates

Corporate revenue certainly influences people's welfare. In the case of the Republic of Moldova this influence is spread through several channels. The salaries of private sector employees are paid directly out of corporate revenue. Also, the main

source that generates budget accumulations is corporate revenue. In its turn, budgetary salaries derive indirectly from corporate revenues.

In the Republic of Moldova the low level of national revenue entails a low funding of the sectors which

⁸⁹ The dots represent data characterizing the Eastern European and Black Sea Basin countries. In regard to the correlation of the revenues with health care expenses, data referring to 23 countries have been included in the regressions. To identify the connection between the level of revenue and public expenses for health care, data of about 15 countries have been used in the estimates

ensure human development. At the same time, increased inefficiency is noted in the spending of public resources. The situation in primary and secondary education is indicative in this regard. In the academic year 2013/2014 the number of students enrolled in primary and secondary educational institutions, which are financed out of the public budget, has decreased by 44.1 per cent compared to 2000/2001, while the number of schools was reduced by only 12.3 per cent. Directing budget sources towards maintenance costs of buildings causes under-funding of development projects in the respective field. Because of inefficient distribution, the budget expenses cover only the maintenance of the education system and do not contribute to its modernization. In fact, the Government, using the tax revenues, solves another issue. The budget is used excessively for maintaining an oversized public sector, including through the payment of salaries to an excessive number of employees with low efficiency. In 2013, the share of public employees in the total number of employed persons was 29 per cent – this indicator has increased by 3.9 percentage points as compared to 2000. This situation reduces the ability to use budgetary sources for carrying out modernization programmes and for improvement of human development.

The oversized public sector and inefficient use of public money undermine the possibilities to channel the budgetary resources into human development.

iii. The Contribution of the Private Sector to the Improvement of the Population's Health

The main factors undermining the health status of the population are:

- excessive alcohol consumption – during the period 2008–2010 alcohol consumption among people aged over 15 accounted for 16.8 liters per capita, while in Europe this indicator was only 10.9 liters per person⁹⁰
- smoking – in 2010 tobacco consumption was 34 per cent among men, and 2 per cent among women⁹¹. Additionally, according to WHO estimates, smoking costs the economy up to 4% in lost productivity

- a sedentary lifestyle – such a lifestyle is characteristic for 59.2 per cent of the population aged 15 and over⁹²
- the consumption of products that are high in fat, salt and sugar – In the Republic of Moldova the daily energy per capita availability is higher than the dietary energy requirements (estimated at 2141 kcal/per capita/day); in 2009 the figure was 2707 kcal/per capita/day⁹³

Due to these factors, the structure of global prevalence is mainly composed of cardiovascular, respiratory and digestive diseases⁹⁴.

Peoples' health also depends on their income level. In the Republic of Moldova, the ability to benefit from medical treatment or assistance depends on people's welfare, with financial resources being an important condition for ensuring access to health care services⁹⁵. Thus, salary increases have a positive effect on the population's health. Also, income growth allows for the purchase of better quality goods: foodstuffs, shoes and clothes, and extends leisure opportunities, thus fortifying people's immunity reducing the disease risk. More companies are simultaneously using practices which are aimed at maintaining a favourable health status among employees: companies provide drinking water at the workplace, arrange spaces for relaxation, and provide food and health care services to the employees. However, these mechanisms are applied by only a small number of companies, mostly foreign companies or national ones with high revenues. Payment of salaries or other forms of remuneration, as well as funding of good practices, is achieved out of private companies' revenues, thus a causal relationship exists between companies' turnover and the level of population health. A growth of sales revenue by one per cent reduces the overall prevalence rate by 0.3 percentage points. Public expenditure on health care also reduces the number of illnesses. Thus, a growth of budget expenditure on health by one per cent diminishes the overall prevalence rate by 0.34 percentage points (see Annex 2).

A growth of sales revenue by one per cent reduces the overall prevalence rate by 0.3 percentage points.

⁹⁰ http://www.who.int/substance_abuse/publications/global_alcohol_report/profiles/mda.pdf

⁹¹ The National Public Health Strategy for 2014 - 2020, p. 8

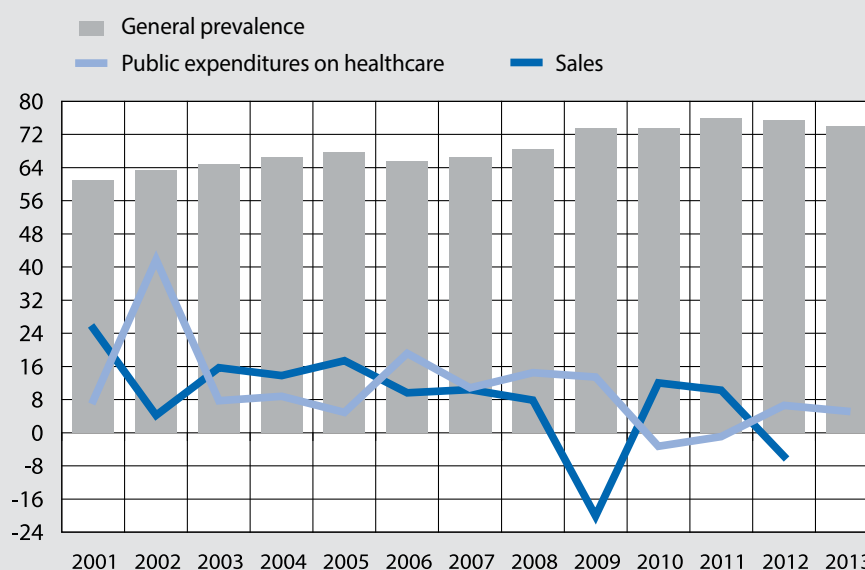
⁹² Ibidem, p. 9

⁹³ Ibidem, p. 9

⁹⁴ Gramma R., Spinei L., Bivol A., Jemna S., Analysis of the Health Status of the Moldovan Population based on Statistical Indicators for 2005–2009, Chişinău, 2010, p. 88

⁹⁵ Ibidem, p. 82

FIGURE 50. Overall prevalence rate (%) and factors of influence, change, %.



Source: NBS, Ministry of Health, authors' estimates.

In conclusion, private sector development has a positive influence on people's health. On one hand, increased sales revenue directed towards salary increases causes improvements in consumption: better quality foodstuffs and clothes are purchased, which reduces the risk of becoming sick. On the other hand, more private companies finance mechanisms which have positive effects on employees' health, for example providing health care services to employees or arranging spaces for relaxation and physical exercise at the workplace. However, these favourable practices are not widespread.

iv. The Contribution of the Private Sector to Enhancing the Population's Education Level

Education is a complex sector which has experienced ambiguous development. A PISA+⁹⁶ Test conducted in 2012 showed that the skills obtained by pupils in the Republic of Moldova in the education process were low compared to school children in other countries. The test was conducted in 74 countries, and the Republic of Moldova obtained poor results, being ranked among the last countries: it ranked sixty-fifth for reading, fifty-ninth for mathematics and fifty-seventh for sciences⁹⁷. The low level of education for young people in schools is a factor which is increasing over time and which has a negative impact on the education process in universities or vocational educational institutions, and in the end causes a low level of skills and knowledge

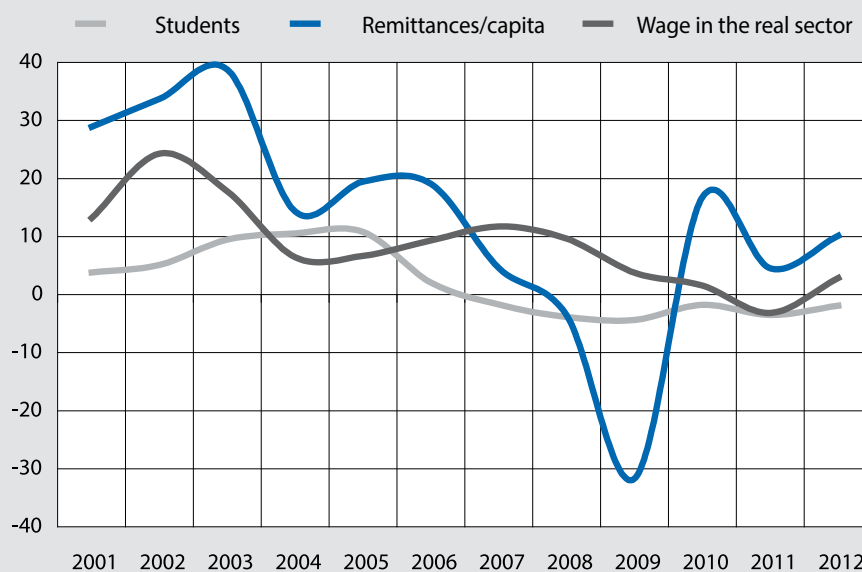
among graduates. In the Republic of Moldova, the low educational level and poor qualifications are regarded by economic operators as an important constraint for the business environment (see Chapter 2). Thus, 69.2 per cent of business people consider that vocational education does not meet the needs of enterprises, and 67.8 per cent of economic operators state that higher education is incompatible with the needs of the business environment. On the other hand, the wider public is not aware of these problems: 80 per cent of the population is satisfied with the quality of education in the Republic of Moldova.

People continue to fund the education of their children, and are thus investing in an inefficient sector. The number of students enrolled in secondary vocational, medium specialized, and higher educational institutions is directly related to people's income. The population uses part of its income to pay for students' tuition fees and maintenance. For example, a growth of remittances per capita by one per cent increases the number of students by 0.16 per cent. The remitted revenues are usually oriented towards the payment of maintenance costs. The effect of non-budgetary salaries is has a delayed effect: a part of the salaries are saved, and later are invested in children's education, tending to be oriented towards the payment of tuition fees. Thus, a growth of non-budgetary salaries by one per cent increases the number of students by 0.36 per cent, with a one year lag. At the same time, the number of schooled young people is decreasing continuously, as a result of the demographical decline (see Annex 3).

⁹⁶ The PISA international evaluation project is a comparative study of the knowledge and competences of students of 15 years of age in reading, mathematics and sciences. The PISA tests identify how prepared students are for involvement in an active life.

⁹⁷ <http://edu.gov.md/ro/evenimentele-saptaminii/elevi-din-republica-moldova-coda-la-citit-matematica-i-tiin-a-conform-studiului-pisa-2009-13680/>

FIGURE 51. Number of students, remitted revenue per capita, non-budgetary salary, change, %.



Source: NBS, NBM, authors' estimates.

The growth of non-budgetary salaries by one per cent increases the number of students by 0.36 per cent, with a one year lag.

In conclusion, people's income – obtained, mainly, in the private sector – constitutes a decisive factor for education. An increase in income leads to a higher number of students. Thus, salaries paid in the private sector are saved and are then used to pay tuition fees. The effect of salaries on education occurs after a delay of one year. At the same time, remittances are usually oriented towards the payment of maintenance costs of the young people.

v. Mutual Influences Between the Private Sector and Human Development Level

Estimates suggest, in general, the existence of an empirically proven connection between human development and private sector development in the Republic of Moldova. This confirms the general approach of this report: that there is a bidirectional link between private sector development and human development. For instance, we can statistically state that by paying salaries and taxes, companies contribute to the enhancement of the health status and the educational level of the population. In turn, a healthier and better educated population has a higher efficiency and contributes

to the development of the private sector. In this context, a crucial question is: who exercises a greater influence – the private sector on human development or the human development on the private sector?

According to the estimates, in the Republic of Moldova labour productivity is determined by people's health status and level of education. Healthy people have a better efficiency, thus a decrease in the general prevalence rate by one percentage point increases the labour productivity by 0.37 per cent. In the case of education the impact is more complex. A growth of the number of graduates from universities and vocational schools by one per cent increases the efficiency by 0.4 per cent and 0.65 per cent, respectively. However, the graduation effect translates into a productivity increase only after two years (see Annex 3). The delayed effect of this impact can be explained by several factors. One factor is that immediately after employment a young person does not have any working experience and needs some time to accumulate new skills. Other reasons relate to the mismatch between the educational curriculum and the actual requirements of companies, and the low quality of the educational process. Thus, if graduates are employed, they have to learn again, in order to adjust themselves to the working conditions and to meet employer's requirements. On the other hand, a shortage of knowledge causes graduates to search, during the period during which they are

unemployed, for jobs that are different from the speciality obtained, and which do not require high qualifications.

In the case of the Republic of Moldova, the empirical estimations show that the business environment is the beneficiary of human development and not vice versa: the private sector has a lower influence on human development, compared with the effect of human development on the private sector. This difference is generated by the low effect of the business environment on education, while the mutual influences between the private sector and people's health status are relatively equal. A growth of corporate revenue by one per cent will decrease the prevalence rate by 0.24 percentage points, while a diminution of prevalence by one percentage point will increase the sales revenue by 0.21 per cent. A growth of revenue in the private sector by 1 per cent will increase the number of students enrolled in higher, medium specialized and secondary

vocational education by 0.37 per cent. On the other hand, a growth in the number of graduates from universities and vocational schools will increase the sales revenue by 1.1 per cent. The low effect of the private sector on human development is caused by the constraints encountered by the business environment, such as the imperfect legal framework, which limit the available methods for converting the benefits of companies' development into benefits for the population. This reveals the under-explored potential of the private sector to contribute to human development. Relevant public policies should be implemented in order to fully harness this potential.

The empirical estimations for the Republic of Moldova reveal that the private sector is a beneficiary (follower), rather than a driver, of human development.

STRENGTHENING THE ROLE OF THE PRIVATE SECTOR AS AN AGENT OF CHANGE

5

This final part of the 2014 National Human Development Report is based on the results identified in the previous chapters. The purpose is to present viable solutions for the identified drawbacks and to empower the private sector to contribute more actively to the human development processes in the Republic of Moldova. Although the report is not intended as a road map, with specific measures, it identifies the general policy priorities and directions, which should be followed by various stakeholders and agents in order to strengthen the role of the private sector in transformational processes in Moldova. The chapter takes as its starting point the proposition that the private sector is, in the long run, one of the strongest and most prolific agents of change capable of supporting the human development process, but that in order to be able to play this beneficial role, the potential of the private sector must first be “unchained”.

i. Shared Constraints on Human Development and Private Sector Development

As proved throughout this Report, there is an intrinsic and bidirectional link between human development and private sector development. The empirical evidence presented in Chapters 1 and 4 proves that a healthier and better educated society is associated with a significantly higher level of economic development. The higher the level of human development in general, the deeper and stronger the social roots that foster private sector growth. Companies, in their turn, by contributing to the shaping of the socioeconomic environment at national and local levels, impact directly the ways in which people can materialize their ideas, exploit their talents and advance their own development and accomplishment. The results of the econometric analyses discussed in Chapter 4 prove that the private sector in Moldova has a significant positive impact on the population's welfare, health conditions and education, as a result of increasing employment and wages.

Chapter 2 identified and discussed the eight ways in which the private sector can act in order to contribute to the removal of constraints on human development, thus aiding its own competitiveness.

The following are some specific solutions and recommendations regarding what needs to be done.

ii. Develop Pro-Human Development Tax Policies

Almost 80 per cent of companies interviewed by EXPERT-GRUP within the study carried out for the National Confederation of Employers of the Republic of Moldova strongly criticized the tax policy promoted by the Government and the tax administration rules. It is obvious that companies find the changes in the area of tax policies to be a burden, and not always wise. These changes create a stressful background which further limits companies' planning horizon and diminishes their desire to grow and develop. As tax is probably the main link between the Government and its citizens, the Government should use its tax policies to strengthen citizens' confidence and to prove that it has put behind its abusive tax practices that are inappropriate for a modern society and economy.

The Government should use its tax policies to strengthen citizens' confidence and to prove that it has put behind its Byzantine tax practices that are inappropriate for a modern society and economy.

- **Trust = Transparency + Discipline.** One of the most serious problems that causes tax evasion and exerts long-term pressure on the public finances system is taxpayers' lack of trust that money paid as tax and fees to the public budget will be used in the best way for the public interest. This fundamental weakness in the social contract in Moldova can be eradicated only if the Government takes the first step of ensuring a high level of budgetary transparency and of applying exemplary financial discipline. In order to develop citizens' trust, taking into account the achievements of the e-Government initiative, the Government could consider certain less conventional but very promising methods, such as ensuring public access and control in real time over public financial flows at the transaction and contract level (e-Treasury). It is also necessary that the stages of the budgetary process be strictly followed so that the budgetary discipline adopted by the Government is seen to inspire taxpayers' discipline.

“Improved budgetary transparency is a key element to strengthen the trust of the private sector in the use of public money by the Government.” Vitalie Arvinte, Head of Department of Marketing, Communication, Community, Banca Comercială Română Chişinău

- **A More Down to Earth Tax Administration.** An efficient, simple and taxpayer-friendly tax administration would partially solve the problem of taxpayers' distrust in fees and taxes management by the Government. The tax authorities in Moldova should give up on the rather Byzantine practice of absolute control and should promote voluntary tax compliance and adopt the principle of tax audit performance-based on an analysis of the risks and the impact of alleged evasions. Greater attention should be paid to financial intelligence and operative exchange of information between Government institutions, rather than to the physical presence of tax inspectors at taxpayers' premises. Personal interactions between tax inspectors and taxpayers should be reduced to a minimum by using simple and clear rules and digital facilities, and by actively informing taxpayers about their fiscal rights and obligations. Tax administration rules should be based on the assumption that they principally relate to SMEs, as SMEs are numerically dominant in the Moldovan economy.
- **Official Recognition and Tax Deductibility of Private Contributions to Public Services.** In the Republic of Moldova educational services and basic health care services are free of charge

under the Constitution and the basic laws. However, in real life, users of these services often have to pay out of their own pockets in order access them. Besides the fact that this practice generates undesired social results (such as corruption), it also creates situations of acute social inequity and excludes users: for instance, there are many cases where children coming from families that have not paid school fees are marginalized by teachers and other children, and where patients who have not made out-of-pocket payments get less attention from health care and support staff in health care facilities. In order to curb this phenomenon in schools, it is necessary to legalize the activities of school associations and to make sure that the money they collect is used only to finance certain infrastructure development projects so that the school is able to comply with the endowment standards. The Government should also set ceilings for private contributions and should ensure the tax deductibility of these payments for the benefit of the persons who make them. The Government should prohibit and actively discourage the practice of paying fees to cover operational expenses (including the payment of wages).

- **Encouraging Entrepreneurship and Fair Compensation for Risk-Taking.** The fiscal policy should take into account the fact that entrepreneurship constitutes an important source of income for the population, with 7 per cent of household income deriving from individual entrepreneurial work. At the same time, only 0.3 per cent of households have the socioeconomic status of entrepreneurs. A large share of these households prefer to start up family businesses or other business models that will stay small. This aversion on the part of the population to more open business models limits their potential to grow, generate income and ensure technological development. Overcoming these constraints and making the population “open” to entrepreneurship would involve, in addition to a pro-dividends and pro-profit tax policy, ensuring a basic economic education and developing entrepreneurial skills during school years, ensuring a wider legal protection of the rights of small shareholders, in relation to both large shareholders and executive directors, and developing the legal basis for collateral and guarantees for loans to ensure the wider access of SMEs to bank loans. At the same time, it is necessary to identify sound fiscal tools to encourage inclusive business models and social entrepreneurship, especially considering the fact that through their work, the given firms largely compensate the inefficiency of some public services, programs and public infrastructures

or complement such services, programs and infrastructures. Given the net positive social impact, offering an eased fiscal treatment can be fully justified.

- **Encouraging Philanthropy.** Philanthropic activities performed by companies, especially those related to the provision of equipment of hospitals and schools, should be subject to preferential tax treatment that will encourage such practices. One of the practical ways of doing this would be to increase the tax deductibility of charitable expenses made by companies. At the same time, in order to minimize as much as possible the potential for corruption and to facilitate the tax audit for philanthropic activities, it is recommended that these philanthropic activities mainly take the form of investments in infrastructure and immovable equipment. Unfortunately, it seems that the Government's current intentions are to remove the few fiscal incentives for philanthropy. This is not welcomed by those companies and associations that are engaged in philanthropic activities.

iii. Empowering Companies to Create More Decent Jobs

The main elements of a successful Government strategy to encourage decent job creation are as follows: a) on the one hand, the Government should create a business environment that will encourage the starting up of new businesses and the extension of existing ones, because in a market economy jobs are created by companies; and b) on the other hand, the Government should ensure all the necessary conditions for the development of the labour force in the educational system, on-the-job, and lifelong. Decent job creation by the private sector is impossible unless the Government ensures the indispensable conditions for labour-force development. In this respect, it is essential that, in accordance with the Country Program for Decent Work, the Government of the Republic of Moldova to ensure a necessary judicial environment and institutional framework that will ensure a functioning dialogue on labor, to develop the institutional capacities of the Labor Inspection, to support through fiscal and regulatory measures the transition from the informal nature of employment to the formal one and to complete the revision process of the labor legislation, ie including here international standards for decent work. It is also important that two other key-partners in the labor related dialogue – employers and unions – to essentially develop the institutional capacities required for ensuring a dialogue.

Regarding jobs, Moldova has to deal with three major challenges: 1) creating new jobs in new economic sectors; 2) increasing labour productivity in the traditional sectors, especially in agriculture; and 3) converting informal jobs into formal jobs.

Decent job creation by the private sector is impossible unless the Government ensures the indispensable conditions for labour-force development.

- **Providing a Regulatory Framework Favourable for the Development of Companies.** Although it may seem obvious, it is still worth mentioning that any of these three processes is possible only if the business and investment climate in Moldova is improved. The focus should be on eliminating unnecessary costs (construction permits, market entrance, foreign trade, etc.), reducing transaction costs (e-Government and e-services, etc.) and strengthening the critical elements of intelligent supervision (taxes, food security, labour security, etc.). The private sector is currently the main employer and creation of new jobs in the private sector is more likely than in the public sector. If the general business conditions remain oppressive (as business representatives themselves term them) then there will be a low chance of improvement in the employment level and structural modernization of the labour market.

“It is necessary that the Government offers to investors stable conditions for at least 10 years after an investment is made”, Mariana Rufa, Executive Director, European Business Association

- **Carrot and Stick Policy. Ensuring an Optimal Balance.** If the preconditions mentioned above are ensured, another subsidiary solution – quite radical at first sight, but which correlates well with the behavioural elements of companies and employees – is the reduction of the fiscal costs associated with job creation. One practical modality which has a horizontal impact on all sectors and which is equally sought by business representatives is the gradual reduction of the share of contributions for state social insurance. Coupled with other measures aimed at streamlining the tax administration, this will make job creation “cheaper” for investors. As proved by international practices, the potential short-term losses will be compensated for by the formalization of informal jobs and by “whitening” the wages. Tougher coercive methods are also needed (fines, penalties, much better protection

of witnesses, institutional development of the Labour Inspection) in order to actively discourage informal employment and wages.

- **Fairer Rules of the Game.** The Labour Code should be fundamentally reviewed, to make sure that it provides the necessary “flexicurity” in the labour market. In its current version, the Labour Code creates major regulatory constraints related to job liquidation and transformation, due to which investors are cautious about creating jobs creation. The new version of the Labour Code must establish the general parameters of the employment contract, ensure the observance of employees’ rights, provide efficient mechanisms for settling labour disputes, and at the same time it must provide enough flexibility to the labour market so that it can meet the requirements of a market economy and ensure a better balance between the rights of employers and employees. A more flexible labour market would ensure better conditions of employment not only in the private sector, but in the public sector as well.

“To facilitate the creation of attractive jobs, it is necessary to review fundamentally the Labour Code in order to improve the employer-employee relations”, Valeriu Bodiu, General Director, Introscoop

- **Labour-Force Development.** Another essential recommendation is for the Government to ensure the necessary conditions to develop, including in enterprises, a competent, flexible, mobile labour force that is ready for lifelong learning. The Moldovan economy is undergoing important structural changes and is facing new competitive challenges, caused by visa liberalization and trade arrangements with the EU. A labour force that is able to accommodate itself quickly to the new realities is the main precondition for improving competitiveness and overcoming the impairment of labour productivity and technology. Intelligently reforming the vocational education system, improving the links between vocational schools and industry, encouraging private investments in labour-force development, designing a system that recognizes formal and informal skills – these are the strategic directions that the Government has already moved in, but more firmness and determination is required in this regard.
- **Other Kind of Professionals.** It is necessary that the reform of the educational system

changes the strategic vision regarding the interaction between beneficiaries and schools during the education process. The current dominant educational paradigm involves pupils remembering and regurgitating material. This paradigm should be replaced by a system that teaches pupils to think critically, to contest ideas and stereotypes and to constantly learn from an increasing spectrum of sources. In the coming decades, technologies will change at a speed with which the traditional education cycle will not be able to keep up; this is why new abilities and skills will have to be acquired not only in school, but directly in the workplace. In order for the private sector to create jobs, the employees will have to become more innovative, adaptable, able to work in large, multicultural and dynamic teams – sometimes at a great distance from other co-workers – be closely familiar with modern communication technologies, and even be multilingual.

- **A Stronger Political Support for Labour-Force Training and Development.** The priority of labour-force training and development should be formulated as a loud and clear political message at the highest levels, so that people become aware of the full involvement of the Government and its prioritization of the settlement of this problem. These political messages should also highlight the importance of non-discrimination in the workplace.
- **Better Coordination of Public and Private Agendas.** It is necessary to coordinate better the national employment strategies with the development plans produced by companies and business unions. Currently, the planning periods used by companies and the Government differ significantly, with companies making their plans for a much shorter period of time than the national strategies, and the latter being often without any practical effect. The practical example revealed in Box 32 proves that the synergy between the firms’ individual strategies and support instruments provided by the Government can ensure an impressive impact on development.
- **An Immediate and Concrete Priority - Definition of Occupational Standards.** There is a need for the development of occupational standards for economic sectors, the alignment of educational standards to occupational ones, as well as periodical foresight and their impact on labour force development. Regarding this issue, it is worth mentioning that the Government’s and private companies’ roles are equally important.

Box 32. SUPPORTING THE RURAL DEVELOPMENT THROUGH COORDINATING PUBLIC AND PRIVATE EFFORTS

Aynur Bektaş is a Turkish female entrepreneur, who launched her own textile company (Hey Textile) at the age of 38 years and got successful in business by giving up on the traditional business philosophy and investing in the country's poorest regions. Missis Bektaş encountered a series of problems and barriers to business development, including intense competition from national and global producers and unqualified labor force in most of the poor regions in Turkey. To beat the national and global competition, Aynur Bektaş decided to move her production units in the poor areas of the country, where the labor costs are lower, and the Government's regional development policies provided support for development.

Because of the lack of labor force, Aynur Bektaş established a series of training programs, which were subsequently funded by the public employment agency. Assisted by Government programs, the entrepreneur opened four new production units in the poorest areas of the country during six years.

Thanks to the lower labor costs, the profits of Hey Textile increased by 10%. At the same time, the company generated about 1000 official jobs in the poor regions. About half of employees are women, which offered to them a higher financial independence. By the multiplication mechanism, the employment of the 1000 people provided an additional of USD 120 thousands into the local economies.

Source: UNDP 2010, „Business solutions to poverty. How inclusive business models create opportunities for all in Emerging Europe and Central Asia“.

iv. Ensuring Conditions for a More Extensive Involvement of the Private Sector in the Educational System and Labour-Force Development

The private sector can contribute to the improvement of the educational system in five main ways: 1) by engaging more actively in debating policy initiatives that affect the educational sector, and in particular vocational education; 2) by a more effective monitoring of the output of vocational educational institutions and by ensuring the necessary feedback to the policy authorities and administrative boards of these institutions; 3) by direct involvement in educational process as a private service provider; 4) through mechanisms that ensure and enhance the link between school and industry (e.g. offering better conditions for practice, providing practical expertise in training modules); and 5) by providing philanthropic support to educational institutions.

The private sector can contribute to the improvement of the educational system in five main ways.

- **Contributing to Policymaking.** With respect to engaging in the policymaking process, the precise mechanisms through which the private sector can contribute to the development of the education system are as follows: a) by providing consistent feedback as regards the strategies developed by the Ministry of Education, which

are subject to public consultations under the Law on the Transparency of Decision-Making; b) by private sector representatives bringing up more actively topics about labour force development in existing platforms of public-private dialogue at the national level, in the National Consultation and Collective Bargaining Commission, the Economic Advisory Council to the Prime Minister, and the Advisory Council to the Republican Center for Vocational Education Development; and c) by the private sector assuming a more active position during the policy dialogue at sectoral level, in particular to develop occupational standards. The Sectoral Committees, established by the Ministry of Labour and the Ministry of Education, can be a practical tool in this respect.

- **Monitoring and Feedback to Authorities.** To make it possible for feedback to be given by the private sector on the performance of vocational education institutions the sector needs to be given a formal role in the supervision of these institutions. For instance, private sector representatives could be invited to become members of the administration board of educational institutions. It is also necessary to redefine the role of these boards, by switching the focus from operational management of schools to guidance and supervision. The private sector should also participate in the definition of the performance criteria with which a school should comply, and schools should be funded depending on the extent to which they meet the preset criteria.

- **Providing Services on Fair Terms.** The greater involvement of the private sector in the provision of educational services faces a major barrier – the lack of trust beneficiaries and the general public have in private educational institutions. This barrier can be overcome only if private institutions – along with the public ones – are certified fairly by a disinterested competent body. So far, the Government has not managed to create such a body. Rather, the accreditation of educational institutions, at different stages, is performed by the Ministry of Education (thus violating international best practice that recommends separation of the duties of policymaking and definition of education standards from the certification of compliance with these standards), or else is not being performed at all.
- **Providing Practical Expertise in the Teaching Process.** The private sector could also contribute to the development of the educational sector by directly involving private sector experts in the educational process in vocational educational institutions. This cooperation requires a better alignment of companies' incentives to those of students and teachers, and would work very effectively in areas characterized by rapid technological change, for instance in IT and telecommunications. Without the direct involvement of the representatives of the real economy in the teaching process, there is a risk that educational institutions will lag behind the technological changes. It is necessary to better align the incentives that are provided for companies to be more interested in offering internship opportunities for both students and for masters / trainers / school teachers who lack practical experience. However, additional efforts from the Government are necessary, to define the regulatory framework for internship contracts, so that companies have the necessary fiscal and financial incentives to assign employees, equipment and technological space to the teaching process.
- **More Mutual Trust – More Support Provided.** The last, but definitely not the least, important mechanism by which the private sector could contribute to the development of the educational system is by carrying out philanthropic activities and providing disinterested support for the development of educational institutions. Improvement of the legal framework for sponsorship and philanthropy is, obviously, an important path that the Government should follow in this regard. Educational institutions themselves, however, also have an important role to play. Chapter 2 showed that certain

universities often live in parallel universes with entrepreneurs. Bringing these universities' curricula down to earth, where the real economy is, would allow them to respond better to the real requirements and regain the trust of entrepreneurs. The regained trust would, in turn, bring about more donations for equipment, infrastructure, etc.

v. Efficient Management of Benefit–Risk Balance Under Public–Private Projects in the Health Sector

Chapter 2 explained how PPPs can significantly facilitate the access of the population, including the rural population, to basic services: drinking water, sanitation, health care services, roads, etc. These partnerships can provide an essential support for the implementation of ongoing reforms, particularly in the health sector. However, public–private projects involve risks as well as benefits, and their proper management requires the following actions:

PPPs can provide an essential support for the implementation of ongoing reforms, particularly in health sector. However, PPPs involve some risks, which should be properly managed by the Government.

- **Ensure good cooperation among the “national champions” in PPP.** A PPP is basically a management tool for the public sector, with important implications for the public finance system and public property. As a result of this fact, the Ministry of Finance should have a role as important as the Ministry of Economy and the Public Property Agency within the process of PPP approval.
- **Improve the regulatory framework.** The Republic of Moldova has quite a good legal framework that regulates the major aspects related to PPPs. The framework consists of the Law on PPPs and the Law on Concessions. The weaknesses of by-laws represent a problem, however, which should be resolved by defining clear rules for PPP monitoring and evaluation, to establish quality standards at sector levels. As confirmed by subject-matter experts some years ago, due to the lack of such rules and standards, a set of possible PPPs in the health sector have not yet taken real shape⁹⁸.
- **Ensure transparency and public control – an imperative issue.** During the past few years the Moldovan public has been appalled by

⁹⁸ Mecineanu and Malanciuc, 2011.

the non-transparent procedures by which some important state assets have been transferred into private ownership. Although private management will ensure a more efficient management of these assets, the lack of transparency generates public distrust in such actions. Legal experts recommend that in order to ensure transparency and public oversight on concessions and PPPs, it is necessary to include civil society representatives in the committees for selecting the concessionaires⁹⁹.

- **Clear definition of priorities.** With the approval in 2012 of a list of works and services of national public interest proposed for PPPs, four similar services were identified in the health care sector: diagnosing and laboratory services, medical imaging and radiology services, haemodialysis services and rehabilitation services. Two of these are already being implemented. The priorities are even less clear in other areas that have a direct influence on human development. In particular, no services or works have been identified yet in the area of education. PPP could be proposed in this area.
- **Transfer of professionals and expertise.** Given the level of salaries, the most successful private enterprises usually attract the most competent professionals. At the same time, companies have a wide practical experience in their area of work, which is extremely useful during the development of public policies or during training in schools and universities. Human development can also benefit, indirectly, from this expertise and these skills, if they are transferred to the public sector as part of a specific PPP. One concrete modality in this regard would be to employ professional managers from the private sector in public companies, in order to ensure the transfer of good practices and performance. Another possibility is to consult with managers from the private sector during the implementation of public policies on human development, even though these areas are outside the specialization of private managers. In such a way the policy process will benefit from innovatory ideas and approaches.

vi. The Private Sector as an Engine of Technological Progress and Innovation

The private sector is the main agent of change when it comes to technological progress and innovations of all kinds. However, technological research and development activities and innovations are not yet intrinsic elements of the Moldovan private sector. This is partly due to the fact that the general pattern of competitiveness has still not achieved the stage when the survival of companies depends critically on their own research and innovations. Before reaching this stage of maturation, the private sector will have to learn how to adapt, change and rationalize the existing solutions, technologies and innovations. Therefore, the Government must ensure all the necessary conditions for the Moldovan private sector to absorb new technology and spread it more easily, which will naturally increase the capacities to build new technologies later on. There are several important directions recommended to this end:

The Government must ensure all the necessary conditions for the Moldovan private sector to absorb new technology and spread that technology as easily as possible.

- **Ensure a more open and transparent model of research and technological development.** It is very important for the national system of technological R&D to provide quality and more relevant solutions for domestic producers, focusing in particular on the needs of SMEs.
- **Develop technological skills and competences in the overall population, with a special focus on children and young people.** In particular, it is very important to favour the enrolment of young people at scientific, technological, engineering and mathematics departments, which is the main precondition for overcoming the technological gap in the national economy. At the same time, firms have a central role in the development of such skills for the provisions of innovative technological solutions. For instance, in the Republic of Moldova the providers of mobile telephony services Moldcell and Orange, under a public-private partnership with the Government of the Republic of Moldova, E-Governance Center, Center of Special Telecommunication developed an advanced electronic service - mobile digital signature service, which allows users to access easier the public services (Box 33).

⁹⁹ "Concesiunile – soluție pentru probleme sau probleme fără soluții" ("Concessions – a solution to the problems or problems with no solutions"), Roger Gladei, managing partner Gladei & Partners, Economic Magazine ECO, 19 November 2013.

Box 33. MOBILE SIGNATURE FOR ACCESSING PUBLIC SERVICES USING MOBILE PHONE.

Digital mobile signature service was launched on 14 September 2012, under a public-private partnership between the Government of the Republic of Moldova, E-Governance Center, Center of Special Telecommunication and mobile communications companies Moldcell and Orage. Since 10 October 2013, Mobile Signature service is free of charge.

Mobile Signature of Mobile e-ID is an alternative for identity card on the Internet and it is the key to all public services. When launching, the Republic of Moldova was the seventh country in the world where people can have an electronic signature on the mobile phone.

Mobile Signature is an innovative service, which allows accessing electronic services with a mobile phone. Citizens can sign papers, reports, declarations to institutions or online requests from distance by the mobile phone. Likewise, they can access public and private e-services in a easier and more convenient. Citizens will no longer depend on the tight schedule of institutions, and they will be able to access e-services from anywhere and at any time. An important fact is that Mobile Signature service is also available for citizens from abroad. Using it, the emigrants may access services that would traditionally be requested only from home.

According to the Law on Electronic Documents and Digital Signature, electronic documents are equivalent to documents signed by hand. Citizens can easily obtain the mobile signature from mobile operators. For this they will take their current ID card to the mobile operator and fill in an application form, the whole process taking less than 15 minutes. The regular SIM card that they have been using for mobile phone will be replaced by a special SIM card that includes mobile signature.

Thus, in a simple and innovative way and as a result of combining technologies with public infrastructure, citizens obtain a new and affordable tool, which greatly reduces the waste of time and financial costs involved in accessing public services.

Source: http://www.egov.md/index.php/ro/solutii-pentru-cetateni/serviciul-semnatura-mobila#VF0H_mUfDY

- **Encourage innovation at the level of firms, business associations and economic sectors.**

In particular, it is necessary to systematically review the tax, customs and labour law in order

to eliminate useless barriers to technological transfer and to facilitate the access of innovative companies to cheaper long-term funds.

- **At the same time, it is important to provide the necessary support for the few companies that can afford to finance scientific research and technological developments for themselves.**

In this context, a set of tax instruments can be applied to encourage and maintain an interest in financing R&D. In this respect, the French experience might be relevant to the Republic of Moldova (Box 34).

“For the private sector to become the engine of technological progress, it is necessary for the state to promote educational excellence and provide more facilities to companies involved in this process” Vasile Nedelciuc, President and co-founder, Endava Moldova

Box 34. THE FRENCH EXPERIENCE IN ENCOURAGING TECHNOLOGICAL R&D.

France’s policies that encourage private enterprises to carry out R&D set it apart from Europe and the rest of the world. The main policy instrument is Credit Impôt sur la Recherche/Innovation (CIR/CII), which offers tax facilities to enterprises for research-development-innovation. In addition to the fact that R&D expenses are deductible for fiscal purposes, the French Government offers a tax loan amounting to 30% of the R&D costs, which can offset companies’ income tax. If the companies do not have any revenue, these amounts are regarded as accounts payable by the French Government: they have been paid immediately since 2013, when the differentiated CIR/CII quotas were eliminated. In essence, CIR/CII is a subsidy for enterprises that invest in R&D and innovations, but is provided retroactively to those who actually make these investments.

Source: *Interviews with experts.*

vii. Advancement of CSR

Companies may significantly impact the development of their communities by the corporate culture adopted and promoted among its staff. CSR is relevant here. At the same time, each company is a ring in a complex chain of relations and interactions with other stakeholders. Thus, depending on the level of integration, the firm's activity may have either positive or negative externalities as regards the stakeholders they interact with. What can the Government do to encourage companies to become more socially responsible? Most of the activities Government could implement are related to communication, empowerment and promotion. There are also regulatory instruments that can significantly undermine the motivations of private companies as regards CSR. Thus, actions for the "benign" maximization of companies' social responsibility should include the following aspects:

The Government can encourage companies to be more socially responsible by means of communication, empowerment and promotion.

- **Public and media pressure on companies to act socially responsibly.** The main pressure to make companies more socially responsible comes from the bottom up. In this regard, clients, media institutions and specialized NGOs play the most important role. The educational effects that these stakeholders might have on the private companies can by far exceed any other instruments that could be used by the Government. If a socially irresponsible company is left without clients or is excluded by media institutions, it can easily disappear from the market.
- **Assertion of the Government as a dialogue partner in the context of social responsibility.** In this respect, it is necessary to increase the role and visibility of the Government structures in charge of public communication in the development, promotion and coordination of social campaigns. Many times companies that want to launch social programmes are unable to identify the counterpart in the public sector with which to liaise and to coordinate the programmes.

"The Government could speed up the private sector's Corporate Social Responsibility by promoting competition", Vitalie Bodia, Director General, Moldasig

- **Promoting best practices.** This means a more intense communication with business networks and associations in order to identify the best practices of CSR at the national level and disseminate these via the Government agencies that interact with the business environment. A more important role in promoting these practices is assigned to the companies themselves, through business unions or individually, working directly with customers and suppliers. Unfortunately, in the Republic of Moldova, the practice of forming a business coalition to achieve certain social development goals is quite limited. Often, companies contribute with financial support to certain programmes or social causes.
- **Activation of the National Network of the Global Pact in the Republic of Moldova.** In 2007 the National Network of the Global Pact was launched in the Republic of Moldova (see details about the Global Pact in Box 30). The Network was launched by 13 companies, reaching 16 by 2010. Public expectations towards National Network was and remain to be very high. Shortly after launching, the National Network became very popular and contributed to the development of a range of social activities and trainings among other companies. For example, the National Network instituted and holds in partnership with Organisation for Small and Medium Enterprises Sector Development the Annual National Competition "SME – Model of Social Responsibility". Regrettably, the initiative was not sustainable: with the termination of donor funding all the ongoing activities stopped, although the Network still appears on the Global Compact's web page as "asserted". Some companies display their membership status in relation to the Network, but they lack joint programmes and activities and the Secretariat structure is no longer operational. Considering the major potential of the companies which founded the National Network, it would be appropriate to learn from this negative experience and re-establish this structure, but with the member companies assuming most of the operational costs. All the necessary precondition for this re-launch are in place, including the fact that the member companies became more mature, and the general public became more informed and educated about corporate social responsibility.
- **State-owned companies should engage in higher level of social responsibility.** The Moldovan state still owns a large number of enterprises and trading companies. Promotion of CSR principles via companies that are fully or

partially owned by the state would offer a good example for private companies.

- **Public recognition of merits.** In this context, the Government could get involved to actively support public recognition campaigns of and to promote campaigns that demonstrate CSR. Again, the major role here would be played by grass roots stakeholders, in particular community NGOs and media institutions.
- **Use of regulatory instruments, where applicable, by the Government.** Policies that would foster

a higher CSR are mainly related to protection of consumers and environment: both are currently deficient in Moldova. If we go back to the example of batteries for electronic devices, which was described in Chapter 2, the Government could oblige all commercial entities that sell goods containing pollutants to have specially arranged spaces for collecting inoperable items. Applicability of this rule should go beyond the selling points of the batteries and extend to those commercial points which distribute lighting items or monitors containing mercury.

Boxa 35. GLOBAL COMPACT - A STRATEGIC INITIATIVE FOR THE ASSOCIATION OF SOCIALLY RESPONSIBLE COMPANIES

As an initiative of the General Secretary of the United Nations Organization, the Global Compact represents a set of principles that promote CSR worldwide and emphasize the importance of local networks consisting of private companies, NGOs and Governments to solve social issues. Generally, the Global Compact intends to promote globally the concept of "good business" or "corporate citizen" and represents the practical materialization of a vision on how the business should develop in a responsible and sustainable manner. Adhering to the Global Compact philosophy, firms can contribute significantly to human development, both by making sure that the low-income population is not marginalized by firms (either as employees, or customers), and by promoting the Pact principles among suppliers, debtors, creditors and other partners.

The Global Compact is based on public accountability, transparency, good will and voluntary participation of companies and other stakeholders. It represents an "international network of national networks" that facilitates dialogue among companies, individuals and organizations that share similar ideas and values and are committed to promoting a responsible corporate citizenship from a social perspective. Currently, the Global Compact network consists of 12,000 participants and about 145 national networks in as many countries.

The Global Compact encourages companies to embrace, support and implement, within their sphere of influence, a set of core principles in the areas of human rights, labour standards, the environment and anti-corruption. These principles are:

Human rights

Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights;

Principle 2. Businesses should make sure that they are not complicit in human rights abuses;

Labour

Principle 3. Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining;

Principle 4. The elimination of all forms of forced and compulsory labour;

Principle 5. The effective abolition of child labour;

Principle 6. The elimination of discrimination in respect of employment and occupation;

Environment

Principle 7. Businesses should support a precautionary approach to environmental challenges;

Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility;

Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.

Source: *Adapted based on <https://www.unglobalcompact.org/>*

viii. Encouraging Social Entrepreneurship

In the current circumstances, when the state cannot fully honour its debts in the area of social services or provide employment to all those desiring to be employed, the state should transmit a part of this task to a new actor, the social entrepreneur. This type of activity would generate important economic and social benefits. In order for such activities to be carried out fairly and without economic and legal constraints, it is imperative to create an optimal regulatory framework for the social economy. The following actions are appropriate in this regard:

It is imperative to create an optimal regulatory framework for the social economy.

- **A law on social entrepreneurship** would be welcome, as the current framework established by the law on philanthropy and sponsorship, the law on social assistance, the law on PPP and the law on public associations cannot cope with the specific economic and legal requirements of social entrepreneurship. Cooperation among the above-mentioned sectors is beneficial for a better representation of the interests of both the entrepreneurs and the state. However, the current efforts to this end by certain Moldovan NGOs should find support at a higher political level. In this regard, it would be very useful to learn from the experience of the development of the Civil Society Development Strategy, an open process that was based on a strategic alliance established between the Parliament's leadership and several leading NGOs. A law on social entrepreneurship could establish a set of general provisions and guidelines, but it is important that these be reflected in corresponding changes to the Tax Code, with clear exemptions for social entrepreneurs. The development of such a law is imperative as regards ensuring Moldovan entities have the right to participate in European programmes that support social entrepreneurship.
- **Make practices of accessing public procurements uniform.** Article 5 of the Public Procurement Law stipulates that "the right to participate in procedures for the awarding of public contracts may be reserved by the Government, at a rate not exceeding 20 per cent of the purchases, the Society for Blind People, the Disabled Society, Deaf Association, Production Workshop of the Republican Psychiatric Hospital, penal institutions and other disadvantaged persons, or preferential conditions may be set for participation in such procedures within employment programmes,

in the manner established by law."¹⁰⁰ This formulation is very restrictive, as it targets only a few entities that practice social entrepreneurship, not referring to those that are not "officially" recognized by the Government.

- **Improving the image of social entrepreneurship.** Social entrepreneurship in the Republic of Moldova would benefit enormously, first, by a mapping of the sector: the initiatives that have been already started, best practices of which the country is very proud, and lessons learned. Such an inventory is necessary for further certification/accreditation of entities in the social economy sector. Such a mapping study could easily be financed by donors or by Moldovan banks and companies (which could learn a lot from small social entrepreneurs in the Republic of Moldova).
- **Development of managerial, professional and networking skills in social entrepreneurship.** Social entrepreneurship involves different principles of management, communication, networking with the external and internal environment than those which are taught in the university curriculum in specialized faculties. Some Moldovan universities use their own forces to develop special modules for those who want to study social entrepreneurship. However, we believe that it would be more appropriate to identify opportunities for partnership with reputable British and American universities in this area.

ix. Deepening the Public–Private Dialogue

Public-private dialogue is important not only in order to make public policies more transparent, but also to advance human development: the quality of governance, which is affected by this dialogue, in turn affects human development. The more open authorities are, with strong dialogue with society, the more sensible they are to the human development priorities identified during the public-private dialogue, and the more able they are to mobilize the necessary resources in order to tackle these priorities. However, as revealed by the interviews conducted, the quality of public-private dialogue in the Republic of Moldova is affected by three major problems: 1) lack of mutual trust between the public and private sector; 2) excessive politicization of the Government institutions, i.e. the too strong connection between the public institutions and political parties, and therefore 3) exaggerated competition between different Government institutions, instead of intra-institutional cooperation. The following recommendations are ways to deepen the public-private dialogue:

¹⁰⁰ <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=324662>.

Authorities which are more open, who have a stronger dialogue with the society, are more sensible to the human development priorities identified during the PPD.

- **Clearly define the mandate of the institutions involved in public–private dialogue.** In some cases, public-private dialogue takes place in formal discussion platforms, established specifically for public-private dialogue (e.g. the Economic Council under the Prime Minister of the Republic of Moldova, the Working Group of the Government Commission for Entrepreneurship Regulation, the National Council for Participation, the Advisory Panel of the Ministry of Economy of the Republic of Moldova, the National Commission for Consultations and Collective Bargaining). In many cases, however, public-private dialogue is very informal, without a clearly established mandate, in particular at the level of some specialized central authorities and some local public authorities. This is not necessarily a drawback. However, some groups established for public-private dialogue in the Republic of Moldova suffer because of the unclear definition of their integration in the existing institutional processes and structures, and because secretarial duties are either not performed at all, or are performed by state officials formally, who are already overloaded with their core job responsibilities. Though there is no mandate approved by a law or regulation, it is very important that the formal and informal groups established for public–private dialogue, at all levels, have clearly established missions that are known and shared by all participants in the dialogue. The mandate of the groups established for public–private dialogue should focus not only on the “dialogue” itself, but also on the joint identification of the problematic situations, joint planning of reforms and their coordinated implementation. Therefore, the establishment of an efficient Secretariat structure is indispensable.
- **Provision of flexible structures and participation of the main stakeholders to public–private partnership.** Most of the active public–private dialogue platforms in the Republic of Moldova were established at the initiative of certain public authorities, with the structure and operational model reflecting the interests of those public authorities. The participants in these platforms are often assigned by the authorities. Hence, it is not a surprise that a worry expressed by the companies interviewed relates to the low efficiency of the established structures and the

representativeness of the participants in public–private partnership. It is important to make sure that public–private partnership is not replaced by a simple “communication of policies”, failing to give private partners any chance to participate in policy design and provide feedback to the authorities. It is also important to formulate clearly, and communicate, the criteria that are used by the public authority to identify the participants in the dialogue, especially in the case of private partners. The transparent selection of private participants will avoid the risk of certain influential public or private stakeholders “capturing” the dialogue. It is important that SMEs are represented in the dialogue – contrary to the current prevailing practice, where relatively large companies dominate most of the public–private platforms established by authorities.

“To ensure an efficient public-private dialogue, the Government should attract people who really understand business needs”. Vasile Nedelciuc, President and co-founder, Endava Moldova

- **Facilitation of public–private dialogue by impartial experts.** The authorities and the private sector in the Republic of Moldova frequently see each other as being on different sides of the barricades. Most respondents in the interviews conducted under the 2014 NHDR were very sceptical regarding the overall Government policies, with a very low level or even total lack of confidence. To advance the dialogue in such “hot” areas like tax and labour law, it is very important to have a mediator, i.e. a disinterested person that is able to ensure convergence from different positions. Negotiation skills, flexibility, respect for others and communication abilities are indispensable qualities for this facilitator. It is similarly important that if the work of the facilitator of the parties to the dialogue is supported by donors, that this support should be disinterested and without any involvement in respect of the content of the dialogue. Specialized NGOs and donors could train people in the minimum necessary skills to be able to work as dialogue facilitators.
- **Ensure monitoring and evaluation of the impact of public–private dialogue.** Public–private dialogue brings no benefits unless both sides – the public and private sectors – get real benefits from this process. For this to happen, public–private dialogue must not be limited to a formal dialogue: it should rather be oriented to tangible results both for firms

(such as the removal of useless constraints in the business environment) and public authorities (such as the transfer of expertise in the development of public policies). The extent to which the results are tangible depends on how the impact of public-private dialogue is monitored and assessed. In the Republic of Moldova there are plenty of platforms founded by private and public stakeholders for public-private dialogue on economic and social policies – platforms in which an amazing amount of human resources and working time are invested. However, as was revealed during the interviews, relatively little attention is paid to monitoring and evaluation of the impact of

public-private dialogue. In order to strengthen this relevant element of public-private dialogue, it is essential to perform an internal (by the Secretariat) or external evaluation of the dialogue quality, in terms of access, openness, efficiency, participation opportunities. It is also necessary to make a mandatory definition in the public-private dialogue mandate of the monitoring and evaluation functions with regard to the implemented reforms; and to evaluate the impact of public-private dialogue on the social and economic realities of the country, including in the development of human capital, social inclusion, democratization and social security.

Box 36. THE RESULT OF THE PUBLIC-PRIVATE DIALOGUE – REDUCTION OF THE NECESSARY TIME TO CONNECT TO ELECTRICITY

The easiness, costs and duration required to connect business entities to the electric grid is among the lowest positions of the Republic of Moldova in the global rating Doing Business, developed by the World Bank. In 2013, about 140-160 days were necessary to pass the seven administrative stages, which also implied huge costs. In November 2013, the Ministry of Economy of the Republic of Moldova set up a working group, which developed in a short period of time a Roadmap on the facilitation of connection to the network, with the goal to decrease twice the duration of connection. The working group consisted of persons in charge from the Ministry of Economy, National Energy Regulatory Agency, representatives of suppliers and distributors, Technical University of Moldova and Association of Energy Consumers (NGO).

As a result of the groups' activity, a series of amendments were made to the Law on Electricity, which were approved on 13 March 2014 by the Parliament of the Republic of Moldova. Thus, according to the new provisions, the connection to the electrical grid shall be done within the maximum period of 60 days since the date when the connection payment was made. For the design and construction of the connection device, the applicants have kept the right to contract other authorized persons than the network operator. The commissioning of connection devices by the network operator was simplified and a tariff setting mechanism was implemented, which simplifies the procedure of transferring the devices on the balance sheet of the network operator.

Due to the methodological peculiarities of the rating, these enhancements have not been reflected yet in Doing Business 2015, but for sure will ensure a significant progress of the country in the next edition.

Source: *Ministry of Economy of the Republic of Moldova.*

- **Diffusion of public-private dialogue at local and regional level.** Companies' efforts to initiate a public-private dialogue are focused mainly at the level of central authorities, while public-private dialogue is literally non-existent at the level of local and rayon authorities. This leads, *inter alia*, to the fact that SMEs are poorly represented in the dialogue. Actually, as the interviews conducted prove, public-private dialogue is almost missing at the level of local and rayon authorities. This deficiency reflects to some extent the quite limited competences of local authorities in influencing the business regulatory environment. Overcoming this deficiency will involve: strengthening the employment capacity of the local and regional representation offices / units of business associations that are involved in public-private dialogue at the national level; making sure that SMEs are represented and

involved in public-private dialogue in order to meet the real needs of communities at the local and regional level; and also sub-national authorities aligning local and regional development strategies and plans to the national ones – this alignment will result in a better harmonization of sub-national public-private dialogue with the national agenda. Not least important here is the efficient establishment of those social dialogue and consultations platforms that are already envisaged by the law, including the territorial commissions for collective bargaining and negotiations (which can be established by trade unions and/or employers' associations). Organizing these commissions, which have a clear mandate set by the legislation (even though this mandate is a little too narrow), would lead to establishing public-private dialogue on topics of strategic interest.

- The catalytic role of donors and NGOs in public-private dialogue.** International donors and development partners have an essential role in starting and maintaining public-private dialogue in Moldova. Most public-private dialogue platforms, launched either by the public authorities or by private stakeholders, have benefited from the direct or indirect support of donors. For instance, the European Bank for Reconstruction and Development provides significant financial support for the Secretariat in the recently established Economic Council under the Prime Minister of the Republic of Moldova. Without this foreign funding, it would not have been possible to employ staff at the Council Secretariat and to launch its activities. International donors have an essential role in ensuring the functionality of the National Participation Council established by the Government. Foreign donors also supported the activity of the National Business Agenda, as well as other public-private dialogue groups in economic sectors (viticulture and wine-making, construction, ICT). The involvement of donors, from the emergence to the maturity of public-private dialogue, is beneficial and necessary. However, obviously, it is not something that can last forever. How can the transition from a donor-supported dialogue to a "national" dialogue be ensured? First, it is necessary to ensure that donor support is conditioned by the national needs and not by donor strategies and that the discussion agenda is established only by the private sector and authorities involved: the donor-financed Secretariat should have a purely technical and logistical role, not a decisive one in relation to the agenda. Second, when donors support the activity of a Secretariat, it is of utmost importance that it be integrated with the existing Government or private structures: not to create separate "implementation units". Finally, a successful transition from donor support to a long-lasting, sustainable dialogue also means, for some public authorities, the integration of the involved principle in the internal processes, raising the self-organization level of the private sector, and employment of experts in business representation structures who are able to have a dialogue with the authorities in connection with very technical and complex topics. In this respect, donors can be of real use in strengthening the public communication and policy analysis skills, both for the public authority and for the private partners.

x. The Economic Empowerment of Women

In the Republic of Moldova women have a lower participation level in the labour market than men. This is particularly the case for young women from rural areas as their chances of finding a job are one-

third lower than rural men's or urban women's. At the same time, women demonstrate lower entrepreneurial initiative than men. Overcoming barriers – structural and institutional – that hinder the economic empowerment of women would significantly contribute to overcoming the problem of domestic violence and would, overall, result in the social and political emancipation of women. Private firms, donors and development partners play an essential role in the economic empowerment of women, a worthy example being the "Economic Empowerment of Vulnerable Women in Moldova" project, implemented by the United Nations Population Fund (UNFPA), in partnership with the Ministry of Labour, Social Protection, and Family, with the financial support of the Orange Moldova Foundation.¹⁰¹ Under this project, over 1000 women have benefited from training, information support and counselling on how to find a job or start up a business. Such projects contribute significantly to more sustainable economic development, because they help increase the employment rate and the overall economic activity. However, more policy actions are necessary in order to encourage women's empowerment, especially since the costs of launching and crediting a business can be particularly hard to meet for women, given that they have fewer financial resources than men. The above measures aimed at developing the social entrepreneurship and improving the business environment will also contribute to the economic emancipation of women. Other specific recommendations are presented below:

However, more policy actions are necessary in order to encourage women's empowerment.

- Provide opportunities and educational services for children of a preschool age.** This is probably the most important recommendation, because if a mother has the possibility to leave her child in professional care during the day she will be less concerned about getting a job or starting up her own business. Therefore, if the Government truly wants to ensure women's economic integration, it should commit to opening and/or providing an enabling environment for the establishment of kindergartens in all rural settlements, regardless of their size and geographical distance from neighbouring cities. It is pertinent to focus on rural areas: if in urban areas 77.2 per cent of children aged one to six years of age are enrolled in preschool institutions, in rural areas this indicator is only 51.8 per cent¹⁰² In this context, is important to decrease the barriers

¹⁰¹ More information on this project available at <http://www.unfpa.md/index.php/ro/comunicate-de-pres/334-pestea-1060-de-femei-vulnerabile-au-beneficiat-de-suport-pentru-obinerea-unui-serviciu-sau-pentru-a-iniia-o-afacere.html>.

¹⁰² NBS, 2014.

to the educational services market, especially by reviewing the excessive and inappropriate standards required of service providers. If entry barriers are decreased, private investments in this sector will increase, in particular in urban areas, thus saving public resources that can then be invested in highly deprived rural settlements.

- **Ensure legal conditions in order to eliminate all forms of inequalities between women and men, and unfair treatment of women, related to employment, family responsibilities, education and advertisement.** For this the Government has already launched a series of affirmative measures, including by developing a set of amendments to 17 laws and submitting them to the Parliament for approval. The package of laws was voted in the first reading and stipulates, in addition to other active measures, the provision of paid paternal leave of 14 days during the first 56 days of the birth of the child, the prohibition of sexist advertisements and the requirement of gender-sensitive language in media products. It is important to make sure that this draft does not get “lost” and that it is finally adopted by the Parliament, which is elected in 2014. At the same time, it is crucial to eliminate gender stereotypes in the educational curriculum and to cultivate, from kindergarten and school, girls’ confidence in their own forces and increase the role of boys and men in promoting gender equality.
- **Ensure representation and participation of women in the political and social life.** The draft legal amendments mentioned above also stipulate a quota of at least 30 per cent of women in political parties’ electoral lists. Although this quota could be higher (the Government initially recommended a quota of 40 per cent), the enactment of this quota and compliance with it would be a huge achievement. This will only occur if the amendment is voted in in the final reading and if the provisions are incorporated in the Electoral Code and the legislation on the activities of political parties.
- **Adopt gender responsive policies and budgets for greater development results.** Although this recommendation is frequently made in specialized reports, most of the time such reports do not clarify what exactly is meant in this regard and what type of activities are recommended. In essence this means making sure that the actions proposed in policies and investment projects have been analysed in terms of their impact on the genders (to what extent men and women have access to certain services, to what extent an investment

project eliminates gender-based development constraints, what could be the possible unintended impacts, as broken down by gender, etc.). The National Program on Gender Equality for 2010-2015 prioritised concrete actions in this respect and currently, the national roadmap on introducing Gender Responsive Budgets were elaborated under the leadership of the Government with the participation of academia. Local public finance law implementation will be the core basis for the rollout of Gender Responsive policies and plans at the local level with the overall development effect expected on women and men in the coming years.

- **Promote the positive success stories of female entrepreneurs.** There are more female entrepreneur success stories in the Republic of Moldova than may appear at a first glance. It is important that the Government (the Ministry of Labour, Social Protection and Family in cooperation with the Ministry of Economy) with its development partners ensure the collection of information about these examples. Moreover, the collection of this evidence would not necessarily require a large financial expense. The Government programmes in entrepreneurship (PARE 1+1, the National Program for the Economic Empowerment of Young People) must already have data and practical evidence about female entrepreneurship. If disseminated in the society, these stories are likely to encourage and inspire other women, especially young to assume the responsibility of initiating an entrepreneurial activity and access various opportunities for their development.
- **Adopt a Government programme to support female entrepreneurship.** There are enough evidences in the region and around the globe on the direct correlation of women in business and economic development of the state. The experience and evidences recommend establishment of specialised State programs and funding for women in business, which is required also in the Republic of Moldova. Especially in the most deprived areas, women needs special attention and support. Statistical data reveal a very unfavourable situation as regards SME development in such areas as Basarabasca, Taraclia and Soldanesti. In these areas it is necessary to implement a support programme for female entrepreneurship. More specifically, the programme should provide support for the development of the necessary skills for women based on their knowledge, skills, experience and coach them with developing their business plans. Entrepreneurship can definitely flourish even in these areas, including

within small home-based businesses, such as rural tourism (e.g. Soldanest with its marvellous river landscapes), the processing of wool (e.g. in Basarabeasca, where sheep and goat breeding is well developed), or folk crafts (e.g. Taraclia, an area where the Bulgarian culture mixes with

the Moldovan one). What is highly important is to assist women to realize themselves in non-traditional, and new areas, which will help to break the chain of gendered nature of labour in Moldova, which will contribute to greater gender equality.

Box 37. WOMEN WHO WAVE TRADITIONAL CARPETS ARE BECOMING ECONOMICALLY INDEPENDENT AND CONTRIBUTE TO ENVIRONMENTAL PROTECTION

Azerbaijan is famous for its authentic carpets, woven from natural components using traditional methods. In spite of the beautiful traditions, the carpet production degraded, mainly because of craftsmen emigration and the import of cheaper carpets from such countries as Turkey and China.

UNDP Report 2010, "Business solutions to poverty. How inclusive business models create opportunities for all in Emerging Europe and Central Asia" presents the case of an Azerbaijani woman, Humay Mammadova, who privatized "Gadim Guba" carpet factory. The factory rehabilitation started with the training in management and marketing, attended by Humay Mammadova under a business development support program, funded by USAID.

Humay Mammadova identified new customers interested in traditional carpets and established what needs to be changed in the production technologies. The factory started to use again some natural dyes, traditional procedures and designs, enhancing thus the carpets quality, appearance and authenticity. Relying on traditions was a correct decision, which is proved by the increase of turnover from \$12000 to \$120000.

The uniqueness of this factory consists also in that it is managed only by women and employs only women.

Source: UNDP 2010, "Business solutions to poverty. How inclusive business models create opportunities for all in Emerging Europe and Central Asia".

■ **The statistical system on entrepreneurship should provide sex-disaggregated information.**

Currently, the statistics on SMEs and structural questionnaires conducted in enterprises do not offer, on a permanent basis, information about the entrepreneurs, directors and owners of firms that is broken down by sex, and that asks to what extent they are involved in businesses and in what sectors, what are the indicators of economic-financial performance and what are the typical problems encountered by them. The NBS conducted the only pertinent survey in 2009, which was made possible thanks to UN support. The collection of such information through administrative reports submitted by firms, and through structural questionnaires, would be possible without any significant costs, by making some minor changes in the demographic data included in questionnaires. At the same time, donors and development partners could support a new representative statistical survey, to compare the current situation with that in 2009. It is also key that the National Bank of Moldova starts gathering data on commercial bank clients disaggregated by sex. This will help to analyse the actual gender pattern of the credits and credit portfolios of clients and offer better solutions for commercial banks and other financial service provider in

reaching out to women and improving their portfolio quality.

■ **Government interventions at the policy level should also resonate with the private sector initiatives to contribute to women's economic empowerment.**

In order to ensure adequate contribution by women to the economy and business, the world leading organizations decided that women need to be empowered, and that the corporate world has to adopt certain principles if they are to fully benefit from the economic potentials that women could bring. In this respect, principles called Women's Empowerment Principles were elaborated and adopted to address the issue of empowering women worldwide. Today, the Women's Empowerment Principles (WEP) are the guidance for businesses and private sectors, to help them and women to meet at beneficial level (UN Global Compact, 2011). These principles were initiated in collaboration between UN Women and the United Nations Global Compact. This is especially designed for companies to review their policies on empowerment of women, to acknowledge and to start making changes. In the international community these are recognized principles for women's equality participation. They represent

the global standard that has been accepted all around the world and provide seven principles that all companies can subscribe to. Business case is critical, it is about harnessing the potential of women to be equal contributor as together with men and building strong companies. The Principles also reflect the interests of Government and civil society, and will support interactions among stakeholders as achieving gender equality requires the participation of all actors. While there are over 800 companies worldwide who committed to

Women's Empowerment Principles (ex. Nestle, Alcatel-Lucent, Avon Products, Deloitte Touche, Ernst & Young, etc.) and expressing support for advancing equality between women, UN Women in Moldova undertook a mini survey to assess existence practice of the private business in Moldova on non-discrimination and women's empowerment and their openness to adopt WEP. The major finding of the survey is that most of the companies are ready to adopt majority of the principles and moreover have experience in implementing them.

Box 38. WOMEN'S EMPOWERMENT PRINCIPLES.

Principle 1: Establish high-level corporate leadership for gender equality

Principle 2: Treat all women and men fairly at work – respect and support human rights and non-discrimination

Principle 3: Ensure the health, safety and well-being of all women and men workers

Principle 4: Promote education, training and professional development for women

Principle 5: Implement enterprise development, supply chain and marketing practices that empower women

Principle 6: Promote equality through community initiatives and advocacy

Principle 7: Measure and publicly report on progress to achieve gender equality

Source: *UN Women*.

xi. Using Emigrants' Financial Savings and Remittances

The remittances of Moldovan emigrants reached USD 1.608 billion in 2013, and it is expected that in 2014 they will exceed the historically high level of 2008 (1.66 billion)¹⁰³. This volume of remittances accounts for about one-fifth of the country's GDP and most of it is used to cover household expenses. It is therefore not a surprise that debates on the development policy of the Republic of Moldova very often focus on the need to orient remittances towards "more productive" destinations. From this perspective, the problem is formulated completely erroneously, because most of the remittances have a known destination: emigrants send money to their families specifically to help them fund certain consumption expenses. It is difficult to channel these remittances towards investments because most of the emigrants are not business people. Policies should therefore not focus on remittances, but rather on emigrants' savings – only from this perspective is it possible to ensure a better use of emigrants' social remittances: the skills and abilities that they have developed abroad, their new cultural and social attitudes, etc. The use of emigrants' resources involves both conventional tools, of a general nature, and specific tools, which target emigrants and envisage private sector involvement.

Policies should not focus on the remittances, but rather on emigrants' savings, because only from this perspective is it possible to ensure a better use of emigrants' social remittances.

- **Strengthen the trust in the financial system.** Banks, micro-financing institutions, investment companies and other financial institutions are, so far, the most efficient means of high level financial mediation and aggregation of individual savings in bigger investments, having a visible multiplying effect at the level of the entire economy. These institutions are also able to screen business projects, separating promising from less good ones. To attract emigrants' savings into the financial system, emigrants' trust in these institutions needs to be improved. This requires firm legislative interventions from the Government that will ensure transparent ownership in the system and the credibility of the public financial reporting system.
- **Develop the private pensions and health insurance system.** Although it seems paradoxical at first glance, emigrants, who did not contribute to the State Social Insurance Budget or Compulsory Health Insurance Fund during their stay abroad, might be especially interested in the establishment of a private pillar

¹⁰³ Victor Lutenco, director of the Diaspora Relations Bureau, "The Biggest Unexplored Development Opportunity for the Republic of Moldova", presentation made at MACRO 2014 Conference, held by EXPERT-GRUP Independent Think Tank and Friedrich Ebert Foundation on 21 October 2014. Data available at: <http://expert-grup.org/ro/activitate/noutati/item/1028-macro2014>

of the pensions system and in private health insurance. In this regard it should be noted that the people who participated in the national consultations for the post-2015 development priorities stated that “bigger and fairer pensions” was the second most important factor – after decent jobs – as regards producing long-term welfare¹⁰⁴. The common concern of Government in relation to establishing the private pillar is that this will reorient money from the public pillar into the private one, thus weakening the former. However, the existence of a high number of emigrants with their savings abroad offers a unique opportunity to reform the pensions system and the compulsory health insurance system, by establishing private pillars without increasing the pressure on taxpayers.

- **Investment fund for emigrants.** This mechanism envisages the establishment of a financial intermediary institution, located in a trustworthy jurisdiction and managed by renowned financial structures, which would ensure productive financing of investments in the private and public sector by making placements, opening accounts and issuing bonds in the name of emigrants. In addition to the natural economic objectives, the investment fund would also have the objective of providing financial assurance to emigrants upon their return to the home country, ensuring domestic employment opportunities and increasing the attractiveness of the Republic of Moldova for its population.
- **Diaspora bonds.** These are crediting tools, which are used in India, Pakistan and Israel, countries affected by emigration. The Government would issue a number of Government bonds, denominated in a foreign currency, intended especially (but not exclusively) for emigrants. This instrument, which can be used to fund large investment projects, would have an important multiplying effect in the economy, through job creation and “legalization” of economies. The launch of this instrument would involve important legislative and regulatory changes to the existing framework that regulates the activity of financial institutions.
- **Online crowdsourcing platforms.** This is a new instrument which, by providing an intermediating platform between entrepreneurs and investors (emigrants), could be used in particular to fund small businesses, and some creative or non-profit projects¹⁰⁵. Crowdsourcing platforms could be used, for example, to

fund a development project in a certain rural community by collecting money from emigrants originating from that community who are working in different countries. The launch of this instrument would not require any major changes in the legal framework, nor major investment by the Government. However, taking into account the fact that Moldovan people currently have a low awareness of this platform, as well as the need to cultivate trust, the Government contribute significantly to the identification of a private operator that could launch and manage the platform, as well as to carefully supervise the platform.

xii. How to Accelerate Development? An Assessment of the Implementation of the 2006 NHDR Recommendations

The topic of the 2006 NHDR of the Republic of Moldova – “Quality of Economic Growth and Its Impact on Human Development” – is fully aligned to the topic of the present report. The 2006 NHDR analysed how the quality of economic growth and of human development influence each other, what problems generate vicious underdevelopment cycles, and what factors prevent the strengthening of the virtuous cycle between economic growth and human development. The 2006 NHDR was particularly relevant to the state of economic convalescence in which Moldova found itself at that time.

At the stage of early transition, the Republic of Moldova had to cope with an acute economic collapse, which dramatically worsened the social indicators. 2000 was a significant turning point for the economy: after this point the economy grew annually by an average of 7 per cent during 2001–2005. However, the 2006 NHDR showed that the quality of this growth was quite suspicious, highlighting some issues that are also present in this report, including non-inclusive and non-sustainable growth, in environmental terms, the fact that the economic growth did not generate employment, the economic and social gap between the rural and urban areas, and many others.

The 2006 NHDR included a series of policy recommendations, many of which unfortunately are still relevant. The table below presents the current implementation level and quality in respect of the main policy recommendations that were made eight years ago.

¹⁰⁴ UNDP Moldova, “Post-2015 Development Agenda: Final report on consultations in the Republic of Moldova: a verification of reality, a vision for future”, <http://www.md.undp.org/content/moldova/en/home/presscenter/pressreleases/2013/09/24/post-2015-development-agenda-final-report-on-consultations-in-the-republic-of-moldova-a-verification-of-reality-a-vision-for-future.html>.

¹⁰⁵ Investment funds, diaspora bonds and crowd-sourcing platform are ideas for the use of emigrants’ savings, that were presented by Victor Lutenco, director of the Diaspora Relations Bureau in “The Biggest Unexplored Development Opportunity for the Republic of Moldova”, presentation made at MACRO 2014 Conference, held by EXPERT-GRUP Independent Think Tank and Friedrich Ebert Foundation on 21 October 2014. Data available at: <http://expert-grup.org/ro/activitate/noutati/item/1028-macro2014>

Table 9. Assessment of the implementation of the main recommendations from the 2006 NHDR “Quality of Economic Growth and Its Impact on Human Development”.

Recommendation	Assessment of implementation
The consolidation of agricultural lands and an increase in the average processed areas should be neither the end goal, nor the central focus of policies.	During 2007–2008, the Government gave up on its policy of forced consolidation of agricultural lands, leaving this process at the discretion of market forces. The consolidation process developed organically. At the same time, a group of niche farmers appeared, that have demonstrated excellent performances even on small agricultural lands.
The agricultural policy should not be focused only on large agricultural lands, but should encourage small farmers to cultivate some varieties and species with a high value added component, which could yield higher income.	This recommendation was partially implemented. The agricultural policy does not demonstrate an obvious preference for large farms. At the same time, a part of the support measures in the agricultural subsidies policy still implicitly favour large producers, in particular in the case of subsidies for capital investments.
In agriculture, the central objective of the Government must be to eliminate the market distortions, to ensure access to cheap funding and modern knowledge about agricultural technologies and sales markets.	Farmers are still perceived by commercial banks as their riskiest customers, requesting from them interests rates above the average. The agricultural educational system (eight colleges plus one university) is still in a deplorable state. Farmers still have limited access to sales markets, due to the lack of post-harvesting infrastructure and weak skills of agricultural marketing in the domestic and foreign markets.
The main objective in the industrial area for the Government should focus on the development of technical human capital, in particular by educating new engineer and technologist elites.	This objective was not achieved. College and university students still prioritize the “prestigious” specialties, such as economics, law, and foreign languages). Scholarships for engineering, technical and technological and scientific specialties are still unattractive for talented youth.
Develop the micro-finance sector as an alternative to classical banks, to fund SMEs and enterprises managed by emigrants.	The macro-finance sector witnessed an ambiguous evolution after 2006. The loan asset portfolio increased from 2.3 per cent of GDP in 2006 to 3.1 per cent in 2008, followed by a collapse caused by the financial-economic crisis and a slow recovery during 2010–2013. A series of legislative amendments made in 2011 imposed constraints on micro-finance organizations. The sector is specialized mainly in the funding of consumption expenses and procurement of real estate.
Favour the establishment of two territorial poles of economic growth, by encouraging people to start up SMEs in deprived areas, by encouraging “green grass” investments in these areas and by fiscal and administrative decentralization.	The industrial policy did not aim at developing deprived areas, but at planting big investors in free economic zones and industrial parks. In a series of deprived areas (Basarabeasca, Taraclia, Soldanesti, Telenesti) the number and performance of SMEs has decreased significantly. Fiscal and administrative decentralization is a reform that has been postponed constantly.
Ensure access to foreign sales markets as an alternative to the small domestic market.	The establishment of the Deep and Comprehensive Free Trade Area between the Republic of Moldova and the EU, the Free Trade Area with Turkey, and the signing of the Free Trade Treaty in the Commonwealth of Independent States are remarkable achievements. However, Moldova is coping with an embargo on its agricultural products, foodstuffs and alcoholic beverages, introduced by the Russian Federation due to the steps taken by Moldova towards an economic and political alignment with the EU.
Improve the business framework on three essential components: property rights, the business regulatory framework and access to a fair and politically independent justice.	The business regulatory framework has seen some positive developments, as proved by the slow improvement in the country’s position in the relevant international ratings. Justice is the sector that is trusted the least by the population, with reform being initiated only in 2011.
Ensure a better alignment between the supply and quality of educational services, and the demand in the labour market in terms of the quality and relevance of the education received.	A comprehensive reform of the vocational education started in 2013, with the Government’s approval of a new strategy for this area. The reform envisages the provision of funding on the basis of certain performance indicators and important changes in the human resources policy.

Optimize the school network and introduce a system of school buses.	The decision to optimize the school network was taken in 2008, and the process actually started in 2010–2011. Hub schools were established and buses were bought for the transportation of pupils.
The Government should intensify its bilateral and multilateral (EU) negotiations with the view to simplifying the visa and employment regimes for Moldovan emigrants and ensure their social protection.	The Republic of Moldova obtained a visa free regime with the Schengen Area Member States. Notable progress in the liberalization of the employment regime for Moldovan people has not yet been made. Several international treaties have been signed to ensure the social protection and security of Moldovan emigrants.
Introduce some elements that would enhance the flexibility and social efficiency of the system of foreign insurance, including by legalizing the right to transmit, after a certain period of time, the insured person's rights to a close relative in the ascending or descending line.	No progress has been made on this aspect. The insurance quotas increased from 2 per cent/2 per cent by the insured and insurer in 2006 to 4 per cent/4 per cent in 2014. The dissatisfaction with the quality of the provided services and system integrity is still quite high.
Review the budget expenses priorities, allocating more resources to finance the critical infrastructure for economic development: transport, energy and telecommunications.	Predictability and stability was introduced in 2007, with the introduction of the Medium Term Budgetary Framework (MTBF). The central and local specialized bodies used the MTBF to develop, adjust and implement sector and local development programmes. The share of public expenses for capital investments has remained at the level of 5 per cent to 7 per cent throughout the entire period since 2006.
Maximize the impact of public expenses on human development by decreasing the inclusion and exclusion errors. Children from poor families should be the absolute priority of social assistance.	The introduction of social aid has been a very important achievement. This aid is provided on the basis of a needs testing principle. This tool, with much lower inclusion and exclusion errors than a policy based on social categories, has had a strong poverty reduction impact.
Continue the structural reforms in the public enterprises sector, by introducing more severe budgetary constraints and by eliminating the practice of "fiscal isolation" of state-owned enterprises.	In addition to the privatization of the state's assets, which has sometimes been performed in a non-transparent manner, it is difficult to identify any significant changes in this area. As revealed by the Ministry of Finance in its reports, public firms are managed inefficiently, which has huge implications for the public budget and collective welfare.

Source: *Assessments made by the authors.*

Unfortunately, the analysis presented in Table 9 suggests that many of the policy challenges in place during the first decade of this century are still relevant after almost 10 years. This period has been marked by geopolitical turbulence, a major economic crisis, a series of external barriers to the main sales markets and some severe and extended natural calamities (droughts, floods). However, we believe that there is an intrinsic factor in respect of the Government which has prevented a stronger advancement towards economic and human development. It relates to the lack of an internal force that would ensure the necessary political support to implement the country's wide reform and development agenda. In its fervent search for an external anchor, previous Moldovan Governments failed to win people's trust in the proposed development agenda and, thus, failed to form the internal links necessary for development. The main reason for this failure

is the lack of a dialogue between the society and Government, or the perfunctory nature of these consultations. We can derive from this the answer, perhaps trivially simple, to the question raised in the title of this section (how to accelerate development?) – sincere dialogue and open and transparent governance are the key preconditions for the Government to develop the necessary social support for the implementation of the difficult reforms that are necessary for the country. In the absence of an internal anchor, no external ally will be strong enough to move the country forward on the human development path.

Many of the policy challenges in place during the first decade of this century are still relevant after almost 10 years.

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ANNEXES

Annex 1. TECHNICAL NOTE ON CALCULATION OF HUMAN DEVELOPMENT INDEX (HDI)

The HDI was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. 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: Health, Education and Standard of living. More details of calculation of HDI can be found in UNDP Technical Notes (2011-2014).

Dimensions:

Health

X - Life expectancy at birth (years).

Life expectancy at birth indicator at sub-regional level was calculated based on the UNDP methodology (different from the NBS one) using data on age-specific death rates provided by National Bureau of Statistics of the Republic of Moldova. Country level data were taken from GHDR 2014.

Education

Y - Mean years of schooling (years).

U - Expected years of schooling (years)

Mean years of schooling indicator at country and regional levels was calculated using data on population educational attainment rates provided by National Bureau of Statistics of the Republic of Moldova.

Expected years of schooling indicator at country and regional levels were estimated using data provided by National Bureau of Statistics of the Republic of Moldova and data from GHDR.

A decent standard of living

Z - GNI per capita (PPP US\$).

Country level value for GNI per capita indicator was taken from Global HDR 2014. GNI per capita indicator at regional level was prorated using country level value from Global HDR 2014 and regional level data on disposable income per capita indicator provided by National Bureau of Statistics of the Republic of Moldova and data from GHDR

The HDI is the geometric mean of normalized indices measuring achievements in each dimension.

$$IDU = \sqrt[3]{I_X * I_Y * I_Z}$$

Health Index:

$$I_X = \frac{X - 20}{85 - 20}$$

Education Index:

$$I_y = \frac{\frac{Y}{15} + \frac{U}{18}}{2}$$

Standard of Living Index:

$$I_z = \frac{\ln(Z) - \ln(100)}{\ln(75000) - \ln(100)}$$

Annex 2. TECHNICAL NOTE ON CALCULATION OF GENDER DEVELOPMENT INDEX (GDI)

The Gender Development Index (GDI) measures gender inequalities in achievement in three basic dimensions of human development: health, measured by female and male life expectancy at birth; education, measured by female and male expected years of schooling for children and female and male mean years of schooling for adults ages 25 and older; and command over economic resources, measured by female and male estimated earned income.

The index uses the same methodology as in the HDI. The goalposts are also the same except for life expectancy at birth where the minimum and maximum goalposts are varied (minimum of 22.5 years and a maximum of 87.5 years for females; and the corresponding values for males are 17.5 years and 82.5 years)

More details of calculation of HDI can be found in UNDP Technical Notes (2011-2014).

Gender Development Index uses female HDI and male HDI. Female HDI and male HDI are calculated using the same methodology and the same dimension indicators for female and male population as in the HDI.

Female HDI is geometric mean of dimension indices calculated for female population:

$$HDI_f = \sqrt[3]{I_{Health_f} * I_{Education_f} * I_{Income_f}}$$

Male HDI is geometric mean of dimension indices calculated for male population:

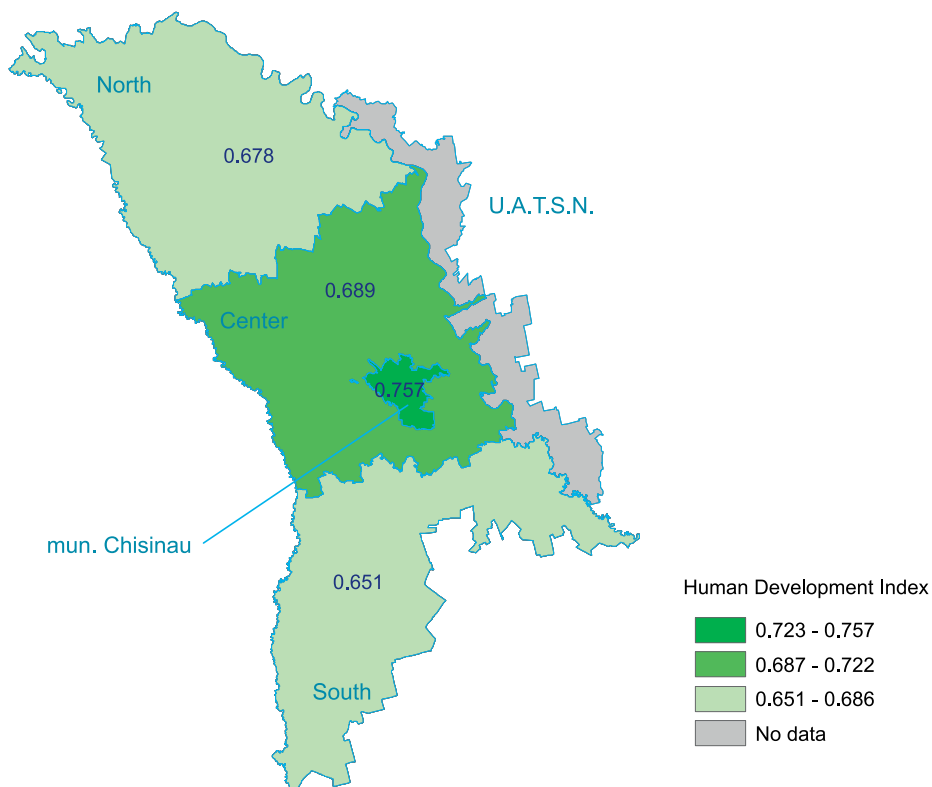
$$HDI_m = \sqrt[3]{I_{Health_m} * I_{Education_m} * I_{Income_m}}$$

The GDI is the ratio of female HDI to male HDI:

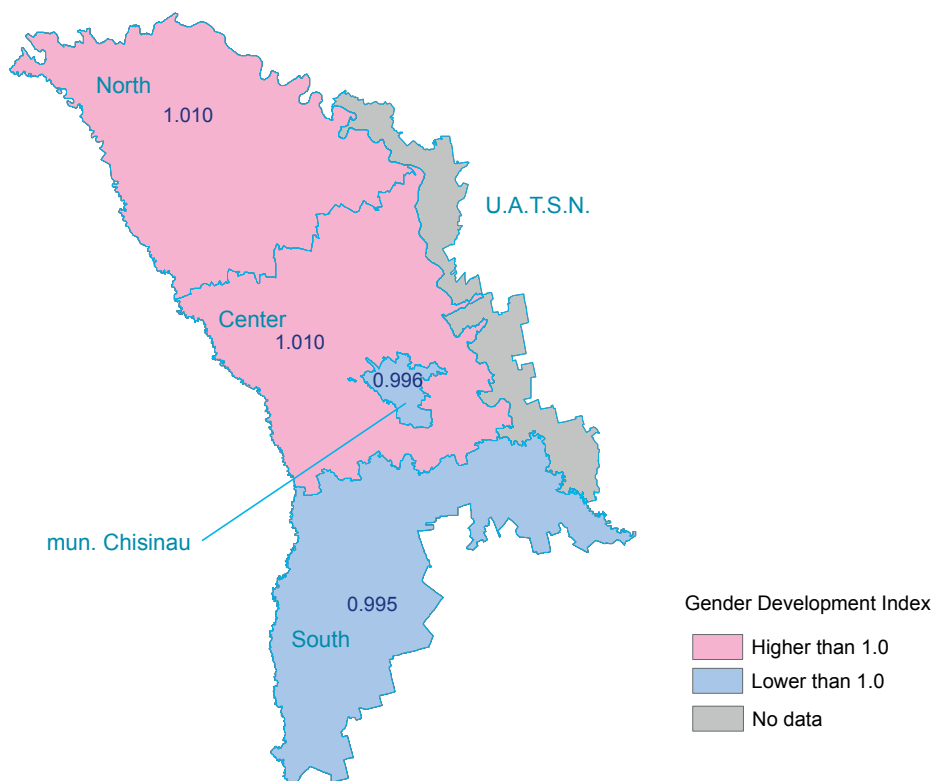
$$IGD = \frac{IDU_f}{IDU_b}$$

Annex 3. **HUMAN DEVELOPMENT INDEX BY REGIONS (MAPS)**

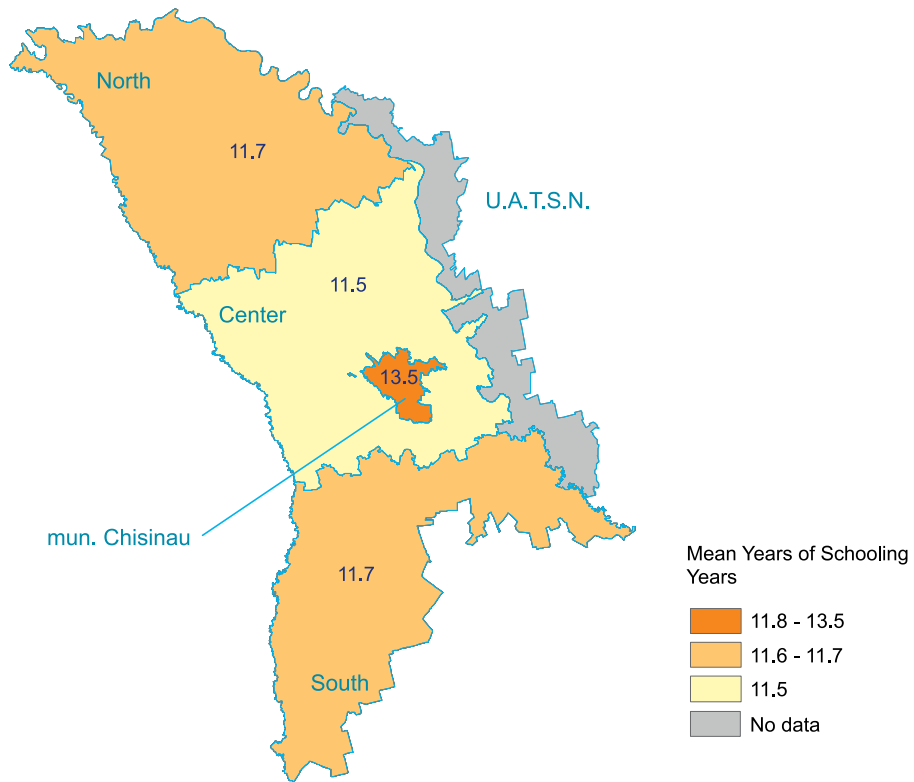
Human Development Index by regions (2013)



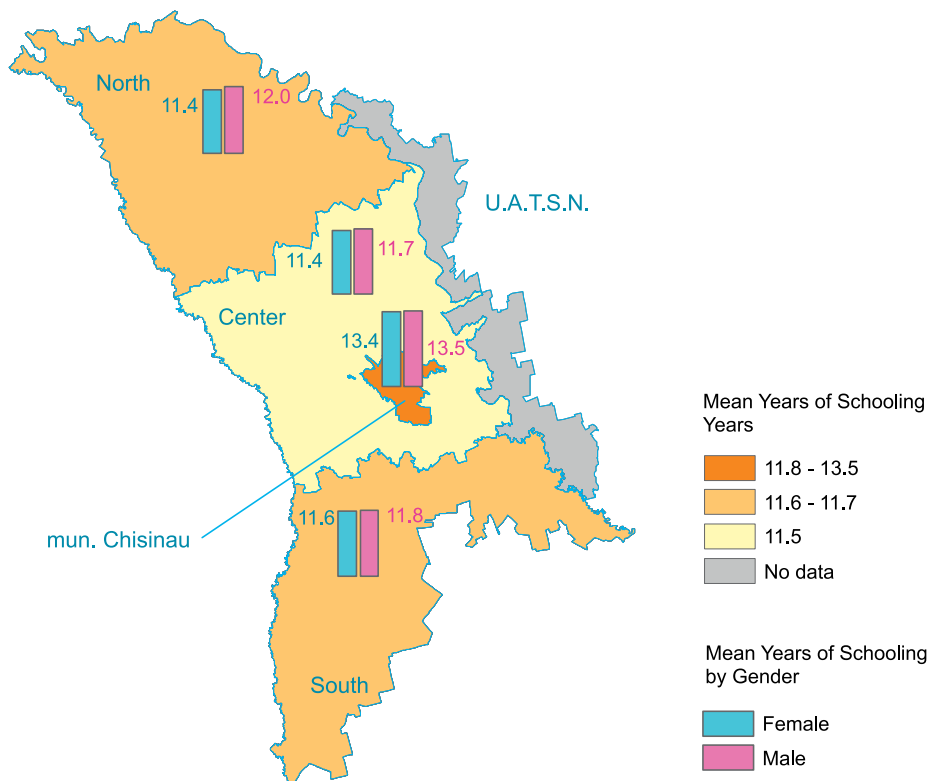
Gender Development Index by regions (2013)



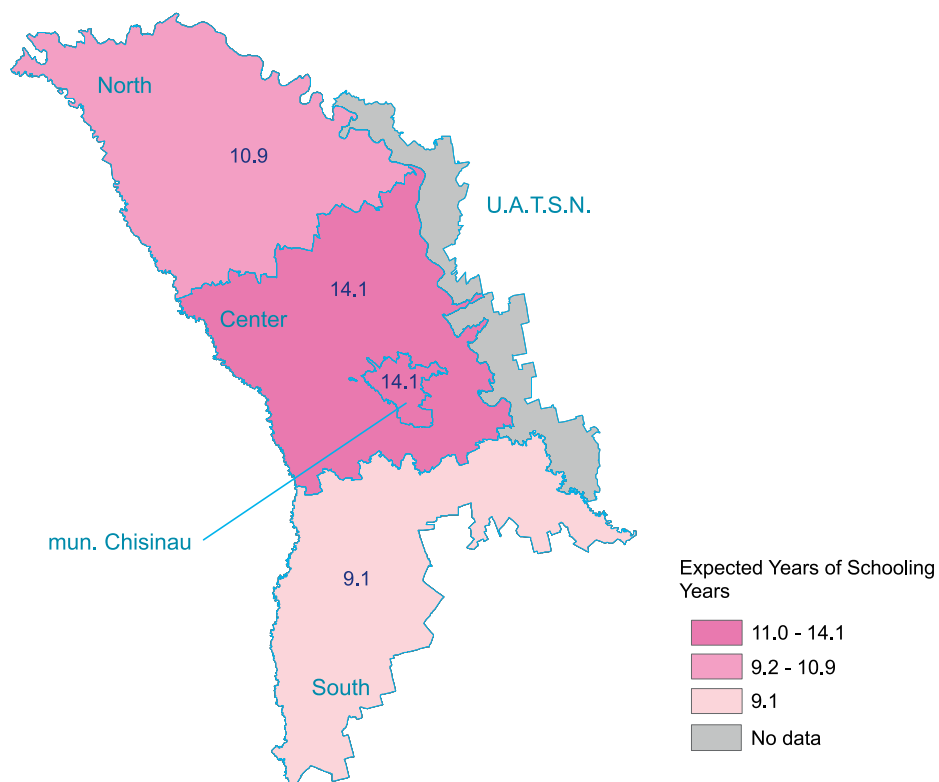
Mean Years of Schooling by regions (2013)



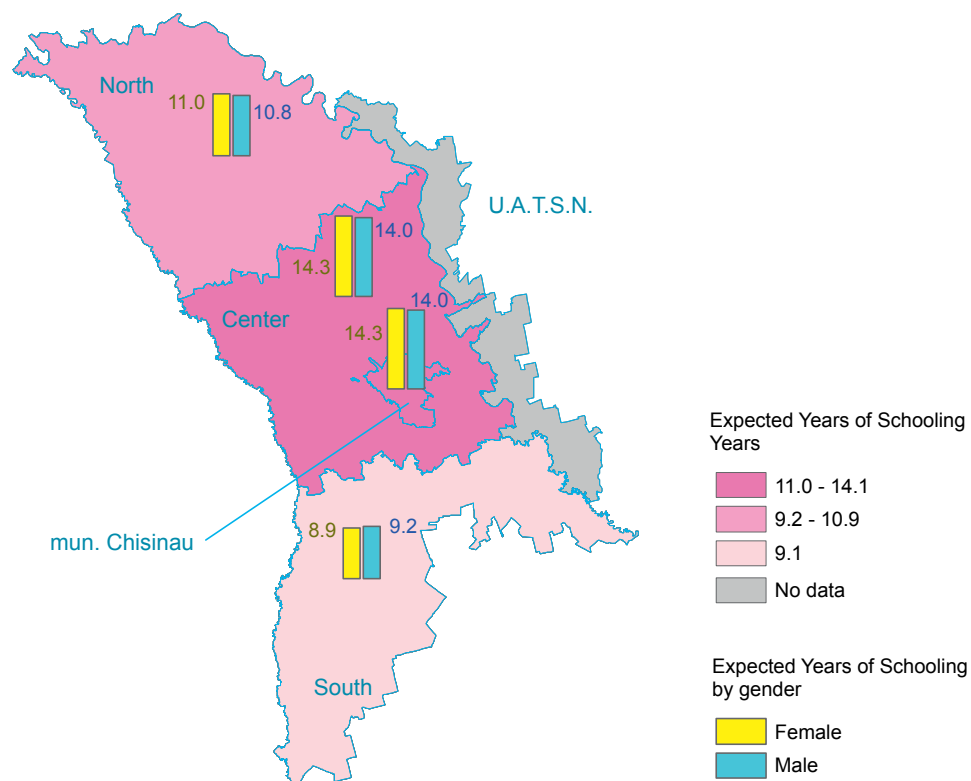
Mean Years of Schooling by gender and by regions (2013)



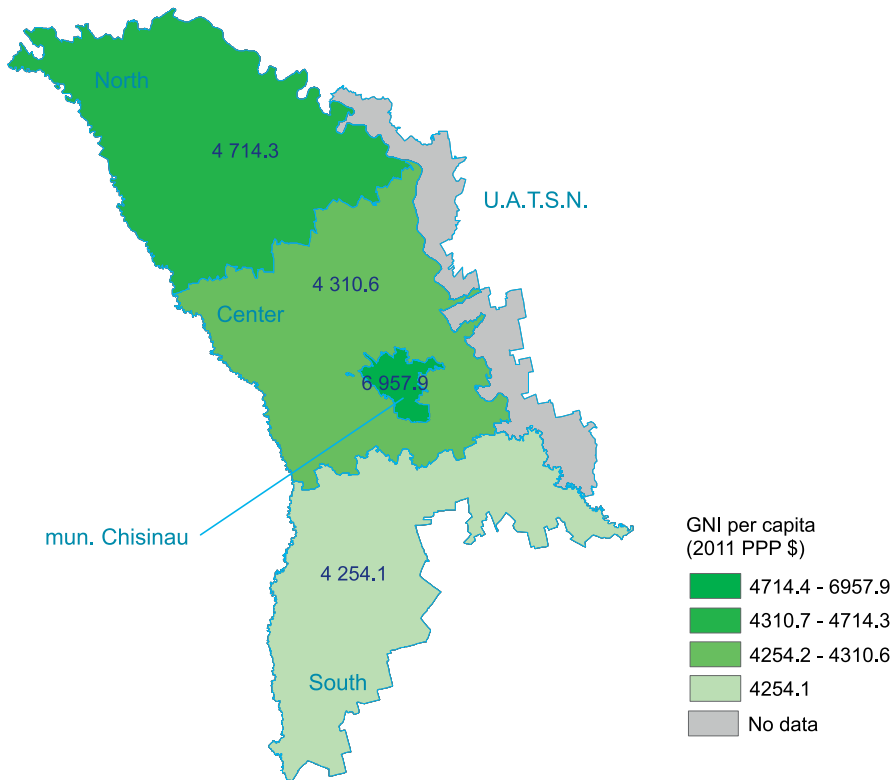
Expected Years of Schooling by regions (2013)



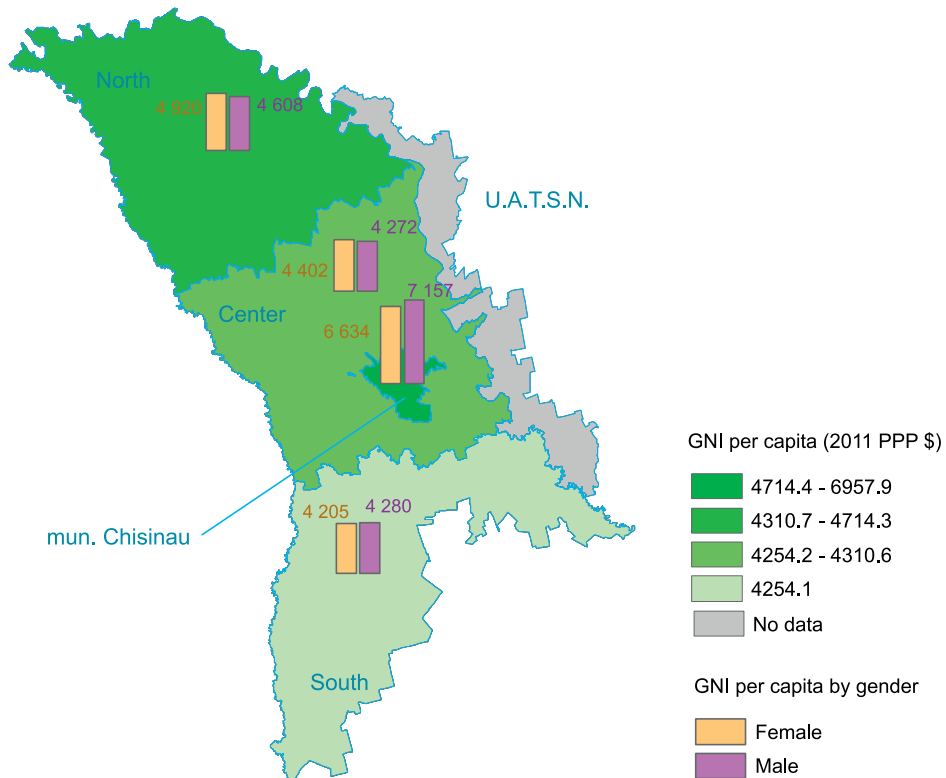
Expected Years of Schooling by gender and by regions (2013)



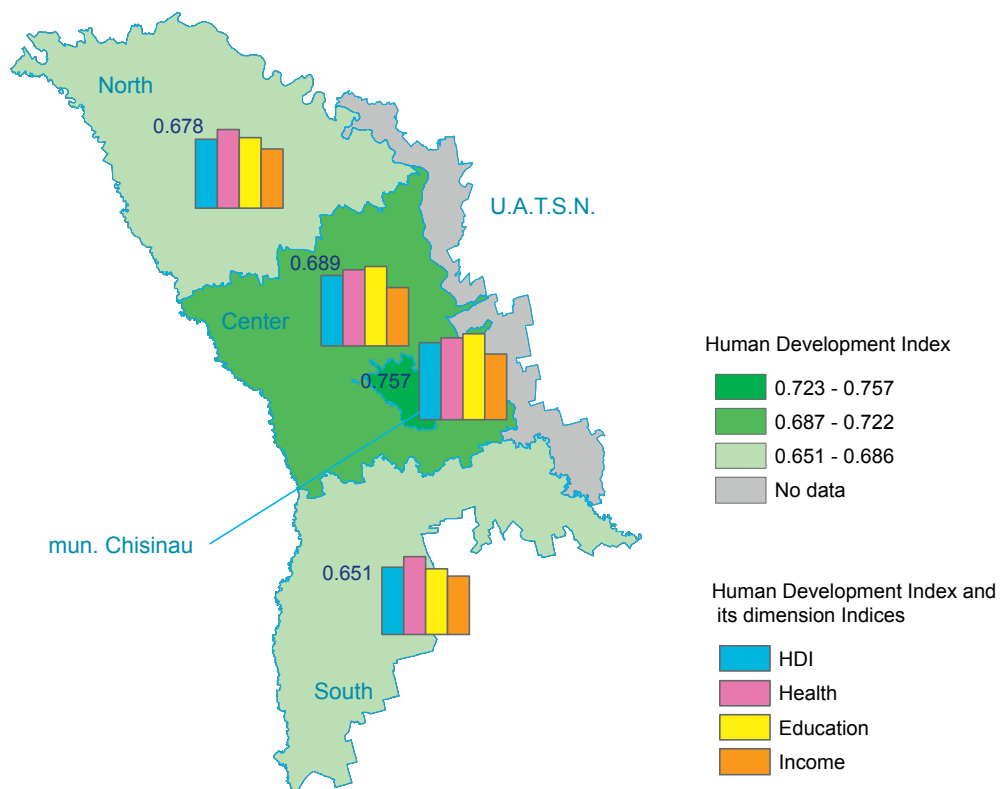
Gross National Income (GNI) per capita by regions (2013)



Gross National Income (GNI) per capita by gender and by regions (2013)



Human Development Index and its Dimension Indices by regions (2013)



Annex 4. HUMAN DEVELOPMENT INDEX, DISAGGREGATION BY COMPONENTS, AS WELL AS BY REGIONS AND SEXES

Table 10. Human Development Index and its dimension indices by statistical regions (2013)

Statistical regions	HDI	Health Index	Education Index	Income Index
North	0.678	0.774	0.693	0.582
Center	0.689	0.743	0.776	0.569
South	0.651	0.757	0.642	0.567
mun. Chisinau	0.757	0.803	0.842	0.641
Moldova (New estimation) ¹⁰⁶	0.687	0.752	0.728	0.592
Moldova as per GHDR 2014	0.663	0.752	0.653	0.592

Note: UTA Gagauzia is included in the South region

Table 11. Dimension indicators of Human Development Index by statistical regions (2013)

Statistical regions	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	Gross National Income (GNI) per capita
North	70.3	11.7	10.89	4 714.3
Center	68.3	11.5	14.12	4 310.6
South	69.2	11.7	9.08	4 254.1
mun. Chisinau	72.2	13.5	14.12	6 957.9
Moldova (New estimation)	68.9	12	11.8	5 041.2
Moldova as per GHDR 2014	68.9	9.8	11.8	5 041.2

Note: UTA Gagauzia is included in the South region

Table 12. Gender Development Index and its dimension indices by statistical regions (2013)

Statistical regions	Gender Development Index	Human development index		Health Index		Education Index		Income Index	
		Female	Male	Female	Male	Female	Male	Female	Male
North	1.010	0.682	0.675	0.786	0.762	0.686	0.699	0.589	0.579
Center	1.010	0.694	0.687	0.754	0.734	0.776	0.780	0.572	0.567
South	0.995	0.649	0.652	0.763	0.752	0.635	0.649	0.565	0.567
mun. Chisinau	0.996	0.754	0.757	0.803	0.800	0.842	0.840	0.634	0.645
Republica Moldova (estimare nouă)	0.986	0.682	0.692	0.774	0.731	0.725	0.734	0.564	0.618
Republica Moldova conform RGDU 2014	0.989	0.659	0.666	0.774	0.731	0.656	0.655	0.564	0.618

Note: UTA Gagauzia is included in the South region

¹⁰⁶ The index is calculated by authors based on the NBS data and is higher compared to the one provided by the Global Human Development Report. The source of this discrepancy is the „Mean years of schooling” indicator, which has the value of 9.8 according to the GHDR data and the value of 12 according to the NBS data. The authors' calculations are experimental.

Table 13. Dimension indicators of Gender Development Index by statistical regions (2013)

Regiuni	Life expectancy at birth		Mean years of schooling		Expected years of schooling		GNI per capita	
	(years)		(years)		(years)		(2011 PPP\$)	
	Female	Male	Female	Male	Female	Male	Female	Male
North	73.6	67.0	11.4	12.0	11.0	10.8	4 920.3	4 608.4
Center	71.5	65.2	11.4	11.7	14.3	14.0	4 402.0	4 271.9
South	72.1	66.4	11.6	11.8	8.9	9.2	4 204.8	4 280.3
mun. Chisinau	74.7	69.5	13.4	13.5	14.3	14.0	6 634.3	7 156.7
Moldova (New estimation)	72.8	65.0	11.9	12.2	11.8	11.8	4 196.1	5 979.2
Moldova as per GHDR 2014	72.8	65.0	9.6	10.0	12.1	11.6	4 196.1	5 979.2

Note: UTA Gagauzia is included in the South region

Table 14. Life expectancy at birth by development regions and by sub-populations (years)

Development regions	Sub-populations	2009	2010	2011	2012	2013
North	Both sexes	68.7	68.7	69.7	70.0	70.3
	Male	65.0	65.0	66.2	66.8	67.0
	Female	72.5	72.4	73.2	73.2	73.6
	Urban	69.4	69.9	70.8	70.8	71.2
	Rural	68.3	68.0	69.1	69.6	69.8
Center	Both sexes	66.5	65.9	68.1	67.9	68.3
	Male	63.3	62.4	64.9	64.6	65.2
	Female	69.9	69.6	71.4	71.2	71.5
	Urban	68.9	68.9	70.0	69.9	71.0
	Rural	66.0	65.2	67.7	67.4	67.7
South	Both sexes	67.2	66.8	68.3	68.5	69.2
	Male	64.0	63.6	65.0	65.3	66.4
	Female	70.5	70.2	71.9	71.8	72.1
	Urban	69.1	68.8	69.7	70.6	70.5
	Rural	66.6	66.1	67.9	67.8	68.7
mun. Chisinau	Both sexes	70.4	70.8	71.7	71.8	72.2
	Male	67.2	67.4	68.5	68.8	69.5
	Female	73.5	73.9	74.5	74.6	74.7
	Urban	70.8	71.0	72.0	72.1	72.4
	Rural	67.0	68.3	68.3	69.0	70.2
UTA Gagauzia	Both sexes	68.4	68.1	69.7	69.5	70.3
	Male	64.6	63.9	66.3	66.0	66.8
	Female	72.2	72.6	73.0	73.1	73.7
	Urban	68.7	68.8	70.5	70.4	71.0
	Rural	68.2	67.6	69.1	68.9	69.7

Table 15. Mean years of schooling by statistical regions and by sexes (years)

Regiuni	2011			2012			2013		
	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female
North	11.5	11.8	11.2	11.7	11.9	11.4	11.7	12.0	11.4
Center	11.6	11.8	11.4	11.5	11.7	11.4	11.5	11.7	11.4
South	11.6	11.8	11.3	11.6	11.8	11.4	11.7	11.8	11.6
mun.Chisinau	13.4	13.4	13.4	13.5	13.5	13.5	13.5	13.5	13.4
Moldova	12.0	12.2	11.8	12.0	12.2	11.9	12.0	12.2	11.9

Note: UTA Gagauzia is included in the South region

Table 16. Expected years of schooling by development regions and by gender (years)

Development regions	2013		
	Both sexes	Male	Female
North	10.89	10.78	11.02
Center	14.12	14.04	14.25
South	9.08	9.21	8.94
mun. Chisinau	14.12	14.04	14.25
UTA Gagauzia	9.45	9.74	9.19
Moldova	11.80	11.78	11.81

Table 17. Gross national income (GNI) per capita by statistical regions and by sexes (2011 PPP \$)

Statistical regions	2013		
	Both Gender	Male	Female
North	4714.3	4608.4	4920.3
Centre	4310.6	4271.9	4402.0
South	4254.1	4280.3	4204.8
mun.Chisinau	6957.9	7156.7	6634.3
Moldova	5041.2	5 979.2	4 196.1

Note: UTA Gagauzia is included in the South region

Annex 5. THE RELATIONSHIP BETWEEN THE PRIVATE SECTOR AND THE REVENUE COMPONENT OF THE HUMAN DEVELOPMENT DIMENSION

Regression for the sales revenue of the private sector. Outcomes of estimates

Dependent variable: DLOG(RPS)
 Method: Least Squares
 Date: 08/26/14 Time: 17:34
 Sample (adjusted): 2001 2012
 Included observations: 12 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.056455	0.036509	-1.546334	0.1564
DLOG(PROD)	1.070593	0.547632	1.954951	0.0823
DLOG(EXPORT)	0.681256	0.237933	2.863228	0.0187
R-squared	0.710394	Mean dependent var		0.074636
Adjusted R-squared	0.646037	S.D. dependent var		0.116478
S.E. of regression	0.069298	Akaike info criterion		-2.288470
Sum squared resid	0.043220	Schwarz criterion		-2.167244
Log likelihood	16.73082	Hannan-Quinn criter.		-2.333353
Durbin-Watson stat	1.410192			

Source: EG estimations

Note: DLOG: difference of logarithms (logarithms difference is approximately equal to the growth rate)

Regression for budget revenues. Outcomes of estimates

Dependent variable: DLOG(BR)
 Method: Least Squares
 Date: 08/29/14 Time: 11:57
 Sample (adjusted): 2001 2012
 Included observations: 12 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.039949	0.063803	0.626136	0.5487
DLOG(VSP)	0.461438	0.116040	3.976549	0.0041
D2001	0.103157	0.046825	2.203023	0.0587
D2002	-0.111859	0.043006	-2.600989	0.0316
R-squared	0.735425	Mean dependent var		0.066413
Adjusted R-squared	0.636210	S.D. dependent var		0.067869
S.E. of regression	0.040935	Akaike info criterion		-3.292460
Sum squared resid	0.013405	Schwarz criterion		-3.130825
Log likelihood	23.75476	Hannan-Quinn criter.		-3.352303
Durbin-Watson stat	1.979069			

Source: EG estimations

Note: DLOG: difference of logarithms (logarithms difference is approximately equal to the growth rate)

Annex 6. THE RELATIONSHIP BETWEEN THE PRIVATE SECTOR AND THE HEALTH COMPONENT OF THE HUMAN DEVELOPMENT DIMENSION

Regression for budgetary salaries. Outcomes of estimates

Dependent variable: DLOG(SALB)

Method: Least Squares

Date: 06/05/14 Time: 14:52

Sample (adjusted): 2001 2013

Included observations: 13 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.601246	0.098445	6.107452	0.0003
DLOG(BE)	1.051691	0.306726	3.428768	0.0090
D2001	-0.312680	0.068892	-4.538662	0.0019
D2006	-0.127902	0.059167	-2.161722	0.0626
D2009	-0.169727	0.056385	-3.010126	0.0168
R-squared	0.818088	Mean dependent var		0.104300
Adjusted R-squared	0.727132	S.D. dependent var		0.101950
S.E. of regression	0.053255	Akaike info criterion		-2.743713
Sum squared resid	0.022689	Schwarz criterion		-2.526424
Log likelihood	22.83413	Hannan-Quinn criter.		-2.788375
Durbin-Watson stat	2.073081			

Source: EG estimates

Note: DLOG: difference of logarithms (logarithms difference is approximately equal to the growth rate);

D: dummy variable included in regressions to remove outliers of the analysed indicator

Regression for overall prevalence rate. Outcomes of estimates

Dependent variable: PREV/100

Method: Least Squares

Date: 08/30/14 Time: 09:30

Sample (adjusted): 2001 2012

Included observations: 12 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.742104	0.013510	54.93157	0.0000
DLOG(VSP)	-0.305354	0.071809	-4.252309	0.0021
DLOG(PEH)	-0.344063	0.085638	-4.017632	0.0030
R-squared	0.756001	Mean dependent var		0.685169
Adjusted R-squared	0.701779	S.D. dependent var		0.049462
S.E. of regression	0.027011	Akaike info criterion		-4.172822
Sum squared resid	0.006566	Schwarz criterion		-4.051596
Log likelihood	28.03693	Hannan-Quinn criter.		-4.217705
Durbin-Watson stat	2.059800			

Source: EG estimates

Note: DLOG: difference of logarithms (logarithms difference is approximately equal to the growth rate);

Annex 7. THE RELATIONSHIP BETWEEN THE PRIVATE SECTOR AND THE EDUCATION COMPONENT OF THE HUMAN DEVELOPMENT DIMENSION.

Regression for the number of students and pupils enrolled in secondary vocational, secondary specialized and higher education. Outcomes of estimates.

Dependent variable: DLOG(STUDENT)
 Method: Least Squares
 Date: 08/30/14 Time: 10:17
 Sample (adjusted): 2002 2012
 Included observations: 11 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.044645	0.032970	1.354110	0.2178
DLOG(REM per capita)	0.163095	0.054044	3.017821	0.0194
DLOG(SALN(-1))	0.365207	0.147368	2.478197	0.0423
D2005	-0.089446	0.033199	-2.694236	0.0309
R-squared	0.806374	Mean dependent var		0.009928
Adjusted R-squared	0.723391	S.D. dependent var		0.058803
S.E. of regression	0.030927	Akaike info criterion		-3.839095
Sum squared resid	0.006695	Schwarz criterion		-3.694406
Log likelihood	25.11502	Hannan-Quinn criter.		-3.930301
Durbin-Watson stat	2.157453			

Source: EG estimates

Note: DLOG: difference of logarithms (logarithms difference is approximately equal to the growth rate);

D: dummy variable included in regressions to remove outliers of the analysed indicator

Dependent variable: DLOG(PROD)
 Method: Least Squares
 Date: 06/02/14 Time: 17:35
 Sample (adjusted): 2003 2013
 Included observations: 11 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0,249691	0,102211	2.442906	0.0503
PREV/100	-0.367731	0.138709	-2.651102	0.0380
DLOG(GRADu(-2))	0.409415	0.146701	2.790817	0.0315
DLOG(GRADs(-2))	0.645679	0.125960	5.126069	0.0022
D2009	0.081738	0.023972	3.409675	0.0143
R-squared	0.911779	Mean dependent var		0.060385
Adjusted R-squared	0.852965	S.D. dependent var		0.045282
S.E. of regression	0.017364	Akaike info criterion		-4.965937
Sum squared resid	0.001809	Schwarz criterion		-4.785075
Log likelihood	32.31265	Hannan-Quinn criter.		-5.079945
Durbin-Watson stat	2.051419			

Source: EG estimates

Note: DLOG: difference of logarithms (logarithms difference is approximately equal to the growth rate);

D: dummy variable included in regressions to remove outliers of the analysed indicator



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