



2017

STATE OF THE COUNTRY
REPORT
REPUBLIC OF MOLDOVA

 **Expert-Grup**
Independent Think-Tank

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Republic of Moldova 2017

STATE OF THE COUNTRY REPORT

In partnership with:

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CHISINAU 2017

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Abbreviations

ANRE	National Energy Regulatory Agency
ATU	Administrative Territorial Unit
CEE	Central and Eastern European
CEE EU	Central and Eastern European and EU
CTEM	Kuchurgan power station
EBRD	European Bank for Reconstruction and Development
EEA	Energy Efficiency Agency
EIB	European Investment Bank
EU	European Union
FES	Friedrich-Ebert-Stiftung
GDP	Gross domestic product
HDI	Human Development Index
IPP	Institute for Public Policy
MDL	Moldovan Leu
NAC	National Anti-corruption Centre
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
OECD	Organisation for Economic Co-operation and Development
PAS	Action and Solidarity Party
PDM	Democratic Party of Moldova
PSRM	Party of Socialists of the Republic of Moldova
PDM	Partidul Democrat din Moldova
PL	Partidul Liberal
PLDM	Partidul Liberal-Democrat din Moldova
PIB	Produsul Intern Brut
PSRM	Partidul Socialiştilor din Republica Moldova
UE	Uniunea Europeană
UTA	Unitate Teritorial-Administrativă

Key Policy Messages

Moldova's state of the country has worsened against the background of a number of exacerbating systemic vulnerabilities. The development prospects of the country are challenged by a series of economic, social and demographic constraints. From the economic point of view, the growth proved to be slow and unsustainable, implying the erosion of GDP potential and competitiveness. Moreover, the economic growth did not materialize in meaningful improvements in the wellbeing of the population, given the decline in formal employment and increase in informal one, which created challenges from the social point of view. The demographic challenges are related to poor capacity of the economy to integrate the largest cohort of the population with an age profile of around 30 years, which gradually leads to losing the opportunity to explore the benefits of the demographic dividend.

The internal (geo)political struggles and frequent controversial legal initiatives have worsened the internal systemic vulnerabilities. The period 2016–2017 was marked by the fact that the presidency, along with the left-wing parliamentary opposition party, intensified the Russian factor, which made the society and business environment confused about the country's European orientation. This feeling was intensified by the slow pace of reforms and even by actions that distanced Moldova from the EU association agenda, promoted by the 'pro-European' Government. These actions included a number of legal initiatives heavily criticised by a large part of civil society and most of the development partners (i.e.: the law on 'fiscal and capital amnesty', modification of the electoral system, an initiative to limit non-governmental organisations' access to external financing, low transparency in electricity procurement and others). These slippages and the tactical struggles (sometimes, even partnerships) between the ruling party and the left-wing parliamentary opposition party have fostered even more the deficit of trust in the Government by citizens,

business entities and development partners. As a result, investments have fallen and the financial support from development partners is uncertain (particularly after the approval of the mixed voting system and the failure of reforms in the areas of justice and anti-corruption). Moreover, the reform process is also undermined by the low level of public legitimacy of the current Government: surveys show a low level of electoral support for the ruling party, which is close to the electoral threshold.

The exacerbating internal vulnerabilities have distanced Moldova even further from the Central and Eastern European countries, in terms of development. These discrepancies have increased during the recent years in all of the country's development areas: economic, social and governance.

- *Economic discrepancy:* slow and volatile economic growth in recent years, in tandem with the constant erosion of the potential growth, has kept the country with easily the lowest gross domestic product (GDP) per capita in the region (it represents only one-tenth of the average level of GDP per capita in the in the Central and Eastern European (CEE) countries that are members of the EU, with no major changes in past years). Moreover, discrepancies also increased in the industrial and energy areas, as well as in the levels of exports and gross capital formation. Therefore, both the level and the structure of the Moldovan economic growth have remained far removed from the trends observed in Central and Eastern Europe, revealing once again the increasing fall in the country's competitiveness.
- *Social discrepancy.* The shortcomings in terms of the economic growth pattern have also impacted citizens' wellbeing. Thus, the deficit of investments and capital have caused Moldova to remain at a low level of specialization and competitiveness, which has worsened

the discrepancy between the labour productivity of Moldova and that of the CEE countries from EU. This has affected even more the discrepancies related to the quality of employment, particularly from the perspective of indicators related to informal employment and the level of salaries.

- *The discrepancy in the quality of governance* is made clear in Moldova's declining position in the international rankings on governance transparency, perceptions of corruption and freedom of media.

The increasing discrepancies between Moldova and the Central and Eastern European countries fundamentally undermines Moldova's development perspectives. Specifically, it undermines the country's competitiveness in the markets where its goods are sold (mainly due to economic discrepancies), in human capital (mainly due to social discrepancies) and in economic/financial capital (mainly due to governance discrepancies). For a country that is so small and so dependent on export markets, labour force and investors' and development partners' capital, such a widening of the development discrepancies must sound an alarm bell for decision-makers in Chisinau. They should respond by speeding up the key reforms that will ensure the country's convergence to the development level of the CEE EU countries by 2030.

The basic sources of Moldova's sustainable development are the private sector and human capital. Both of these need to be boosted in parallel and in a balanced manner. If policy-makers disregard human capital, the country's competitive potential will be harmed, because competitiveness based on a relatively cheap labour force, as is the case nowadays in Moldova, would dissipate over time, especially in the context where real salaries grow faster than productivity. At the same time, the development of human capital, in the absence of a strong private sector, is not possible because Moldova's public sector alone does not have enough resources and capacities in this respect.

So far, Government policies have not focused enough on the main source that underpins the country's long-term competitiveness – the country's people. People have always represented the main source generating economic growth. For example, in 2016, households' consumption accounted for 82% of total consumption and 87% of GDP, the individual income tax, VAT and excises – indirect consumption related taxes – constituted 78% of the total duties and taxes collected for the State Budget, while the balance of term deposits – the main source of crediting consumption and investments – made by individuals constituted 88% of the total deposits. At

the same time, paradoxically, there have always been a shortage of effective people-centred policies in Moldova. As a result, the economic growth did not translate into proportional increase in the wellbeing of the population. Another result is that over the past years there has been a declining quality of employment (an increase in informal employment, in parallel with modest salary growth) and an increase in the discrepancies between the quality of employment in Moldova and that in the Central and Eastern European countries. Moreover, the declining trust in Government, alongside the increasing development discrepancies, have contributed to a new migration outflow, depriving even further the country of the pool of working-age population.

Consequently, the main source of the country's development – its labour force - which underpins its competitiveness, is continually being eroded in terms of both numbers and productivity. Thus, Moldova is losing its key competitive advantage that has, to date, allowed it to attract some strategic investments and unlock its export potential. Until now, industrial sector growth that had ensured about two-thirds of total exports of goods and investments was based, largely, on the high availability of a cheap labour force. However, these advantages are gradually dissipating. The main problems here are related to faster salary growth, as compared to labour productivity, the emigration phenomenon and an educational sector that does not meet the needs of the real sector. The failure to counteract these tendencies will cause the definitive failure of the only real competitive advantage Moldova possesses, meaning that the country's sustainable development will be totally compromised.

It is necessary to change the focus of the country's development policies in order to unlock the main source of growth and development that could ensure long-term competitiveness – its people. This means that *people-centred* policies should be implemented in all areas, especially in ones related to private sector development. Specifically, the development policies for the business environment should focus more on boosting entrepreneurial initiatives and developing small and medium-sized enterprises, fostering improved access to capital, ensuring a free competitive environment, promoting formal employment and encouraging the creation of decent jobs by pro-business and pro-human policies implemented in parallel, rather than consecutively or in isolation. At the same time, the education sector needs to be reformed thoroughly. This should create the proper environment for unlocking both the potential of children/pupils/students in line with the economy's needs, and of their parents (i.e.: building nurseries, which will allow parents,

after childbirth, to integrate faster into the economic environment). In this regard, there is a need for closer institutional collaboration between the Ministry of Economy and Infrastructure, the Ministry of Education, Culture and Research, and the Ministry of Health, Labour and Social Protection. This should take place within a permanent, operational and institutionalised platform, with the Prime Minister's leadership, and it should aim to anchor the policies of the aforementioned ministries to the objectives referred to above.

The reform of the public sector governance should remain the top priority and should be the starting point for other systemic reforms. This finding from the previous edition of the State of the Country Report appears again for the 2017 report because the need of a far-reaching reform of the public sector, especially of its governance, remains as topical today as it was a year ago. Besides parametric adjustments related to optimisation of ministries or the number of civil servants, there is also a need for substantial and in-depth reforms that would

make the public institutions less politicized, more transparent, more accountable and more attractive to professionals. Currently, the public sector is too weak in relation to private or political actors, which makes it vulnerable to influences from vested interests from both private and political circles. Over the past years, this has tarnished the reputation of the public service and has contributed to mass migration of many talented individuals from the public sector, which hinders reforms in other vital areas. Therefore, the authorities should urgently: rethink the salary scales and other monetary and non-monetary motivations (these should be based on performance); encourage top-down reforms in order to allow civil servants to really feel ownership for reforms and their influence over public policies; implement the integrity system reform effectively in the public sector; and increase public institutions' transparency by promoting the 'open government' principle, especially in relation to reporting on the basis of performance indicators and budgetary programmes.

Executive Summary

Special subject: The non-observed economy – a depository of missed opportunities

In the Republic of Moldova, non-observed economic activities play an important role due to their sheer size in comparison to formal ones. After 2000, the share of GDP created in the non-observed economy is estimated to have fallen from 35% to 21% in 2007, but the trend has reversed and the share has started to go up slowly, to 24% in 2015. Informal employment had almost the same evolution, registering a decrease in the total employed population from 38% in 2000 to about 30% in 2012, and then increasing once again to 35% in 2015. Both the non-observed economy and informal employment have undergone significant structural changes. The role of agriculture, as the main sector of the non-observed economy, has dropped and has been over-taken by the service sector. This has led to an increase in the scale of tax evasion stemming from the service sector and a decrease in the share of production for own consumption, generated by agriculture. However, the employment structure has not followed the same changes by economic sectors as the non-observed economy because the share of informal agricultural employment has continued to grow. In 2015, about 75% of informal employment was concentrated in agriculture. The recent rise of both the non-observed economy and informal employment indicate on the failure of policies and efforts to diminish them and represent a challenge to the country's sustainable economic growth. In addition, informal employment constitutes an impediment to increasing aggregated labour productivity due to the low added-value it produces.

Economy

The economy of the Republic of Moldova recovered after the decline from 2015. Thus, in 2016 GDP increased by 4.3%. Half of this performance occurred thanks to the 18% growth gross added-value in agriculture. The

positive evolution in agriculture was determined by the recovery effect and by the low basis of comparison in 2015, when the sector shrank. However, it is unlikely that the circumstances that favoured the dynamics of the agricultural sector in 2016 will remain unchanged in coming years. Although the developments at the beginning of the year were uncertain, there is a big probability that, in 2017, the economy will expand by a rate of 3%. The factors that would favour this dynamic are the increase in salaries, remittances and public investments. In the long run, we observe a weak convergence of Moldova to the level of the CEE countries. Despite the economic growth, the incomes of people in Moldova are still very low in contrast to the GDP per capita in CEE: a consequence above all of very low relative productivity. A comparative analysis between Moldova and reference countries shows structural deficiencies in the Moldovan economy which partly explain this gap. Particularly, the tradable sectors are underdeveloped. Industry has a relatively low potential and, as a result, the sector's share in GDP is low. Agriculture is a huge, but uncompetitive, sector. The economy of Moldova is still based too much on consumption, export potential is low, while the private sector's investment activity is still declining. In fact, the national economy is steadily losing its potential to grow, which could lead to further increases in the gaps in productivity and real incomes against the CEE countries.

Besides the structural problems, there are also political risks. Economic activity is jeopardised by political struggles in Chisinau, which could cool relations with the EU and reduce financial support from Brussels. To accelerate growth, reforms are needed that strengthen the tradable sectors. However, economic restructuring can only be done by reforming and streamlining public institutions. In addition, a political consensus on the irreversibility of EU Association Agreement's implementation is an abso-

lute necessity that would ensure greater predictability for the private sector and boost the economic dynamic.

Labour market and social wellbeing

Increasing labour productivity is one of the main ingredients for sustainable economic growth, and for convergence to the CEE countries. Low labour productivity in Moldova remains the fundamental reason for its low level of per capita incomes. During 2000–2016, labour productivity increased rapidly (by 2.6 times) and exceeded the average growth rate registered in the CEE countries that are members of the EU (by 1.5 times). In spite of this performance, Moldova's level of productivity even after that improvement still constitutes only 22% of the average level of the reference countries. The speed of the medium-term convergence faces three key challenges. The first challenge is the discrepancy in the level of fixed capital investments per person employed, which in Moldova is only 20% of the average of the countries in the region. The second challenge is the discrepancy as regards the quality of employment: the share of the labour force having a university degree and a vocational-technical degree is significantly lower in Moldova, compared to other countries in the region. The third challenge for the economic competitiveness of the Republic of Moldova is that wages and salaries are growing faster than productivity, while in the CEE countries these two are more closely related. Overcoming these challenges and boosting productivity requires structural reforms that reduce informal employment, foster fixed capital investments and further adjust the education system.

Education and human capital

One of the main indicators characterising human development, in its most important aspects (education, health and income), is the Human Development Index (HDI), according to which Moldova is placed 107th out of 188 countries in 2015, with a value of 0.699, which is 17.1% lower than the average rate in the CEE countries that are members of the EU. In fact, Moldova has seen relatively poor progress in comparison with this group of countries in all indicators characterising the quality of human capital, which implies that we now need a consistent and big effort to achieve convergence. The closest level to the reference countries on any of the indicators is achieved in relation to the enrolment rate in higher education, for which the discrepancy is only 12.9%. At the same time, this is only a quantitative indicator, whereas the quality of higher education is not rated the same, even if the demand for higher education is much higher than for technical-vocational education. The biggest discrepancy between Moldova and

the CEE countries from EU is registered in adult training. In 2016, only 0.96% of adults took part in a training course in Moldova, whereas the average level in the reference countries exceeds 6%. At the same time, the European countries, which understand the rapid changes taking place, invest much more in lifelong learning. This in turn leads to a vicious circle that gives rise to a negative combination of the general economic status of the country: a less sophisticated economy, with low productivity and shortage of skilled labour force. Therefore, human capital development must be a real priority for the Republic of Moldova, because it is one of the few factors that can influence the country's medium- and long-term development in a sustainable way. As regards policies centred on human capital development, these must cover several aspects: (i) an increase in the quality of vocational education and encouragement of lifelong learning; (ii) a change in the teaching methods in mainstream education, so as to stimulate creativity; and (iii) the creation of conditions to keep and attract talented and skilled persons in the country. In addition, policies should also consider Moldova's proximity to the EU, given that economic relations with the EU can influence the private sector's economic structure and needs.

Energy sector

A number of positive sector evolutions occurred thanks to the intensification of cooperation between Moldova with the Energy Community and the EU. Nonetheless, these improvements were limited by the rigidity of the domestic market regulator, weak energy governance and the lack of solid political will. Projects envisaging interconnections with the European energy space through Romania gained momentum – in particular in the gas sector. However, the impact of those interconnections will be partial, if the regulator does not ensure genuine competition in the domestic market. Though energy consumption from renewable resources has seen a positive trend, there is a lack of fluid coordination among producers, distribution networks and system operators, hindering an increase in the supply of 'green energy' in the system. The main efforts in this sector must be focused on: (i) adopting in full the Third Energy Package¹; (ii) improving the energy procurements mechanism; (iii) depoliticising the regulator and reducing political interference in managing state companies; (iv) speeding up the interconnection projects with Romania and including conditionalities in the sector; and (v) completing the legal architecture for renewable resources.

¹ A set of EU directives and regulations related to energy sector (electricity, natural gas).

Domestic and foreign politics

Moldova's political processes were shaped by tactical cohabitation between the ruling party – the Democratic Party – and the Socialist opposition party, which culminated with the introduction of the mixed voting system. At the same time, the country's external orientation became the epicentre of a rivalry between the two formations, particularly after the Socialist Igor Dodon became President. The latter, converted the presidency into the main platform for relaunching the dialogue with Russia and for bringing the country closer to Russian-Eurasian geopolitical projects. Reforms were dealt with selectively: many key reforms were neglected: examples including a non-

operational integrity mechanism and failure to complete the reform of the Anti-Corruption Prosecutor's Office. Other actions such as circumventing legal procedures for decision-making about transparency, limitation of public consultations, attempts to vote conflicting laws (e.g. the draft law on capital legalisation) and shirking from international commitments (political preconditions for the EU's macro-financial assistance), altogether increased the mistrust of both Moldovan civil society and the external partners to the Government. To help resolve the problems outlined in domestic and foreign politics, we recommend: (i) consolidating the reforming mechanism; (ii) strengthening civil society assistance; and (iii) communicating actively, innovatively and critically the advantages of European integration.

Special Subject: The Non-Observed Economy – a Depository of Missed Opportunities

A significant share of socio-economic activities in the Republic of Moldova takes place in the non-observed economy. The non-observed economy's share of GDP dropped in the first part of the previous decade, from 35% to 21%, but has started to grow again in recent years. Not only is the size of non-observed production increasing, so too is informal employment. Both of these processes create challenges for the country's sustainable growth, due to the misuse of production factors and foregone tax revenues for the budget. This chapter discusses the aforementioned trends and the factors that underlie the metamorphosis of Moldova's non-observed economy.

Key Trends in the Non-Observed Economy

Non-observed economic activities have a significant impact on any country's sustainable development path. The higher the share of the non-observed economy in respect of GDP, the worse the quality of economic growth is, due to the high opportunity costs generated by the suboptimal use of production factors. The suboptimal use of production factors manifests itself in the labour force being engaged in economic activities with low added value, low investments in fixed capital by informal business entities and tax evasion. Perpetuation of this pattern leads to lower levels of tax collections than the potential level in a completely formal economy, which causes lower public investments in state-guaranteed services and infrastructure. This creates a vicious circle, which is quite difficult to break. Greater efforts to modernise and reform the socio-economic area are then required.

Box 1. Components of the Non-observed economy

The non-observed economy is comprised of following components:

- *Underground production*, defined as those activities that are productive and legal, but are deliberately concealed from the public authorities to avoid payment of taxes or complying with regulations;
- *Illegal production*, defined as those productive activities that generate goods and services forbidden by law or that are unlawful when carried out by unauthorised producers;
- *Informal sector production*, defined as those productive activities conducted by unincorporated enterprises in the household sector that are unregistered and/or are less than a specified size in terms of employment, and that have some market production;
- *Production of households for own final use*, defined as those productive activities that result in goods or services consumed or capitalised by the households that produced them.

Source: "Measuring the Non-Observed Economy. A Handbook", OECD, 2002

The importance of the non-observed economy in the Republic of Moldova has decreased gradually over the past decade, but it still has quite high potential to influence the quality of overall economic growth. During 2000–2015, the non-observed economy underwent two phases, which were distinct both in quantitative and qualitative terms². The first phase lasted from 2000 to 2007 and was characterised by a significant decrease in

² Statistical data on the non-observed economy are available only until 2015.

the non-observed economy, from 34.6% to 20.6% of GDP. The second phase started in 2008 and continues to date and is characterised by a gradual and slow increase in the non-observed economy's share of GDP, up to 23.7% in 2015 (Figure 1). The main factors underlying these two evolutions were the structural changes of the national economy. The first phase saw a decreasing role of production in the non-observed agricultural sector, which underpinned the decrease in the non-observed economy's overall share of GDP. However, after 2007 the key role in the non-observed economy shifted from agriculture to the service sector. By 2015, these two sectors literally reversed their contributions compared to 2000. Thus, the increase in the service sector share and the slowdown of non-observed agriculture after 2007 caused a reverse in the downward trend of the non-observed economy, because the share of the industrial and construction sectors varied insignificantly during the analysed period (Figure 1).

The quantitative and qualitative evolutions of the non-observed economy did not reflect the structure of informal employment by economic activities. By contrast to the fact that the key role in the non-observed economy shifted from agriculture to the service sector, the share of **informal employment** in agriculture in total informal employment increased. During 2003–2016, the share of informal employment in agriculture moved up from 67% of the total to 76%.³ During the same period, the share of informal employment in the service sector dropped significantly, from 23% to 13%. The divergence of informal employment and production in both these sectors can be explained by different shares of the components making up the non-observed economy. These components consist of underground production in the formal sector, production in the informal sector and households' production for their own consumption (Box 1). Specifically, households' production for their own consumption – which had a share of 80–74% in total production of non-observed agriculture during 2000–2015 – has the largest share in the non-observed agricultural sector. However, most of the non-observed production in the service sector comes from the informal and formal components, the household playing an insignificant role. The share of underground production in the formal service sector in the total non-observed production increased, in the same period, from 37% to 50%, pointing to a rise of tax evasion in this area. Thus, agriculture became increasingly centred on employment subsistence forms, whereas the service sector has reduced its informal employment

3 Due to statistics constraints, the year 2003 was chosen as a basis of comparison. The National Bureau of Statistics (NBS) started publishing data on informal employment only this year.

at the expense of expanding tax evasion, which includes the formalisation of work relations by expanding 'envelope wages' or undeclared wages phenomenon.

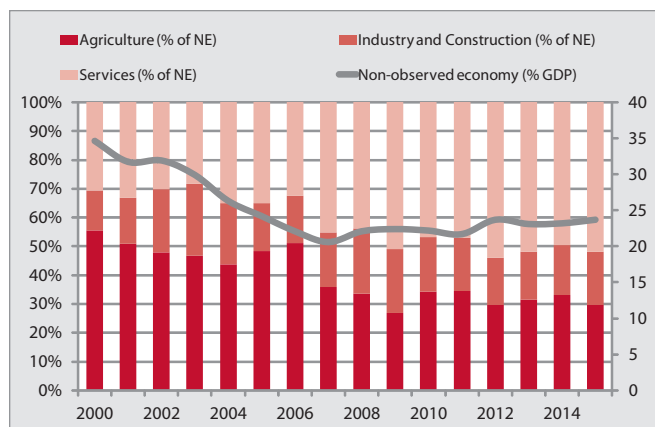
The informal employment sectoral imbalances strengthened after 2014, when this type of employment started to increase in both absolute and relative terms. Until 2014, informal employment had two separate evolutionary phases, which were mostly correlated with the dynamic of the non-observed economy. This type of employment had dropped in the period 2003–2010, from 516,000 to 353,500 people, which constituted a decline in relative terms from 38% to 31% of the total employed population. Then, the informal employment rate stabilised, during 2011–2013, at around 30%–31%, or at 340–360,000 people, in absolute terms. After 2014, the number of informally employed people started to rise constantly and reached the rate of 36.4% in 2016, which is the same as it was 14 years ago. This increase in informal employment is largely due to the fact that Moldovan emigrants returned back home from the Russian Federation, the economy of which was hit by an economic crisis. The return of emigrants led to an increase in employment in the agricultural sector, largely due to informal employment. Informal employment was boosted particularly by the number of households producing for their own consumption, the share of which increased to over 50% of all people employed informally in agriculture (Figure 2). At the same time, informal employment has increased during the past years, not only because of the return of emigrants but also because of formal jobs migration into the informal sector. Overall, the number of formal jobs decreased by 50,000 during 2009–2016.⁴

The increasing informal employment led to lower labour productivity and more vulnerable employment⁵. Informal employment's negative impact on labour productivity results from the fact that informally employed people are mainly concerned about survival, and so are unlikely or unable to invest in the development of their own human capital. In addition, labour productivity also suffers from the fact that informal jobs are not equipped with the most sophisticated and modern technologies. From a social perspective, informal employment is highly vulnerable, because informally employed people cannot benefit from the guarantees and services provided by the state for formally employed ones (unemployment benefits, health insurance, pensions, etc.), which increases the risk of poverty for informally employed people.

4 http://expert-grup.org/media/k2/attachments/MEGA_ediția_XVI-a_Enigmele_creșterii_economice_după_furtună.pdf

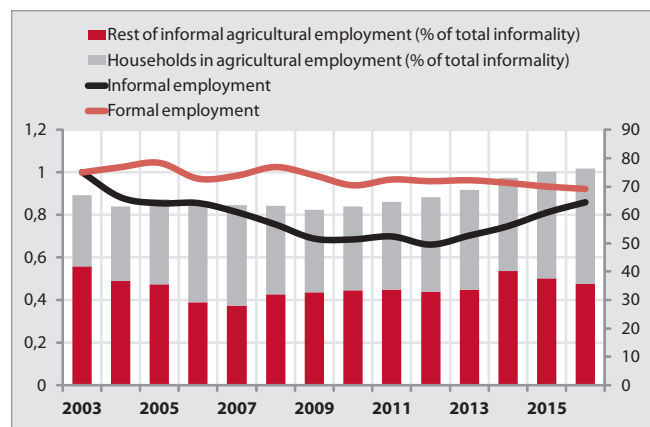
5 Vulnerable employment is contributing family workers and own-account workers.

Figure 1. Dynamic of non-observed economy (% of GDP, right axis) and sectoral shares therein (% of non-observed economy, left axis)



Source: Authors' calculations based on NBS data

Figure 2. Indices of formal and informal employment (left axis) and evolutions of informal employment in agricultural sector by its components (% of total informality, right axis)

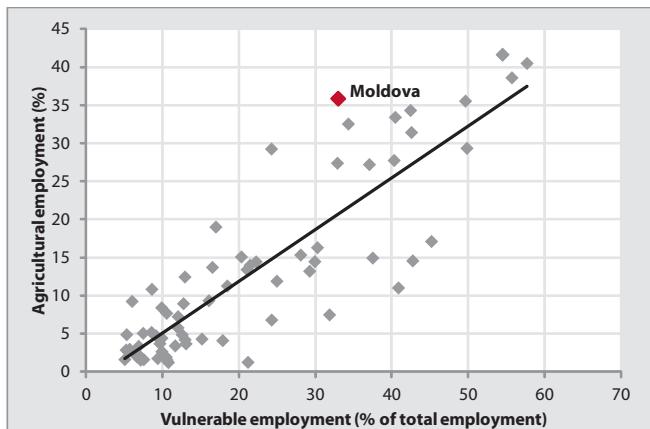


Source: Authors' calculations based on NBS data

The concentration of informal employment in the agricultural sector as encountered in the Republic of Moldova also is a worldwide phenomenon. In fact, there is a direct and quite strong relation between the share of informally employed people and the role of the agricultural sector in the economy of a country. The higher the number of those employed in the agricultural sector, the higher the number of informally employed people (Figure 3). This interdependency can be explained by the fact that a large part of the rural population becomes redundant as a result of any agricultural sector modernization and so it is forced to migrate to the service and/or industrial sectors. Most of the developed countries, where less than 10% of the population are now employed in the agricultural sector, underwent this transition many years ago. However, in countries such as the Republic of Moldova – having a significant share of rural population and employment in the agricultural sector, while the rest of the sectors cannot generate enough jobs – external migration and informal employment phenomena develop. As mentioned above, after 2014 increasing informal employment was generated by the agricultural sector, because an increasing number of households were producing for their own consumption, due to the inability of the rest of the economy to absorb returned emigrants from rural areas. Thus, to decrease informal employment, a medium-term recipe is to follow the path of developed countries, i.e. to decrease the share of those employed in the agricultural sector by fostering the service and industrial sectors. This restructuring of the economy should happen under strengthened institutions and enhanced business climate that would allow the production factors to migrate to sectors with higher labour productivity and competitiveness.

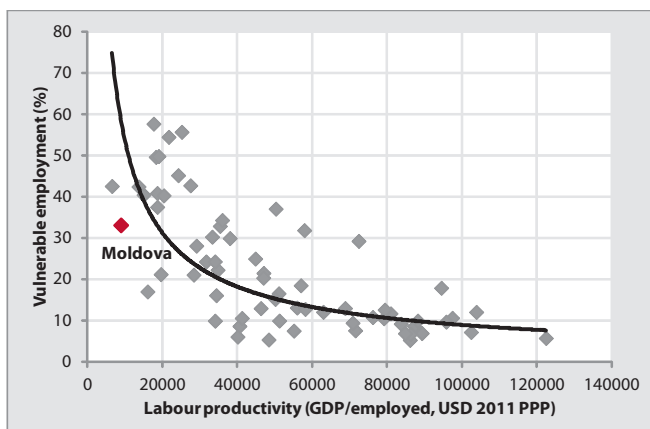
Large-scale informal employment has a negative impact on labour productivity, which is also observed at the global level. The more people are employed in an informal sector, the lower labour productivity tends to be at the country level (Figure 4). This relationship can be explained by the fact that this category of employed people does not invest much in its own development, and the jobs are not supported by the most modern equipment. This negative interdependency is not a linear one. As we can see in Figure 4, the significant decrease in informal employment, largely equivalent to the drop in agricultural employment, leads to a rise in labour productivity only up to a certain threshold. Then, after the informal employment's threshold of around 10%, this factor no longer influences productivity. This rule can be explained by the fact that the decline of informal employment to the 10% share of the total employment is equal to the reallocation of labour factor from the less productive sectors (i.e. agriculture) to the more productive ones (i.e. services and industry) – in other words, it leads to an extensive use of the labour factor. Once this threshold is reached, the increase in labour productivity depends on several factors affecting an economy's competitiveness (quality of human capital, investment climate, etc.). So, the decline in informal employment is required, but is not sufficient on its own to spur the long-term improvement in labour productivity (more details are provided in the chapter on labour market).

Figure 3. Relation between employment in agricultural sector and vulnerable (informal) employment. Average values for 2000-2015⁶



Source: Authors' calculations based on World Bank data

Figure 4. Relation between vulnerable (informal) employment and labour productivity. Average values for 2000-2015



Source: Authors' calculations based on World Bank data

The relationship between agricultural and informal employment in the Republic of Moldova is complex and needs additional explanation. We can see in Figure 3 that the Republic of Moldova is far above the regression line showing the interdependency between informal employment and agricultural employment. This means that, compared with other countries, Moldova has quite a low level of informal employment for the current level of agri-

6 Data on total informal employment worldwide are missing. The only equivalent is vulnerable employment, published by the World Bank in the World Development Indicators. Vulnerable employment consists of self-employed and unpaid family workers. In fact, these two categories constitute the majority in informal employment, which makes the vulnerable employment indicator quite close to the real level of informal employment in all countries.

cultural employment. There are two major explanations for such difference between the Republic of Moldova and other countries. One explanation is the usage as a source for calculations not of the *informal* employment data, but rather the data on *vulnerable* employment, due to statistical constraints. Given that informal employment contains more categories of occupation than vulnerable employment, this difference can be more significant in the case of Moldova than in other countries. The other explanation is that countries with an equal level of agricultural employment to that in the Republic of Moldova have a higher level of vulnerable employment due to higher incidence of this kind of employment in other sectors, such as trade and constructions. At the same time, more formalised employment in the service sector may be hidden by the growing phenomena of 'envelope wages' and tax evasion in the formal sector.

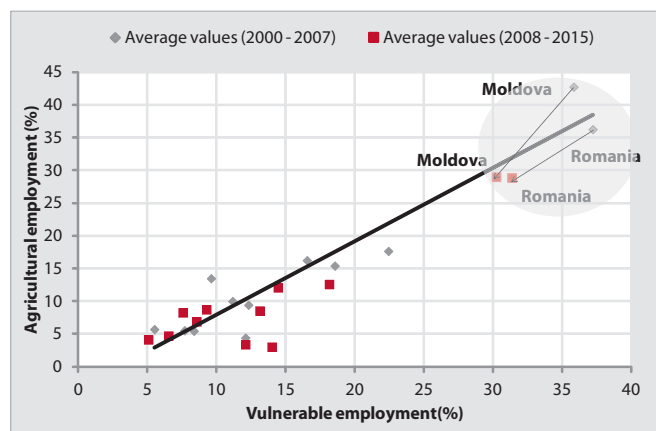
In addition, when it comes to labour productivity, the Republic of Moldova lags behind other countries with an equal or higher share of informal employment. As we can see in Figure 4, Moldova is located to the left of the regression line and so has lower labour productivity than most countries with an equal level of informal employment. This can be explained by the fact that informal employment has a highly disproportionate impact on aggregated productivity, or by other factors that can boost labour productivity. Other factors that can explain the difference are human capital, the scale of the non-observed economy and the structure of informal employment. Thus, an economy with an equal employment level to that in the Republic of Moldova, but with more investments per employed person, will have a higher aggregated productivity (The 'Labour market' chapter provides more details on this topic).

The interdependency between agricultural employment, informal employment and the dynamic of labour productivity can be detected not only at the global level, but also at a regional one. When comparing the Republic of Moldova with the Central and Eastern European countries that are members of the EU (CEE EU) we notice the same interdependencies that occur at the global level.⁷ There is a direct and linear relation between the number of people employed in the agricultural sector and the number employed informally. There are two countries in the region – the Republic of Moldova and Romania – that stand out in this respect. Both lag far behind the rest of the countries as regards both the share of

7 The countries from Eastern Europe that are members of the EU, are: Bulgaria, Croatia, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia, Slovakia and the Czech Republic.

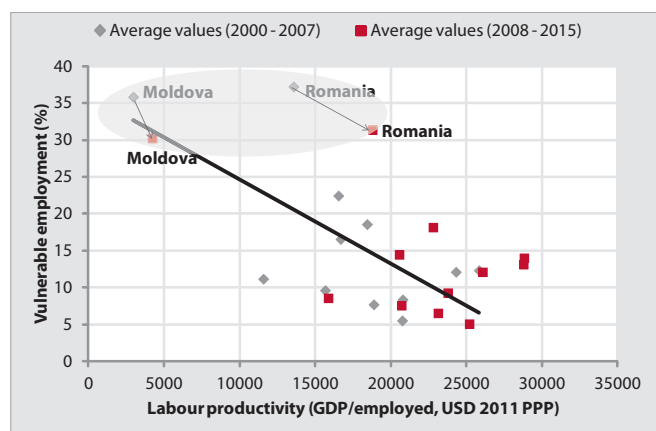
informal and agricultural employment (Figure 5). Though the level of these employment categories has decreased in both countries during the last decade, the discrepancy is still quite high. Note that in the last decade, the share of informal employment decreased almost to the same extent in Romania and in the Republic of Moldova, but labour productivity increased much faster in Romania (Figure 6). This comparison proves once again that the decrease in agricultural and informal employment is required, but is not of itself sufficient, to boost labour productivity at the macroeconomic level.

Figure 5. Relation between employment in agricultural sector and vulnerable (informal) employment. Averages for 2000–2007 and 2008–2015



Source: Authors' calculations based on World Bank data

Figure 6. Relation between vulnerable (informal) employment and labour productivity. Average for 2000–2007 and 2008–2015



Source: Authors' calculations based on World Bank data

Besides the socio-economic consequences, the non-observed economy also has a negative impact on tax collections for the public budget. Tax collections are affected not only by the tax evasion of business entities in the formal sector of the economy, but also by the sig-

nificant share of informal enterprises, which prefer not to switch to the legal sphere of activity, and the high level of informal employment. In the past years, the tax gap, i.e. the difference between the potential and actually collected taxes was about 7% of GDP, or about 18%-20% of total revenues of the National Public Budget (Table 1). In absolute terms, this constitutes about 8-9 billion Moldovan Leu (MDL), which is a huge amount of money for a country that depends on foreign financial support.⁸ Of course, almost all countries have informal and non-observed activities, but a cardinal reduction of these activities and a resulting boost in tax collections could significantly stimulate public investments and support the country's sustainable development. In order to reduce the non-observed economy phenomenon there are required a set of systemic measures, centred on each component of this economy.

Recommendations:

The non-observed economy is a complex and uneven phenomenon. To reduce its scale, it is necessary to develop and implement a set of measures targeted at each component of the non-observed economy separately. The key sub-areas that should be distinguished in the non-observed economy and that require different public policies are: underground production in the formal sector (i.e. tax evasion), informal (unregistered) enterprises, employment in the informal sector (employees in informal enterprises or self-employed), and in the formal sector (envelope wages). Thus, there are four key areas to be considered to diminish the incidence of non-observed activities. What follows are strategic recommendations for each area of intervention:

- **Reduce the informal employment in the informal sector.** Given that most informal employment in the national economy is concentrated in agriculture, it is crucial to focus efforts on reforms affecting this sector. As mentioned in the analysis above, modernisation and an increase of agricultural productivity suppresses the demand for the labour force in this sector, which fosters labour migration to other sectors of the economy. This phenomenon has, to a certain extent, been registered in the past decade in the Republic of Moldova. However, given the lack of jobs in the industrial and service sectors, an out-migration of rural labour force ensued. Taking into account these development trends, informal employment in the agricultural sector can only really be decreased by boosting demand in the industrial and service sectors.

8 Estimation based on the methodology of A. Cobham 'Tax evasion, tax avoidance, and development finance', Queen Elisabeth House Working Paper, No 129.

Thus, efforts should be focused on fostering employment in these sectors. This can be achieved by a number of policies aimed at improving the business environment and channelling investments and foreign support particularly to the service (e.g. information technologies and communication, transport) and industrial sectors (e.g. food processing industries, automotive, textiles and other related types of light industry). Importantly, this should not leave the agricultural sector apart. It should become much more efficient, productive and competitive by being better anchored into the demand of the domestic and foreign markets and focussed on narrower niches where Moldova has real competitive advantages (e.g. seeds, nuts, dried fruits, oils).

- **Reduce the phenomenon of 'envelope wages'.** This phenomenon can be decreased by tweaking the current system of labour taxation. As regards this policy, it is imperative to perform a fiscal manoeuvre in order more effectively to tax salaries, i.e. to cut the share of social contributions paid by employers and to compensate the loss from tax revenues by increasing corporate tax rates. Of course, in addition to this, it is important to take other actions, such as: conducting a tighter and more targeted control of labour laws compliance; fostering the use of cards when paying salaries; and a set of other measures, equally important but of a lower scale, such as conducting information campaigns on the costs and consequences of 'envelope wages' for employees.
- **Decrease the number of informal enterprises.** As a rule, these enterprises are too small and encounter more barriers when entering the legal and visible framework of the economy. To stimulate migration to the formal sector, it is necessary to estimate these enterprises' share in different economic sectors and to identify their key barriers. It is possible and advisable to develop an action plan and one to adjust the existing legal framework, which should depend on the identified profile of informal enterprises though. Irrespective of the specific barriers identified, any policy plan should include both deterrent (improved detection or increased penalties) and incentive (simplified compliance procedures and taxation) measures for informal enterprises.
- **Decrease underground production in the formal sector, i.e. tax evasion.** Tax evasion can be reduced by improving the existing legal framework in order to make the payment of taxes a more easily manageable process (optimising the number of taxes and making them not so complicated). In addition, it is very important to improve the institutional and analytical capacities of the Tax Service in order to detect evasion. It will be helpful for the Tax Service to digitise as many public services as possible and to integrate the databases that contain information about taxpayers. In addition, the tax bodies' efforts to promote voluntary tax compliance, when business entities at risk are notified about being included in the monitoring of tax evasion, should be continued.⁹

Table 1. The main indicators monitored with regards to non-observed economy

Indicators	2014	2015	2016
Non-observed economy (% of GDP)	23.2	23.7	-
Informal employment (% of total employment)	32.5	34.8	36.4
Estimated tax collections missed by National Public Budget (million MDL)	7,827	8,752	-
Estimated tax collections missed by National Public Budget (% of total income)	18.4	20.0	-
Non-observed economy by economic activities (% of GDP)			
<i>Agriculture</i>	7.7	7.0	-
<i>Industry and construction</i>	4.0	4.4	-
<i>Services</i>	11.5	12.3	-
<i>Informal employment, men (% of total informal employment)</i>	57.3	56.6	54.7
<i>Informal employment, women (% of total informal employment)</i>	42.7	43.4	45.3

Source: Authors' calculations based on NBS and Ministry of Finance data

⁹ <https://monitorul.fisc.md/monitorul/serviciul-fiscal-de-stat-promoveaza-conformarea-fiscala-voluntara-si-printre-contribuabilii-din-sectorul-agrar.html>

Economy

This chapter assesses the economic situation of the Republic of Moldova and points out the most outstanding recent trends. We found that Moldova's growth will potentially weaken, which could enlarge the economic distance between the country and the EU countries, and especially the CEE countries in the EU. The chapter ends with a series of recommendations for accelerating economic growth.

Current Economic Situation: Main Aspects

Despite the pessimist forecasts, the economy grew by 4.3% in 2016. However, this growth was determined by circumstantial factors. After the decline by 0.4% in 2015, the economy registered an increase in 2016, and the positive dynamic was ensured by the evolution of the agricultural sector. The added value in the agricultural sector increased by 18% and this contributed to the increase in overall GDP by 2.2%. At the same time, the dynamic of other economic sectors was slow. The non-agricultural sectors' Gross Value Added (GVA) increased by 2.8% and these contributed 2% to the GDP growth. However, the positive evolution in agriculture is not of a lasting nature. It occurred thanks to the recovery effect and the low basis of comparison from 2015: the sector shrank by 13.4% in 2015 due to unfavourable weather conditions. Therefore, it is highly unlikely that the factors which produced the large increase in the agricultural sector in 2016 will remain unchanged from year to year. The analysis of GDP in terms of expenditures highlights the significant influence of changes in stocks on growth. Thanks to a good crop year, the amount of stocks increased and helped increase the level of GDP by 2.3%. In addition, the increase by 8.5% in the export of goods was determined partially by the increase in crop production. However, attention should be drawn to an offsetting and worrying aspect – falling investments. Thus, gross fixed capital formation fell by 2.8% in 2016. This decline was caused by both a decrease in investments financed from

budgetary sources by 35.8% and by a decrease in non-budgetary investments by 10.7%.

The evolution from the first semester of 2017 is uncertain, but there are early signs that annual GDP growth will exceed the 3% level. The economy increased slowly by 3.1% year on year (y-o-y) in quarter 1 (Q1) in 2017. In addition, several sectors registered dynamic or even negative evolutions. Thus, industrial production increased only by 0.3% y-o-y in January–May 2017, while crop production dropped by 5% y-o-y in January–June 2017. The agricultural sector contraction was driven by the sharp decline in crop production, by 28.4% y-o-y, which was caused by the delays in harvesting due to unfavourable weather conditions in the spring of 2017¹⁰. Despite these evolutions, there are preconditions for a 3% growth of overall GDP in 2017. The factors determining households' consumption have seen a positive evolution. Real wages and salaries increased by 6.7% y-o-y in Q1:2017. The change in remittances also had a beneficial impact on consumption. Thus, in January–June 2017 remittance transactions in US dollars (USD) – a proxy indicator for remittance inflows – increased by 9.7% y-o-y – an increase that exceeded the cumulative effect of the national currency movements (in January–June 2017, the exchange rate for MDL/USD strengthened by about 3% y-o-y) and of the increase in prices (in January–June 2017 prices went up by 5.7% y-o-y). At the same time, although fixed capital formation dropped in Q1:2017 by 1.2% y-o-y, public investments increased twofold. In Q1 the share of public investments in total investments is normally low, but over the year that share normally increases and thus the growing public investments contribute to a greater extent to the increase in total investments. Most likely, this upward trend in public investment will persist, and thanks to the greater contribution to the increase in in-

¹⁰ <http://www.statistica.md/newsview.php?l=ro&idc=168&id=5702>

vestments in Q2–Q4 the new capital formation will be extended. This optimistic assumption is based on the fact that the level of budgetary investments is related to foreign financing, which could be better in 2017 compared to 2015 and 2016, when the budgetary support from development partners significantly declined.

Medium-term economic prospects are uncertain. Political developments are the main risk for an economy. Due to political struggles in Chisinau, it is not clear to what extent the Republic of Moldova will benefit from macro-financial support from the EU. Less foreign financing could result in more austere budgetary conditions and a reduction in public investments. In addition, an intensification of the anti-EU rhetoric, and especially the denunciation of the Association Agreement by some parliamentary forces and presidential institutions, only increases the confusion among business entities. Companies remain

in a state of uncertain expectation and, most likely, will not launch new projects until after the 2018 parliamentary elections: this will prolong the private sector's investment regression. Certainly, the most dramatic scenario for the future of the Republic of Moldova is the potential rejection of the EU Association Agreement by the Government. This scenario may take place since certain political forces with anti-EU messages could possibly take power during the 2018 elections. The rejection of the Association Agreement would have dramatic consequences for the country's economy. The private sector will be affected the most, because such an action would lessen the private sector's access to a market to which about two-thirds of the Republic of Moldova's exports currently go. The injection of external funds, especially from the EU, would also be decreased significantly, and it is unlikely that alternative financing sources will easily be identified.

Table 2. Main indicators monitored regarding the economy of the Republic of Moldova

	2014	2015	2016
GDP, y-o-y change, %	4.8	-0.4	4.3
Crop production, y-o-y change, %	8.6	-13.4	18.8
Industrial production, y-o-y change, %	7.3	0.6	0.9
Volume of services provided, y-o-y change, %	7.4	1.2	0.6
Volume of construction work, y-o-y change, %	3.9	-5.5	-10
Household consumption, y-o-y change, %	3.2	-2.3	2.8
Gross fixed capital formation, y-o-y change, %	10	-2.3	-2.8
Foreign direct investments, net inflow, % of GDP	2.5	2.8	2.1
Exports of goods and services, % of GDP	41.5	42.8	43.7
Imports of goods and services, % of GDP	78.5	73.9	71.5
Consumer Price Index, y-o-y change, %	5.1	9.7	6.4
Total bank loans, % of GDP	36.4	31.2	25.8
Unemployment rate, % of the economically active population	3.9	4.9	4.2
Employment rate, % of the population over 15 years of age	39.6	40.3	40.8
Current account/GDP, %	-5.3	-4.9	-3.8
Budget deficit/GDP, %	-1.7	-2.2	-1.8
Average interest rate on bank loans, %	10.6	14.1	14.2
Average interest rate on bank deposits, %	5.7	12.1	10.7

Sources: NBS, NBM and authors' calculations

The Republic of Moldova has a Ticket to the Last Train to the EU, but it Might Miss the Train

The per capita incomes of the CEE countries are converging and the Moldovan economy has so far followed the same trend. Figure 7 (β - and σ -convergence) shows that per capita GDP of 12 countries from CEE, including the Republic of Moldova, converged between 2005 and 2016. β -convergence is based on the neoclassi-

cal theory of economic growth, which postulates that initially poorer countries evince a more dynamic growth¹¹. This means that per capita GDP of poorer countries convergence to the per capita revenue of richer countries. Thus, GDP growth per capita is negatively dependent on

11 Dvorokova K., 'Sigma Versus Beta-convergence in EU28: do they lead to different results?', available at: <http://www.wseas.us/e-library/conferences/2014/Tenerife/ECONMATH/ECONMATH-13.pdf>

its initial economic level and β -convergence is defined by the negative slope of a linear function¹². The calculations for the CEE countries show that the β coefficient is statistically significant and has a negative value of -0.01, which corresponds with the economic theory (Figure 7). The concept of σ -convergence is also based on a neo-classical theory of economic growth that assumes that all countries converge eventually to the same economic output as other countries in the sample. As a result, the σ -convergence is defined as lowering the variance of real GDP per capita logarithm among economies over time¹³. In 2016, the coefficient of variation between the GDP per capita of the CEE countries decreased from 5.7% in 2005 to 5% in 2016.

Though a weak convergence with the level of the CEE countries is noticed, Moldova is progressing slowly in this regard and lags behind. Figure 7 shows that over the past 11 years, though the Moldovan economy has increased in size and converged to the level of the CEE countries, its growth was slower than that of other countries. The point reflecting Moldova's position is depicted under the estimated regression line (left hand side of Figure 7), which means that the average annual growth, for such a level of initial GDP, should have been faster as against the existing level (an increase by 3.6%). In 2005, Moldovan GDP per capita constituted only 10% of the level of the CEE countries. During 11 years, the Republic of Moldova improved its position by only 3.7 percentage points. Obviously, this is a very modest progress, and Moldova, together with Hungary and Slovenia, had the smallest increases in these ratios (Table 3). Thus, despite its positive economic growth in recent years, the income of Moldovan people remains very low in relation to those of its western neighbours.

Table 3. GDP per capita to the purchasing power parity, comparative aspects, 2011

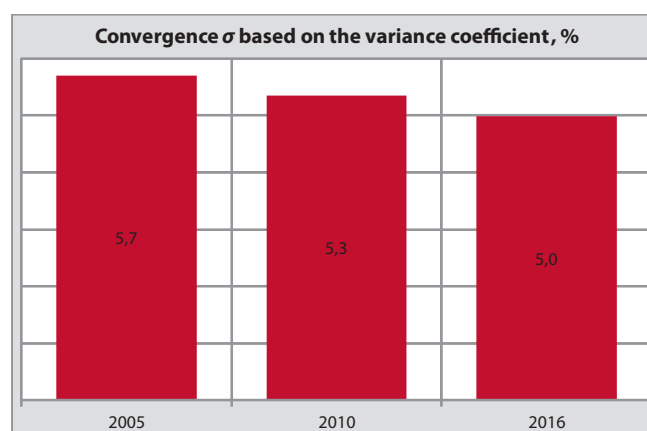
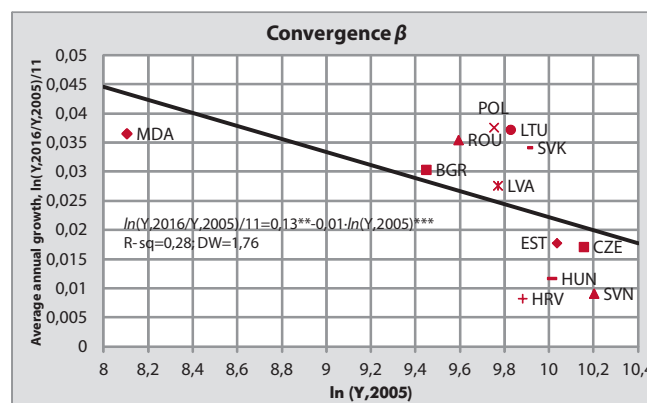
Countries	2005, average CEE EU =100	2016, average CEE EU =100	Countries	2005, average CEE EU =100	2016, average CEE EU =100
Bulgaria	38.4	48.9	Moldova	10	13.7
Czech Rep.	78	85.8	Poland	52.1	71.8
Croatia	59.2	59.1	Romania	44.4	59.8
Estonia	69.1	76.6	Slovakia	60.7	80.5
Latvia	53	65.5	Slovenia	81.7	82.3
Lithuania	56.2	77.1	Hungary	67.6	70.1

Sources: World Bank and authors' calculations

12 Ibidem.

13 Dvorokova K., 'Sigma Versus Beta-convergence in EU28: do they lead to different results?', available at: <http://www.wseas.us/e-library/conferences/2014/Tenerife/ECON-MATH/ECONMATH-13.pdf>

Figure 7. β - and σ -convergence



Sources: World Bank and authors' calculations

Note: Y – GDP per capita to the purchasing power parity, 2011=1;

, * - statistical significance for 5% and 10% probability.

Table 4. Increase in actual GDP and potential GDP,

	2005-06	2007-08	2009-10	2011-12	2013-14	2015-16	2017-18 prediction
De facto GDP	12.7	11	0.7	6.1	14.7	3.8	7.6
Potential GDP	9.5	9	8.4	8.1	7.8	7.4	7

Sources: NBS and authors' calculations

Furthermore, Moldova's economic growth potential is probably weakening and, as a result, the gap between it and the other CEE countries might actually increase in future. In the Republic of Moldova, natural economic growth¹⁴ is slowing: over a decade, potential GDP has decelerated continuously¹⁵. Even though GDP will increase by 4% in 2017 and 2018, natural growth will continue to slow down (Table 4).

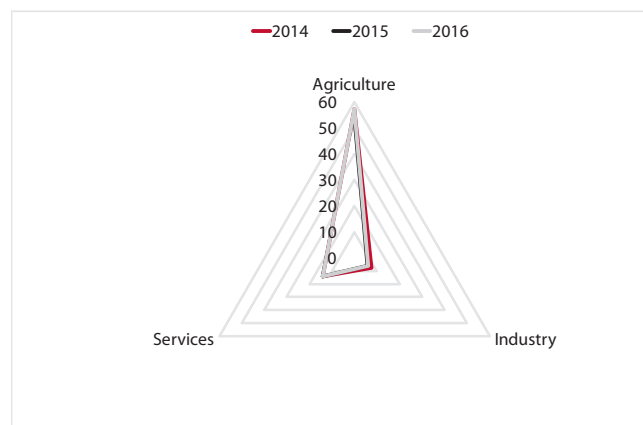
The structure of the Moldovan economy differs significantly from that in CEE countries and shows a number of inherent weaknesses. The share of industry in Moldovan GVA dropped from 17% to 14% between 2014 and 2016. For purposes of comparison, one-third of the added value in CEE EU countries is produced by industry. This gap shows that the potential of Moldova's industry is low. The sector faces competitive challenges and has insufficient technological and human resources to achieve more advanced development. The slight growth achieved between 2010 and 2014, when the share of industry in GVA increased from 16% to 17%, occurred as a result of extensive use of the labour force without strengthening the innovative potential, and productivity of the sector. The dynamic of the industry was marked by the development of outward processing arrangements, which are mainly applied in the labour-intensive branches of industry, such as footwear and apparel manufacture or the cable assembling for the automotive sector. On the other hand, in the Republic of Moldova agriculture accounts for 14%–15% of GVA, while in the CEE countries, this indicator is around 3%. This difference also indicates the vulnerability of Moldovan agriculture, which has a low level of competitiveness. It is obvious that a huge agricultural sector – poorly provided with capital, engaging one-third of the employed population and sensitive to weather conditions – cannot contribute effectively to high overall productivity in the economy. We see a slightly more favourable situation in the service sector. But generally speaking, the industrial sector is the major cause of the

14 Growth of potential GDP, where all production factors are at full and the most optimal utilisation.

15 Potential GDP (also referred to as *natural GDP*) can be described as what an economy can produce when all its resources are fully utilized. The Hodrick-Prescott filter was used to calculate the potential GDP growth rate (also referred to as *natural growth rate*).

large discrepancy between Moldova's GDP and the average GDP of the CEE EU countries. In 2016, the industrial GVA of Moldova constituted only 6% of the average of reference countries (Figure 8).

Figure 8. The ratio between the main components of GVA in Moldova and CEE EU countries, %



Sources: World Bank and authors' calculations

Consumption has an extremely high share in GDP and continues to play a leading role in the economy of the Republic of Moldova. The structure of the economies in the CEE countries differs: consumption has a much lower share in GDP in most of the comparators, while exports have a significantly higher share. In the Republic of Moldova, the share of households' consumption in GDP is close to 90%, whereas in the CEE countries, this indicator is below 60%. In fact, Moldova has shifted further to a consumption-based economy and this involves various risks. For example, remittances are still playing an important role in the national economy and are a major source of financing for people's consumption. At the same time, the economic developments of 2015 and 2016 have pointed out, once again, the risk related to remittances, particularly the instability of these financial transfers. Thus, the 2015 economic recession was caused by the banking sector crisis, the negative agricultural dynamic, and shrinking remittances. During 2014–2016, migrants' transfers dropped significantly (by 29.4%) due to the negative economic developments in Russia. These developments depreciated the Moldovan currency and slowed down the consumption growth rhythm. On the other hand,

exports constitute about two-thirds of the GDP of the CEE countries, while in Moldova they represent less than half of the economic output. This discrepancy indicates Moldova's limited productive potential, which cannot ensure a sustainable increase in exports. In fact, the major causes of the discrepancy in per capita GDP, by method of use, are specifically exports and gross capital formation (Figure 9). As a result, to increase the level of convergence to the reference countries, Moldova must find ways to significantly increase its exports and this will require significantly higher investments.

Figure 9. The ratio between the components of GVA in Moldova and the CEE EU countries, by type of use, %



Sources: World Bank and authors' calculations

In addition to the perpetuation of a consumption-based growth pattern, an investment regression is found. Public investments saw an increase until 2014, and then a sharp decrease in 2015 and 2016. The latter was caused by the economic decline in 2015 and the blocking of foreign financing. An important share of budgetary investments is financed from foreign financial sources. In addition, as revealed by the experience of 2015, public finances can be balanced even in the absence of foreign sources, unlike public allocations, which are concentrated on current activity, and social allocations, which are made by decreasing the budgetary investments¹⁶. The risk related to foreign financing relates to the variability and unpredictability of this flow of money, in the context of frequent internal governance slippages and systemic corruption problems. Thus, a decrease in foreign financing will jeopardise the attainment of public investment targets. At the same time, private investments have experienced a chronic negative development. Unlike in the period 2010–2013, which saw a positive dynamic, since 2014 the private sector has been constantly reducing its investment activity (Table 5). This has been caused partially by the developments in the financial sector in 2015, when NBM drastically tightened monetary policy to mitigate inflationary risks. This entailed a higher price of credit and, as a result, decreased the financing possibilities for private investments. However, in the context of the relaxation of the monetary policy in 2016 and the decline in interest rates for loans, the corporate lending is recovering very slowly. The most important factor causing the ongoing decrease in private investments is arguably the unfavourable business environment.

Table 5. Investments, growth

	2011	2012	2013	2014	2015	2016
Investments financed from non-budgetary sources	12.2	-2.2	2.7	-1.3	-5.9	-10.7
Investments financed from budgetary sources	16.2	-5.1	6.7	21.8	-49.7	-11

Source: NBS, authors' calculations

¹⁶ A. Lupusor, A. Fala, A. Popa, D. Pinte, I. Morcotilo, V. Gumene, MEGA 14. Moldova Economic Growth Analysis. In the aftermath of the banking fraud, 'Expert-Grup' Independent Think-Tank, Chisinau, 2016, p. 19.

How can Economic Growth be Boosted?

These are the main recommendations that, if implemented, could help to boost economic development:

- **Reach a political consensus on the country's external orientation and relationships with economic partners in order to ensure greater certainty and predictability for the private sector.** Trade agreements, to which the Republic of Moldova is a party, facilitate exports to different markets and also help attract foreign investments. Moldova's policy must be oriented more towards the widest possible use of the opportunities provided by the economic agreements with various countries and regional structures. In this general context, the EU Association Agreement plays a most important role. A Deep and Comprehensive Free Trade Agreement with the EU as part of Association Agreement represents the main tool for modernizing of the Republic of Moldova. The possible rejection of the Association Agreement with the EU presents a huge risk for the country's development. This is why political parties should officially give up on the position of denouncing the Association Agreement with the EU. This one step alone would eliminate confusion among business entities and would ensure more predictability, which would foster much improved economic activity.
- **Speed up necessary structural changes in order to increase the share of industry.** Restructuring is very important because industry creates many products that can be sold in international markets¹⁷ and is likely to be a main source of increased overall productivity. Only modern, export-oriented sectors can speed up the economy and extend the development potential. In addition, the country's industrialisation needs to be backed by both innovation and educational policies, as well as by streamlined public institutions. Rapid industrialisation in free economic zones or industrial parks, without an essential improvement of the fundamental elements – human capital and institutions – can only generate growth episodes that risk being merely temporary¹⁸.
- **Orient agricultural policies towards enhanced labour productivity and the agricultural sector's competitiveness.** To achieve this aim, a few components are needed. First, agricultural productivity should be increased by recapitalising the sector and using new technologies. To be competitive at the international level, the sector should focus on increasing its production of high-value (including organic) products. At the same time, it is imperative to ensure the sustainability of natural resources and to increase the sector's 'immunity' to unfavourable weather conditions in order to ensure stable agricultural output.
- **The private sector can be boosted only if the relations between the Government and business entities changes.** Though the Government has shown consistent commitment to reforms aimed at improving the business climate, the relations between the Government and business entities, especially small and medium-sized enterprises, has not improved significantly. Corruption and favouritism continue to be a part of the relationship between the Government and the private sector. At the same time, public institutions do not seem to understand the most appropriate ways to support the private sector, while the Government structures often pose additional obstacles for business entities. In this context, reforms are needed in two priority directions: the first is the prevention and mitigation of corruption risks in public institutions, while the second is the 'opening' of the Government to its citizens and to the private sector.

17 Lupusor A., Fala A., Cenusă D., Morcotilo I., 'Republic of Moldova, 2014: State of the Country Report', Expert-Grup Independent Think Tank, FES, Chisinau 2014, p. 19.

18 *Ibidem*, p. 19

Labour Market and Social Wellbeing

Productivity is indispensable for sustainable economic growth. In the Republic of Moldova, labour productivity has been increasing quite quickly since 2000, exceeding even the rates registered in the CEE EU countries. At the same time, the productivity level remains at only 22% of the average of these countries, while convergence rates have been slowing in the past few years. This gap is mainly due to the lower volume of investments per employee and problems related to the quality of human capital. Thus, future convergence with the neighbouring countries largely depends on shrinking the gap in investments and on the continuity of reforms in the educational system.

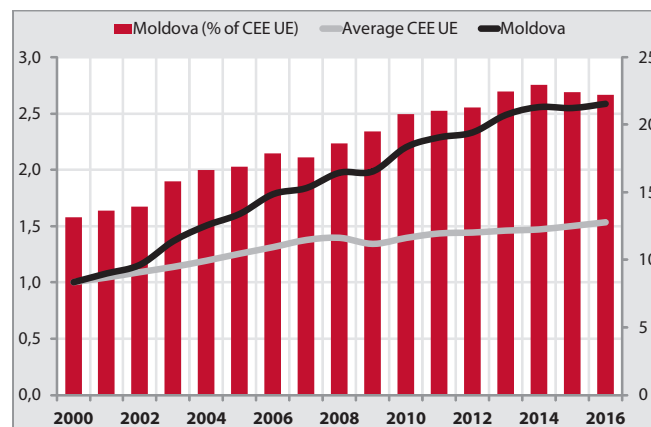
Labour Productivity – Between Upsurge and Constraints

Sustainable economic growth and poverty relief are ultimately dependent on increasing labour productivity and higher levels of employment. Economic growth can be achieved by intensive and/or extensive use of production factors – labour and capital. In the short run, extensive use of production factors, such as increasing employment in absolute terms, migration of the labour force from sectors with low added value, and increasing the capital stock, may lead to significant economic growth leaps. In the long run though, the key factors are innovation and human capital, which can significantly change the economic processes and boost labour productivity. Thus, the development path of any country, including the Republic of Moldova, depends on how the production factors are used.

Since 2000, labour productivity has been increasing significantly in the Republic of Moldova, even compared with the CEE EU countries. During 2000–2016, labour productivity in the Republic of Moldova increased 2.6 times in real terms. During the same period, average productivity in the CEE EU increased only 1.5 times (Fig-

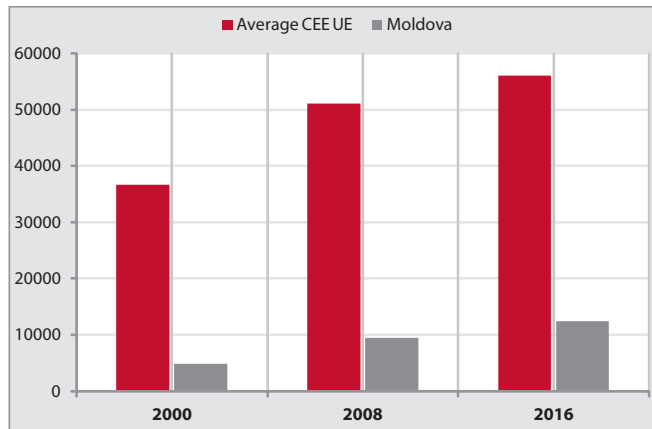
re 10). Of course, there were countries in the region, such as Lithuania and Romania, where labour productivity also increased about twofold, but the productivity rise in the Republic of Moldova was the highest among all the reference countries. These disparate productivity dynamics led to the convergence between the labour productivity levels of Moldova and the analysed countries. Nevertheless, the differences in absolute and relative terms remain quite high. In the analysed period, labour productivity in the Republic of Moldova increased from 13.2% to only 22.2% of the average productivity level in the CEE EU countries (Figure 11). In addition, after 2013, the productivity index of the Republic of Moldova became horizontal, which means that the growth rates for this indicator, including convergence, slowed down significantly.

Figure 10. Indices (2000=1) of labour productivity (left axis) and the ratio of the labour productivity in the Republic of Moldova to the average of CEE EU countries (% , right axis)



Source: Authors' calculations based on World Bank data

Figure 11. Labour productivity development, in absolute terms (GDP/employees, USD, 2011 PPP)

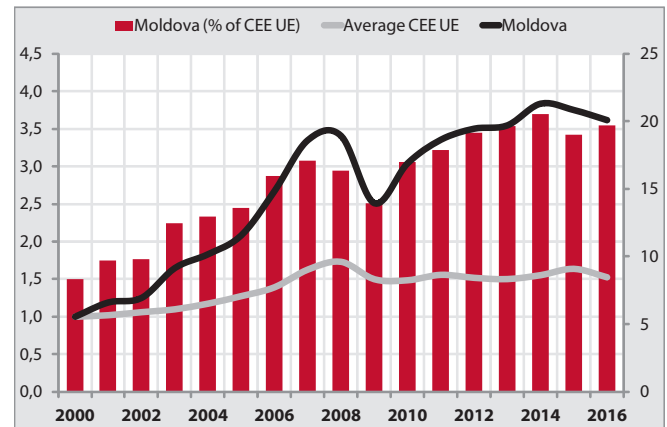


Source: Authors' calculations based on World Bank data

A crucial factor in increasing the labour productivity in the Republic of Moldova was the fixed capital stock formation. During 2000–2016, in the Republic of Moldova, the gross stock of fixed capital per employed person increased in real terms by 3.6 times, while in the CEE EU countries this indicator increased on average only 1.5 times. As in the case of labour productivity, the capital/employed person indicator has increased in the Republic of Moldova not only faster than the CEE EU average, but also faster compared to any other country in this group. Some of these countries, such as Bulgaria (+2.1 times), Lithuania (+2.4 times) and Romania (+2.9 times), also had good performance, but still lower than in Moldova. Despite the convergence trends, the discrepancy between the Republic of Moldova and the CEE EU countries remains quite large. In 2016 the net stock of fixed capital per employed person in Moldova was only 20% of the average level registered in the CEE EU countries. Moreover, Figure 12 shows that after 2014 this indicator registered a decrease, which impacted the labour productivity, as mentioned above.

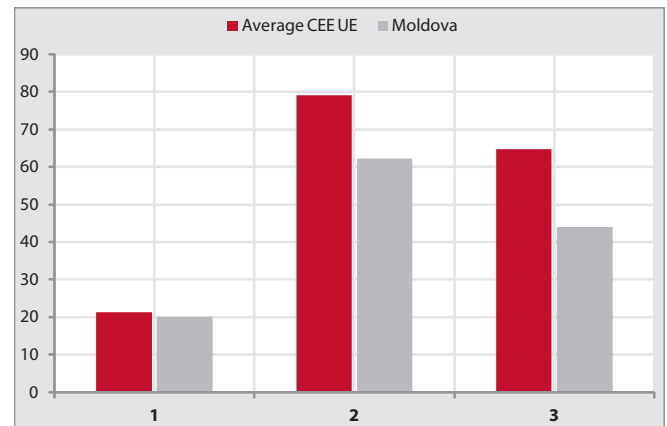
The impressive growth of capital per employed person can be partially explained by the decrease in the employed population during the analysed period. In the Republic of Moldova, the employed population shrank by 21% from 2000 to 2016, while the CEE EU average, on the contrary, increased by about 3%. These data show that at least 20% of the increase in the capital stock per employee is generated by the decrease in employment, rather than by the procurement of new fixed capital in the Republic of Moldova. Note that in the CEE EU, only one country, Romania (-20.5%), witnessed a decrease in the employed population at a similar rate to that of the Republic of Moldova. By contrast, in most CEE EU countries, overall employment either decreased at an insignificant rate, or registered growth.

Figure 12. The ratio (2000=1) of gross fixed capital stock per person employed (left axis) and the ratio of the Republic of Moldova to the average of CEE EU countries (% , right axis)



Source: Authors' calculations based on World Bank data

Figure 13. Indicators on the level of education obtained in the Republic of Moldova and the average of CEE EU countries, 2014 (%)¹⁹



Source: Authors' calculations based on World Bank data

Human capital, which is a crucial factor for increasing productivity, has also witnessed deviations from the regional profile. Despite its shortcomings, the share of population with advanced and intermediate studies is the most appropriate indicator to measure the human capital stock. If we analyse the share of population aged 25+ with

¹⁹ **Indicator 1** is the share of total population aged 25+ who graduated at least from the first cycle of tertiary education (%).

Indicator 2 is the share of the labour force with **advanced studies** (% , advanced studies includes post-secondary technical vocational, higher, doctoral and post-doctoral education).

Indicator 3 is the share of the labour force with **intermediate studies** (% , intermediate studies include general and secondary education, as well as secondary technical vocational education).

CEE EU does not include Bulgaria, Croatia and Estonia. The indicators for the Republic of Moldova are calculated for 2013.

advanced studies, namely those who have finished most of the advanced levels of education, then there are not any major differences between the Republic of Moldova and the CEE EU average (about 20% of the relevant population). There are some differences in terms of the structure of the human capital of the economically active population, meaning the employed people and the unemployed ones. Both the share of persons with advanced studies (indicator 2 from Figure 13 and those with intermediate studies (indicator 3 from Figure 13) in total labour force is lower in the Republic of Moldova by about 20 percentage points. These figures reveal two processes that have led to wider discrepancies, particularly among the economically active population, although there is parity at the level of the total population. Both processes originate in the economically inactive population, being caused by the migration of the labour force abroad, as well as the more passive involvement of the youth in the labour market or early leaving of the educational system. Also, the above-mentioned figures indicate that, in structural terms, the labour force in the Republic of Moldova has a lower level of education and less competence compared to the CEE EU average, i.e. the population with elementary studies only has a higher share. Perpetuation of these discrepancies will continue to affect the speed with which Moldova is able to approach the labour productivity level in the CEE EU states.

Unlike the CEE EU countries, the salary growth in the Republic of Moldova has exceeded labour productivity growth. The average salary per worker in the Republic of Moldova grew in real terms by 3.5 times, while productivity grew by only 2.6 times during the period 2000–2016 (Figure 14). In CEE EU countries, the situation is the opposite: there salaries have been closely linked to labour productivity growth (Figure 15). Certainly, in some CEE EU countries, the salary growth in real terms exceeded the productivity growth, but in none of these countries has this difference been nearly as high as in the Republic of Moldova. The discrepancy in Moldova may be explained by two key factors. One factor may be the significant share of informal employment, which led to a decline in the aggregate growth rates of productivity.²⁰ Another factor that influenced a faster salary growth is the decrease in the employed population, which led to a certain labour shortage. Irrespective of the factors that led to the above-mentioned discrepancy in the past, it is imperative for the future that productivity growth rates exceed the salary growth, in order to enhance the national economy's competitiveness. This is possible only by boosting investments and decreasing the informal economy.

20 http://expert-grup.org/media/k2/attachments/MEGA_ediția_XVI-a_Enigmele_creșterii_economice_după_furtună.pdf.

Figure 14. Indices of average salary per economy and labour productivity in Republic of Moldova (2000=1)



Source: Authors' calculations based on NBS data

Figure 15. Indices of average salary per economy and labour productivity in CEE EU countries²¹ (2000=1)



Source: Authors' calculations based on World Bank and Organisation for Economic Co-operation and Development (OECD) data

Figure 16. Monitored comparison indicators



Source: Authors' calculations based on NBS and World Bank data

21 The indices were calculated on the basis of average data for CEE EU, which did not include Bulgaria, Croatia and Romania.

Recommendations:

To speed up the social-economic convergence of the Republic of Moldova with the CEE EU countries it is fundamentally necessary to stimulate labour productivity growth. In light of the foregoing, we identify three necessary intervention areas: informal employment, human capital quality and fixed capital investments. Quantitatively, the Republic of Moldova lags behind other CEE EU countries in these areas. Thus, there is space to enhance the labour productivity not only through intensive, but also through extensive use of production factors– redistribution of the employed population to more productive sectors, stimulating investments and increasing the share of the population with advanced studies. Key recommendations for these intervention areas are:

- **Informal employment.** As mentioned in the informal employment chapter, this phenomenon in the Republic of Moldova can be diminished mostly through structural reforms. It is critical that the population employed in the agricultural sector, particularly people working in the subsistence agricultural sector, migrate to higher added value sectors – industry and services. This process can be achieved by policies fostering investments and channeling both financial and technical foreign aid primarily into non-agricultural priority sectors. At the same time, policies should support the modernization of the agricultural sector, by making it more efficient, productive and competitive.
- **Fixed capital investments.** Boosting and attracting investments is an indispensable element for long-term productivity growth and structural economic changes. It depends on the reduction of key barriers for the businesses– corruption, political instability, deficient labour force skills and unstable macro-fiscal framework.. Finally yet importantly, the public expenditures for infrastructure must grow continuously, particularly during periods of economic slowdown.
- **Human capital.** Improving the human capital, both quantitatively and qualitatively, is closely linked to adjusting the education system to best international practices (reviewing curricula, changing the current concept of educational system, improving the material base, etc.). An education area where the Republic of Moldova quantitatively lags behind the CEE EU countries is the vocational-technical one. The recent efforts to modernize this sector should be accompanied by a change in its image and attractiveness for young people. In addition, as mentioned in the education and human capital chapter of this report, vocational-technical education should be reshaped, to involve the private sector more actively, and to be oriented towards aspects related to the development of students' personal abilities (e.g. flexibility, punctuality, etc.).

Table 6. Main indicators monitored regarding labour market and social wellbeing

Indicators	2014	2015	2016
Employment rate (%)	39.6	40.3	40.8
<i>Men</i>	42.1	42.3	43.0
<i>Women</i>	37.4	38.4	39.0
Unemployment rate (%)	3.9	4.9	4.2
<i>Men</i>	4.6	6.2	5.5
<i>Women</i>	3.1	3.6	2.9
Absolute poverty rate (% , under the absolute poverty threshold)	11.4	-	-
Real wage growth rate (% , y-o-y)	5.4	0.7	3.7
Emigration growth (% , y-o-y)	2.8	-4.8	-2.0
Remittances (% of GDP)	20.2	17.3	17.3
Gini coefficient	0.3225	0.3164	-
Average salary in USD (% of the average salary per CEE EU)	24.4	23.4	-

Source: Authors' calculations based on NBS, World Bank, United Nations Economic Commission for Europe and NBM data

Education and Human Capital

For those indicators characterising human capital, the Republic of Moldova registers significant discrepancies in relation to the average of the CEE EU countries, despite relatively high investments in education. According to the Programme for International Student Assessment (PISA) 2015 assessment results, the educational system recently registered progress in general secondary education. However, specialised education is still inflexible and is unable to adapt quickly to changes in the national and regional economy, and lifelong learning is practically absent in the Republic of Moldova. Human capital remains one of the few factors that can positively influence the sustainable development of the country. To this end, extensive efforts should be made in several directions: (i) increase the quality of specialised education and encourage lifelong learning; (ii) change the teaching methods in general education to stimulate creativity; and (iii) set up proper conditions to keep and attract talented and skilled persons in the country.

Is the Country's Human Capital Still Competitive?

Its human capital is the main resource of a country. According to several studies and surveys, as well as the findings of present or potential investors, in case of the Republic of Moldova, it has already lost its reputation of relatively cheap and skilled production factor. This is a result of the processes that took place during the transition period, such as the migration and the inflexible educational system. Thus, according to the World Economic Forum, Moldova has a score of only 3.09 out of 7 for the indicator of *ease of finding qualified employees*²², a score of 1.9 out of 7 for the indicator of *capacity to maintain talented persons in the country*, and a score of 1.7 out of 7 for the indicator of *capacity to attract talented persons in the country*²³. In spite of this, human capital remains one of the few factors that can positively influence economic

growth in the Republic of Moldova in the medium and long run by enhancing productivity.

The UNDP's Human Development Index (HDI), which is a key composite indicator that characterises human capital on the basis of its most important aspects (education, health and income), ranked Moldova 107th out of 188 countries, with a value of 0.699, in 2015²⁴. Even though Moldova's HDI score has increased in recent years, the discrepancy in relation to countries in the region is still significant. In addition, in 2015 the HDI score registered a drop due to the decline in the gross national income per capita. The gross national income shows the development conditions of a country, including its capacity to invest in education and health, thus reflecting the human capital development potential. The HDI drop in 2015 implied a degree of divergence from the average of CEE EU countries following several years of slow convergence. The discrepancy is currently quite high – 17.1% (Table 7), the convergence being previously very slow, at less than 0.5 percentage points annually.

22 Global Competitiveness Report 2016–2017, World Economic Forum.

23 Human Capital Report 2016, World Economic Forum.

24 Human Development Report 2016, United Nations Development Programme.

Table 7. Main indicators monitored regarding human capital development

	2014	2015	2016
HDI	0.701	0.699	--
Discrepancy between HDI of the Republic of Moldova and the average of CEE EU countries (per cent)	83.4	82.9	--
Share of overqualified employees, %	21.1	19.5	19.2
Share of public expenses for education in GDP, %	7.0	6.9	6.3
Number of higher education graduates	24 274	23 630	21 886
Number of secondary vocational education graduates	9 664	9 220	3 584
Number of post-secondary vocational education graduates	6 484	6 252	6 789
School dropout rate, %	21.1	21.3	20.0

Sources: NBS, UNDP and authors' calculations.

However, the HDI component indicators in education relate to quantitative aspects, and do not fully reflect the quality changes in the sector. Thus, both the average years of schooling and the expected years of schooling have been positively influenced by the growth in the enrolment rate, particularly in tertiary education.

This in turn is mainly attributable to the increase in the disposable income of households, including the gains remittances associated with migration, and less to specific educational policies. Thus, the enrolment rate in tertiary education in the Republic of Moldova amounted to 29.9% of population aged 19-23 years old, and this is the indicator for which Moldova most closely approached the average of the CEE EU countries (it was only 12.9% lower in 2015)²⁵ (Figure 17). However, one indicator of the World Economic Forum on the quality of the tertiary educational system, for which Moldova scored only 3.2 out of 7²⁶ points, as well as the aforementioned indicators on the labour market situation, suggest that this performance is not reflected in the quality of tertiary education.

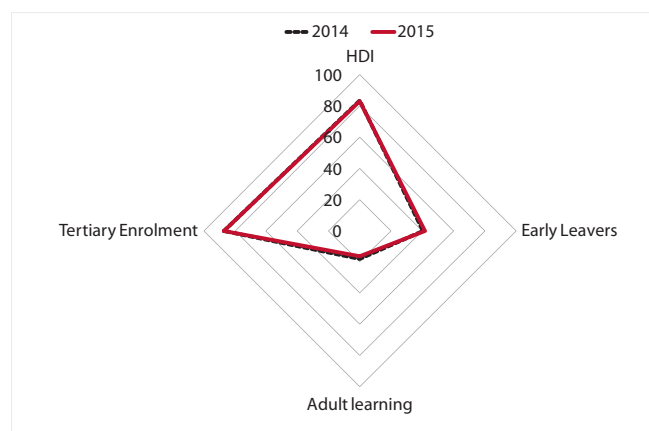
In addition, the demand for secondary and post-secondary vocational-technical education is still quite low because the system is poorly adjusted to the needs of the market and the progress of current reforms is slow. Over recent years, the number of persons enrolled in technical-vocational education has continued to decrease, and the secondary non-state technical-vocational educational institutions (which could be more connected to the economic realities) have no longer enrolled new students. At the same time, the number of graduates from technical-vocational schools has declined by over 60% in 2016, following the transition from one to

²⁵ According to NBS, the enrolment rate in the tertiary education in Moldova is calculated as a percentage of the population aged 19-23. According to Eurostat, the enrolment rate in the tertiary education in Moldova is calculated as a percentage of the population aged 20-24;

²⁶ Global Competitiveness Report 2016-2017, World Economic Forum;

three years to two to three years of education at this educational level. The post-secondary vocational education, and the number of non-state institutions of this type, also decreased as a result of low demand, and due to the uncertainty linked to this educational level as it does not exist in most of the European countries. Thus, the reform of technical-vocational education, which has been implemented since 2014, has so far failed in attracting private investments in this sector, and may worsen even further the correlation between technical-vocational education and the needs of the private sector.

Figure 17. Deviation of the Republic of Moldova from the average of the CEE EU countries in terms of the main indicators characterising human capital



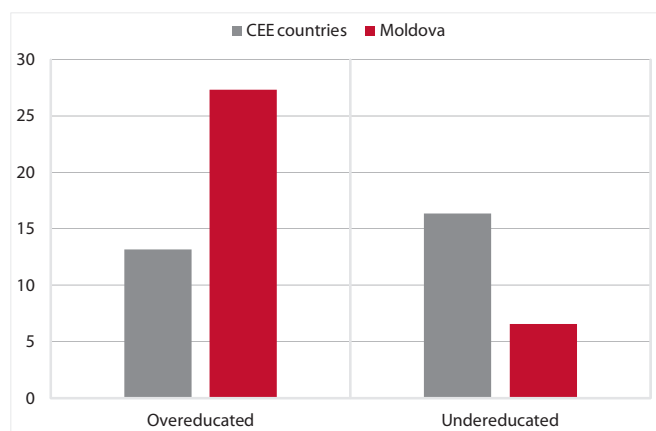
Source: NBS, Eurostat, UNDP, author's calculations

The unattractiveness of the technical-vocational education system and outcomes causes students to abandon the educational system without getting a specialization. A large number of students, who perceive the vocational education to be useless and do not have sufficient resources to continue tertiary education, abandon the educational system without getting any specialty after graduating from secondary or high school, or even during general secondary education. Even though the school dro-

pout rate in the educational system has decreased during the last five years²⁷, it is still very high – 20% or 44.3% above the average registered in CEE EU countries (Figure 17). However, it is very close to the level registered in Romania (18.5%), the EU country with the poorest performance on this indicator. Early leavers from the educational system mainly involves men from rural areas, who, due to their lack of education, either leave to go abroad, or are employed in informal agriculture, thus contributing to maintaining the poor economic productivity of the country in general.

The imbalance between the demand and the supply for skilled labour causes significant problems for the local labour market. In particular, some graduates from higher education are employed in jobs requiring much lower qualifications, while graduates from technical-vocational education (although demanded) find it harder to get a job. Moreover, the population without specialised education or whose skills are no longer required in the labour market work in unskilled jobs where they cannot contribute to labour productivity growth. Therefore, the share of overqualified employees accounted for 19.2% of total employed population in 2016, while the share of underqualified employees accounted for 21.6% according to NBS data²⁸. On the other hand, according to the standardised methodology used by the World Economic Forum²⁹, the share of overqualified persons is even greater (27.3%), far above the average of the CEE EU countries. Also, the share of underqualified persons is relatively low – 6.6% (Figure 18).

Figure 18. Share of overqualified and underqualified population



Source: World Economic Forum, authors' calculations

27 The share of people aged 18-24 with elementary education who do not attend any training of the total number of people aged 18–24.

28 According to NBS data taken from the Labour Force Survey.

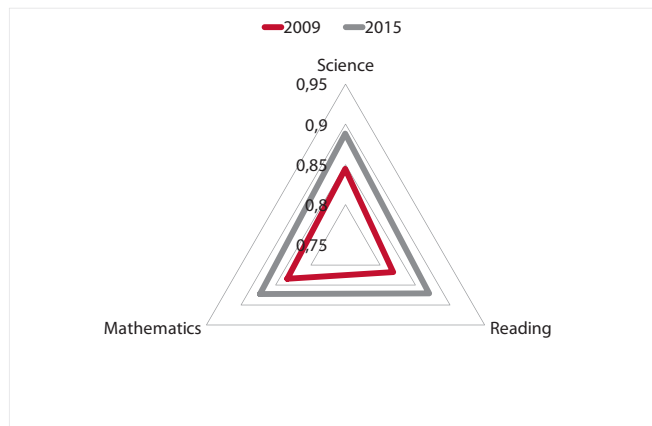
29 According to the Human Capital Report, the share of overqualified/ underqualified persons is calculated on the basis of the International Standard Classification of Occupations (ISCO) 08 and International Standard Classification of Education (ISCED) 97, according to which each occupation fits a certain level of education.

This situation confirms the country's economic status: it is relatively unsophisticated, with low productivity, and an existing labour force with mediocre skills or skills that do not easily find demand in the local economy. To reach a higher productivity level and a more diversified and sophisticated economy, the competencies of that human capital that remains or is available to stay in the country are not sufficient. Neither do employers seem sufficiently interested in increasing the employees' qualifications. Lifelong learning is practically absent in Moldova. Although this is also due to fiscal issues, and due to the problematic recognition of non-formal and informal training over several years, the will of employers to grow labour productivity in companies should have a major impact on investments in increasing employees' qualifications. In 2015, the share of adults who attended a certain form of training³⁰ accounted for only 0.97%, while the equivalent average in CEE EU countries exceeds 6% (Figure 17). Thus, those European countries that are better aware of the correlation between the population's qualifications and economic performance are currently investing significant public and private resources in lifelong learning. In Moldova, on the contrary, the share of adults who have been trained has decreased over the recent past. Lifelong learning is one of the key components that could help to ensure a faster adaptation of the economic system to the changing economic needs, but these transformations are, unfortunately, as slow as the changes in the formal education system itself.

Moreover, the reforms in education provide visible or quantifiable results only after years of implementation. Thus, the results of PISA 2015 were published at the beginning of 2017, attesting to the advancement of the Republic of Moldova on all three components (science, reading and mathematics) and a relative convergence with the CEE EU countries (Figure 19). Both the changes in the Baccalaureate exam, which raised an important issue regarding secondary education quality and motivated students to make greater efforts in high school, and the issues related to the financial autonomy of educational institutions and the shift to per capita funding, which motivates schools to be more competitive, contributed to this performance. To this end, the changes currently promoted by the Ministry of Education related to the evaluation of teachers and managers in general education are also welcome and include performance indicators, as well as aspects related to their external evaluation.

30 The ratio of the population aged 25–64 which received training in the last four weeks preceding the interview to the total population aged 25–64.

Figure 19. Deviation of the Republic of Moldova from the average of CEE EU countries in terms of 2009 and 2015 PISA evaluation results



Source: OECD, Expert-Grup calculations

Besides education, health is also a key factor determining the quality of human capital and contributing to improved labour productivity and economic growth. These factors also have the capacity to influence each other³¹. According to several researchers, healthier persons are more creative and productive³². Health also has a direct impact on the labour supply, given that healthier persons miss work less frequently. This contributes indirectly to multiple aspects related to the human capital development: the capacity to learn or make larger investments in education³³. One of the indicators characterising the health condition from a labour market perspective is healthy life expectancy. This indicator is 62 years for Moldova³⁴, and corresponds to the retirement age for men at present. Being an average value, it is obvious that many persons under the retirement age miss work due to sickness. Unless the population's health improves, even at a slow pace, this problem may be greater once the retirement age increases. Some anecdotal evidence³⁵ shows that young women with pre-school children also miss work frequently due to their children's sickness. We can thus find that due to multiple deficiencies in the system, women, who are already employed in lower-paid jobs, also have a lower productivity due to their more frequent absences from work. Thus, women, who receive a higher

31 'Human Capital Dimensions – Education and Health – and Economic Growth', Pocas A, 2014.

32 'Productive Effects of Health', T. Shultz, 2005.

33 'Human Capital Dimensions – Education and Health – and Economic Growth', Pocas A, 2014.

34 Human Capital Report 2016, World Economic Forum.

35 According to the discussions held with stakeholders in the health sector when producing the National Transfer Accounts in order to distribute allowances for temporary work incapacity.

education level than men in the Republic of Moldova, participate to a smaller extent in the labour market and contribute less to productivity growth, even though they might have a greater potential in this respect.

Recommendations:

Human capital development must remain a priority for the Republic of Moldova, because it is one of the few factors that can influence consistently the country's medium- and long-term development. In addition, this priority should also be reflected in more concrete actions, not only by its presence in national strategies and by a sustainable, but not necessarily efficient, financing of these areas. Policies focusing on human capital development should target several aspects, including: (i) increasing the quality of vocational education and stimulate lifelong learning; (ii) changing the teaching method in general education so as to stimulate creativity; and (iii) establishing conditions to keep and attract talented and skilled persons in the country. In addition, policies should also consider Moldova's proximity to the EU, given that economic relations with the EU can influence the Moldovan private sector's economic structure and needs.

Among the actions that have to be promoted on a continuous basis in the short and medium run, some of which are already in progress, the following are of major importance:

- **Improve continuously, and implement, the legal framework for the recognition of qualifications obtained in non-formal and informal education in Moldovan and in foreign companies.** This could stimulate local companies to invest more in their staff (including under pressure from employees) and it is an extremely important aspect in the context of attracting back to the country people who have left to work abroad.
- **Reshape the technical-vocational-technical education through a greater openness to the private sector.** This implies both the simplification of procedures for the registration of private technical education institutions, which could be more flexible to economic change, but also the involvement of the private sector in various aspects of the system, including curriculum formulation, involvement in practical lessons, teacher training and assessment, etc. The technical education should also target some aspects related to the development of students' personal abilities and professional competencies, like flexibility, learning capacity, punctuality, etc., which are appreciated by employers.

- **Successful promotion and implementation of reforms is not possible in the absence of talented people with high levels of knowledge and skills in the public system.** However, the public system is not currently sufficiently attractive due to low salaries, excessive politicisation of public institutions, promotion on the basis of other criteria than professional performance and merits, as well as the weak reputation of many public institutions. All these aspects must be considered when reforming the public institutions with a focus on professionalism and competence. In the long run, any effort should be supported with an increase in the salaries in the sector.
- **Promote the teaching profession and continuously increase teachers' qualifications.** Talented young specialists often leave the educational system for another sector due to low salaries, so that in the long run attractive salaries represent a condition that is necessary in order to maintain talented people in the system. However, it is also very important to raise the motivation and qualifications of teachers. They not only have to know the subject they teach, but also how to teach to interest learners and to discover and promote learners' talents and abilities. In this context, as part of their professional appraisal, teachers should be subject to greater assessment by students and parents. In addition, the Ministry of Education, Culture and Research has to make sure that educational institutions allocate and use properly the resources necessary for professional training (at least 2%, as stipulated by the national legislation).
- **Correlate educational policies with economic policies.** When developing the Moldova 2030 National Development Strategy, the importance of human capital for the country's development should be taken centrally into account. At a later stage, when sectoral strategies are to be adapted, it is important that education policies be linked to economic ones, so that forecasts and economic priorities in other sectors underpin educational policies that are very flexible and that can be amended quickly and efficiently.

In order to increase the sustainability of long-term policies, some conceptual changes that suppose gradual and well targeted efforts need to be made to overcome some aspects of the standard and rigid systems inherited from the Soviet period. These require efforts in the following directions:

- **Major changes in the teaching system, by redirecting the focus from the subject taught to the methods of teaching.** This implies interventions as early as in pre-school and primary education to pro-

mote new ways of learning that stimulate creativity. This can be done through various methods: e.g., using group work and work projects instead of traditional homework that does not develop creativity but only the ability to memorise the taught material. These interventions, starting with the lowest education levels, can reshape the entire educational system so that it can better meet the needs of an economy based on knowledge, innovation, and progress.

- **Promote and create the conditions necessary for a higher level of participation of women in the labour market.** As mentioned above, women have a higher education level and they can contribute to productivity growth. However, this is not realised for different reasons, including long childcare leave and lack of education and care alternatives for children up to three years of age. These barriers need to be removed in the long run to achieve a more intense use of human capital.
- **The investments in human capital have to anticipate the national, regional and sometimes even global economic trends.** This requires first of all a need to study the national and regional economic trends and to adapt the educational system *ante-factum*, rather than *post-factum*. Also, in the long run, it is necessary to promote fields of study offering remote work, even if there are some risks linked to the potential migration of human capital. These risks will persist as long as there are poor conditions for youth development. Thus, the share of persons who say that they would leave the Republic of Moldova forever if they could, increased in the previous year from 15.4% to 24%³⁶, particularly among young people.
- **Greater openness to assimilating skilled human capital from abroad.** Although it is a sensitive issue due to the economic risks and the low level of tolerance in Moldova society, national policies must take into account this aspect, especially in areas where the lack of a skilled labour force hampers progress. One step to this end was the amendment of the Law on Labour Migration by exclusion, and consequently simplification of procedures for managers of IT companies and IT specialists³⁷. However, the procedures could be simplified for specialists in a number of areas, following a deep analysis of economic sectors and their specific labour force needs.

36 Barometer of Public Opinion, April 2016, Institute for Public Policy.

37 Amendment to the Law No 180 of 10.07.2007 on Labour Migration that will enter into force on 14 September 2017.

Energy: Minimum Transparency and Unmet External Commitments

During 2016–2017, the energy sector underwent a number of attempts to increase transparency in electricity procurement, to negotiate energy supply contracts, and to appoint the key institutions in the sector (National Energy Regulation Agency (ANRE)). Some of them were successful, while others failed. The central authorities resorted many times to the Energy Community³⁸ and development partners for financial and technical assistance, although they ultimately showed an inability or a lack of political will to meet their commitments without any deviation. Interference by political actors has continued to be a major problem. Despite these difficulties, several interconnection projects have entered a more advanced phase (natural gas) or have materialised in terms of financial coverage (electricity).

Analysis of the Main Trends and Developments

During the assessed period, developments in the energy sector were mainly determined by the more intense cooperation between the Energy Community and the EU. Nonetheless, these improvements were limited by the rigidity of the market regulator, weak energy governance and the lack of strong political will. The lack of diversified energy sources, the multiple loopholes in energy security and the presence of the political factor were the main challenges that hindered the sector's functionality.

The sector-related legislative process has sometimes been delayed and has been characterised by a high degree of opacity, with the exclusion of transparency and public consultations³⁹. This was particularly noti-

ceable when adopting the Law on the Energy Sector, which, contrary to external commitments (the Secretariat of the Economic Community⁴⁰), was not voted by the end of 2016 as planned but was postponed to November 2017. As a result, the chance to develop a timely legal framework favourable to increasing the financial, political and functional independence of the National Energy Regulatory Agency was missed.

The implementation of sector transparency mechanisms has also been deficient. Although the creation of mechanisms to increase the transparency of electricity procurement, with the assistance of the Energy Community⁴¹, has been a positive transformation for the electricity sector, its practical implementation has encountered major resistance from the central authorities. First, the Ministry of Economy and Infrastructure failed to adopt all the Energy Community recommendations in the new procurement mechanism. This had the consequence first of preserving the possibility of purchasing electricity from producers that do not prove payment for the raw materials used to produce the electricity. By this means, the supply equation maintained the option to buy electricity produced by the Cuciurgan Power Plant, using Russian natural gas that is not paid to Moldovagaz. Second, the mechanism failed to organise properly the procurement tender for 1 April 2017–31 March 2018. Thus, the state-owned company Energocom won the tender, even though it did not meet the eligibility criteria, which expressly requires proving the availability of electricity for delivery or production. Third, the Ministry of Economy

38 The Energy Community is an international organisation which brings together the European Union and its neighbours to create an integrated pan-European energy market.

39 Expert-Grup, Cenusă D., 'Public call for transparency and independence of the National Energy Regulatory Agency (ANRE) in the process of adopting a new Law on Energy Sector', 12 December 2016, <http://expert-grup.org/en/biblioteca/item/1352-apel-public-anre>.

40 Action Plan for reforming ANRE, <http://anre.md/ro/content/secretariatul-comunit%C4%83%C8%9Bii-energetice-va-oferi-suport-%C3%AEn-implementarea-unui-plan-de>.

41 Ministry of Economy and Infrastructure, Order of the Ministry of Economy No 4 of 5 January 2017 approving the Guidelines for the Annual Procurement of Electricity, http://mec.gov.md/sites/default/files/document/attachments/achizitii_anuale_energie_electrica_ordin.pdf.

and Infrastructure caused a number of delays during the tender, which discouraged Ukrainian suppliers from participating individually in the tender and instead favoured Energocom⁴².

However, the loopholes in the procurement mechanism, operated by the central authorities, did create the necessary basis for signing the contract with the Ukrainian supplier DTEKTrading under obscure conditions. Subsequently, that contract with the Ukrainian supplier has been renegotiated in a non-transparent manner,⁴³ and Energocom signed an additional contract with the Cuciurgan Power Plant (Moldovan CTEM), being justified by a lower price (10%) and enhanced security and diversification.⁴⁴ The central authorities regularly claimed the vulnerabilities of the Ukrainian energy sector, caused by the anthracite coal crisis in the Donbass region, which is controlled by pro-Russian separatists.⁴⁵ Even though the Moldovan CTEM contract has a major significance for the weak economy of the separatist region, the new contract directly contributes to increasing Moldovagaz's historical debt to the Russian gas company Gazprom for Russian natural gas: this debt will reach USD 7 billion in 2017, or 90%-100% of the country's GDP for 2016.

The projects envisaging improved interconnection with the European energy space, through Romania, gained momentum, in particular in the gas sector. Thus, the financial resources (loans of EUR 92 million from the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB)), necessary to extend the Iasi-Ungheni to Chisinau gas pipeline, were found. The authorities also facilitated the pipeline construction by simplifying the procedures for conversion of private land into public utility property of national interest.⁴⁶ According to the authorities' optimistic calculations, the technical project and the selecti-

on of the company are due to be completed by the end of 2017, and the Ungheni-Chisinau gas pipeline will be put into commission in 2019. A positive scenario is also forecast with regard to electricity interconnections with Romania in the south, where the EBRD, the EIB and the World Bank, including the EU, could provide up to USD 270 million in the form of loans, for the construction of a Vulcanesti-Chisinau interconnection.⁴⁷ Once built and functional, most likely in 2021–2023⁴⁸, this interconnection will make it possible to acquire considerable amounts of electricity from Romania, but will also contribute to the integration of the country into the European Network for Transmission System Operators for Electricity (ENTSO-E), together with Ukraine. In the long run, it will diminish the dependence on Moldovan CTEM and the Russian RAO ESS company, will strengthen the energy security and will inevitably liberalise prices for end-users and the private sector.⁴⁹ However, the improved interconnection of natural gas and electricity will not have the expected result if the regulator does not ensure a genuine competition on the domestic market.

Energy relations with the Russian Federation remained a priority. The maintenance of global oil prices at or around USD 50 per barrel allowed the price of natural gas delivered by the Russian Federation to the Republic of Moldova to drop to USD 193 per 1000m³ in 2016. Against this background, the central authorities have maintained their interest in extending the contract with Gazprom until 2019, when the derogation from the implementation of the gas separation principle agreed with the Energy Community in 2012, under the pressure of the Russian authorities, expires.

42 Energy Community Secretariat Review regarding the organisation of electricity procurement tender, published in May 2017, but no longer available on the Secretariat website.

43 Cenusă D., Restoration of power supplies from Transnistrian region and weakness of European factor, 26 June 2017, <http://ipn.md/en/economie-business/84691>.

44 The Ministry of Economy, 'Energocom' SOE concluded an electricity procurement contract with the Cuciurgan Power Plant, 6 June 2017, <http://mec.gov.md/ro/content/sa-energocom-incheiat-un-contract-de-procurare-energiei-electrice-cu-centrala-electrica-de>.

45 Expert-Grup, Cenusă D., Electricity Procurement: 3 post-tender scenarios 3 March 2017; <http://expert-grup.org/en/biblioteca/item/1399-achizitia-de-energie-electrica-3-scenarii-post-licitatie/1399-achizitia-de-energie-electrica-3-scenarii-post-licitatie>.

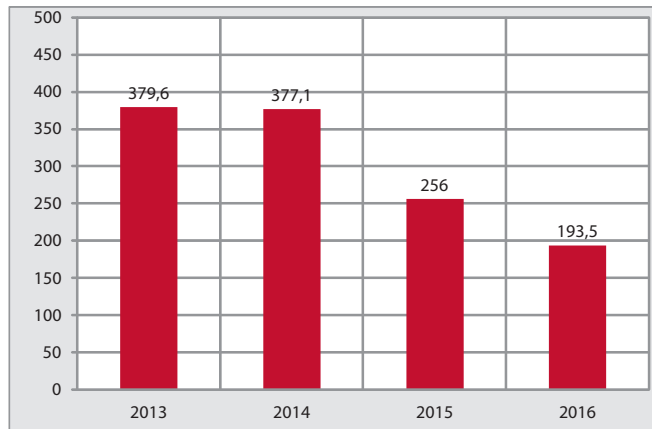
46 <http://www.moldpres.md/en/news/2017/06/09/17004396>.

47 Mold-street.md, 27 July, <https://www.mold-street.com/?go=news&n=6242>

48 Nutu O., Cenusă D., 'The Bridge over the Prut, version 2.0: the electricity interconnection between Romania and Moldova, 19 January 2017, <http://expert-grup.org/en/biblioteca/item/1365-podul-de-pest-prut-varianta-20/1365-podul-de-pest-prut-varianta-20>.

49 Nutu O., Cenusă D., 'The Bridge over the Prut, version 2.0: the electricity interconnection between Romania and Moldova

Figure 20. Price of natural gas exported by the Russian Federation, 1000 m³, USD



Source: ANRE

The energy sector faced delayed adjustments. The prices on the electricity market decreased several times (in April 2016⁵⁰ and April 2017) as a result of operators' requests and adjustments to the tariff methodology, sometimes under the influence of political pressures and to the detriment of operators. In the long run, the electricity price should be adjusted during 2017–2021 in line with the debt repayment arrangement (MDL 1.7 billion) resulting from the tariff deviations of 2015.⁵¹ At the same time, the electricity price may also change if the authorities reflect the price of electricity purchased from Moldovan CTEM (USD 45 per 1 MWh), which is 10% lower than the price offered by Ukraine (USD 50.2 per 1 MWh). A series of adjustments were made to the heating prices requested by Termoelectrica (with new prices between MDL 1,120 and 1,122/ Gcal), which continues the efforts towards resuscitation of the thermal energy sector.

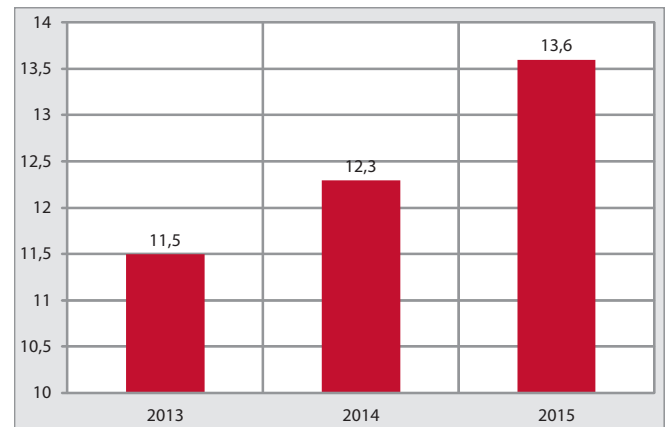
Energy consumption from renewable resources has seen a positive trend, but its sustainability depends partly on the implementation of the new law on the use of renewable resources, which was postponed to 2018. Moreover, the secondary legislation is not yet in place, leaving the renewable energy infrastructure

50 Energy Community Review, Compliance, Governance, Independence and Performance of ANRE, 8 September 2016, <https://www.energy-community.org/documents/reports.html>

51 Expert-Grup, LRCM and ADEPT, Monitoring report on the implementation of the Priority Reform Action Roadmap, 16 September 2016, <http://expert-grup.org/en/biblioteca/item/1324-raport-de-monitorizare-a-implement%C4%83rii-foii-de-parcurs-privind-agenda-de-reforme-prioritare/1324-raport-de-monitorizare-a-implement%C4%83rii-foii-de-parcurs-privind-agenda-de-reforme-prioritare>

underdeveloped. The national authorities' capacities in this area of work are low, and the only technical and financial support is provided by development partners and foreign donors. From 2017, the Government has been advised to adjust the existing legislation and develop regulations on: a) establishing eligible producers and the manner of granting this status; b) determining the central electricity supplier; c) guarantees of origin; d) sustainability criteria for biofuels; e) equipment for renewable energy production; f) implementing renewable energy projects and organising open competitions.⁵² The dense legislation targeting renewable energy (about 30 acts) does not do enough to encourage foreign investments in the sector, even if the Energy Efficiency Agency (EEA) provides consultancy for investors. In addition, there is still no fluid coordination between renewable energy producers, distribution networks and system operators, who ideally need to work together to expand the supply of 'green energy' to the system. The expansion of renewable energy is crucial to reduce greenhouse gas emissions, along with energy efficiency improvement projects.

Figure 21. Renewable energy as % of the total consumption



Source: NBS

Failure to comply with transparency rules allows for abuses on the part of the authorities. Thus, contrary to the guidelines about transparency procedures and the need for public consultations, the Ministry of Environment facilitated the signing of a contract with the American company Frontera regarding the concession for exploration works and the possible exploitation of 40% of the southern districts of the country. The American company has thus been given the exclusive right to carry out exploration and eventual exploitation for about 50 years, on the basis of a contract that fails

52 Energy Community, Renewable energy progress report for 2016.

to impose strict requirements and penalties in the field of environmental protection.⁵³

The sector is still vulnerable to political interferences. Both the regulator and the state-owned companies are reluctant about the requirements to increase their transparency, although increasing it may have the effect of reducing levels of political interference. For example, the new director of ANRE's Board of Directors and the Executive Director of Moldovagaz were selected either under the terms of a faulty competition (ANRE) or outside of any competition (Moldovagaz). In both cases, selection boards favoured persons affiliated to the ruling Democratic Party (ANRE – Tudor Copaci, Moldovagaz – Vasile Botnari). ANRE is making attempts to prove itself more open – the creation of the Expert Council in early 2017 - but the civil society, which rejects the formalistic and technical-consultative character attributed to the new structure, is sceptical about this. ANRE tends to manifest the same openness in relation to its foreign partners, signing a Memorandum of Understanding with the Energy Community (July 2017) on obtaining the technical assistance for the development of the secondary legislation required for the implementation of the Third Energy Package.

The performance in the Moldovan energy sector is weaker than the average for the CEE EU countries. The *quality* of electricity supply, which refers to transport and distribution losses, and thus implicitly refers to the quality of physical infrastructure, is half that in the European countries in the vicinity. Moreover, compared to the CEE EU countries, most of which are tending to see improvements in the quality of their supply, the situation in the Republic of Moldova shows signs of worsening. The same can be noticed in terms of energy *intensity*, where

the indicators are again below the average of the CEE EU countries. The renewable energy sector is also developing more slowly than in the CEE EU countries. A better situation can be noticed in terms of the price for natural gas. However, although the price paid in the Republic of Moldova (EUR /GJ⁵⁴) is lower than the average for the CEE EU countries, it represents around 85% of the price paid by European consumers (Table 8).

During 2014–2015, the deviations on the part of the Republic of Moldova from the average for the CEE EU countries for some indicators (Figure 22) did not decrease significantly: on the other hand, they increased for others. Thanks to their countries' access to the European structural funds and to improved energy governance, many of the CEE EU countries have managed to increase the efficiency and sustainability of their energy systems. Note that CEE EU countries are not homogeneous and some of them (e.g. Romania, Bulgaria, and others) registered almost the same results as the Republic of Moldova. However, compared to Moldova, the latter EU member states improved their indicators. However, the energy sector permanently fluctuates and depends, to an essential extent, on the quality of domestic governance (opaque transactions, interference by political actors, monopolies), but, at the same time, it also depends on exogenous factors (prices for the natural gas delivered by the Russian Federation). Even if accession to the Energy Community and the signing of the Association Agreement with the EU offers the Republic of Moldova various technical and financial tools to overcome the loopholes, energy governance is still strongly affected by the deficiencies of political governance.

Table 8. Comparison of indicators between the Republic of Moldova and CEE EU countries in the energy sector

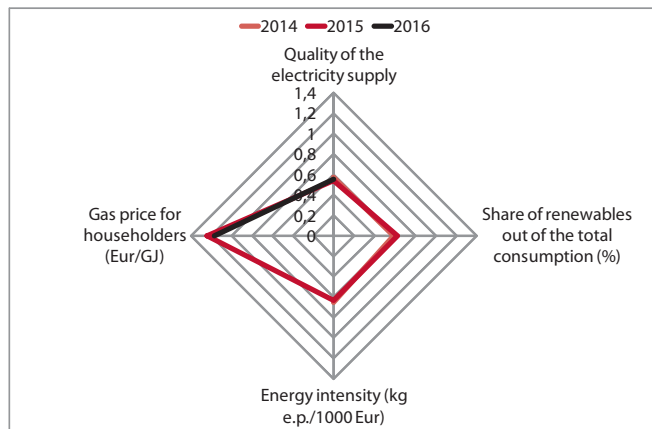
	Electricity supply quality		Share of renewable energy in total consumption, %		Energy intensity, kg equivalent oil per EUR 1000		Price of natural gas for residential consumers, EUR/GJ	
	CEE EU average	Republic of Moldova	CEE EU average	Republic of Moldova	CEE EU average	Republic of Moldova	CEE EU average	Republic of Moldova
2014	46.4	82	21.3	12.3	254.6	391	-	-
2015	44.9	83	21.8	13.6	249.1	397.4	9.8	7.9
2016	48.1	87	-	-	-	-	8.9	7.6

Sources: Eurostat, World Economic Forum, NBS, authors' calculations

53 D. Cenuşa, Concession of 40% of the territory of the Republic of Moldova for exploration purposes: 10 major issues, 16 March 2017, <http://expert-grup.org/en/biblioteca/item/1393-concesionarea-lucr%C4%83rilor-de-explora-re-a-40-din-teritoriul-moldovei-10-probleme-majore/1393-concesionarea-lucr%C4%83rilor-de-explora-re-a-40-din-teritoriul-moldovei-10-probleme-majore>.

54 1 GJ = 1 GJ = 277.7 kWh.

Figure 22. Deviation of the Republic of Moldova from the average of CEE EU countries in terms of the energy sector situation



Source: Eurostat, World Economic Forum, NBS, authors' calculations

Recommendations:

To improve the situation in the energy sector, the following policy priorities need to be implemented:

- **Adopt the entire Third Energy Package.** The adoption of the Law on the Energy Sector needs an enhanced transparency framework and relevant public consultations, with a subsequent urgent vote and implementation on the basis of a detailed action plan. In addition, the reformed ANRE must adopt the entire secondary legislation in order to efficiently action the legislation included in the Third Energy Package, based on a strict external follow up and involvement of the civil society. It is imperative to develop the steps necessary to apply the unbundling principle in the gas sector, postponed until 2019, when the commissioning of the Ungheni-Chisinau gas pipeline is expected and when the contract with Gazprom expires.
- **Improve the energy procurement mechanism.** This mechanism needs to be improved and extended to

cover the contracts negotiated by Energocom. The participation of the European observers (Energy Community, the EU) must become truly effective and the involvement of the Ministry of Economy in the tendering process must be limited or even definitively excluded to stimulate the competition of supply offers.

- **De-politicise the regulator and reduce the interference by political actors in the management of state-owned companies in the energy sector.** The competitions opened both for ANRE and state-owned companies (Moldovagaz) should become a permanent practice, and the de-politicisation should start from the selection bodies, which must consist of energy experts and foreign observers in the sector. As a result of these steps, the energy market and state-owned entities in the field can be managed more efficiently, become more credible to the public and signal more security for local and foreign investors.
- **Accelerate the interconnection projects with Romania.** Once the necessary financial resources are provided, the foreign partners (EU, including Romania, financial institutions) should closely follow up on the physical construction of the infrastructure, but also condition the financial assistance on quality reforms in the area of regulation and effective guarantee of a competitive market, as well as of the physical access to distribution networks (electricity, natural gas).
- **Complete the legal architecture dedicated to renewable resources.** Build capacities of central authorities and cooperate with development partners to streamline the adoption of the secondary legislation on renewable resources. This will facilitate the access of renewable energy producers to distribution and transport networks, stimulating the private investment in the sector.

Table 9. Main indicators monitored regarding environment and energy sector

	2013	2014	2015	2016
Electricity production, kW, million	747.9	788.1	792.8	754.6
Natural gas import, million m ³	1 031.2	1 053.1	1 008.5	1 038.4
Import price for natural gas, USD/1000 m ³	379.6	377.1	256.0	193.5
Procured electricity, million kWh	3 959.7	4 034.7	4 050.4	4 035.7
Average electricity procurement price, bani/kWh	-	105.72	132.91	113.31
CO ₂ emissions from stationary and mobile sources, tonnes per capita ⁵⁵	1.4	-	-	-

Sources: World Bank and authors' calculations

⁵⁵ World Bank, only data for 2013 are available.

Domestic and Foreign Politics: Regression of the Rule of Law and Geopolitical Orientation in Opposite Directions

During 2016–2017, domestic politics was mainly influenced by the consolidation of the Democratic Party, which, by entering into a conjunctural alliance with the Socialist Party and by shirking over the matter of transparency procedures, adopted a mixed vote, ignoring the critical arguments of the extra-parliamentary opposition, civil society and western partners. The country's relationship with the EU is getting more complex, but European financial support remains an important lever in the relationship of EU institutions with the Government. In order to distract the foreign partners' attention from the increasingly visible governance deficiencies, the ruling party has deliberately targeted the fragile foundation of Moldovan–Russian ties. This opposed strongly the Russian-Eurasian aspirations of President Igor Dodon, who has created confusion about the sustainability of the country's European agenda. The dichotomy in the foreign politics has further emphasised the geopolitical disparities in the society, diminishing the cohesion around the European external orientation as well as to the attention paid to the reform agenda.

Domestic Politics

In the period under review, the Moldovan political system was marked by the continued strengthening of power by the Democratic Party (PDM) and its tactical cohabitation with the parliamentary opposition, represented by the Socialist Party (PSRM). Following the conjuncture alliance, the two political powers succeeded in introducing a mixed voting system in July 2017 (51 members out of 101 elected on the basis of uninominal constituencies); this system risks encouraging corrupt electoral practices and disfavours new extra-parliamentary parties that strongly oppose political corruption. However, the coexistence of Democrats and Socialists was only partial in terms of its substance and a number of sensitive cases were excluded, such as the reform of the retirement system, the conversion of losses from the

banking system into public debt or the settlement of the Transnistrian conflict.

The country's external orientation became the epicentre of rivalry between PDM and PSRM. In order to generate solidarity in the domestic arena and to dilute the criticism of foreign partners, the Democrats have resorted to a deliberate deterioration of the relationship with the Russian Federation, despite previous efforts to restore Moldovan–Russian economic relations⁵⁶. PDM's anti-Russian rhetoric was supplemented by an excessive, though incoherent (ignoring the EU's recommendations on the mixed voting), display of a pro-European approach. Meanwhile, the Socialists fully embraced the Russian-Eurasian vector in order to attempt to win over the entire pro-Russian electoral segment and obtain political support from the Russian Government (President Vladimir Putin and the United Russia Party) before the 2018 elections. This trend intensified after the presidential elections of November 2016 that resulted in the victory of the Russophile Socialist Igor Dodon. The Socialists' Eastern inclination was characterised both by condemning certain European values (anti-discrimination policies), and by propagating messages of hatred⁵⁷, discrimination or intolerance (e.g. towards sexual minorities, women without children or who are unmarried, unionism) and promoting the role of the Church in protecting traditio-

56 "Foaia de parcurs" pentru restabilirea relațiilor economice și comerciale pentru anii 2016-2017 [Road map' for restoring economic and trade relations for 2016–2017], the 14th meeting of Moldovan–Russian intergovernmental commission for economic cooperation, 29 November 2016, http://www.mec.gov.md/sites/default/files/plan_rm_rf_2016-2017_29.11.16.pdf

57 Promolex, No Hate Speech Movement, PATRIR, Discursul instigator la ură în mediul politic [Hate speech in politics], 28 March 2017, <https://promolex.md/6988-analiza-discursul-instigator-la-ura-in-mediul-politic-din-romania-si-republica-moldova/>.

nal values. This polarises society and compromises the progress made with the adoption of anti-discrimination legislation in 2012.

The breakup of the PDM–Liberal Party ruling coalition in May 2017 repeated the failure of other ruling coalitions that have been established from 2009 onwards. This shows the constant trait of the Moldovan political system of having an inability on the part of the local political class to form sustainable political coalitions in order to ensure a stable and predictable governance centred on the public interest. On the contrary, political coalitions have a situational role and are used with the main purpose of monopolising political power, using the weaknesses of the temporary political partners.

The legitimacy of the ruling party remained at a low level, while the Socialist opposition strengthened. According to recent polls⁵⁸, the Democratic Party of Moldova, which now governs the country and has 39 Members of Parliament, 20 more than after the 2014 elections, now has an election popularity below the threshold (6%) for entry in the Parliament. Even the polls commissioned by PDM show that the Democrats would gain only 9.2% in a possible ballot.⁵⁹ Considerable financial resources – about MDL 77 million during 2016 – semester I, 2017, supplemented with State Budget allocations of about MDL 10 million for the same period⁶⁰, the multitude of media levers (at least four TV stations) and the total political subordination of state institutions have not helped PDM to eliminate this legitimacy shortfall. The paralysis of existing left-wing or pro-Russian political parties has favoured the Socialists emergence. They increased by about 30% in the citizens' voting options during 2015–2016. The Socialists' electoral attractiveness is mostly due to the dynamic presidency of Igor Dodon and the proximity to Moscow, but also to the chronic weakness of the Communist Party of the Republic of Moldova and the immobilisation of Our Party, caused by the prosecution of Renato Usatii, accused of an extremely serious crime – an attempted contract killing.

The extra-parliamentary opposition has shown an increased interest in political cooperation, but its consolidation is uneven. The liaison created by the 'Platform Dig-

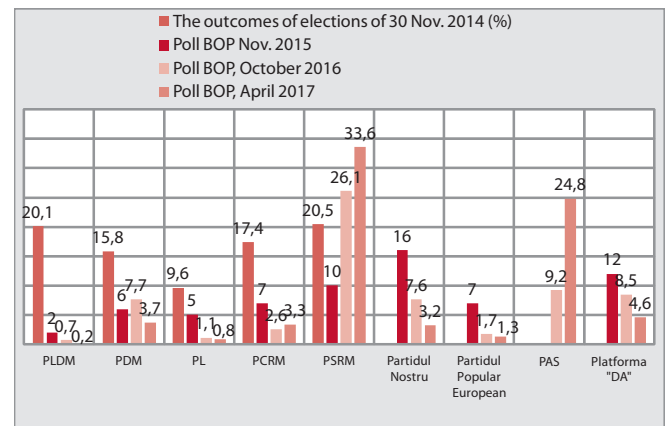
58 The Institute for Public Policy (IPP) survey of April 2017, and the one commissioned by IRI of March 2017, coincide with the fact that PDM is below the 6% limit as an election option among citizens, <http://ipp.md/libview.php?l=ro&idc=156&id=820>, http://www.iri.org/sites/default/files/iri_moldova_poll_march_2017.pdf.

59 IMAS, July 2017, <http://imas.md/pic/uploaded/%5Bimas%5D%20libertatea%20de%20a%20fi%20liberi.pdf>.

60 Central Electoral Commission, Financial statements for 2016–2017, <http://cec.md/index.php?pag=cat&id=1800&l=ro>.

nty and Truth' and Action and Solidarity Party (PAS) parties showed a certain efficiency – an example being the opposition to Government and the participation in the presidential election in 2016 with a common candidate. However, the limited activity manifested by PAS following the presidential election, did not allow the party to fix the structural weaknesses related to its poor penetration in the regions. The limited financial resources, limited access to mass-media with national coverage and the lack of strong local leaders, combined with the Government pressures on the public sector, including the frequent absence of opposition leaders (Maia Sandu, Andrei Nastase) from the country, affected the opposition's mobility. This had a negative impact on the size of protests that decreased their intensity during 2016–2017. However, the new opposition parties tend to cover the gaps that have arisen because of the Liberal Party and the Liberal Democratic Party of Moldova's total collapse in the polls. At the same time, the significant political capital obtained by Maia Sandu and PAS following the presidential election⁶¹ eclipses that of the other parties, whose electoral chances have diminished drastically – Platform DA.

Figure 23. Representation of citizens' political options, according to the Public Opinion Barometer %



Source: Institute for Public Policy

The Government's approach to structural reforms has been rather selective. Although positive signals have been registered with respect to the International Monetary Fund conditionalities in the financial and banking field, the judicial and anti-corruption reforms agreed with the EU and the USA have been neglected or mimicked. A relevant example is the non-operationality of the integrity mechanism between August 2016⁶² and July 2017, and the failure

61 Maia Sandu obtained 47.89% of the total votes, with 67,488 votes less than her counter-candidate, the Socialist Igor Dodon, <http://www.e-democracy.md/elections/presidential/2016/>.

62 Ziarul de Garda, 28 July 2017, <https://www.zdg.md/stiri/stiri-sociale/doc-averile-declarate-in-2016-de-deputati-necunos>

to complete the reform of the Anti-Corruption Prosecutor's Office⁶³. Although justice has begun to be felt by social categories previously regarded as irrelevant, justice cases are still more likely to involve a political penalty than fair and transparent justice: Vlad Filat (nine years of imprisonment), Veaceslav Platon (18 years of imprisonment)⁶⁴, corruption-related criminal files involving the Liberals (Dorin Chirtoaca, Iurie Chirinciuc and others). Nor does the rule of law apply equally, as evidenced by the case of Ilan Sor, who, although included in the fraud schemes of the banking system and being tried for crimes similar to those of Platon, received only seven years and six months of imprisonment (he is at liberty under judicial control). The judges who oppose the governance are at risk of being removed from the system, as evidenced by the prosecution and dismissal of Judge Domnica Manole⁶⁵, who decided in favour of organising the referendum required by the opposition in 2016. Such cases undermine the independence of the judiciary and inevitably affect the quality of justice, as well as the citizens' trust in its integrity. This generally weak progress in relation to governance and reforms serves to maintain a high level of pessimism on the part of citizens— 64.3% in April 2017, though 20% lower than in April 2016 (85.9%).⁶⁶

The public perception of the control of corruption has deteriorated, even though the number of corruption cases investigated by the National Anti-Corruption Centre

(NAC) has actually increased by 35% compared to 2015.

Thus, Moldova dropped 25 positions in the Transparency International ranking on corruption perception. Compared to 2015, in 2016 other related indicators also worsened: free media (-8 positions), government policy transparency (-25 positions) and the degree of misappropriation of public funds (-4 positions). In addition, in 2016 the financial losses that have resulted from the defective management by the Government of the public sector increased by about 20% exceeding the amount of MDL 20 billion. Compared to CEE countries, Moldova has regressed further in terms of the all above-mentioned indicators, even though this gap was quite large even before.

Good governance, the quality of democratic institutions and the efficiency of anti-corruption policies are areas where the Republic of Moldova fails to reach the average of the CEE EU countries. In addition, the comparison indicators reveal an approximation in terms of aspects related to the trust in politicians and the level of favouritism in government decision-making, where both the Republic of Moldova and many CEE EU countries have unsatisfactory results (Table 10).

It can be seen that the most pronounced deviations from the average of the CEE EU countries are in relation to bribery, perceptions of corruption and the viability of democratic institutions (Figure 24). In other words, the an-

Table 10. Rankin of the Republic of Moldova and average rankings of CEE EU countries in terms of good governance and anti-corruption policies

	Favouritism in governmental decisions		Public trust in politicians		Unlawful payments and bribes		Corruption Perception Index		Freedom House	
	CEE EU average	Republic of Moldova	CEE EU average	Republic of Moldova	CEE EU average	Republic of Moldova	CEE EU average	Republic of Moldova	CEE EU average	Republic of Moldova
2014	97.1	130	106.7	116	55.1	116	49.4	103	-	-
2015	93.6	131	97	117	54.8	113	44	106	88	60
2016	93.9	130	91.8	119	56	116	47	128	87.5	62

Source: World Economic Forum, Freedom House, Transparency International, authors' calculations

cute-publicului-larg-cum-explica-parlamentul-si-ani.

63 The Joint Declaration of the EU-Moldova Civil Society Platform, 22 May 2017, http://crjm.org/wp-content/uploads/2017/05/2017-05-22-Joint_declaration_EU-Moldova_CSP_2017_fin.pdf.

64 Euroactiv, 21 April 2017, <http://www.euractiv.ro/euractiv-moldova/r.-moldova-veaceslav-platon-condamnat-la-18-ani-de-inchisoare-in-dosarul-jafului-miliardului-7422>.

65 LRCM, 5 July 2017, http://crjm.org/wp-content/uploads/2017/07/2017-07-05-DeclarationDismissal-Manole_EN.pdf.

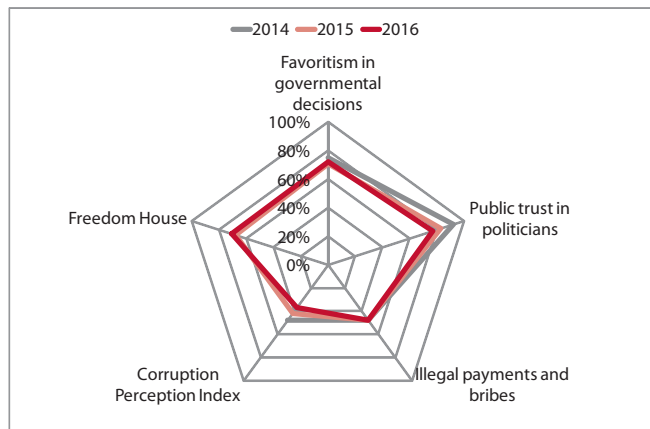
66 IPP, Public Opinion Barometer, Question: Do you think things are going in a good or wrong direction in Moldova?, <http://bop.ipp.md/>.

ti-corruption policies and the foundations of democracy in the Republic of Moldova are inconsistent and produce significant imbalances. That situation worsened in 2016. These aspects reveal a major opposition on the part of the Moldovan political class to the justice and anti-corruption reforms, which are provided in the EU Association Agreement.

Even though in some CEE EU countries government decisions are undoubtedly influenced by conflicts of interest and non-liberal manifestations have become more intense, thus affecting the legitimacy of ruling parties, the de-

mocratic institutions in those countries are still relatively strong, and the EU is an influence that tends to correct any deviations. In the Republic of Moldova governance generally and the state of democracy can potentially be improved by the structural reforms (rule of law, good governance, justice, etc.) that are embedded in the European integration process, where the beneficial role of the EU consists in providing financial and technical assistance, balanced by harsh conditionalities in relation to the Government.

Figure 24. Deviation of the Republic of Moldova from the average of CEE EU countries in terms of good governance and anti-corruption policies



Source: World Economic Forum, Freedom House, Transparency Int., authors' calculations

Relations between the Government and civil society have also worsened consistently. The attempts to vote conflicting laws (the draft law on 'tax amnesty and capital'⁶⁷, the law on non-profit organisations⁶⁸), and particularly the law on changing the electoral system and shirking international commitments (political preconditions for the EU's macro-financial support), taken together have increased the mistrust in the Government.

Communication between Chisinau and Comrat became more dynamic, but this has not increased the pro-European aspirations of Gagauz autonomy. Following the amendment of legislation (two laws) to renew the position of the Gagauz-Yeri Administrative Territorial Unit (ATU) in the country's administrative territorial system, the autonomy gained an advanced special legal status, different from that of other administrative entities.⁶⁹ Al-

67 LRCM, Expert-Grup, December 2016, <http://crjm.org/amnistia-fiscala-si-de-capital-republica-moldova/>.

68 LRCM, 11 July 2017, <http://crjm.org/wp-content/uploads/2017/07/2017-07-11-Declara%C8%9Bie-OSC-legea-ONC.pdf>.

69 Newsmaker, 22 July 2017, <http://newsmaker.md/rus/novosti/i-v-komrate-i-v-kishineve-est-goryachie-golovyno-my-dolzheny-idti-na-kompromiss-ka-32680>.

though these steps are meant to gradually eliminate the animosities between Chisinau and Comrat, the Gagauz elite perceives the consolidation of Gagauz autonomy as contradicting with the central power. In addition, to reduce the dependence of their autonomy on decisions of the central power, the Gagauz authorities are seeking ways to intensify their relations with the Russian Federation (in socio-economic areas) and the Russian external orientation⁷⁰. In doing so they accept possible European integration mainly as a way to facilitate the attraction of greater financial assistance for the development of autonomy.

Developments in the Transnistrian case have been static, and have not facilitated the settlement of the conflict.

While the 5+2 negotiation format has remained frozen since the summer of 2016, the establishment of the joint control point Cuciurgan-Pervomaisk on the Transnistrian segment of the Moldovan-Ukrainian border, supported by the EU, has allowed for the introduction of additional transparency tools in relation to trade flows and people moving in and out of the Transnistrian region. The Tiraspol administration and the Russian authorities reacted negatively to this measure, comparing it to 'a new economic blockade' and 'external pressure'⁷¹. Apparently, in order to avoid worsening the economic situation in the Transnistrian region and to maintain the political status-quo in the region, the Chisinau Government decided to purchase electricity from the separatist region, cancelling the previous decision to contract electricity from the Ukrainian supplier for 2017–2018 (see chapter on energy). The failed attempts of President Igor Dodon to discuss the settlement of the Transnistrian conflict with the Russian authorities has caused new ruptures in Chisinau's dialogue with the Tiraspol administration.

Foreign Politics

The country's external orientation has never previously been as volatile as in the period 2016–2017.

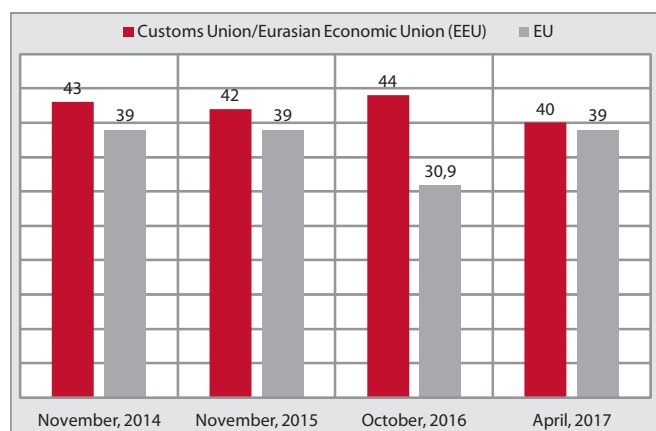
Moldova's external oscillation results from the geopolitical division of the two branches of the executive – the Government and the Presidency. On the one hand, the Democrats use the European issues and debates to try to occupy the centre-right-wing political parties, as a 'saviour of European integration' from the 'Russian

70 IPP, Moldova between East and West: Visions from Gagauzia and Treaclier, 2016, http://ipp.md/wp-content/uploads/2016/09/Moldova-intre-Est-si-Vest-Viziuni-din-Gagauzia-si-Taraclia_RO.pdf.

71 Poziția Ministerului Afacerilor Externe al Federației Ruse cu privire la înființarea centrului comun de control Pervomaisk-Cuciurgan [Position of the Ministry of Foreign Affairs of the Russian Federation on the establishment of the Pervomaisk-Cuciurgan joint checkpoint], 20 July 2017, http://www.mid.ru/ru/foreign_policy/news/-/asset_publisher/cKNonKJE02Bw/content/id/2818579#5.

danger'. On the other hand, Igor Dodon has converted the presidency into the main platform for re-launching the dialogue with Russia and for bringing the country closer to the Russian-Eurasian geopolitical project. Specifically, the country's President has managed to hold no less than five meetings with the Russian President in only seven months of mandate, negotiating more favourable conditions for Moldovan migrants, returning certain economic agents to the Russian (wine sector) market, signing a memorandum of cooperation with the Eurasian Economic Union and requesting the status of observer country within it⁷². This is contrary to his mandate's limitations clearly specified in the Constitution. This dichotomy over external affairs reflects both the excessive degree of geopolitical polarisation of the society and the clear motivation of Democrats and Socialists to exploit the geopolitical issues for personal and political purposes.

Figure 25. Distribution of geopolitical sympathies of the population, according to Public Opinion Barometer, %



Source: IPP

The Government's reluctance to enact structural reforms (rule of law, good governance, etc.) has also weakened the Chisinau-Brussels axis. Although they succeeded in unlocking European financial assistance in 2016, by adopting the mixed voting system, the Democrats rejected the EU's political⁷³ preconditions for the functioning of democratic institutions, which are mandatory in order to receive future macro-financial assistance (EUR 100 million). At the same time, the introduction of the mixed vote ignored the recommen-

72 Cenusă D., Role of President Dodon for Russia and implications for European integration, IPN, June 2017, <http://ipn.md/en/integrare-europeana/84417>.

73 Draft Decision of the European Parliament and of the EU Council on Macro-Financial Assistance, 13 June 2017, <http://data.consilium.europa.eu/doc/document/ST-10158-2017-INIT/en/pdf>.

dations of the Venice Commission⁷⁴, supported by the EU, which signalled the risks of corporate pressures (avoiding the explicit term 'oligarchs') on future candidates to be Members of Parliament. Following the active involvement of European MPs from the European People's Party, the European Parliament became the most visible critic of the Government in Brussels, and this has contributed considerably to the harshening of the position of other EU institutions towards the PDM's actions.

The USA has supplemented the EU's role in promoting reforms and singling out cases of regression, such as the introduction of the mixed voting system. The similar positions of the USA and EU has led to literally identical rhetoric and expectations towards the Government. At the same time, the USA intervened in relations with the Republic of Moldova via its central political institutions, when it extended the sanctions against the Russian Federation⁷⁵, including those imposed for supporting the separatist regime in the Transnistrian region.

The relations with the neighbouring countries were also influenced by the geopolitical dichotomy existing in Chisinau. Thus, the country's presidency, led by Igor Dodon, focused on communication with Russia and other neighbouring states, with dysfunctional democracies in the EU (Hungary) or with (semi) authoritarian regimes (Turkey, Belarus, Azerbaijan, Iran and even North Korea). The anti-EU rhetoric, supporting the annexation of Crimea by Russia, and the anti-unionist approach, has seriously limited the President's interaction with other neighbouring countries (for example, Ukraine and Romania) as well as the EU. The Democrats for their part have maintained tight relations with Romania, which provided support (a loan of EUR 150 million) to Moldova, initially not synchronised with the EU after the Government was taken over by PDM. Despite the criticism of the EU institutions, both the Romanian Prime Minister Mihai Tudose and the Romanian Social Democrats in the European Parliament backed the Democrats' decision to change the electoral system. The Government has also succeeded in entering into a coalition with Ukraine and Georgia, also (in)directly governed by oligarchic groups⁷⁶, in order to

74 Venice Commission Opinion, 16 June 2017, [http://www.venice.coe.int/webforms/documents/?pdf=CDL-AD\(2017\)012-e](http://www.venice.coe.int/webforms/documents/?pdf=CDL-AD(2017)012-e).

75 USA Congress, Countering Iran's Destabilizing Activities, which also refers to Russia, July 2017, <https://www.congress.gov/bill/115th-congress/senate-bill/722/text>.

76 Konończuk W., Cenusă D., Kakachia K., Oligarchs in Ukraine, Moldova and Georgia as key obstacles to reforms, Expert-Grup, CEPS, http://expert-grup.org/media/k2/attachments/Oligarchs_in_Ukraine_Moldova_and_Georgia.pdf.

seek a clear European perspective from the EU,⁷⁷ invoking the Russian factor and the need to boost reforms.

There is a continuous resurgence of the Russian factor promoted by President Igor Dodon. Specifically, he proposes to establish a strategic partnership with Russia, as well as with the supporters of Eurasian integration, while opposing European values. The pro-Russian aspiration of the Socialists is seen positively by Russia, which has agreed to facilitate the return of Moldovan companies to the Russian market and the legalisation of Moldovan workers' residency. Against the background of the President's pro-Russian actions, the Democrats undertook a range of measures that inflamed the relations with the Russian Federation, including: the expulsion of five Russian diplomats; multiple bans on entering the country for citizens associated with the Russian information war; and the voicing of suspicion about the implication of Russian citizens in the alleged attempted murder of Vladimir Plahotniuc. This antagonistic, visibly forced position towards Moscow reached its peak with the announcement of the Deputy Prime Minister Dmitri Rogozin, responsible for the Transnistrian dossier and the coordination of the Moldovan–Russian intergovernmental commission on economic cooperation, as a *persona non-grata*.⁷⁸ The Russian Federation in response has resorted to some symmetrical reactions – mutual expulsion of diplomats – but has refrained from taking disproportionate socio-economic measures with implications for Moldovan workers or companies. This uncharacteristic reluctance of the Russian Federation denotes its interest in restoring the influence it had before 2009 in the Republic of Moldova through Igor Dodon and the Socialists rather than simply penalising the country: a position that suits PDM's internal political strategies before the 2018 legislative election.

77 Declarația comună a Parlamentului Georgiei, Parlamentului Republicii Moldova și Radei Supreme a Ucrainei [Joint declaration of Georgia Parliament, Republic of Moldova Parliament and Verkhovna Rada of Ukraine], 5 July 2017, <http://www.parliament.md/Actualitate/Comunicatedepresa/tabid/90/ContentId/3206/Page/8/language/en-US/Default.aspx>.

78 Ministry of Foreign Affairs and European Integration, 2 August 2017, <http://www.mfa.gov.md/comunicate-presamd/508549/>.

Recommendations:

To mitigate the situation in regard to the domestic and foreign policy, the following policy priorities need to be pursued:

- **Consolidate the reforming mechanism** envisaged by the Association Agreement and Agenda. The EU conditions should be updated, interconnected, multiplied and stratified by sectors. It is necessary to focus the conditions on different levels of priorities in strict accordance with the degree of urgency of the intervention in the sectors liable to reform. The justice, media, anti-corruption institutions, the banking system, security and the energy sector are among the vital and vulnerable areas that, once reformed, can have a positive multiplier effect on other areas. The main efforts should be focused on strengthening the crucial institutions for restoring the functionality of democratic institutions – the National Integrity Authority, the General Prosecutor's Office, the NAC, the Central Electoral Commission and the Audiovisual Coordination Council.
- **Strengthen the assistance for civil society.** The natural partners of reform, the non-governmental sector, need political and financial support from the various development partners. Civil society needs to restore its image, which has been deliberately denigrated by the followers of the current Government, but also to increase its public credibility. External donors can contribute to these issues by adjusting the auditing and reporting tools, insisting on maximising transparency and popularising the utility of civil society for the public interest. This will help to encourage the development of a sustainable non-government sector that is resilient to political influences. Strengthening the civil society's integrity and incisiveness, and widening the geographic area of action (including ATU Gagauzia and the Transnistrian region) will streamline the following up of reforms, increasing the public pressure and demands made towards the Government and the act of governance at the central and local level. Ethnic minorities also have to become more constructive actors in the implementation of reforms, thus enhancing cohesion and preventing the attempts at social division of a domestic and foreign origin.
- **Active, innovative and critical communication on the advantages of European integration.** The European external orientation which has been declared a national priority and is reflected in the EU Association Agreement, is being weakened by the opportunism of the political class, which constantly alters the

EU's image and alienates the citizens, as well as being negatively influenced by the misinformation put out by pro-Russian forces (the presidency of the country, PSRM, Russian or pro-Russian media). The EU, via the East StratCom division, as well as the independent media in the country, together with unbiased experts, should expand their efforts to combat false information about the role of the EU in the Republic of Moldova. The safest tool for stopping Euroscepticism among

citizens is the presentation of correct, factual and methodical information. This will also discourage the manipulation of information by local political forces, which show pro-European aspirations. Additionally, the awareness of the benefits of European integration can be raised by objectively informing the public about the situation in the Eurasian Economic Union presented by the pro-Russian actors as an alternative to the European vector of the country.

Table 11. Main indicators monitored with regards to political situation

	2013	2014	2015	2016
Acts of corruption identified by NAC ⁷⁹	411	498	533	720
Verdicts on corruption cases, %	91 ⁸⁰	80	85	84
Value of the irregularities and deviations in public funds management (billion MDL) ^{81 82}	7.7	9.85	17.38	20.83
World Economic Forum: Transparency of government policies	81 123	69 123	81 126	106 130
Embezzlement of public funds	(of 148 countries)	(of 144 countries)	(of 140 countries)	(of 138 countries)
Corruption Index, Transparency International	102 (of 177 countries)	103 (of 175 countries)	103 (of 168 countries)	128 (of 176 countries)
Media Freedom (World Press Freedom Index)	55 (of 179 countries)	56 (of 180 countries)	72 (of 180 countries)	80 (of 180 countries)
Peace Index (Global Peace Index)	83 (of 163 countries)	68 (of 163 countries)	68 (of 163 countries)	64 (of 163 countries)

Source: NAC, Court of Accounts, Transparency International, World Economic Forum, Reporters Without Borders, Vision of Humanity

79 The crimes investigated by NAC include corruption and corruption-related crimes, money laundering.

80 NAC Activity Report for 2015 indicates the percentage for 2010–2012.

81 Court of Accounts, Activity Report for 2016. <http://www.ccrm.md/storage/upload/reports/postari/139/pdf/5907c1ba3b2cb54029cc3e54cc61a307.pdf>

82 Audit of public authorities: 378 entities - in 2013; 355 entities - in 2014; 495 entities - in 2015; 575 entities - in 2016.

About Expert-Grup

WHO WE ARE

Expert-Grup is a Moldovan non-government and not-for-profit organisation that specialise in economic and policy research. Expert-Grup does not represent any economic, corporate or political interests. As an independent organisation, Expert-Grup reflects the ideals of young intellectuals from Moldova, who set up the institution with the purpose of contributing to the development of the Republic of Moldova. Among other types of organisations in Moldovan civil society, Expert-Grup positions itself as a politically and ideologically neutral think-tank.

OUR ACTIVITIES

Our core activities are economic analysis and making forecasts, as well as public policy research. In this area, we provide a wide range of analytical products and services that help our beneficiaries to take decisions supporting the development path of the Republic of Moldova. Our key competence consists in the ability to provide professional, objective and high-quality research in such areas as:

- macroeconomic analyses and forecasts;
- political economy;
- public finance;
- human development and poverty reduction;
- labour market and consumer behaviour;

- foreign trade;
- financial markets;
- economy of European integration;
- economic analysis by sectors;
- regional and local economic development; and
- energy and economy of environment.

PARTNERS AND DONORS

During the period 2006–2016, Expert-Grup implemented over 100 research and advocacy projects in different areas related to economic research and public policies. Over 130 experts, both affiliated and not affiliated to our institution, from the Republic of Moldova and abroad, were involved in these projects. We have worked with such international institutions as Soros Foundation-Moldova, East Europe Foundation, Konrad Adenauer Foundation, Balkan Trust for Democracy, Black Sea Trust, Friedrich Ebert Foundation, UNDP Moldova, UNICEF, European Commission, Council of Europe, Open Society Foundation, Swiss Agency for Development and Cooperation, UK Department for International Development. In 2010 and 2012, Expert-Grup was selected as a member of the National Participation Council. Since 2008, Expert-Grup has been a member of the Policy Association for an Open Society, an international network consisting of 56 think-tanks from various European countries.

About FES

FES is a German political social-democratic foundation, which aims to promote democracy, peace, international understanding and cooperation. FES performs its tasks in the spirit of social democracy and participates in public debates to identify social-democratic solutions to current and future issues in society.

FES IN MOLDOVA

In the Republic of Moldova, FES aims to foster European integration, democracy, peace and social justice through political dialogue, education and research. Our main areas of activity are the following:

DEMOCRATISATION AND POLITICAL PARTICIPATION

The Republic of Moldova faces challenges related to strengthening its democratic institutions and developing a democratic culture that would make the country fully compliant with the standards of the EU. FES contributes to this by promoting political participation in civil society organisations, political parties and local public administration bodies. In this area, FES puts a particular focus on building the capacities of citizens in the regions. Citizens should be trained to follow critically and participate in public debates in order to monitor decision-makers, express their views and act in their own interests. Therefore, through its activities, FES has committed itself to promoting participatory democracy and citizens' civic and political culture at the local level.

EUROPEAN INTEGRATION

The Republic of Moldova is a part of the European Neighbourhood Policy and the Eastern Partnership. FES aims to support the European integration process of the country. Through a number of tools, such as radio debates, news bulletins, policy papers, publications and conferences, FES focuses on the main challenges related to European integration, facilitating people's access to up-to-date and reliable information on the topic, improving the dialogue between the civil society and decision-makers as regards the requirements for successful European integration, and strengthening, in this way, the efforts of Moldovan authorities to integrate into the EU. Additionally, FES supports non-government organisations in contributing to a peaceful resolution of the Transnistrian conflict, as a precondition for successful European integration in the long run.

ECONOMIC, SOCIAL AND ENVIRONMENTAL POLICY

FES supports its partners in developing and implementing policies for a sustainable and socially-balanced market economy that is able to address the needs of all citizens. The activity and projects in the area focus on such topics as: reforming social security systems, improving working conditions and labour market opportunities, and fostering sustainable development. Additionally, FES runs programmes that aim to promote social-democratic values.