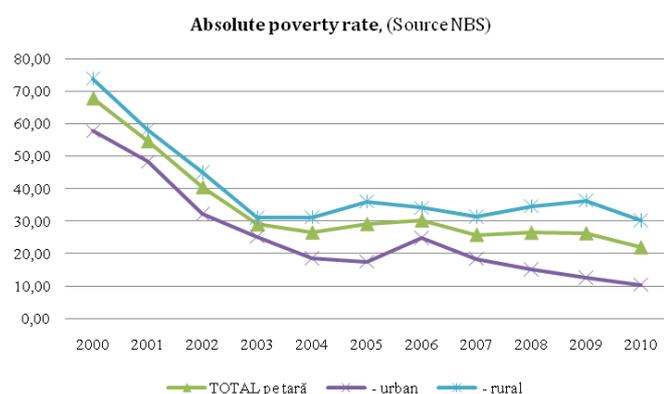


REGIONS OF MOLDOVA – HOSTAGES OF POPULIST POLICIES

An analysis of the situation in this area can be made by referring to the evolution of the Republic of Moldova in relation to indicators of Millennium Development Objectives¹, which represents a global agenda in comprehensive development to which Moldova has also subscribed. Thus, during 2000-2010 Moldova has registered a substantial progress in reducing the share of population below absolute national poverty threshold from 67,8% in 2000 to 21,9% in 2010. A role in this process had the fact that during 2000-2008 country's economy that benefited from remittances from abroad which have steadily increased during 2000-2008 from 148 to 1796 million USD², has also steadily increased with an average annual rate of about 6 percent. If in 2000 absolute poverty rate was 73,9% in rural areas, then in 2010 it decreased to 30,3%. How relevant is this evolution? To answer this question, it is sufficient to refer to the

Republic of Moldova is undergoing a long period of transition. The impact of social and economic transformations occurring in the country since the 90's, which have still not produced the desired results, was fully felt by the population. The most affected category is the population with low incomes located in rural areas, which according to statistical data represent approximately 58% of the population, except for eastern regions.



evaluation of the same indicator calculated for urban population in the country. In 2000-2010 absolute poverty rate in urban area declined from 57,7% to 10,4%.

These figures expressed in relative terms indicate that in urban areas poverty reduction potential is more that twice higher than in rural areas. Thus, in the targeted period the share of population below absolute national poverty threshold declined in urban areas by more than

1 BNS, „ODM revised indicators: Moldova 2000-2010”

2 Based on NBM data, calculated as amount for compensation of work and transfers made by workers.

5.5 times, whereas in rural areas the decline was only of 2.4 times.

Distinct economic evolutions between urban and rural areas in the country are leading to developments which are already on contrary slopes in other social areas, such as education. In 2000 Moldova registered a magnitude of gross enrollment rate in compulsory general education for urban area 97,8% and rural area 91,4%. During the next 10 years, this indicator has improved for urban areas, reaching 99,1%, but decreased significantly for rural areas, where it reached 85.8% in 2010.

A major cause of this involution in the rural areas can be the phenomenon of temporary migration of the population, which has grown in Moldova, especially since 1995. Traditionally, the number of population in Moldova at work or seeking work abroad is higher in rural areas than in urban. For 2010, from a total number of 311 thousands temporary migrants, 220.5 thousands were from rural areas³. Another factor is the low level of income of rural population. Thus, in 2009 the average salary in the country registered an average amount of 2747,6 lei, while in Chisinau municipality the value of this indicator was 3495,3 lei, and in other regions it has not exceeded 2300 lei⁴.

The problem of intra- and inter-regional disparities in Moldova is reported in strategic development documents of the Republic of Moldova, such as National Development Strategy for 2008-2011. The mentioned document refers to socio-economic development gaps between Chisinau municipality and to less extent – Balti municipality, and the rest of the country, which, according to the authors „...*have a greater disposal of production factors and infrastructure*

3 BNS, „Population aged 15 years and more, being at work or seeking work abroad”

4 BNS, „Average nominal salary per month of an economy employee, in territorial profile”

elements necessary to attract investments and socio-economic development in comparison to other communities in the country”.

Thus, in order to overcome this problem, the document in question proposes achievement of the following objectives:

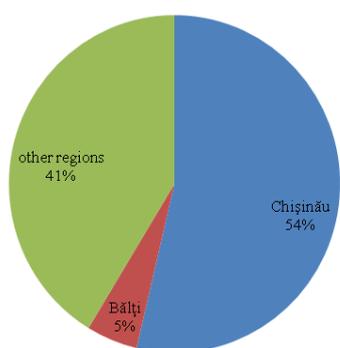
1. Balanced participation of all regions in socio-economic development of the country, with a special focus on North, Center and South regions;
2. Accelerating the development of small towns as “growth poles” of the regions;
3. Development of rural economy and improving agricultural productivity;
4. Development and modernization of regional infrastructure and promoting public-private partnership;
5. Prevention of environmental pollution and efficient use of natural resources to enhance quality of life.

The regional development model corresponding to strategic objectives previously mentioned is the one listed in the Law No.438-XVI of 28 December 2006 on regional development in the Republic of Moldova. This law has as main objectives:

1. Achieving a balanced and sustainable socio-economic development throughout the country;
2. Reducing imbalances of socio-economic development levels between regions and within them;
3. Strengthening financial, institutional and human opportunities for socio-economic development of the regions;
4. Support activity of authorities of local public administration and local communities focused on socio-economic development of communities and coordination of their interaction with national, sector and regional strategies and programs.

The main tool for achieving regional development objectives of the country is the National Fund for regional development, formed to finance projects and programs of regional development – **focused as a priority on disadvantaged areas**. Fund amount is at least 1% of state budget revenues, as well as of financial means from local, regional and international public and private sector, means offered by donors’ assistance programs.

Fixed capital formation, 2009 (Source: NBS)

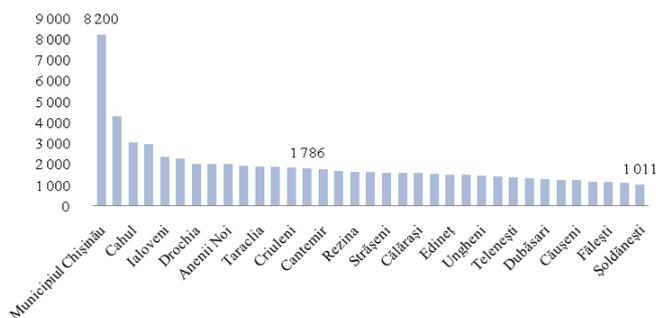


Thus, although National Development Strategy of the Republic of Moldova specifies as potential economic growth poles Chisinau and Balti municipalities, as the ones able to quicker develop and subsequently to contribute to development of other regions, the solutions proposed to boost regional economic development in Moldova are those specific for some social assistance programs aimed at offering assistance to disadvantaged areas and not to favor growth in areas with existing economic potential.

The connection between investments and economic results is well known. One cannot achieve significant economic results without investments. In the Republic of Moldova, according to statistic data in 2006, 58% of fixed capital investments in the country, half of industrial output and 56% of retail sales took place in Chisinau municipality. For Balti municipality these indicators reached values of 6% for fixed capital investments, 14% for industrial output and 9% for retail sales. The situation did

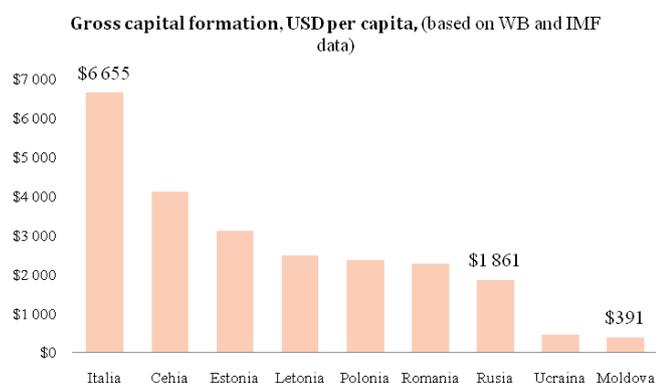
not look much different in 2009. Chisinau municipality got 54% of fixed capital investments, 57,5% of industrial output and 56% of retail sales. While for Balti municipality, of total share of country’s investments in fixed capital, constituted 5%, industrial output represented 11,8% and retail sales 9%.

Fixed capital formation, MDL per capita, 2009, (based on NBS data)



In absolute terms, the value of fixed capital investments in Chisinau represented in 2009 – 8200 lei per capita or approximately 750 USD and in Balti municipality just over half that amount. In regional terms, at country level, previously mentioned municipalities are obviously favored, with only 4 districts with values ranging between one third and one fourth the size of investment per capita achieved in Chisinau municipality. However, from a global perspective, situation in Moldova at this point, seen as average per country or even only for targeted regions, is not encouraging at all. Thus, for 2009, the national average gross investments in fixed capital represented only 391 US dollars per capita in Moldova. This indicator has reached different values for other states, from 447 USD for Ukraine to 6665 USD for Italy. Thus, data presented attest a lack of coherence of authorities in Moldova that in terms of general approaches applied into economic and social policies are declared in favor of building an open society, based on principles of market economy. In regards to instruments used in

this context for country's socio-economic development, authorities seem to ignore the fact that Moldova's economy being part of global economy operates in an open economic system where movement of capital and labor is determined by the economic attractiveness of regions and not by the national borders.

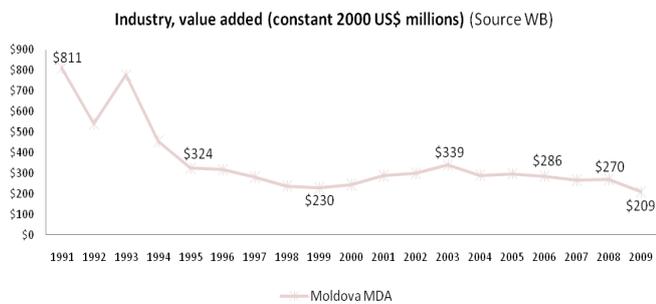


For this reason, promotion of a regional development policy taken out from the international context, is leading to further economic deterioration of country regions and of the Republic of Moldova as a whole. Hypothetically speaking, the value of fixed capital investment in Moldova, if it were concentrated only in Chisinau, would have allowed achieving rates similar to those averagely certified for Russian Federation. The direct effect of such policy, which does not require additional financial investment, could be to create a pole of economic growth on the territory of the Republic of Moldova, able to offer attractive conditions for at least a part of the workers who have temporary left for work abroad, for example for those working in Russian Federation that would contribute to reducing further degradation of social and economic status of the population and hence of rural areas in the country. Thus, by promoting adequate policy for economic growth, aimed at creating economic conditions comparable to those from the geographical region where the Republic of Moldova is located, one can achieve several objectives, otherwise

specified in the sectoral policy documents of Moldova, such as:

- Developing economic growth potential of Chisinau municipality, aiming at creation and strengthening interconnections with other country's regions and creation of new intermediate links located on the country's territory of the production chain for various goods and services;
- Settlement of emigration rhythms, implicitly of reducing the volume of the work-force in the country, that if will be maintained at existing rates, can threaten the future of the Republic of Moldova as an independent state;
- Job creation implicitly for disadvantaged areas, that would provide targeted population an opportunity to find a job on the territory of the Republic of Moldova at relatively small distances from their residence, which will positively influence also their social and familiar situation;
- Increasing usage degree of local labor force for the country's economic and social development;
- Reorientation of the country's economy from remittances consumption based state into one based on added value creation.

A practical solution to spur economic development at regional level is to increase financial autonomy of the local public authorities that would spur competition between rayons. This can be achieved by assigning the incomes from taxes levied on the volume of economic activity, such as personal income taxes and corporate income taxes, to the category of incomes of the territorial-administrative units' budgets. This will motivate local authorities to create attractive environment for business in managed areas, as with increasing the volume of economic activity their income will also increase.



Level of industrial development in the Republic of Moldova registers an unsatisfactory performance. Thus, industrial development, estimated as volume of added value created during one year, has risen to a size comparable to the one registered in 1995 only in 2003, and from that time is on a downward slope so far. For 2008, used as reference because negative effects of the financial crisis triggered at global level were not visible yet in country's economy, this indicator expressed in millions constant 2000 US dollars, represented 270 million units, in comparison to 324 million units in 1995. The size of industrial sector has registered decline in the country, but also in Chisinau municipality which maintained a weight of the total country amount during 1999-2009 from 53 to 57.5%.

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
The share of Chisinau municipality in the value of industrial production totally manufactured per country ⁵	56,1	56	57	55,7	55,5	55	53,6	53,4	55,1	53	57,5

Arising from submitted data one can conclude that economic situation is not favorable even in Chisinau, the region that is the most economically advanced from the Republic of Moldova.

In this context, the attention of authorities at this stage towards North, Center and South regions seems to be premature, as the priorities of regional development identified during 2010⁶, such as rehabilitation of physi-

cal infrastructure, supporting development of private sector – especially in rural regions, environmental protection and promotion of tourist attraction, in the absence of a real economic development in the region with the highest potential in the country, do not appear as being sustainable.

Thus, it is indicated first of all for the Republic of Moldova to create conditions of sustainable economic growth in Chisinau and Balti regions, which have the greatest economic potential in the country. Once achieved, the objective of economic and social development shall be accomplished also in the other country's regions by the action of market forces, a moment when authorities can interfere with measures designed to support, stimulate and accelerate this process.

The primary role that Chisinau municipality represents for the development of the country is specified in the text of the National regional development strategy, approved by the Government Resolution No. 158 of 4 March 2010. However, strategic objectives and pri-

orities of the strategy do not explicitly refer to the way how “*continuous harmonization of development planning policies of the Chisinau municipality with regional development strategies of North, Center and South regions*” can be achieved. Under these circumstances, the impact of mentioned strategy is estimated as being insignificant for sustainable development of the country, role of this document, with an obvious social tinge, being a declarative one, as it does not offer efficient solutions to achieve a real development of the country's economy.

5 According to the information of statistical year-book of the Republic of Moldova, editions 2002-2010.

6 Report implementation of national strategy of regional development, January-December 2010, MDRC



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