

Foreign Policy Association together with Friedrich-Ebert-Stiftung offer you a newsletter on foreign policy and European integration issues of the Republic of Moldova. The newsletter is part of the "Foreign Policy Dialogue" joint Project.

# NEWSLETTER

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## Synthesis and Foreign Policy Debates

The newsletter is developed by Sorina Ștefăruță, editor-coordinator

### TOPICS OF THE EDITION:

1. *Dr. Cristina Rat, professor at the Faculty of Sociology and Social Assistance at the Babeș-Bolyai University in Cluj-Napoca, Romania: „The biggest challenge is to think globally, to find forms of solidarity on a global level and to build the appropriate institutions of social justice”*
2. *Editorial by Alfred Pfaller: „Prosperity for whom?”*
3. *Sergiu Sainciuc, vice-president of the National Trade Union Confederation of Moldova: „There is need for systemic actions, an efficient economic framework and financial stability”*
4. *Expert Opinion: „State of the Country Report 2019: challenges and key-solutions”*

### News in Brief



„We are committed to fulfilling all the steps included in the Association Agreement. We aim at changing things in the economic field by attracting as many foreign investments as possible, but also by developing the country's infrastructure. At present, the justice reform remains the most important”. The statement belongs to Prime Minister Ion Chicu and was made during the meeting with HE Angela Ganninger, German Ambassador to Chisinau. The Head of the Executive spoke about the governance plan of the current Cabinet of Ministers, but also about the Government's priorities for the next period. HE Angela Ganninger appreciated the progress made so far in the field of justice reform and expressed hope that the processes will continue in a transparent and democratic way. At the same time, the parties discussed the Government's vision of ensuring media freedom. In the end, the Prime Minister thanked the German state for the constant support and financial assistance provided to the Republic of Moldova. He also expressed confidence that the relations of friendship and the economic, social and cultural cooperation between the two states will intensify.



Chisinau is open to continue the negotiations with Tiraspol on a wide spectrum of economic, social and humanitarian issues, and among its priorities is ensuring freedom of movement in the region, respecting human rights, resolving the problems of the schools using Latin script and facilitating trade between the two banks by unifying the customs and fiscal tariffs. According to the Deputy Prime Minister for Reintegration, Alexandru Flenchea, this approach was proposed in previous meetings, including with the mediators and observers involved in the negotiation process. Also, Alexandru Flenchea said the Moldovan authorities will come up with a priorities' offer following the works of the OSCE Ministerial Council, which will be held on December 5-6 in Bratislava, Slovakia, and which will focus on regional conflicts, including the one in Transnistria. "Tiraspol can join, including by signing the '5 + 2' Bratislava Protocol in the compromise formula proposed by the OSCE Presidency-in-Office," the Deputy Prime Minister for Reintegration said.



The 33rd meeting of the EUBAM Advisory Council was held in Chisinau at the end of November, with participation of the representatives of the customs and border services of the Republic of Moldova and Ukraine, the EU Delegation, the OSCE Mission and the International Organization for Migration. During the meeting, the head of the EUBAM Mission, General Slavomir Pichor, presented the report on the activity carried out in June-October 2019, focusing on the measures taken to continuously modernize the integrated management of the Moldovan-Ukrainian state border, including on the Transnistrian segment, according to the European standards in the field. Particular attention was paid to the development of joint control at the border check points, to combating illicit border phenomena, and to securing the central / Transnistrian border sector, etc. The representative of our country, Tatiana Molcean, Secretary of State at the Ministry of Foreign Affairs, reiterated Chisinau's interest in extending the joint control of the Moldovan-Ukrainian state border crossing points, including its Transnistrian segment, in order to achieve common goals. The next meeting will be held in Odessa in June 2020.

## MACRO 2019: What do we do about inequalities?



**Sorina Ștefăruță**

**„Tackling inequality as a fundamental precondition for sustainable economic growth”**- this has been the topic of the MACRO

2019 International Conference, organized by the Independent Analytical Center "Expert-Grup" in partnership with the Friedrich-Ebert-Stiftung Moldova. A

major event that, for the seventh year, has brought together in Chisinau, Moldova, political leaders, decision makers, representatives of the local public administration and

▶ private sector, local and foreign experts, representatives of the civil society and academia. To see where we are and how we have advanced in the meantime...

Also this time, MACRO, which stands for 'Moldova: Assessing Country Risks and Opportunities', served as a broad platform for discussions on public policy development and prioritization of sectors in need of development assistance. In particular, the organizers aimed at raising awareness among decision-makers, experts and the development partners about the importance of mitigating the economic and social inequalities in order to ensure a fair and inclusive society...

But why inequalities? How relevant are they as inequalities have existed at all times and in all societies? And when can we talk about something more optimistic such as scientific progress, innovation or economic growth? Because, according to the organizers, experts and decision makers, there will be no scientific progress, innovation and economic growth in a society dominated by inequalities.

MACRO 2019 was dedicated to inequalities. Inequalities was also the central topic of the „State of the Country Report 2019”, developed by the „Expert-Grup” and the Friedrich-Ebert-Stiftung Moldova, which is analysing the impact of the social-economic inequalities on the Republic of Moldova today, but also in recent years. In addition to the conclusions, the authors came up with recommendations - a set of strategic measures, which will enhance the process of income convergence and support the vulnerable categories of the population. Inequalities is also the central topic of the November edition of the Newsletter. And we hope to be heard, including by the representatives of the new government.

## ***The biggest challenge is to think globally, to find forms of solidarity on a global level and to build the appropriate institutions of social justice***



***Dr. Cristina Raț, professor at the Faculty of Sociology and Social Assistance at the Babeș-Bolyai University in Cluj-Napoca, Romania***

***„The link between inequalities, social policy and economic development, and how they condition each other. What is the difference between social justice and charity?” These are just some of the issues addressed during the MACRO Conference by Dr. Cristina Raț, professor at the Faculty of Sociology and Social Assistance at the Babeș-Bolyai University in Cluj-Napoca, Romania. Her field of research is the problem of inequalities and social marginalization in relation to redistributive social policies. The course she is teaching at the university is also about it - Stratification and social mobility, Social policies and social inequalities, Critical analysis of public policies. What the situation of inequality is de facto and how it should be addressed in our region, find out from the following interview.***

■ ***Ms. Raț, you came to Chisinau for a conference that has addressed this year the issue of social inequalities. Why is this topic important to the present societies? In other words, inequality has existed at all times...***

■ Inequality has existed at all times in history, but the form it took, as well as the institutions responsible for finding solutions to it, have evolved differently. In the medieval period, inequality was given by the social origin and inherited status/ social status, and the moral rules and the Church improved, to some extent, the consequences of this fact. Today we are living with the illusion of equal opportunities and meritocracy, but in reality, the way in which the economic relations are regulated, the accessibility and quality of public services - in particular, of educational and health care services -, the adequacy of social protection, etc. influence greatly the chances of a decent life.

***We cannot effectively respond to systemic problems through ad-hoc charitable acts***

■ ***How are inequalities manifested in our region, but also in other parts of the world, and how are they influencing the economic, social, political, and demographic realities?***

■ I think that what is specific to the Eastern European countries is that, with the end of the communist regime, a discourse that delegitimizes the state's role in regulating the economy, in implementing redistributive policies and in providing public services has become dominant. We often hear that "the market is self-regulating" and that "the state is corrupt". I think these beliefs need to be analysed before mechanically repeating them. The global economic crisis of 2008-2012 has shown that the economic market is not self-regulating. The state also has corrupt officials, but corruption also exists in economic corporations and, unfortunately, in civil society organizations. The social and demographic realities in both the Republic of Moldova and Romania are marked by high inequalities (much higher than the European average) and massive migration of the young population. It may be necessary to rethink the role we expect from the state in order to counteract these processes that have been around for two decades....

■ **What is the link between inequalities, social policy and economic development - and how do they condition each other, to quote from your presentation at the conference?**

■ First of all, I think we should admit that there have been living people around us whose chances for a decent life have been severely endangered by the structural economic and social processes, at the macro level. For example, workers from the closed enterprises, following the deindustrialization after 1989, have hardly found a job. Or Roma people who, because of the existing prejudices in the society and their historical discrimination, are systematically disadvantaged on the labour market. In their case, social protection is a form of social justice, an attempt to compensate for the damage they have faced. At the same time, we can think that the whole society has to lose if it excludes or leaves certain categories in poverty. Economic development can only be based on productive labour,

on the value created by workers who enter the economic circuit. In this logic, "investment" in current and future workers, through appropriate social policies, is a precondition of economic development. The neoliberal thinking in which we see social policies as tools for economic prosperity is now widespread. But social policy should mean more - first of all, an acknowledgment that capitalism inherently produces unfair inequalities that should be corrected or at least limited by social justice measures.

■ **The difference between social justice and charity? Promises and limits of the European Union approach - please elaborate more on these theses for our readers.**

■ Social justice means admitting that the problem of economic and social inequalities, of the prejudices created by the economic and social system affecting certain categories of population, have to be systematically addressed. In this sense, we are talking about the social dimension of citizenship, that is, about the social protection as a right and not as an act of charity – I'm quoting here the sociologist Wilenski ... We cannot effectively respond to systemic problems such as child poverty or long-term unemployment caused by the low level of education through ad-hoc charitable acts. Likewise, it is unfair that those harmed by the current economic and social system remain at the mercy of the availability of others to be "charitable" and "humane". In November 2017, the European Commission launched the European Pillar of Social Rights, which sets out a series of regulations on decent work and social protection measures designed to empower people to participate in contract work. There are also several provisions aimed at balancing work and personal life (for example, providing nurseries and kindergartens, paid maternity and paternity leave, etc.) and the social inclusion of the persons with disabilities and from ethno-cultural minority groups that are vulnerable on the labour market due to the existing prejudices.

**It's time to think about how those lakes, where the disadvantaged are forced to fish, get dried up...**

■ **Regarding the second one, for many Moldovan citizens, the European Union is equivalent to more social justice. From your point of view, is this expectation justified or rather a myth far from true?**

■ It is hard to say ... The European Commission talks about the "European social model" and has a number of social policy recommendations. It also regularly consults on this topic and provides statistical data relevant to the comparative analysis of social policies and their effects on poverty reduction, for example. In addition to the Eurostat data, I could also recommend the MISSOC database, which compares the social policy legislation of the EU countries. But all these resources and recommendations do not have coercive power over the EU member states. De jure and de facto, the EU social policy recommendations remain only recommendations, while other provisions are legally coercive, such as those governing competition on the economic market. No country has been sanctioned in any way because it does not reduce poverty among children or does not provide adequate services to people with disabilities.

■ **How can inequalities be mitigated – only if that is possible? And how can the given process become that "fundamental precondition for sustainable economic growth as the topic of the MACRO Conference argues? What should the decision-makers and those who develop policies aimed at removing disparities emphasize?**

■ I think that social policies can be effective only if they are based on consulting those targeted by these policies - the disadvantaged categories, first and foremost. At the same time, social policies should be developed in relation to economic policies. For now, we have some

starting points. For example, increasing the basic deduction from taxable income for the low-income employees, which leads to an increase in the net wage (in hand) without increasing the gross wage (labour cost for the employer). The social contributions should be higher for employers than for employees, because the profit results from their efforts. Another thing- progressive taxation, taking into account that for the minimum daily basket we all have similar needs, and those with high incomes will be able to afford this basket even if they pay a higher tax. Differentiated tax burden in order to leave room for entrepreneurship and competition: higher taxes on the profits of large corporations and lower taxes for small entrepreneurs - in particular, in areas with high unemployment. Implementation of the social dialogue mechanisms (trade unions, employers, government) in order to establish the minimum wage, the value added tax, the benchmarks for the old-age pensions, etc. Beyond these economic measures, we can think of redistributive social measures in the form of child allowances, social assistance, unemployment benefit, paid maternity leave... But also the subsidized or free services in the field of extracurricular education of the "school after school" type are important as well as the health care services, nurseries and kindergartens, quality of public transport, quality of housing in certain areas.

■ **How feasible are these policies in some societies - and here I refer also to Romania and the Republic of Moldova - where the poor segments of the population have been really perverted by the politicians through actions meant to make the people dependent on the "goodwill of the state boyars" and on the gifts made by them especially during electoral periods rather than on strategies that would give them the fishing rod to change their life?**

■ My direct experience with the people of disadvantaged communities, with a low level of education, has shown

to me that these people understand much better the economic, political and social mechanisms that lead to their disadvantaged condition than the so-called "intellectual elites". I think that in order to survive, the needy people have learned how to make their own "fishing rods" that work even in the dry lakes, to paraphrase Ms. Manuela Stănculescu, a researcher of the poverty and social marginalization issue from Bucharest. My opinion is that it's time to think about how those lakes where the disadvantaged are forced to fish get dried up... How come some parents in rural areas have no longer the opportunity to send their children to school? Maybe, because their only source of income is the day labour or informal work in agriculture? How come many mothers continue to live in families plagued by domestic violence? Perhaps, because the wages of the feminized textile industry are much lower than the wages of other industrial sectors?.. The structural causes of the problems should be analysed rather than blaming the precarious, disadvantaged people for the difficult situations they face...

### **The national state with its social policies should be rethought in relation to the global economy**

■ **What is the role of the state in ensuring welfare? And how correct is the approach by which millions of people around the world view the well-being as a unilateral action - and an obligation - of the state or, possibly, of the private sector?**

■ The state works because people allow it to function and contribute to this: through their work, through the taxes they pay, through their biological and cultural reproduction, which ensures the inter-generational continuity of the state ... Our life is not the life of a Robinson Crusoe (the one before Friday's appearance) on an island; it is organically linked, from all points of view, to other people and to social institutions.

■ **Inequalities are today, at least formally, at the basis of several socio-political movements on different continents, whether we speak of the distant Hong Kong and Chile, or of the nearer France which is shaken by new mass protests, announcing itself a true "second fall of the Bastille". Are the protests a solution?**

■ Protests are often the precondition for generating and determining the political will to address certain social and economic problems or for giving up political decisions that have not taken into account the opinion of an important segment of the population.

■ **Is the distribution and re-distribution to which especially those marked by inequalities refer to - a solution for avoiding social marginalization and ensuring the common public good? What does the "public good and people's well-being" really mean today? Which do you think are the most acute challenges to achieve welfare?**

■ I think the fundamental issue is the social solidarity, the awareness that the global economy creates inequalities that can only be addressed through coherent policies, at global level. The national state with its social policies, reinforced after World War II throughout the European continent, should be rethought in relation to the global economy, the capital flows and the transnational migration of workers. The competition between states in terms of who has "cheaper" workers, more "flexible" legislation and who can produce and sell goods at the lowest price has pushed us to an ecological disaster and humanitarian crises caused by the clandestine migration, motivated by the desire for a better paid job and a better life. The biggest challenge is to think globally, to find forms of solidarity on a global level and to build the appropriate institutions of social justice.

■ **Thank you for the interview.**

**Sorina Ștefârță**

## Editorial

by Alfred Pfaller



## Prosperity for whom?

*Social inclusion, economic development and the politics of missing both*

**E**conomy is about people's material well-being. It is about producing those "things" - goods and services – which people like to consume, to use, to have. In our times, this production takes place as a common effort of many millions of people over the world. They work together in a coordinated fashion in factories, offices, laboratories, clinics etc. and they trade the results of their common efforts on the market. Some still produce what they consume and use themselves. But the overwhelming pattern is that people buy what they want to have and that they earn the money they need to buy it by selling their physical and intellectual skills on the labor market or by using saved, borrowed or inherited capital to acquire claims on sellable products and on financial yields.

### **Economy is not only about producing...**

Economy is not only about producing. It is invariably also about distribution, about assigning valid claims on those goods and services which are being put on the market. These claims are linked to politically enforced property rights.

They are linked to the market dynamics of supply and demand, of competition, monopolies and cartels. And they are linked to authoritative interventions in the market by states and other state-like entities.

The distribution of purchasing power derived from current income and from accumulated wealth involves the exercise of power – market power and political power. So does the access to public goods and services. Even the theoretical construct of a pure market economy rests on the idea of a political authority that enforces the rules of the game, guarantees property rights and prevents predation and fraud. However, in reality the exercise of political authority is contested between rivals (individuals and groups) who do not only have different ideas about governance, but who also tend to pursue their own advantage, setting the rules of the economic game so that they benefit them.

In our days, authoritative governance is exercised in the setting of nation states that are underpinned by nations, i.e. collectives which consider themselves

as belonging together and wanting to live together in a sovereign state. The fundamental sense of togetherness implies a kind of solidarity that cannot do completely without the concepts of justice, fairness and appropriateness. A national society which systematically violates this sense of justice, fairness and appropriateness will generate political forces demanding a correction of this perceived ill. And if "the system" refuses to accommodate such demands at least in part it will lose legitimacy. The country will be programmed for political instability which, in turn, is bad for the economy, i.e. for the production of material well-being.

### **Social inclusion is good for prosperity**

There are also more technocratic considerations which suggest that social inclusion is good for prosperity. The old theorem that inequality favors saving, which, in turn, is the precondition of productive investment and hence of economic growth, bypasses other, more relevant effects. Probably the most important one is the conduciveness of universal good education to both social inclusion and economic development. In large economic spaces – countries or groups of countries – mass demand, arising out of mass incomes that grow at par with productivity is the transmission belt which connects productive potential with real output, feeding back a positive signal to further investment. Small countries like Moldova, too, will probably be more interesting as places to set up business if they have a growing mass market that is underpinned by a socially integrated, non-polarized society. But, of course, an interesting – large and growing – market is conducive to economic growth even if a significant part of the population is excluded from it. This does not obliterate, however, the above considerations about the importance of universal good education

and political stability that are corollary of a socially inclusive society. A country like Moldova would do well in any case to strive for less blatant inequality.

And – perhaps contrary to a wide-spread perception – Moldova is not on a bad track. The economic conditions for a socially inclusive society have improved significantly over the past two decades. But politics is as far as ever from doing its part. A central economic pillar of social inclusion has formed, manpower is no longer in surplus supply. This has been the consequence of large-scale migration to foreign labor markets, in the course of which the labor-surplus reservoir which the low-productivity Moldovan countryside has been has become pretty much, though not completely, dried out. At the same time, remittances by Moldovan workers abroad have boosted demand and helped create jobs in the urban centers.

### ***Migration is the standard avenue for economic periphery regions***

That it is emigration which makes manpower scarce is certainly not a sign of national economic development. It might even impede development because it strips the country of the vital asset “human capital”. But it is the standard avenue for economic periphery regions to move out of the labor-surplus condition and thereby of wide-spread poverty. Since the onset of industrialization, economic activity has concentrated in certain geographical spaces while other spaces have turned into periphery that sent its surplus labor to the center regions. Such large-scale labor migration from periphery to center has not only taken place within countries (leaving, for instance, long stretches of the French countryside including villages and towns with a thinned-out population), but also across borders. Ireland, e.g. has in the 19<sup>th</sup> century lost a very large part of its population through

emigration. That has not foreclosed, however, the road to vigorous post-agrarian development a century later.

If Moldova wants to avoid becoming a relatively depopulated, though perhaps socially integrated periphery it would have to apply a long-sustained, well-designed, but also over and over pragmatically adjusted strategy of bending the centralizing gravity of the market into the direction of national accumulation. Such a strategy would have to be based on an ongoing cooperative dialogue between the government and private business and it would have to involve labor as well. At present, it does not appear as very likely that the Republic of Moldova will turn into a developmental state, determined to wage the uphill battle. What seems more likely is deepening peripherization, which does not necessarily imply social polarization and exclusion.

A future of periphery cum social inclusion would require that politics sets up the second pillar on which a socially inclusive society rests and which has to supplement the availability of sufficient “decent” jobs. This pillar consists of effective schemes of social protection for the times when wage income is not (or no longer) available and/or when it does not suffice to cover “vital” costs. This second (let’s call it “welfare-state”) pillar would also have to make sure that no child is hostage to the parents’ lack of means, ability or good will. All that is beset with a plethora of problems that pertain to the quest for appropriate institutional design. More important, all that costs.

### ***The citizen and the state, a problem of (mis) trust***

An effective welfare-state pillar of social inclusion can only be devised if the citizenry can be induced to provide sufficient revenues for the state and its

social-security systems. This is easier said than done. Moldovans seem to have no confidence that money accruing to the state will do any good for the citizens, that paying into the pension system will ensure you an old-age income you can live on and that higher tax revenues will be used to set up a health-care system you can count on when you have serious health problems. There is a vicious circle here, hard to break: citizens’ mistrust leaves the state underfunded, the underfunded state’s dismal delivery record confirms citizens’ mistrust.

The vicious circle is reinforced by both the “ordinary” citizens’ ubiquitous preference for a free ride and the Moldovan political class’s self-servicing priorities when it comes to governance. The latter factor is at the core of the general Moldovan “malaise”. It is to be seen as the natural outflow of an unorganized post-dictatorial citizenry’s permissiveness vis-a-vis those who have managed to capture and run the state. As long as predatory elites get away with self-enrichment they should be expected to give in to the temptation. Moreover, honest politicians who defend integrity tend to be pushed aside. This consideration plays the ball back into the side of the citizenry, which should have an active interest in being governed well.

If Moldovans should manage to get into power a government that is (because it has to be) dedicated to the systematic improvement of people’s life they would not only get a functioning welfare-state pillar of social inclusion. The country’s farming sector would get modernized and stop being a reservoir of poverty. And, most importantly, the labor-market pillar of social inclusion would become independent of the export of manpower to other countries. It would rest more and more on the country’s own productive development, i.e. its more and more advantageous insertion into the global economy.

# There is need for systemic actions, an efficient economic framework and financial stability

**Sergiu Sainciuc,**  
vice-president of the National Trade Union Confederation of Moldova

**S**ocial policies and labour relations, social protection and labour migration, cooperation with social partners and the state assistance are areas that Sergiu Sainciuc has devoted his entire activity to. He did so in his capacity of Deputy Minister of Labour and Social Protection and as head of the expert team that drafted the new Labour Code adopted in 2003. And he is doing it now in his capacity of vice-president of the National Trade Union Confederation of Moldova. How the employees' rights in our country are defended and what the biggest challenges in terms of inequalities faced by our citizens are, find out from the following interview.

## An excessive liberalization of the labour relations is being attempted

■ **Mr. Sainciuc, what are in your opinion today the biggest challenges when it comes to protecting the employees' rights in the Republic of Moldova?**

■ The subject is both broad and multidimensional. I would start from the labour law, namely the extent to what it is connected to the international standards and if the necessary balance between the employees' rights and obligations, on the one hand, and those of the employers, on the other, is ensured. At present, the representatives of the business sector are trying to promote an excessive liberalization of labour relations, which means a mechanism as simple as possible of employing people, but also of dismissing them. The first such modifications were made in 2017, when



the business community came up with pro-business proposals as a result of which several modifications to the Labour Code were made without taking into account the position of the unions. However, we have always advocated a balance in this regard. Any reform has to be implemented taking into account its social impact.

Otherwise, the Republic of Moldova has ratified more than 40 conventions of the International Labour Organization - and all these norms have been adopted into the national legislation. Similarly, our country has transposed into the labour legislation several European Union directives, including directives provided by the Association Agreement, such as those regarding employment, equal opportunities, etc. Regarding the Association Agreement, art. 371 stipulates that the existing social protection levels cannot be reduced. This means that investments in the country cannot be attracted or an investor cannot be kept on the account of reducing the employees' rights and guarantees. This is

a very important provision which forms the basis of any discussions carried out with the employers and business representatives, and the Government etc.

■ **What are the most acute inequalities affecting the workers? And which are the most sensitive /vulnerable sectors from this point of view?**

■ Inevitably, we have to refer here to the wage inequalities. Although, I admit I have always considered that the existing legal framework does not create such discrepancies. But the statistics show the opposite. Indeed, the level of remuneration for men is about 14 percent higher than for women. Very often this is due to the simple reason that men have better paid jobs – this is the case of the education sector, for example - but this is not defining. When it comes to the additional payments based on performance, the inequalities are higher and it may happen that women get smaller increases in their wages. This is why an analysis of the additional payments is

required. I know that in the private sector the wages are negotiated and confidential. But there should be, however, some transparency, in the sense of ensuring transparent principles of pay in each economic unit. Reducing these disparities is also a recommendation of the European Union. For this, it is necessary to improve the pay legislation in order to ensure transparency and equal pay for equal work, including equal pay for women and men...

■ ***How is the social component of the Association Agreement being implemented?***

■ The authorities focused mainly on the quantitative part of the implementation of the Action Plan for the Association Agreement. Thus, if one of the annexes to the Agreement states that 39 EU directives in the field of labour, equal opportunities and safety and health at work have to be transposed, the plan is observed, but the implementation, especially in the field of occupational safety and health, that is to say the qualitative part, is not finalized. We also drew the attention to such issues as the work remuneration, employment, health and safety. In this regard, the Unions also notified the EU and ILO about the violation of international standards in the field of State Labour Inspection. The attributions of the respective structure were transmitted to some ten control authorities. As ILO experts have mentioned, what we have in Moldova at present is a unique practice in the world - and not the most successful one, unfortunately... Another important problem remains the level of pay - although it is on the rise, the minimum and average salary level, as well as the average pension, are the lowest in Europe.

***Migration in tandem with aging is like a bomb with a delayed mechanism***

■ ***In this context, how successful and effective was the introduction of the***

***unitary pay system on 1 December 2018, but also the merging of some ministries?***

■ Merging the ministries responsible for the real and public sector was not the best idea. At the moment, indeed, we have two ministries for the real sector (the Ministry of Economy and Infrastructure and the Ministry of Agriculture, Regional Development and Environment) and two ministries for the public sector (Ministry of Health, Labour and the Social Protection and Ministry of Education, Culture and Science) which, in fact, should be eight... The central public administration reform was made by reducing the staff by 50%, while the work volume remained the same. So, several areas of activity were concentrated in four ministries, and ...even more problems to be solved. As for the payroll, the salaries of most civil servants doubled, because the previous payroll level from before the reform was maintained. However, the new unitary pay system, operational as of 1 December 2018, diminished, in many respects, the previous pay levels of civil servants in the ministries. While the previous salaries have been maintained for the civil servants with more seniority (if they are higher than the new ones), the new employees with the same position and the same tasks get lower salaries, even up to 3000 MDL less, which represents an inequality. There are other gaps and disproportionalities. A head of subdivision may have a higher salary than a head of department. Or a social worker with higher education has a salary class by 21 positions higher than a social worker with secondary education, although they do the same job.

■ ***One of the consequences of inequalities is migration. Is there a chance it can be stopped by balancing inequalities or it's already an impossible process to stop?***

■ At the moment, migration is a process that seems impossible to stop despite the

fact that our country has implemented several programmes for young people and migrants. At the same time, bilateral agreements on social security have been negotiated and signed with the main countries of destination, which provide protection for migrants. Also there is a low employment rate and an equally low unemployment rate compared to the EU. We also have a very large gap between the demand and supply of the labour force, as well as between the rural and urban areas - factors that determine internal migration. In short, the gap between the actual level of labour qualification and the market demand has to be mentioned too. Very often the level of qualification does not correspond to the employers' requirements... This is why increasing the level of the personnel qualification should become one of our common priorities. It is a reform that can be successful, in particular, by implementing the dual education system carried out jointly with the economic agents. But there is just another big problem here: young people are learning, gaining skills and ... leaving the country. The only solution is for these economic agents to be supported either by certain tax facilities or by other mechanisms. It is certain that migration, combined with a critical aging coefficient of the population in the Republic of Moldova, generates many deficiencies, inequalities and pressures on the social assistance system. And solutions are still being sought...

■ ***How come there are these huge discrepancies in the pensions: thousands of people with pensions of several hundred lei and some with pensions of several hundred thousand?..***

■ The amendments to the Law on the public pension system were beneficial as they established unique conditions and clear rules of play for all. But pensions are different because salaries are different. And there are still- especially in the budgetary sector- salaries of two to three thousand lei which, even

at a replacement coefficient of 50-60 percent, turn into a pension of 1000-1500 lei, which is very little. In the case of high salaries and long working age, the pension will be higher. The principle of the state social insurance system is a contributory one - the more you contribute, the more you will receive. But there is an inequity in the case of women for whom, for the time they were on maternity leave, the conventional income of 1000 lei a month is taken into account, which automatically diminishes their average income. At the initiative of the Trade Unions, the mechanism in question has been revised and recently approved in Parliament, so that the period in question is taken into account with an amount equivalent to the average salary per economy. So, I would say there are positive developments, only they are still not enough.

### **People with low salaries are not going to work in the Republic of Moldova**

■ **What other measures do you propose as an employee representative? And what role should the Trade Unions play in these processes, in a period when there is a great deal of scepticism about the very need for trade union organizations?..**

■ I will not argue with the sceptics, I just want to remind you that the Trade Unions are part of the Government-Employers-Trade Unions social partnership. They are present at all levels and due to their activity and insistence, rights and guarantees of for the union members are acquired, from which often all employees benefit. I will come up with a few concrete examples, one of which is about the right to recalculate the pensions for the employees-pensioners who continue to work. In the Republic of Moldova, there are more than 100 thousand pensioners that continue working after retirement. Before this

number was even bigger – some 150 thousand. These people did not have the right to the recalculation of their pensions. We have been demanding for this for several years and finally in 2018, a law was adopted in this regard. But we were not satisfied with its application – not before 2027 -, which is why we insisted on revising the implementation period. We have succeeded and the pensions are going to be recalculated in 2023. Similarly, we have demanded that the pension be indexed twice a year and we have succeeded here too. Also at the insistence of the Trade Unions, starting with 5 January 2018, the right of early retirement for those who work in harmful and difficult conditions was ensured.

So we try to be proactive, connected to problems and have our voice heard. But, of course, in order to reach a decent level of pensions, which would give us the certainty that everyone is insured with the real minimum subsistence level, we need systemic actions, an efficient economic framework and economic growth, investments and well-paid jobs that will increase both the citizens' incomes and the budget. The long-term financial stability is the key to success.

■ **Regarding the stability and your experience in policy making, how effective was the 2018 tax reform and the shift from progressive to flat taxation? There have been and there are still voices today that say this approach will only deepen the inequities even further, as the figures show that employees with low salaries will have to lose, especially in the medium and long term....**

■ The unions have been promoting for several years the idea of a personal exemption at the level of subsistence minimum of about 2000 lei a month. In 2018, together with the tax reform, the personal exemption was established at the level of 24 thousand lei annually, which is a very good thing. But, in parallel, the flat income tax went up to 12 percent, and even though the increase

in personal exemption cushioned the effect of shifting low-paid employees from an income tax of 7% to 12%, those with higher salaries still had to gain from this. In order to change the situation, starting with 1 January 2020, according to the new fiscal policy approved by the Government, those with salaries higher than 30 thousand lei per month will no longer benefit from the personal exemption of 24 thousand lei per year. In the opinion of trade unions, the people with high salaries should pay also higher taxes, as it is the case in most developed countries. But the impact of the reform should be estimated at least after a few years of implementation.

■ **How can inequalities be mitigated? And how the process in question can become that “fundamental precondition for sustainable economic growth”, as the topic of the current edition of the MACRO Conference suggests?**

■ As the State of the Country Report 2019 shows, the inequalities have diminished over the last 10-15 years. But without economic growth, we will not be able to move forward in order to alleviate inequalities. We need to understand one thing: low-wage people will not work in the Republic of Moldova and they are the first candidates for labour migration. Thus, the state and employers should also think long-term, to provide the employees with adequate wages and jobs, training, and social programmes, in order to keep them in the country. We need economic growth and this can be achieved with employees who do not feel discriminated against and frustrated at work. And obviously, there is need for an economic leap, within a reasonable time, with a legal framework that ensures a balance in terms of protection of employers and employees.

■ **Thank you very much for the interview and wish you success.**

**Sorina Ștefăruță**

## Expert Opinion

# State of the Country Report 2019: challenges and key-solutions

**T**he seventh edition of the MACRO International Conference, organized traditionally by the independent analytical Center “Expert-Grup” in partnership with the Friedrich-Ebert-Stiftung (FES), was held when the imminent dismissal of the Sandu Government was already felt in the air. Against this background, the State of the Country Report 2019, presented at the MACRO, is even more valuable and useful for the new government. Like in the previous editions, the Report analysed the economic, social and political developments, examined the governance trends and its effects on the population well-being, and suggested policies for each sector. Adrian Lupușor, Alexandru Fală, Denis Cenușă and Iurie Morcoțilo were the main contributors to the Report, whose central topic this year was “The social-economic inequalities and their impact on the state of the country”. Below, we propose a summary of the study with its key messages. The full report can be downloaded from the following link [http://fes-moldova.org/fileadmin/user\\_upload/StateOfTheCountry/State\\_of\\_the\\_Country\\_Report\\_2019.pdf](http://fes-moldova.org/fileadmin/user_upload/StateOfTheCountry/State_of_the_Country_Report_2019.pdf)

**The political transition produced a necessary alternation of power, which is as radical for the Moldovan democracy, as complicated for an efficient governing.** The takeover of power by the multi-geopolitical opposition, which entered into a temporary coalition based on joint pro-reform commitments, put an end to the oligarchic governance under the umbrella of the Democratic Party of Moldova (PDM). Most of the reforms were initiated by the parliamentary majority formed of the Party of Socialists of the Republic of Moldova (PSRM) and the ACUM bloc aimed at reviewing and remedying the governance shortcomings of the previous governments, focusing primarily on policies initiated by the PDM. The depoliticization of institutions, judicial reform, and better use of public money and property are the major reform landmarks, equally appreciated by public and external partners (International Monetary Fund (IMF), World Bank, European Union). However, the PSRM-ACUM government, has hesitated repeatedly to carry out



real depoliticization, and the initiated de-oligarchizing is strongly focused on the system previously led by Vladimir Plahotniuc, rather than on establishing a mechanism to prevent and fight the phenomenon of the ‘captured state’ by de-oligarchizing political power in a systemic and permanent manner.

**The revival of the internal democratic processes has resuscitated, as a ‘chain reaction’, the foreign policy with both the West and the East.** The rapid unfreezing of European Union (EU) budget support has considerably fostered the dialogue with the EU institutions. Thanks to the return to a proportional voting system, more rigorous investigation of the “billion dollar theft” from the banking system, the prioritization of judicial reform and the fight against political corruption etc., the PSRM-ACUM coalition has quickly gained robust credibility among external partners. At the same time, there is a firm stance towards the importance of restoring the relationship with Russia, mainly in commerce, the energy sector, and in relation to the settlement of the Transnistrian conflict. The Socialists insist on the idea of a ‘balanced foreign policy’, while the ACUM bloc shows no resistance to this. Intelligent, i.e. flexible, conditionality needs to be strictly applied to the governing parties, to discourage deviation from their commitments. At the same time, rebuilding the relationship with Russia must be free of any elements that might reduce Moldovan security, in particular by encouraging ‘hybrid’ activities in the informational space or with regard to the Transnistrian conflict resolution, carried out by the Russian authorities in the region.

**On the economic side, the gross domestic product (GDP) annual growth rates have stabilized at around 4 percent, without any significant structural changes in the national economy.** Although volatility has decreased, this growth plateauing presents some significant risks. First, this level of GDP growth is insufficient to achieve convergence with Central and Eastern Europe. Moreover, such a rate will push back convergence with these countries in terms of GDP per capita by several decades. At the same time, such a slow rate of growth does not allow for a qualitative leap towards a new model of economic development. Thus, the growth paradigm remains the same: household consumption accounts for over 80 per cent of GDP and depends strongly on remittances. Such a model can hardly survive in the long-run, and the inability

to accelerate and diversify the economy means that the population will continue to suffer low standards of living. The economic growth above 5% in 2019 is likely to be temporary, being fueled by the low comparison base and the effects of the tax cuts from 2018 that will rapidly fade away.

***Some marginal improvements in personal income and welfare have been recorded.***

The real disposable personal income is on an upward trend. Over the past decade, although with periods of stagnation and decline, the real personal income grew 1.3 times. This growth was also reflected in people's perception of their standard of living. The share of those who believe to have a 'bad or very bad' standard of living has fallen to the historical low — 10% of all households. The majority of 75% believe they have a 'satisfactory' standard of living. Despite these positive trends, the per capita income and consumption in the Republic of Moldova remain at only 40% of the regional average in Central and Eastern Europe, without showing signs of quick convergence. The further growth of income or accelerating the convergence with Central and Eastern European countries is constrained by the income structure in the Republic of Moldova. An increasing number of Moldovan households receive their main income from activities that are not linked directly to the performance of the national economy and labour productivity. In 2017, over 60% of households had either pensions or remittances from abroad as their income. Thus, the demographic and migration constraints create significant challenges for the sustainable and rapid growth of income for a large part of the population.

***At the same time, there is a high level of income inequalities among different categories of the population.*** About 40% of total disposable income is held by quintile V (the richest category) of the population, with the Gini coefficient being estimated at a worrying level of 0.4 points. People engaged in the agricultural sector are the most vulnerable: more than half of them are part of quintiles I

and II (the lowest income), indicating a huge inequality. These trends highlight that farming households are the losers of income growth and convergence process. Only those who gave up farming joined this process and managed to get out of the 'poverty trap'. However, over the last few years, the level of inequalities has been decreasing. More active involvement of low-income groups in migration is a factor that narrowed the inequalities. The share of remittances in the income of these households has become the same as in the high-income groups. The structural change in the socio-economic status of households was another factor that contributed to income convergence. The number of farmers and agricultural employees decreased, where the concentration of the poor was and is higher than 50% of households with this status. Despite this dynamic, the level of inequalities remains very high, which poses risks to the state of the country and calls for economic and tax policies adapted to this reality. In addition, the demographic aging could hinder the inequality narrowing efforts, while in the medium and long term these processes could further aggravate the inequalities due to the diminishing share of economically active population and the increasing share of pensioners.

***A major challenge for the state of the country and the economic development is related to the deprivation of the main factors that have until recently underpinned economic growth and attracted investments – remittances and cheap labour.*** Remittances are becoming more volatile and uncertain, and tend to shrink in the long-run, and the main factor that has attracted (the low level of) investment so far – cheap labour – is undermined by emigration, an inefficient education system, and wage growth outstripping productivity. As a result, the country's ability to generate added value is diminishing, as revealed by the slowdown in economic growth in recent years, which is expected to worsen in the future. The seriousness of the situation is also revealed by decreasing labour productivity and the stagnation of the employment rate (both being the lowest

in Europe), with increasing informal employment. Thus, if Moldova does not identify sustainable sources of value-added investment and exports in the coming years, the economy will deplete its ability to create jobs, income for the population and revenue for the public budget, with economic growth tending to become lower and less certain.

***The slowdown in economic growth becomes even more problematic against the backdrop of broadening current account deficit, which reveals structural weaknesses in competitiveness.***

This imbalance is mainly caused by the increasing gap between exports and imports, which ultimately reveals competitiveness drawbacks in the Moldovan economy and poses risks for long-term macroeconomic stability. It is not the deficit per se that is problematic, but rather the fact that it is determined by imports of energy products, consumption and industrial inputs, and not by machinery, equipment and know-how that would boost exports in the long run and balance the current account. In addition, with stagnating foreign investments and expected decline in remittances, financing the current account deficit will become an increasingly acute problem, putting pressure on the national currency and foreign debt. In this context, enhancing the competitiveness of the national economy must be the fundamental priority of the Government.

***Competitiveness enhancement should be ensured at 3 levels, which are interdependent and derive from one another: (i) labour market; (ii) capital and investment market; (iii) foreign markets for exports.*** The labour force competitiveness must be enhanced by improving its quality and relevance, rather than decreasing its cost. In this regard, the educational system needs to be reformed so that, on the one hand, it is more flexible and able to respond to the economy's needs, and on the other hand, instills the spirit of entrepreneurship, initiative and innovation. These efforts should be also encouraged by a stimulating tax and economic policy. This will allow

harnessing people's potential, especially of the younger generation, and will make Moldova more attractive for talents — a fundamental condition for strengthening the state of the country and its long-term competitiveness. At the same time, this should be the main sustainable factor of increasing the country's competitiveness at the level of the capital and investment market. Talents, high-skilled labour force, spirit of initiative, and openness for innovation and know-how should be the main factors of the country's investment attractiveness, which must be supported by pro-business regulations, free market economy, transparent and non-corrupt institutions and a rule of law that protects private property rights. This will boost competitiveness at the level of foreign markets for exports, by augmenting the technological sophistication of exports, diversifying them in terms of products/services and sales markets, and adding more value for the economy and the country as a whole.

**While policies aimed at competitiveness enhancement should be intense and active, these should not compromise on sustainable development objectives related to environment protection, the integrity of investments (transparency), employees' security and human rights in general.** Given scarce investment, Moldovan governments have traditionally prioritized pro-business policies and marginalized other important objectives related to sustainable development. As a result of this narrow approach to economic policies, Moldova is still lacking investment, while having weak

frameworks and institutions dealing with environment protection, employees' rights and money laundering. The government should not attract investment at all costs (e.g. by granting citizenship to investors without proper screening, by capital and tax amnesties, by weakening the environment and labour protection institutions of control and enforcement). Instead, Moldova needs a balanced economic policy that would stimulate through all possible means (e.g. fiscal, regulatory, financial tools) investments that contribute to the sustainable long-term development of the country. Such investments would meet the following 5 criteria: (i) generate high-value added; (ii) are export-oriented; (iii) create decent jobs; (iv) implement green technologies and contribute to decoupling of economic activity from the use of natural resources; and, (v) comply with the highest standards of transparency and integrity of ownership. The government should deploy a wide range of investment attraction tools for investments meeting all of the above-mentioned criteria.

**All in all, the state of the country can be fostered by empowering three key elements: (i) government; (ii) private sector; and (iii) households.** In a nutshell, the current state of Moldova is undermined by highly corrupt, inefficient and weak public institutions, which in turn represent the main barriers for doing business and, hence, lead to a fragile private sector, undermining the tax base, employment and the wellbeing of the population. It forms a vicious circle, because weak private sector and

high poverty undermine further the public institutions by narrowing the tax base and fueling corruption. In order to turn this vicious circle into a virtuous one, Moldova needs a complex and well-coordinated set of reforms that should be anchored in a well-defined national development strategy for the next 10 years. Policies should target the mentioned three elements that define the state of the country: (i) the government has to become more accountable and efficient, by increasing the transparency of public institutions, fostering the integrity framework, reforming the justice system and making the public sector attractive for talented professionals; (ii) the private sector should be supported by implementing balanced pro-business fiscal and economic policies (without undermining the sustainable development objectives mentioned above), providing loan guarantees for SMEs and start-ups that implement innovations, generate added value and jobs, developing business infrastructure for start-ups and easing the bureaucratic procedures (e.g. digitalization, tacit approval mechanisms, one stop shops etc.); (iii) households should be empowered by reforming the educational and health systems — top sectors of systemic and strategic importance where reforms stagnated over the last years and which determine the long-term development of the country. Hence, the structure of this edition of the state of the country report is centred around these three key elements.

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**Foreign Policy Association (APE)** is a non-governmental organization committed to supporting the integration of the Republic of Moldova into the European Union and facilitating the settlement of the Transnistrian conflict in the context of the country Europeanization. APE was established in fall 2003 by a group of well-known experts, public personalities and former senior officials and diplomats, all of them reunited by their commitment to contribute with their expertise and experience to formulating and promoting by the Republic of Moldova of a coherent, credible and efficient foreign policy.



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