

3.1 Spatial pattern of the unbalanced social-economic development of the Republic of Moldova

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3.1.1 Summary

Being a developing country, Moldova is characterised by an uneven spatial distribution of development opportunities. The pattern of inequalities distribution over the territory of Moldova is not random but is a result of various processes that occurred in the regions over time. The existing economic and social territorial inequalities have roots long back in the soviet times, when small cities somehow fitted into the network of industrial plants with determined sale markets all over the URSS. The de-urbanisation process favoured an accelerating gap in economic and social development between the largely rural regions and the two major cities Chişinău and Bălţi. Certainly, the economic development is generally uneven at many different levels, and such differences are inevitable for any country. However, the difference between Moldova and other post-socialist developing countries is that the concentration of economic activity in the capital city is generally higher than is usual for most capital cities, and especially for capital cities in under-developed European countries.

That paper portrays the patterns of social-economic imbalances of Moldova's development in a territorial perspective. First, it outlines the recent developments of the approach of Moldova's Government to regional policy. Further it critically analyses the spatial patterns of economic activities in Moldova. Finally it researches the social dimensions of Moldova's spatial development.

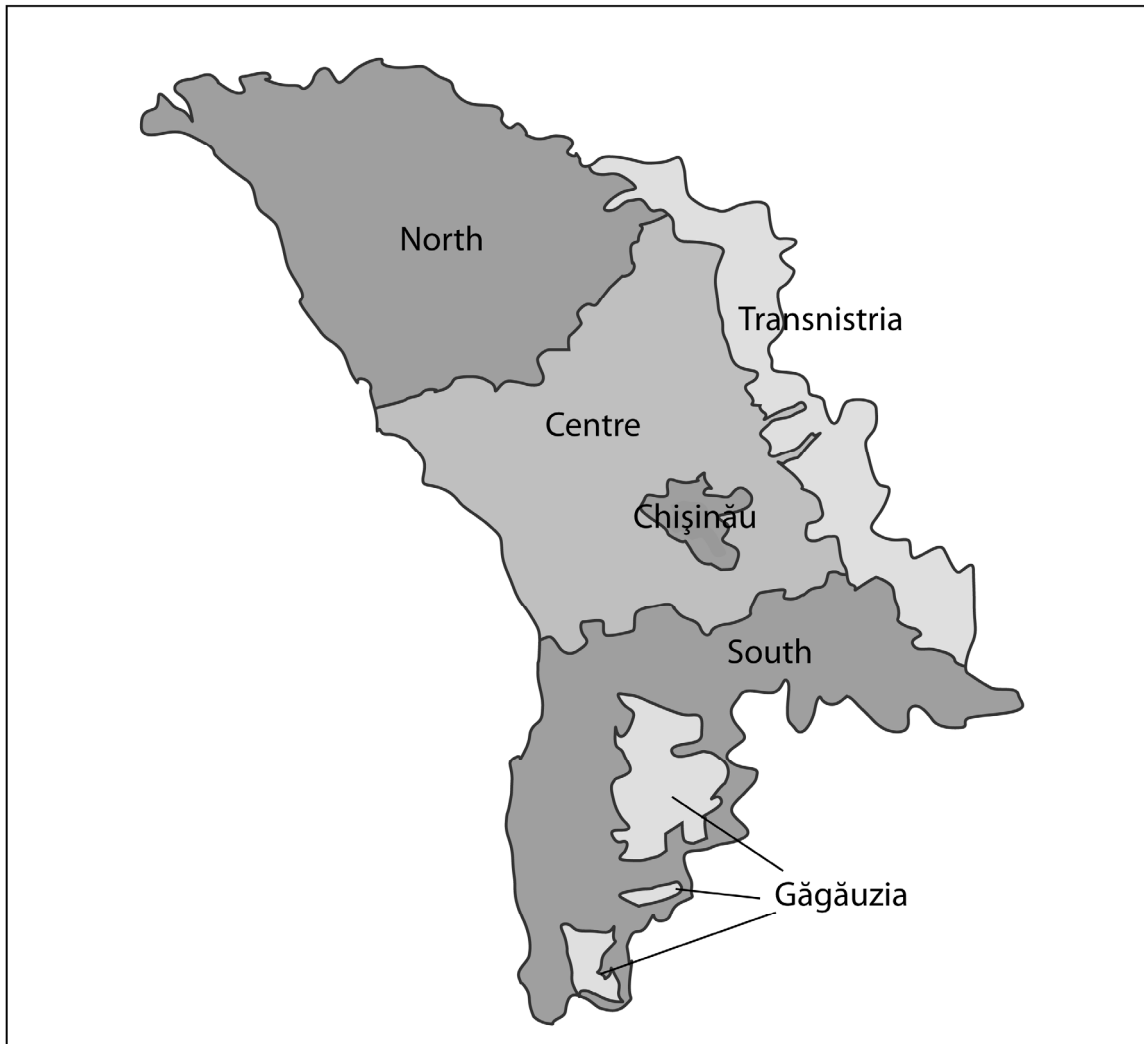
3.1.2 Regional development policy of the government of the Republic of Moldova

The regional development policy of Moldova was predominantly the preoccupation of donor community¹ and researchers and less of governments that ruled the country after the declaration of independence. As a rule, the sub-national development was put under the control

¹ Represented by international organisations offering technical and financial development assistance to the Moldovan Government, i.e. DFID, EU, SIDA, UNDP, USAID, World Bank, a.o.

of the administrative-territorial organisation, and it changed when bigger counties replaced smaller districts and vice versa, being understood as sporadic urbanism and territorial arrangements (OSOIAN 2008, p. 1).

Fig. 1: Development regions of the Republic of Moldova



The government has established the goal and strategic objectives of the regional development policy and actions needed to implement this policy for the first time in late 2001 in the medium-term strategy of socio-economic development of the Republic of Moldova (until 2005). Although the strategy stipulated the consideration of the opportunity to set up a regional development fund, which could finance various investment projects on infrastructure development and conditions to attract non-budgetary investments in disadvantaged areas, budgetary regulations adopted before 2007 had not stipulated such a fund. The 2009 state budget law foresees 156 million lei (about 14 million US \$). Under legislation, at least one percent of the state budget incomes will

be allocated to the National Fund for Regional Development every budgetary year, and it may be supplemented by donors and private sector.

The National Development Strategy for 2008–2011 identified regional development as one of five key national priorities, with an overarching goal of “implementing a balanced and sustainable social and economic development all over the country by coordinating efforts within development regions”.

Regional Development Policy targets the entire territory of the Republic of Moldova and will be implemented in two phases. During the initial phase (2008–2010) the efforts of the government are focused upon building capacity and conditions for development within three development regions – North, Centre and South. At a later stage (2011–2018), regional development actions will be supported in Transnistria and in the Autonomous Territorial Unit Găgăuzia development regions (Fig. 1).

3.1.3 Spatial patterns of economic activities in Moldova

The economic decline since 1990 hit certain industries and sectors more than others and disrupted previous trade and distribution patterns, thus exacerbating certain territorial disparities. As the draft of the National Strategy for Regional Development (www.mapl.gov.md) points out, imbalances in economic and social development contributed to the emergence of serious problems in the development of localities, including (i) the concentration of development and growth trends in Chişinău; (ii) the decline of towns; (iii) the under-development of rural communities. Addressing these problems would be the main challenge for regional development policy.

The most significant and most obvious economic and social disparity in the Republic of Moldova is between the municipality of Chişinău and the rest of the administrative-territorial units. It is indisputable that Chişinău is the key centre of wealth creation, employment, consumption, tax revenue, and also public expenditure. Its inhabitants generally enjoy a significantly higher standard of living than those in the rest of the country. Concerning almost all available and relevant indicators, people living outside Chişinău are relatively less favoured.

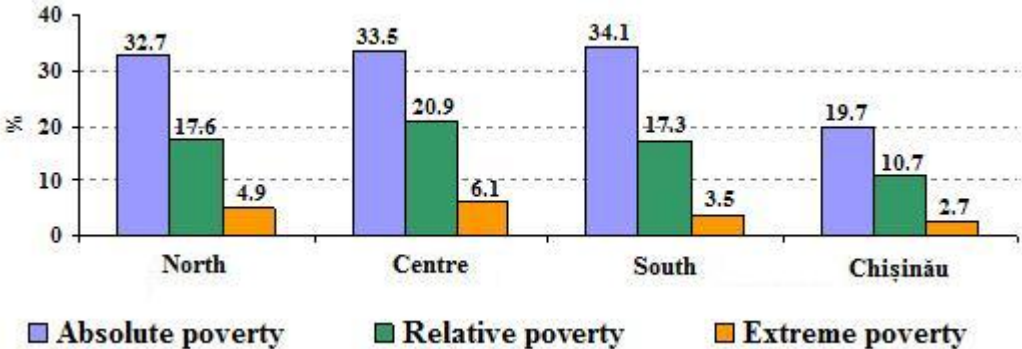
As it was proved in the Economic Development Report, drawn by Stewart MacNeill and Adrian Campbell, with the contribution of Galina Selari, the country’s GDP most significant (approx 35 %) element is represented by remittances from Moldovans working abroad. The

2004 census indicated that 11.2 % of the working age population worked abroad, and 92 % of them have been drawn from the areas outside of Chişinău municipality. The remittances have led to increased imports, two-thirds of tax revenue being derived from the VAT (value added tax) and tariffs on imported goods. This factor influences the general tendency of economic development trends, related to direct incentives for policies to actively develop local sectors in order to substitute the imports in areas where there is a clear demand.

Wage levels are low – the average monthly wage in the country as a whole is € 124.3 (2007), the situation shows even a worse picture being disaggregated, – the Central region’s average salary counts approx. 60 % of it, South 69 %, North 81 %². Whilst this gap does not seem particularly significant these averages disguise a significant level of poverty in many of the rural areas. Although living costs are also low, levels of poverty are significant. Despite overall increases of the salary levels in the course of recent years the numbers of people with incomes below the international poverty line (€ 1.7 per day) is almost one-third.

With small particularities, living standards are roughly equivalent in the three development regions, but higher in the main city where, for example, the proportion of the population described as living in absolute poverty stands at 20 % compared with approximately one-third in the regions.

Fig. 2: Levels of poverty in the Development Regions, 2006



Source: SELARI 2008.

² Or, € 74.1 in Center, € 86.3 South and € 100.5 in North. Average monthly salaries in Chişinău and Bălţi are € 162 and € 136.

The concern is that the two largest cities (Chişinău and Bălţi) continue to develop more rapidly whilst other parts of the country are falling behind and the gap in economic and social development is accelerating.

It is a recognised reality that economic, cultural and scientific activity tends to concentrate in regions with more developed infrastructure and higher living standards. So, it is important that regional development policy promotes the development of provincial towns as multi-functional urban centres, capable of providing services and functions for the districts around them that would otherwise only be available by travelling to Chişinău.

Table 1: Main indicators of SMEs development, 2007

Development Regions	Number of enterprises		Number of enterprises per 1000 citizens	Average annual number of personnel		Sales return	
	Total (1000)	% of the total number of enterprises in the territory		Total (1000)	% of the total number of wage-earners in the territory	Total, MDL million	Per capita, MDL
North	5.2	98.0	5.1	65.9	58.4	8262.8	8116.7
incl. Bălţi mun.	1.7	98.1	11.5	16.2	47.3	3429.9	23159.4
Centre	5.2	98.5	4.9	53.1	68.5	7033.3	6595.4
South	2.0	97.6	3.7	28.3	62.7	2806.2	5163.2
mun. Chişinău	25.9	98.4	33.0	183.2	57.8	47159.8	60068.5
ATU Găgăuzia	1.0	97.9	6.3	13.1	60.9	1524.7	9547.3
Republic of Moldova	39.3	98.3	11.0	343.6	59.8	66786.8	18693.6

Source: SELARI 2008.

Two-thirds of enterprises are concentrated in Chişinău. The average number of registered small and medium enterprises (SMEs) is also very low – with an average of 11 enterprises per 1000 population of the Republic of Moldova (in Chişinău respectively 33 per 1000, compared with the regions' average of about 5 per 1000 population) (see Table 1), – compared with the EU average of 70 per 1000. Some 42 %

of small and medium enterprises³ in Moldova are classified in retail, the rest of them being specialized in food processing, manufacturing, construction, etc. A further concern is that in some areas there are no enterprises of any kind – not even shops. Thus a particular priority is the development of business in the rural areas, the founding and subsequent growth of small enterprises being vital for economic competitiveness and growth.

Important are the labour force skills as a key development parameter. In Moldova the added dimension of major outward migration has led to a de-skilling as the best qualified persons move abroad. The problems arising from this shift of labour into overseas job markets have been particularly acute in rural areas. Low demand coupled with low skills results in low levels of activity or stagnation. It appears that the education system is inadequately geared to address the needs with much of the former vocational system being lost. The rural areas are experiencing the most problems.

To some extent such differences in development are inevitable in any state. Of course, economic activity concentrates in capital cities in proximity to the levers of power as well as to better educational, 'lifestyle' and other resources such as transport. In addition, the significant role of central government spending on employment is an important economic driver. Economic development is also stimulated by the diversity of city environments. It is a well known thesis that firms can gain economies of scale and scope through knowledge 'spill-overs' amongst them. The well-known thesis of Jacobs (1969) suggests that the gain is greatest when there are diverse, if related, trades that draw on each other and stimulate new ideas, markets and labour force development. The key for policy makers is to ensure a spread of wealth without impeding the fastest growing parts of the economy (MACNEILL/CAMPBELL 2008).

3.1.4 Social dimensions of Moldova's spatial development

The social aspect should not be neglected, as regional economic growth and reducing poverty and inequality in the regions are inevitably inter-related. This part is drawn mainly on the findings of Moldova Regional Livelihoods Study developed by Pari Baumann, Ludmila Malcoci and Lisa Paglietti (2009). The study is based on qualitative methods using a livelihoods approach. The chapter also draws from the Small Area Deprivation Index 'poverty maps' that besides econo-

³ 98 % of enterprises in Moldova are classified as SMEs.

mic deprivation data aggregates also some social indicators such as demographic, health, education and housing deprivation in communes and villages, i.e. at the level of rural areas.

As Baumann, Malcoci and Paglieti (2009, p. 9) emphasize, poverty in Moldova is distributed in a relatively uniform way across the country, possibly due to the small size of the country and the broadly similar factor endowments. The incidence of poverty is slightly higher in the centre and south than in the north but poverty incidence and characteristics have high intra-raion and intra-regional heterogeneity (see Table 2). Factor analysis had been applied to develop a domain index. This method assigns a score to each community that can then be used to rank the communities according to their level of deprivation in the respective domain. Based on the domain score, all local communities are assigned a rank from most deprived (rank 1) to least deprived Primaria (rank 843). Thus, the numbers in the Table 2 mean the average rank of all local communities in the respective region.

Table 2: Small Areas Deprivation index 2007 by Development Regions

	Overall	Income	Demographic	Economic	Health	Education	Housing	Geographic ⁴
Centre	338	332	446	234	533	324	445	435
North	465	573	479	432	465	431	285	541
Chişinău	486	240	639	23	465	260	672	569
South	500	420	326	526	495	394	523	384
Găgăuzia	701	478	136	470	641	545	758	452

Source: SADI 2007.

⁴ The geographic indicator concerns the remoteness of a local community and the quality of its road infrastructure. Access to markets is also very important in rural areas where the sale of produce determines the level of household income. Both the distance to a commercial center and the quality of the roads measure the level of geographic deprivation. Also, many roads cannot be used in unfavorable weather conditions, which have a negative impact on the access of the rural population to education and health services, and to the urban markets. Thus, the means to measure the geographical deprivation were: i) Average distance to market, km; ii) Average distance to the next town, km; iii) Proportion of repaired hard-surface road as percentage of total length of roads; iv) Proportion of children age 6–15 living within 2 km of secondary school of lyceum (see GASSMANN and VREMIS, 2006).

The regional characteristics in poverty differ, with the greater entrepreneurial capacities and lesser dependence on agricultural incomes or with more value added upstream development in the North, and the lack of initiative and agricultural dependency in the centre being the main extremes noted. Obviously, each region will have specific issues arising from the agricultural products and economic sectors with the most comparative advantages.

3.1.5 Policies and institutions

The special policy and institutional interventions need to be done for reducing regional poverty and ensuring balanced social and economic regional development in Moldova.

Taking into account the very high level of rural population the central role in all government strategies plays the agricultural policy, particularly related to market access and land tenure. The low prices received for agricultural products, and the high price for inputs, is one of the main grievances of farmers. They consider this as policy, rather than as market issue, because they think that low prices are a consequence of a lack of infrastructure, cold storage, market information and market access. In short, they believe that the terms of trade are deliberately stacked against them in order to force them to accept low prices. These factors reduce the bargaining power of small holders and force them to rely on a small number of intermediaries and processors.

Policies related to land tenure are also considered to marginalise small holders. Moldova has a dual farm structure with the existence of a relatively small number of large corporate farms at one extreme and a very large number of small and very small family farms at the other extreme. There has been a lot of recent analysis on the structure of the agrarian sector in Moldova. The general conclusion is that smaller individual farms are on the whole more productive and more efficient than large corporate farms. The farm structure in Moldova is too polarised between very small subsistence units and a much greater concentration of land in large farms than is typical in most market economies. The policy recommendation is that the government should abandon its support of large farms, improve the operating environment for smaller producers and allow the market to reallocate land. This should result in the emergence of more medium-sized farms, which would have an international comparative advantage.

Social and employment policies have moderated the impact of transition in some areas (primary and secondary school education, child

health and poverty amongst pensioners), but not in others (poverty amongst the working age population, adult mortality, kindergarten enrolments and the marginalisation of some social groups). In general, the share of social transfers as total income has declined, and the composition of social transfers has become less pro-poor with an increase in non-monetary transfers, that are less progressive, and a decrease in the amount of targeted assistance. Many social transfers are poorly targeted and those that are well targeted are often too low to have an impact on poverty.

Financial and business sector policies do not support the poor; Moldova has a very poor operating environment for small business development. There is a remarkable number of people who have tried to start some income generating activity. The commercially active field-work participants in all three regions were struggling under the complex tax, licensing and banking requirements of their enterprises and the burden of having to make unpredictable and possibly illicit payments. For most poor people the regulatory and financial requirements of starting a small business are prohibitive, and if there is any surplus income this is used for consumption or invested in education.

The institutions responsible for implementing regional development policies will be the Regional Development Agencies (RDAs). The creation of RDAs has to start in the three regions (North, Centre and South) in the autumn 2009. But already we can say that RDAs will start with the twin disadvantages of having little money or power. Politically, they will have little power, and the financial instruments available will only be the Moldovan government's normal procurement instruments. Thus their role will be to coordinate and persuade both central government and the individual raions to utilize funds to affect regional development objectives. In the medium term they may have some grants for test or pilot projects but these will be limited in scale. However, while, under the policy direction set by the Regional Councils, individual raions may pool parts of their funding to support particular initiatives, such resources will inevitably be limited as most of funds at raion level are from the central government and are earmarked for specific purposes. The primary Regional Development legislation allows for only 1 % of the total budget to be available for economic development purposes.

This model is not unusual in Europe. For example, in the UK the RDAs were set up on a very similar basis. However, the model has some clear disadvantages. Although RDAs can set policy directions and priorities they are reliant on other organizations for implementation. Often these organizations, such as local authorities or universities are much

better resourced in terms of both their financial and human resources. The situation can lead to clashes of priorities with organizations whose main priorities lie outside economic development or whose lines of reporting are rather national than regional. At the same time a significant advantage of the model is that when priorities are identified they will be considered within organizations that have strong delivery capabilities.

It is necessary that initiatives are fair and transparent and attract real support from business and local administrations. As such they must be based on careful investigation and realistic targets. RDAs need to be strong minded enough to set strategies and balance between the contested agendas of different players. It is important that the Regional Development Councils have a balanced composition of both public and private actors is essential.

So, the success of regional development policy directed to creating conditions for balanced socio-economic development and reducing regional poverty will very much depend from the capacity of RDAs and level of local initiatives.

3.1.6 Conclusion

The conclusion is that the relevance of regional development for poverty reduction lies not in the great regional disparities of poverty, but in the opportunities to invest in further development of local value chains, in human assets of development and infrastructure, information and market linkages. Especially important is to apply a holistic approach to the soft infrastructure of development, to make possible an equitable economic development in the regions, which includes

- (1) the provision of demand-led skills training in response to employer needs and region development trends;
- (2) business focused education projects, which should comprehend work ethics, Information and Communication Technology (ICT), basic entrepreneurship education and sector studies;
- (3) business advisory services support and development in the regions;
- (4) provision of access to capital and finance, because the underdeveloped and segmented credit market and the excessively high cost of credit exclude many potential small borrowers; regional development policies would be greatly improved if they could contribute towards the

identification of a real, moderate and fairly stable interest rate and of financial products that fit to the needs;

(5) catalysing the development of business and trade associations in order to increase bargaining power, access to information, advocacy capacities, etc.;

(6) focusing on social inclusion measures in the regions, encouraging the social and entrepreneurial activities especially of young, woman and retired people;

(7) improving the quality of government services for businesses on the municipality level, alleviating huge information disparity, even on the level of regulations, taxation, standardization and licensing. Regional development policies should foster the capacity of the Local Public Administration (LPA) in these fields whilst supporting its accountability to local people.

3.1.7 Bibliography

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