

Outline of the

NATIONAL HUMAN DEVELOPMENT REPORT 2011/2012

EUROPEAN INTEGRATION AND HUMAN DEVELOPMENT OF REPUBLIC OF MOLDOVA

EXPERT-GRUP

February 6, 2012

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EXECUTIVE SUMMARY

This 2-3 page section will be oriented towards policy-makers, i.e. concise, with clear description of policy issues and proposed solutions. It will include three logical components:

- Summaries for each of the six core chapters, written briefly and comprehensively;
- Main policy messages that the NHDR 11/12 conveys: which are the implications of the links the analysis revealed between the human development and European integration of Moldova;
- A set of specific policy recommendations structured by types of implementing agencies, degree of urgency (short-, medium- and long-term) and sort of resources / actions involved;

INTRODUCTION

The introduction to the 2012 NHDR will be brief and straightforward. It will highlight the following aspects:

- The relevance and importance of the topic analyzed, from the perspective of the human development;
- Main goal and specific objectives of the report;
- Key questions and issues addressed by the report;
- Description of the methodology used;
- Structure of the report;
- Contributors;
- Acknowledgements;

1. EUROPEAN INTEGRATION AND HUMAN DEVELOPMENT: DRAWING LESSONS FROM THE PAST

The EU emerged as a reconciliation project with solid economic foundations but gradually evolved into a welfare community, positively affecting the human development level of its Member States (MSs). The EU membership is closely associated with a steadily growing HDI of those who joined (or are about to join) the club.¹ The purpose of this chapter is to draw lessons from the way European integration influenced human development and to find out what experiences in this respect would be particularly relevant for Moldova. While some parts of the chapter might seem historical in their nature, these are meant to help us understand the logic behind ideas and decisions taken over time in support to EU's development cooperation policy, in general, and human development, in particular. Moreover, these lessons are of utmost necessity if we were to anticipate if and how various scenarios for the future of Europe would affect human development in Moldova, assess the level of preparedness of the Moldovan authorities to deliver an adequate response to each scenario and provide relevant recommendations in this respect.

1.1. BRINGING PEACE AND WELFARE: UNDERSTANDING THE LOGIC BEHIND EUROPEAN INTEGRATION

This section will provide an overview of key human development-related milestones since EU's origins till our days. Although the Schuman Declaration aims, among other things, for a 'Europe where the standard of living will rise', it was not until the Lome III Convention (1985) when certain aspects of human development (such as gender and human rights) were first tackled. The geographical focus of the EU's development policy was originally the African, Caribbean, and Pacific (ACP) countries. It only obtained a Central and Eastern European (CEE) dimension after the fall of the Iron Curtain. This allowed the EC to adopt a new developmental approach, based on the lessons learned over a few decades, towards the new CEE neighbours, many of which later joined the EU in a few successive waves.

The key questions to be addressed as part of this section are the following: what is the historical track record of the European integration influencing national development agendas? Is there a direct and strong connection between the European integration process and progress in human development?

The section will also examine several key issues related to the 'European project', which are necessary for understanding how 'human' are the drivers behind it:

¹ Kurt, S., Savrul, M., 'The Effect of the European Union on Human Development', International Research Journal of Finance and Economics, Issue 65, April, 2011, pp 35-42.

- EU: when, why and how it started? The role of human development-related considerations;
- Institutional deepening and geographical widening: which are the key milestones in the evolution of the EU development policy?
- Emergence of the EU's official human development policy (European Consensus on Development, 2005);
- Human development and European integration: competitive or complementary agendas?
- What can Moldova learn from the human development side of European integration experience?

1.2. DEVELOPMENT IMPACT OF INTEGRATING WITH EU: CASE-STUDIES FROM THE 2000s' EU ENLARGEMENTS, WESTERN BALKANS AND ENP

European integration is a two-way, long-term, ongoing and **open-ended process**. The road to one of the main elements of this process – the EU membership – is quite long and difficult. After over a decade of reforms, in 2004 eight former communist countries from CCE became part of the largest EU's enlargement wave. The next wave included Bulgaria and Romania in 2007 and thus made Moldova one of the EU's direct neighbors. There is a statistically-significant and direct link between the EU membership and the development performances, reflected, among others, in the increasing value of the HDI. Moreover, the HDI growth rate for the new MSs which joined the EU in 2004 is significantly higher after accession than during their candidacy phase.² However, while this proves that enlargement has greatly benefited human development, there is no clear evidence on how exactly Europeanization affects human development beyond EU member and applicant states.

A preliminary literature review reveals that EU influences non-members' (and non-candidates') behaviour, including with respect to human development, either by targeted means (conditionality, externalisation, socialisation) or by its mere presence (thus stimulating imitation).³ While transposing the *acquis communautaire* represents the core of Europeanization of both EU members and candidates, there is no such a distinctive instrument for EU partners. Besides the so-called 'quasi-members' which seek access to the single market (and thus are determined to adopt some parts of the *acquis*), the ENP countries would represent a remarkable exception, because of the EU's commitment to extend its *acquis* without offering membership.⁴ However, this is a two-way process, which implies a great deal of commitment and government ownership from the partner countries.

² Kurt, S., Savrul, M., 'The Effect of the European Union on Human Development', International Research Journal of Finance and Economics, Issue 65, April, 2011, pp 35-42.

³ Schimmelfennig, F., "Europeanization beyond Europe", Living Reviews in European Governance, Vol. 7, (2012), No. 1: <http://www.livingreviews.org/lreg-2012-1> (cited [30 January 2012]).

⁴ Ibidem.

This section will examine the economic, social and political effects of the European integration and how it influenced human development in three relevant groups of countries:

- The EU 12 countries which joined the EU in the 2000s’;
- The Western Balkans (Croatia, Bosnia-Herzegovina, Serbia, Kosovo, Albania, Montenegro, Macedonia);
- Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine).

Potential channels of EU impact on the human development to be considered are the following:

- Free movement of people, goods, services and capital or perspective thereof;
- Financial aid through the EU (Structural) Funds;
- Transposition of social, cultural and political values.

1.3. MOLDOVA’S FUTURE IN THE WIDER EUROPE: MAKING SENSE OF TOMORROW

The EU has irreversibly changed as a result of a rapid enlargement to the East. It now has almost five times more members than at its origins and includes some members which are quite poor in comparison to the EU’ founding nations. The recent two enlargements proved to be quite demanding for older members, which resulted in the so-called ‘enlargement fatigue’ and therefore in a greater emphasis on EU’s ‘absorption capacity’ as one of preconditions to accept new members. Although not in the position to fully enlarge further to the East, EU was both concerned about stability at its external borders and did not want to lose the integration momentum. Thus, it developed the ENP, as an alternative to enlargement, whose main aim is to offer to the neighboring countries something more than a partnership and less than a membership while (indirectly) acknowledging European aspirations of some of them. In broad terms, this would mean offering to Eastern partners the possibility to benefit from the Four Freedoms, which lie at the heart of European integration (i.e. free movement of goods, capital, services and persons), and from participation to some EU programs which in the past were open only to the EU members, but all these without participation in EU institutions.

In the meantime, the global financial crisis poses new challenges both for the EU’s established institutional foundations and for the desire of the neighboring ‘ring of friends’ to adopt European integration values. Historically, geographically and culturally Moldova has always been part of Europe and its future lays with developments within this region. Whatever direction will the EU be determined to move, either to an ‘ever closer union’ or will follow the insistent calls for a ‘multi-speed EU’ (a third scenario would be something in-between), Moldova needs to have in place the appropriate tools and efficient institutions, able to quickly adapt to changing circumstances. This section will also analyze the nature of

the current crisis stalemating the EU and show how the ongoing turmoil is likely to influence the 'human' dimension of the European project. To some extent, the way how things evolve domestically in any of the two abovementioned scenarios depends on citizens' perceptions and opinions on European integration. Therefore public perceptions of Moldovan nationals on current European integration issues, prospective reforms and possible evolutions on the EU stage will be examined in this section. This would allow stakeholders to timely and appropriately address upcoming sensible decisions.

The list of the specific questions to be addressed as part of this sub-chapter includes the following:

- How threatening is the crisis for the European project as we know it today?
- Will 'values' become victim of financial constraints and new political realities?
- How supportive are Moldovans for the country's European integration? And what does European integration mean for Moldovans today?
- Does the general public in Moldova have an educated understanding of the EU integration-related opportunities and risks?
- How do the European integration attitudes change depending on education, social status, income level, migration status?
- How would each scenario for the future of Europe affect Moldovan citizens' support for the country's European integration?
- Which are the options and ways for mitigation of crisis' impact on the human conditions?

METHODOLOGY AND DATA SOURCES

The methodology used for this chapter is analytical and comparative. It employs a combination of both quantitative and qualitative research that implies interpretative methods of analysis of legislation, official governmental documents, policy papers and public opinion polls that have a bearing on European integration of Moldova in a human development context.

Data sources for section 1.1: Literature review

Data sources for section 1.2: Literature review

HDI data for the three groups of countries since early 1990s'

Data sources for section 1.3: Literature review

Public Opinion Barometers since 2000 to date

An opinion poll specially designed for the purposes of this study

2. HUMAN DEVELOPMENT IN REPUBLIC OF MOLDOVA: ACHIEVEMENTS AND CHALLENGES

To be sure, since inception of transition Moldova has achieved some progress in the human development, which is reflected, among others, by several human development indicators. For instance, over the last decade Human Development Index (HDI) in Moldova increased on average by 0.92% annually⁵. The rise is indeed significant and comparable only to few countries from new EU member states (such as Latvia), Western Balkans and Eastern Partnership countries (such as Armenia). However, Moldova remains the country with the lowest HDI level in this group (0.649 in 2011). Moreover, the HDI advancement slowed down in 2011 (to 0.78% annual growth). Even though it reflects quite well the regional trends, with most of the countries experiencing a lower HDI rise in 2011, there is certainly a role for internal factors too. This fully reflects the real development of the country in a period of political crisis, with frozen or blocked reforms and policies not reaching their final objective to facilitate human development.

2.1. RECENT POLITICAL, SOCIAL AND ECONOMIC DEVELOPMENTS IN MOLDOVA

Economic growth versus a permanent political deadlock made the years 2010-2011 be full of challenges for Moldova. The economic growth – impressive by any regional comparison both in 2010 and 2011 – rapidly brought the GDP to the pre-crisis level, giving the Government the same comfortable position as before the crisis. Even though the positive structural change of the GDP was minor and short-term, the Government was not in a hurry to act. By and large, it remained victim of many vested interests that remained unsolved. Meanwhile, the increasing flows of remittances eliminated the pressure accumulated due to still critical situation on the labour market; low public institutions' capacity to absorb funds did not endanger the budgetary deficit level even when the revenues grew at slower than expected rates. However, as time goes on, we see that some problems remained unsolved and generate new negative outcomes, e.g. the series of so-called "raider attacks" (hostile corporate takeovers) that started in the summer of 2011. Not directly linked to human development, this is just a significant outcome with the power to influence the further economic development of the country. Thus, after two years of discussion, Moldova has major arrears in few sectors that ultimately can influence human development: the judiciary system reform, decentralization, agricultural subsidizing reform, central public administration reform, control of public finance⁶.

⁵ According to new HDI levels in Human Development Report 2011, UNDP.

⁶ MEGA no. 5, EXPERT-GRUP, 2011.

This sub-chapter will look at the main political, economic and social developments during the last few years and its impact on human development process in Moldova and particularly at:

- Main reforms that were blocked, but necessary for human development;
- The sustainability of economic growth. Is there a link between economic growth and other macroeconomic indicators: labour market indicators, incomes of the population, poverty, inequality?
- The impact of social policy on the population welfare. The law on social aid was adopted in 2008. What is the utility and impact of the new law after three years?
- How is social policy designed? The current social policy aims to satisfy basic physiologic needs of the poor, instead of helping them integrate in the society through access to education, health and other public services.
- Is Human Development seen as a main objective by the current legislative and the Government? In which way? Did the political programs of the parties that entered the Parliament in 2009 refer to some specific objectives intended to improve the state of human development in the country? Were these objectives further included in Government or Coalition agenda or national/ sectoral strategies?

2.2. MOLDOVA'S HUMAN DEVELOPMENT: BALANCING PROGRESSES VERSUS FAILURES

As mentioned above, recent years were a period full of contradictions that consequently reflected into uneven human development progress. One of the main determinants of the low HDI level is the small income of the country (GNI per capita). Therefore, non-income HDI value is 15% higher than overall HDI level (0.746 vs to 0.649), comparable only with Georgia within the group of countries composed of the new EU members, Western Balkans and EaP (in the other countries the gap varies between 4-12% interval). Nevertheless, there are other areas identified as critical in previous NHDR reports⁷, such as living standards and life expectancy.

This sub-chapter aims to identify changes (positive and/or negative) or stagnations in HDI components and related indexes. These indexes will serve as key parameters describing how Moldova evolved recently in terms of human development. We will look at the changes in the values of indicators in the following areas:

- education (mean years of schooling, expected years of schooling, etc.);
- health (life expectancy at birth, maternal mortality rate, etc.);
- inequality adjusted HDI;
- gender inequality index and related indicators;
- multidimensional poverty index;
- environmental sustainability.

⁷ NHDR 2010/2011: From Social Exclusion Towards Inclusive Human Development, UNDP.

We will also look for the reasons underlying the most important changes and if there is a role of European integration aspirations in undertaking some actions. In this context we will see if there is place for a better performance and if there are reforms set for the mid-term period that might change the state of HDI components in these areas.

2.3. COMPARING MOLDOVA'S HUMAN DEVELOPMENT WITH NEW EU MEMBERS: MOLDOVA'S COMPETITIVE ADVANTAGES AND DISADVANTAGES

As already determined above, by its HDI level Moldova is lagging behind any European country. The closest European country to Moldova is Bulgaria, with 56 positions above Moldova and a difference of 18.8% in HDI, followed by Romania - 61 positions above and 20.3% above. Looking one decade back we see higher discrepancy with Bulgaria, while a similar gap with Romania. Small time differences are identified when Moldova is compared to the new EU member states that joined in 2004 – mainly the narrowing of the gap. In a way, this might be a reflection of both a converging process and efforts done to achieve new level. However, even in this case, the HDI level is lower than in any EU country at their accession moment and even in early 1990, which makes the European integration aspirations of Moldova more difficult to fulfill.

So, this sub-chapter will place Moldova in a regional comparison to see how far it is from new EU member states:

- at the moment the association agreement was signed;
- at the moment they joined EU;
- present state of those countries.

As the methodology for HDI changed recently and the new indices available only for 7 years (1980, 1990, 2000, 2005, 2009, 2010 and 2011)⁸, the closest available year might be used for some comparisons. Where necessary and possible, some of the older indices might be used if they ensure a proper comparison.

The time series comparison aims to give a clear view on the regional trends and if Moldova is part of these trends. The questions to be answered are:

- What are the developments caused by external factors, common for the region?
- What are the changes due to the own efforts of the country?
- Are there any areas where Moldova performed better than other states?
- Are there any advantages that can push Moldova to perform better?

⁸ Human Development Report, 2011. Sustainability and Equity: A better future for all.

We will also try to correlate HDI with other indicators. Generally, the quality of governance⁹ has a major role in the development process, including the human development. Therefore, we will look at the governance indicators and its link with the HDI. For this purpose we will use data from the following sources: Transparency International, Freedom House, Global Competitiveness Report, World Bank Governance Indicators, International Country Risk Guide, Global Integrity, CPIA public sector management and institutions by World Bank, Transition Indicators. All the sources will be considered, but the report will include only relevant data and the existence of correlation between HDI and some of the indicators included in the sources mentioned above.

Another goal of this sub-chapter is, by measuring the gap between Moldova and new EU member states, to assess the potential change and the speed of change in different scenarios for the evolution of EU - Moldova relations. This will also result in the identification of positive practices among the countries of comparison that might be used in the following chapters of the report, based on their relevance for Moldova.

METHODOLOGY AND DATA SOURCES

The methodology used for this chapter will involve both quantitative and qualitative research. The qualitative part will consist on desk research, literature review of official governmental documents, policy papers and relevant studies. The quantitative part will imply time-series and panel data analysis, and where applicable, comparisons and correlations.

Data sources for section 2.1: Literature review

Economic research

Data sources for section 2.2: Literature review

HDI, its components and related indexes for Moldova

Data sources for section 2.3: Literature review

HDI, its components and related indexes for Moldova and new EU member states

Indicators on Governance, Transition, Competitiveness

⁹ Governance is defined by UNDP as the system of values, policies and institutions by which a society manages its economic, political and social affairs through interactions within and among the state, civil society and private sector. It is the way a society organizes itself to make and implement decisions – achieving mutual understanding, agreement and action.

3. MOLDOVA'S EUROPEAN INTEGRATION: BENEFITS AND COSTS, OPPORTUNITIES AND RISKS FOR THE HUMAN DEVELOPMENT

Moldova's European aspirations are very ambitious, as indicated by official sources¹⁰, and not limited to remain forever just an 'EU neighbor'¹¹. However, for the time being the EU is not ready even to acknowledge, let alone to discuss, a clear membership perspective for Moldova. So, for now the foreseeable limits of Moldova's European integration should be seen as those negotiated as part of a new-generation Association Agreement between Moldova and EU, an Agreement encompassing a Deep and Comprehensive Free Trade Area. Such an Agreement would actually offer Moldova a very high degree of integration with EU without actually being a member. There some doubts that Moldova would be ready to digest such an integration without more reforms. In this regard, to European integration should not be seen as an 'easy journey', as proven by Moldova's own experience of interacting with the EU in the recent two decades. The key purpose of this chapter is to evaluate this integration experience, to assess the impact of the current and future relationships between Moldova and EU and to identify whether the balance of risks and opportunities, costs and benefits is 'rewarding' enough Moldova's development and modernization aspirations.

3.1. MOST SIGNIFICANT EVOLUTIONS IN THE MOLDOVA-EU RELATIONSHIP

While part of geographical and cultural Europe, traditionally Moldova was not seen by EU as part of political Europe. Moldova and the EU have therefore established their relationship through a Partnership and Cooperation Agreement (PCA) in 1994, with legal effects starting only in 1998 and which still has legal force. Based on 'standard' approach and representing only a modest evolution from the previous agreement that European Community signed with USSR in 1989, the PCAs were applied by the EU to frame its relations with the CIS countries. Two key differences from the EC-USSR agreement are that PCA envisaged the harmonization of the Moldova's legislation with the EU legislation and creation of a free trade zone once Moldova joins WTO. In these respects, practical achievements have not been as bright as initially hoped. Moldova joined WTO back in 2000 while official negotiations on the creation of Deep and Comprehensive Free Trade Area were launched only in December 2011, to be part of a new-generation Association Agreement. As for the legal harmonization, the PCA lacks a strategic goal, and has brought relatively limited

¹⁰ Government of Republic of Moldova, "Program of activity European Integration: Freedom, Democracy, Wellbeing 2011-2014", available at <http://www.gov.md/doc.php?l=ro&idc=445&id=3729>.

¹¹ Statement on 'European perspective of Moldova', Ministry of Foreign Affairs and European Integration, <http://www.mfa.gov.md/din-istoria-rm-ue/>.

effects. Some authors even believe that the delayed and formulaic institutionalization of EU relations with Moldova considerably undermined 'socialization' of the Moldovan elites¹².

At the same time, Moldova benefited of significant trade concessions from the part of the EU: in 1997 the EU granted Moldova trade preferences as part of the Generalized System of Preferences, which in January 2006 were extended; in 2008 the EU granted Moldova the Autonomous Trade Preferences (ATP). A joint Actions Plan was signed between Moldova and EU in February 2005, providing Moldova a roadmap for the most significant reforms that EU was expecting. A National Center for Legal Approximation has been created, with most of the legislation being presently tested for 'euro-conformity'. In 2008 Moldova received from the EU the Autonomous Trade Preferences. 2008 a visa facilitation and readmission agreement between Moldova and EU entered into force. A pilot Mobility Partnership was signed to strengthen legal migration opportunities and to strengthen capacities for migration management and fighting illegal migration.

The purpose of this brief section is to draw the most important and relevant conclusions that Moldova can learn from its relations with the EU between 1998 and 2009. More exactly, this section will address the following questions:

- What are the key 'EU-demanded' reforms relevant for the human development that Moldova implemented in the recent decade and what is their impact?
- In which aspects Moldova failed to deliver the promised reforms and why? Are those factors still in place and how can they further impact the Moldova's European integration process?
- What degree of economic integration, political rapprochement and legislative convergence with EU has Moldova achieved so far? Compared to other countries in the ENP-covered region, has Moldova become more European and by how much?

3.2. ANALYSIS OF THE CURRENT AND FUTURE RELATIONSHIP BETWEEN MOLDOVA AND EU

In order to accelerate Moldova's political association and economic integration with the EU, and in line with the EU's Eastern Partnership Policy, the EU and the Republic of Moldova have entered negotiations on an Association Agreement (AA). Negotiations on the AA, as the successor agreement to the PCA, were launched in Chisinau on 12 January 2010. The future EU-Moldova AA represents the so-called new-generation of the Associations Agreements, a key element of which are free trade areas. After eight rounds of negotiations on the AA, Moldova and EU have provisionally closed a number of 'chapters'. Considering that negotiations are going on, the content of the chapters agreed is confidential, but the likely provisions may be deciphered using historical and regional analogies. In 2012 Moldova and EU will start negotiating the Deep and Comprehensive Free Trade Area that is to be part of the Association Agreement.

¹² Vahl Marius and Emerson Michael, "Moldova and the Transnistrian Conflict", by 2008.

At the same time, Moldova has clearly stated its desire to join EU as fully-fledged member, based on the provisions of the article 49 of the Lisbon Treaty. Therefore, exploring the new scenarios of EU-Moldova relations and their impact on the long-term development of Moldova is indispensable. Among the questions to be answered as part of this section, the most important are the following:

- What do the commitments that Moldova undertook as part of association negotiations process with EU involve for its human development agenda? A key problem in addressing this question is the secrecy of negotiations ('nothing is negotiated before everything is negotiated'). We will try to use the information available unofficially and officially and to corroborate it with the historical and regional precedents in the region.
- What are the limits of the 'political association and economic integration' of Moldova with EU as part of the AA? Will the Association Agreement represent a credible offer for Moldova to stabilize economically and politically and to achieve in long-term human development agenda and to modernize? Is the balance of risks and opportunities attractive enough for the Moldovan politicians to engage in serious reforms and for the citizens to provide political support for these reforms?
- If the balance of benefits and costs involved by the AA is not positive enough, will the political elites need a more credible anchorage, such as a clear perspective for Moldova to join EU sometimes in an undefined future? Is such a scenario feasible, considering the enlargement fatigue? Is pursuing such a path advisable? What would such a scenario add to the balance of costs and benefits for Moldova?

3.3. EUROPEAN INTEGRATION AND HUMAN DEVELOPMENT IN MOLDOVA: IMPACT ON POLICY AGENDAS

EU has exerted a crucial influence on the countries willing to join the club. For instance, political prerequisites were powerful incentives for democratization of the South- and East-European countries which are presently members of the EU. However, there is presently available a reach literature on the impact of EU on the countries beyond the EU frontiers. Conditionality and socialization are only two widely researched mechanisms transmitting the impact of EU on third countries¹³. In Moldova, EU is also a factor having a strong demonstrative and symbolic influence. Moldova has a long history of partnership with the EU, and the EU has been one of the most important development actors in Moldova. EU may have materialized the impact on the human development in Moldova in three ways: firstly, by providing assistance to support the country in overcoming some poverty-related

¹³ Coppieters, Bruno, Emerson, Michael, Huyseune, Michel, Kovziridze, Tamara, Noutcheva, Gergana, Tocci, Nathalie and Vahl, Marius, 2004, Europeanization and Conflict Resolution: Case Studies from the European Periphery, vol. 1/2004 of Journal on Ethnopolitics and Minority Issues in Europe (Special Focus), Academia Press, Gent. Online version (accessed 25 January 2012): <http://www.ecmi.de/publications/detail/issue-12004-61>.

problems; secondly, by influencing policy agenda in the area of human development; and thirdly, by 'Europeanizing' Moldovan elites themselves. Accordingly, the purpose of this section is to assess how efficient was Moldova in using the support EU provided so far; to identify how 'European' has the Moldova's human development agenda become; and to measure how 'Europeanized' are the Moldovan elites themselves.

To bring more details, the following questions will be addressed:

- In Moldova, we often speak about the 'European integration agenda' and 'Human development agenda'. But do such 'agendas' (meaning coherent understanding of the needs, objectives and means to be used) exist at all?
- How do they influence and communicate with each other? If any, which are the convergent and divergent components and aims of the two agendas? For instance, how does European integration vector influence the speed of progress of Moldova towards the fulfillment of the MDGs and respect of the human rights? (More on the latter see in Chapter 5)
- How does the European integration process influence the quality of the policy process in Moldova, with a particular emphasis on the social and human development dimensions? Is 'Europe' a factor determining a policy more tilted against human rights, freedoms and social values?
- Which are the concrete channels through which the influence boils down to the quality of governance? What role for the trade negotiations, political dialogue, visa liberalization? What is the role and impact of technical assistance? What role for the EU direct financial support?
- How exactly the European norms, values and standards shape the Moldovan political sphere? Do Moldovan political, economic and cultural elites become more 'European' as they interact with European structures?

3.4. BENEFITS AND COSTS OF THE EUROPEAN INTEGRATION: A POLITICAL ECONOMY APPROACH

European integration – be it limited to the association stage or to full membership – involves both benefits and costs. Moldovans – both plain citizens and political leaders - are often tempted to see the European integration as the 'ultimate savior'. The reality is much sober, however, as experience of the other countries integrating with EU clearly shows. Moldova has not formally applied for EU membership and was not invited to. Nonetheless, depending on what exactly will be agreed between Moldova and EU, an Association Agreement with a DCFTA as one its key components would purport for Moldova many benefits, but also costs. As impact assessment of the previous generation of the AA shows, for the trade liberalization to bring about maximal effects, it should be accompanied by deep structural reforms making the country more competitive and by extending the trade liberalization to services and agriculture, ensuring an adequate fiscal policy response and

strengthening the EU assistance¹⁴. Some of these reforms are low-hanging fruits, others are more difficult to attain. Dealing with the hard reforms will involve significant costs, political, social and financial. The purpose of this section is to make use of the political economy analysis in order to map out how European integration affects the interests of different segments of the society and elites, to understand the interplay of these interests and their implications for the human development of the country. Among the specific questions to be addressed, the following are included:

- What are motivations and the benefits that political elites expect from European integration? Risks and opportunities, cost and benefits of the European integration: how different social groups, political players and economic actors will be affected?
- Are Moldovan political elites aware of the deep structural changes that European integration will engender for all sectors, but especially for the Moldovan agriculture? In turn, this will have long-lasting implications/ for the political behavior and participation of the citizens leaving in the rural areas.

METHODOLOGY AND DATA SOURCES

The methodology used for this chapter will involve both quantitative and qualitative research. The qualitative part will consist on desk research, literature review of official governmental documents, policy papers and relevant studies. The quantitative part will imply time-series and panel data analysis, and where applicable, comparisons and correlations.

Data sources for section 3.1: Literature review

Interviews with the senior policy experts

Data sources for section 3.2: Literature review

Interviews with the senior policy experts

Data sources for section 3.3: Literature review

Analysis of the relevant policy documents, governmental decisions, development strategies and plans, MDG reports;

Analysis of the EU reports on Moldova;

Interviews with senior policy experts;

Data sources for section 3.4: Literature review

Interviews with the senior policy experts and professional sociologists researching Moldova elites

Results of the social opinion survey

¹⁴ Henri Ghesquire, "Impact of European Union Association Agreements on Mediterranean Countries", IMF Working Paper, WP/98/116, August 1998.

4. MOLDOVA'S EUROPEAN INTEGRATION: ASSESSING THE ECONOMIC AND TRADE IMPACT

Nowadays, there is a broad consensus on the fact that European integration, in general, and liberalization of the trade with EU, in particular, imply both welfare benefits and costs. Hence, on the one hand, trade creation generates additional consumer surpluses, as the prices go down under fiercer competition, resulting lower mark-ups and higher supply. It may, also, have some pro-competitive effects for exporters which, in its turn, add to the overall employment and population's incomes. On the other hand, elimination of import tariffs, at least on a short term, may generate convergence costs, forcing many small local producers to exit the market with adverse effects on labor market, population's incomes and, respectively, human development. This chapter is dedicated to assessing the economic impact of the forthcoming Association Agreement and the Deep and Comprehensive Free Trade Area the Agreement involves.

4.1. COMPETITIVE IMPACT OF THE DCFTA ON AGRIFOOD SECTOR: UNDERSTANDING AND ADDRESSING THE RISKS

Empirical studies suggest that the welfare gains are likely to be higher if before trade liberalization the tariffs for exports are higher, imports volumes are lower and the domestic prices are closer to the foreign ones¹⁵. It underlines the crucial importance of a qualitative institutional harmonization and broad adjustment of the domestic economy before trade liberalization takes place, in order to maximize the welfare benefits and minimize the costs. This is confirmed by one of the most comprehensive and influential reports on trade liberalization and market integration - Cecchini Report, though sometimes criticized for its over-optimistic views and methodology used¹⁶. The report argues that in order to enjoy maximum gains, prior to trade liberalization takes place, the firms must improve their management and productivity, while the policy makers must adjust the competition policy by removing price discrimination practices and any forms of domestic market protection. Additionally, the economic policies should be growth-oriented, while the monetary policy should ensure the financial stability¹⁷.

The Republic of Moldova already adjusted its trade regime to the WTO requirements, the trade weighted tariff being just 2.7% (8.5% for agricultural goods and 2.1% for non-

¹⁵ Pelkmans J., "European Integration. Methods and Economic Analysis", third edition, 2006.

¹⁶ For the debate about its merits and shortcomings see Pelkmans & Winters (1988), Italianer (1990, 1994), Siebert (1990), Winters & Venables (1991), Flam (1992), Pelkmans (1992a), Winters (1992), Hoeller & Louppe (1994).

¹⁷ Cecchini Report, European Commission, 1988.

agricultural goods)¹⁸. At the same time, Moldova benefits of a preferential customs regime for its exports to the EU market under the Autonomous Trade Preferences, which ensures partial or total exemption from custom tariffs. Thus, Moldova's custom regime is one of the most liberal in Central and Eastern Europe, the most protected sector being the agrifood sector. Hence, it is the most vulnerable to trade liberalization, as a potential withdrawal of import tariffs for these products, though gradual, will expose the local producers to a strong competition with the European exporters. This is a direct outcome of erroneous government policies aimed at protecting several important branches (meat, dairy products, sugar etc), and paying less attention to export promotion and adjustment to EU quality standards. As a result, the Moldovan agrifood sector struggles a perpetually low competitiveness, lack of capital investments and low-value added production. As a result, despite the availability of natural and human resources, the Moldovan agrifood sector has always been below its potential level, even during the periods of robust economic growth.

Such a high protection level of the agrifood sector generated a strong aversion among some policy circles to the potential liberalization of bilateral trade between Moldova and EU through DCFTA. This aversion is also fueled by the asymmetries in the bilateral trade relations between Moldova and EU, which will be gradually counter-balanced by the DCFTA, implying much more marginal concessions from Moldovan authorities. Taking into account the large share of this sector in total employment and exports, it has a fundamental contribution to human development situation within the country. Therefore, the key question to be answered in this sub-chapter is: what will be the impact of trade liberalization on the agrifood sector and what should be the policy actions of decision makers in order to maximize the welfare gains and minimize welfare losses? Other particular questions to be addressed are as follows:

- Are the concerns related to trade aversion and welfare losses grounded and can we indeed expect a series of defaults among local producers who will not resist the competition with the foreign ones? What would be the overall impact on human development, as on the one hand wiping out trade barriers are likely to fuel imports which could imply lower prices and higher consumer benefits, while on the other hand, many local producers could not survive the increased competition and could exit the market, with respective consequences on unemployment? How these shocks will spread over time?
- Additionally, our estimations will focus on identifying the main winners of trade liberalization process, as well as its main losers: what are the sector branches which could largely benefit from this process and what could be most problematic ones? Answering this question is essential for an appropriate public policy design which could mitigate the negative impact of DCFTA implementation and amplify the

¹⁸ "Aid for Trade Needs Assessment for the Republic of Moldova. Trade and Human Development", UNDP, 2011 http://undp.md/presscentre/2011/International_Trade_Report/index.shtml.

positive ones. Importantly, it is vital to identify the trade liberalization impacts over short and long term perspectives, as they may change given the adjustment process to European standards and modernization efforts of local producers.

4.2. COMPETITIVE IMPACT OF THE DCFTA ON NON-AGRIFOOD SECTORS: OPENING UP TO INTERNATIONAL TRADE

While the level of protection is lower than for agrifood sectors, there are still several branches which continue to be heavily protected by the state though higher custom tariff (mineral water, some type of clothes, tobacco products, paper etc). Therefore, implementation of DCFTA creates additional challenges for firms which did not enhance their competitiveness and which are strongly relying on these protectionist measures applied by the government. Since the DCFTA between Moldova and European Union implies a complementary FTA between Moldova and Turkey, it is worth analyzing the impact of trade liberalization with Turkey. Particularly, it will address the several non-agrifood sectors to which custom duties are applied, as the future FTA will imply full withdrawal of all duties for these products, while the agrifood products will be subject to some exemptions and gradual removals. Thus, the evaluation of the impact of DCFTA with EU and its complementary FTA with Turkey will be performed by answering the following questions:

- What will be the impact on sector's output and what will be the trade effects?
- Will it serve as an additional incentive to increase the productivity, investments and competitiveness on the domestic and EU market?
- Or, most of them will not cope with such a fierce competition from European producers and will exit the market?
- It is also necessary to estimate the potential impact on commercial banks, since the failure or success of Moldovan producers to cope with the competition from EU producers will influence the quality of loan portfolios and the overall sector stability.

4.3. EUROPEAN INTEGRATION DRIVING A NEW ECONOMIC MODEL FOR MOLDOVA: INSTITUTIONAL AND LEGISLATIVE PREREQUISITES

In order to extract maximum benefits for human development from trade liberalization and closer European integration, policy makers must undertake an extensive and intensive process of domestic regulatory framework harmonization. It usually implies a series of structural reforms aimed at improving the quality of institutions, removing various forms of domestic market protection and stimulation of entrepreneurial activity and FDI attraction. In other words, the human development benefits or European integration could overcome the costs if and only if the country gets well prepared before the DCFTA and the association

agreement is signed. One of the shortest tracks to achieve higher standards of living is the commitment to the implementation of the EU's *acquis communautaire*¹⁹.

Indeed, the existing literature confirms that despite the costs related to legislative harmonization and economic adjustment to EU standards, the positive spillovers of European integration process dominate. The main benefits imply consumption and output growth, improvement of terms of trade and overall process of convergence, with positive effects on human development. An important additional channel is the increase in EU funds²⁰ which could significantly contribute to modernization of the country, if well absorbed and efficiently managed. Moreover, according to Lejour and Nahuis (2004)²¹, the benefits of EU enlargement are much higher for new entry Member States. However, Moldovan policy makers must be aware of the fact that it implies an intensive process of institutional harmonization and convergence to EU norms before the accession, which could either multiply or decrease these benefits.

Nowadays, there is a broad consensus about the fact that the current economic growth model of Moldova based on remittances which are largely used for consumption covered mainly by imports cannot be sustainable on the long run. The resulting large trade and current account deficits coupled with poor competitiveness of local producers, makes the Moldovan economy extremely vulnerable to foreign shocks. This situation is mainly due to inefficient economic policies promoted over the transition period in some sectors and insufficient economic policies promoted in the other ones. The main outcome is the dramatic loss of competitiveness of Moldovan producers which could not benefit of European integration and, specifically, trade liberalization, without a series of vital structural reforms. It explains why on the one hand Moldova is rated among the countries with the most liberalized trade regime, while on the other hand it faces one of the most restricted markets in the world²². It speaks about strong non-tariff barriers related to compliance to EU standards, suggesting acute issues of competitiveness of Moldovan producers and poor domestic capacities to ensure an efficient convergence to those standards. At the same time, it reveals how deficient the business climate is, which particularly is due to many formal and non-formal barriers for entrepreneurial activity, burdensome and time consuming procedures related to phytosanitary controls and standards, as well as a confusing legislative framework related to quality infrastructure. Additionally, these issues

¹⁹ Human Development Report Ukraine. Human Development and Ukraine's European Choice (2008) http://www.undp.org.ua/files/en_80896eng_full.pdf.

²⁰ Zaman G., "Economic Effects of CEE Countries Integration into the European Union".

²¹ Lejour A.M., Nahuis R., "EU Accession and the Catching Up of the Central and East European Countries, in Deardorff (ed.), *The Past, Present and Future of the European Union*", IEA Conference Volume, no.138, PALGRAVE Macmillan, 2004.

²² "A Free Trade Area between the Republic of Moldova and the European Union: Feasibility, Perspectives and Potential Impact", Expert-Grup, 2009.

are mostly relevant for the agrifood sector²³, which registers one of the largest gaps among all other sectors and which has a very close connection to human development in Moldova.

- Hence we will analyze how the process of European integration is going to shape the governmental policy agenda in the way that it will foster the necessary institutional and legislative changes. Most of them should be aimed at: (i) adjusting national quality standards to the European ones which would open more windows for local firms on the European market and will increase their competitiveness; (ii) harmonization of national legal and regulatory framework with the European one; (iii) liberalization of economic activity on many sectors though elimination of many legal restrictions; (iv) increasing the efficiency and transparency of public institutions; and last but not least (v) enforcement of rule of law, better protection of property rights and reforming the judicial system. A successful implementation of such reforms would definitely improve the investment attractiveness of the Moldovan economy, enhance the competitiveness of local producers and, finally, will stimulate additional sources of economic growth.
- A special attention will be drawn on evaluation of the action plan regarding the implementation of EU recommendations on domestic legislative adjustment towards the negotiation and signing a DCFTA. Thus, we will analyze what is the progress so far on the implementation of this action plan, which targets have been missed by policy makers and which ones should be the main priorities in the near future.

METHODOLOGICAL NOTES

The estimation of trade liberalization impact on agrifood and non-agrifood sectors will be mostly based on several approaches of quantitative methods, while qualitative assessment will be used for the analysis of institutional and legislative prerequisites of European integration process.

The quantitative estimations will be conducted using 2 types of econometric models: (i) General Computable Equilibrium (CGE) and (ii) Cointegrated Vector Autoregressive/Error Correction Model (VAR/VEC).

CGE can be used as a reliable tool for analyzing the impact of policy decisions on the economic system and its adjustment to a new equilibrium over a medium term. It is a static model which will be based on the Social Accounting Matrix (SAM) for 2010 as the base year, comprising all commodity and monetary flows among economic agents disaggregated to production sectors, households, enterprises, government and the "rest of the world". We will use this model to estimate the impact of DCFTA on foreign trade, output by sectors and other key macroeconomic variables. As a result, it will be possible to get robust estimates

²³ Aid for Trade Needs Assessment for the Republic of Moldova. Trade and Human Development", UNDP, 2011 http://undp.md/presscentre/2011/International_Trade_Report/index.shtml.

about which economic sectors will be the main winners and which ones – the main losers of this trade liberalization process with EU.

VAR/VEC model, which is based on multivariate time series, offers a more dynamic and flexible approach for estimating trade liberalization impact at a more disaggregated level. Thus, it will control for import demand and export functions in order to understand the expected trade and social effects of DCFTA. The model output could be analyzed through the impulse response function and error variance decomposition which will reveal how the shocks generated by trade liberalization will spread in time among the economy. The model will have several specifications. The first one will estimate the general macroeconomic impact of DCFTA, based on the following variables: Moldovan exports and imports to and from EU, EU GDP and HCPI, Moldovan GDP and CPI and foreign exchange rate. The second one will aim at modeling the impact at a more disaggregated level of economic activity. Thus, instead of Moldovan GDP, the model will include agricultural output disaggregated at livestock, crops and services, as well as prices for agricultural production. Another specification will incorporate industrial output at an acceptable level of disaggregation, as well as prices for industrial production. The third specification will model the DCFTA impact on the banking system, using the share of non-performing loans in total banks' portfolios as the main window of risks penetration into the system.

In order to analyze the trade liberalization impact on productivity and competitiveness of domestic firms we will estimate the total factor productivity (TFP) for each economic sector at a reasonable level of aggregation. TFP will be based on a Cobb-Douglas neo-classical production function which assumes that company's output is a function of labor, capital and the efficiency of using these resources. The estimation will be based on a balanced panel dataset of all firms which report to NBS using random effects method. The derived TFP index will be used in further regressions as a dependent variable for estimation of the impact of tariff elimination on particular economic sectors. Additionally, we will use dummy variables in order to be able to distinguish among small, medium and large enterprises, foreign or domestic ownership or the most and the least efficient companies. Thus, we will have a comprehensive a useful regression output which will be very useful for policy makers in the DCFTA negotiations.

The qualitative analysis will imply:

- broad literature review of European integration experiences of other countries which most recently became Member States;
- interviews with relevant public institutions, experts and potential stakeholders
- the analysis of progress of the Moldovan government achieved so far with the action plan for DCFTA with EU.

NECESSARY STATISTICAL DATA

- The CGE model will be based on Social Accounting Matrix (SAM) for 2010;
- Moldovan exported goods to EU, disaggregated at 2-digit-level, value in USD, monthly frequency, 2000-2011
- Moldovan exported goods to EU, disaggregated at 2-digit-level, unit value indices in USD, monthly frequency, 2000-2011
- Moldovan imported goods to EU, disaggregated at 2-digit-level, value in USD, monthly frequency, 2000-2011
- Moldovan imported goods to EU, disaggregated at 2-digit-level, unit value indices in USD, monthly frequency, 2000-2011
- Moldovan Gross Domestic Product, value in national currency, quarterly frequency, 2000-2011
- Gross Domestic Product of main trading partners from EU, quarterly frequency, 2000-2011
- Nominal and Real Foreign exchange rate, MDL/EUR, monthly frequency, 2000-2011
- Moldovan CPI index, monthly frequency, 2000-2011
- HCPI index in main trading partners of Moldova from EU, monthly frequency, 2000-2011.
- Moldovan Industrial production index at a reasonable level of disaggregation, monthly frequency, 2000-2011
- Weighted import tariffs applied by Moldova to goods from EU, disaggregated at 2-digit-level, 2000-2011
- For the panel data of firms CAEM classification the following information will be needed for the period 2004-2011:
 - Total assets
 - Total sales
 - Average number of employees
 - Long-term fixed assets
 - Foreign ownership

5. MOLDOVA'S EUROPEAN INTEGRATION: IMPACT ON SOCIAL SECTOR AND HUMAN RIGHTS

5.1. SIMULATING DIFFERENTIATED SOCIAL IMPACT OF THE EUROPEAN INTEGRATION

This chapter will reflect on the potential impact of the European integration on the social policies in wider sense, including welfare, education and health policies. It will dwell upon a number of questions. How will the DCFTA translate into poverty reduction? The impact may be quite different across the society, particularly in case of poverty.

- European integration leads to some degree of social policies convergence. We will discuss how does the European integration process influence the social situation in Moldova? What are the European integration process social agenda and policy priorities? Experience and evidence from other jurisdictions.
- European integration process does provide some sort of stimuli and requirements of the quality and coherence of the social policies. We will discuss: Which are the EU requirements in the social sphere? Review of the key Directives, standards and policies and evaluation of the potential conformation efforts and requirements: legislative compatibility, policy compatibility.
- EU technical assistance and support for the budget provide incentives for the more targeted and more efficient policies. We will answer how to get closer to the EU, will dealing with social problems become part of the EU's prerequisites? Current EU priorities and agreements in relation to Moldova, potential of their transformation into held prerequisites. Experience and evidence from other jurisdictions.
- Review of the current social, health and educational policies and how they related and compare to the general framework of European integration. EU assistance approaches and framework related to the social policies prerequisites. Agenda for reform as seen from Brussels. Will larger financial resources available and under what conditions for Moldovan government and NGOs make them necessarily more able to deal with social problems?
- European integration provides incentives for the more efficient institutional structures. We will discuss how the domestic institutional architecture will have to change in order for these actors to provide effectively the services, benefits and transfers to those mostly in need? Is Moldova ready to embark upon the implementation of all provisions of the European Social Charter?
- How to make sure that Moldova's European integration aspirations will result in an outcome benefiting as large as possible number of citizens? How able will be the

vulnerable groups to make use of economic and social opportunities that European integration will offer? Analysis will look at the impact differentiated by rural-urban area of residence, gender, education and age: these seem the criteria most likely to influence the individual chances.

5.2. SOCIAL IMPACT OF THE VISA-FREE REGIME BETWEEN MOLDOVA AND EU

Moldova has entered in negotiations with the EU to abolish the visa regime between the two. Free travel is a powerful tool able to change peoples' political attitudes and geopolitical options. But aren't there any risks to be considered? The visa-free regime has its important benefits for Moldova as well as for the EU. We will attempt to provide relevant lessons and evidence applicable in approximation to Moldova. At the same time this process might have pitfalls both parties should be aware of and find the way to mitigate them.

- Migration has been identified as one of the major consequences of the visa liberalization. We will discuss how the visa-free regime strengthens the Moldovans' desire to migrate? What are positive factors for visa-free regime as for instance encouragement for the skills circulation and transfer?
- As EU positions itself as a high technology area, EU governments put in place policies for the attraction of the most talented, is that likely to increase the brain drain? What industries are more susceptible for the positive and negative impacts? Qualitative assessment of the costs and benefits.
- Social impact on the families, children of visa free regime might change somewhat traditional settings in Moldova. We will discuss the following questions: will more children and elderly be left behind by the migrants? What policies have Moldova to develop to affectively address the consequences? Experience from other jurisdictions. Will the divorce rate and de facto separation grow even further or will this result into family reintegration abroad and easier arrangements for the provision of services for those left in the country?
- Transnistria has been under the close attention of the EU. It provided and will provide more of the technical assistance through the Moldovan Government and directly to the region. We will discuss how the package of policies of EU might have the impact on the reintegration of the region. Will the visa-free regime serve as an attractor for the people from Transnistria?
- What is the evidence from other countries in this regard? Experience and evidence from other jurisdictions will be exploited to ensure transferable evidence. Review of the existing secondary sources will be carried out.

5.3. PLANTING THE EUROPEAN HUMAN RIGHTS STANDARDS ON THE MOLDOVAN SOIL

Moldova adopted a vast number of international and European agreements protecting human rights; at the same time, Moldovans suffer from the improper enforcement of the human rights standards, while many minority groups remain on the margin of the social, political and economic processes. In fact, despite many reforms, the Moldovan track record in the area of human rights is far from an impressive one. Functioning of the democratic institutions is another factor in order to get closer for the conformity with the Copenhagen criteria. Review of the main challenges and opportunities will be done.

At the same time, some reforms have been implemented in result of direct pressures from the European bodies (including EU and particularly European Commission and European Council).

- European integration in human rights area provided both prerequisites and strong incentives. In this part of the Report we will analyze the role the European integration played so far in promoting human rights and human rights agenda in Moldova? What is the impact on decision-makers?
- Comprehensive review of the prerequisites included in the bilateral agreements and their potential institutional impact is necessary. Review of the key agreement and arrangements and how efficient were these efforts to implement human rights principles? We analyze the key challenges in relation to the functioning of the democratic institutions: justice sector, governance accountability and media pluralism, etc? How the EU-Moldova relationship impacts and drives the standards for their functioning higher.
- What are the 'big' changes achieved so far in result of Moldova pursuing its European integration vector. Review of the key constraints and impeding factors. Identification of the driving forces for the change, discussion of the priorities.

5.4. EUROPEAN VALUES AND STANDARDS: INTEGRATION AS CULTURAL PROJECT FOR MOLDOVA

Moldovan society is divided in comparable factions among those ready to vote next Sunday for Moldova joining EU, those pleading for a reintegration in the post-USSR area and those indifferent regarding Moldova's geopolitical future.

Therefore, for Moldova the European integration is both a geopolitical choice and domestic policy choice. To be successful, Moldova as country and Moldovans as individuals have to achieve cultural change, meaning a change in the attitudes regarding the others, a change in attitude regarding own social responsibilities, in respect and tolerance towards the others. This also involves a change in how Moldovans perceive the state, and what they expect and reclaim from it. Using the results of the sociological survey, in this part of the Report we will

try to analyze which are the ultimate factors explaining Moldovan's European choice and how do they differ across social groups by age, area of residency, gender.

- Although in the essence Europeans, Moldovans are characterized by emphasized set of conservative values that are present in much more proportions than in Europe. We analyze across various criteria Moldovans and Europeans and how their values and perceptions compare?
- The change and evolution of the values takes time and it is likely that Moldovans lag behind the European trends. What are the factors of the attitudes and perceptions that can be seen as constraints and as supporting factors for the change and greater Moldova's integration. What policies of educational and informative character should be employed by the Moldovan government for this objective?

METHODOLOGY AND DATA SOURCES

The methodology used for this chapter will include quantitative and qualitative research. It will be based on rich literature review on the issues of links between the human rights and EU, and impact of the European integration on the social development. The qualitative part will be enriched with information collected through interviews and data collected for a special designed survey. The quantitative part will consist of regional comparisons and forecast.

Data sources for section 4.1: Literature review

Governmental and independent progress reports on implementation of European Agenda documents of Moldova
Albania NDR 2010 report,
S. Kurt, M. Savrul, The effect of the European Union on the Human Development, International Research Journal of Finance and Economics, ISSN 1450-2887 Issue 65 (2011),
E-U.Petersman, Integrating Human Rights: Lessons from the European Integration, EJIL, V.13, Nr13.
A.Orfao, EU Integration and Human Development in Portugal, 1996, manuscript, University of Ottawa,
A.Orfao, European Economic Integration and Human Development, 1996, PhD Thesis, University of Ottawa,

Data sources for section 5.2: Literature review

Government progress reports on the implementation of the visa-free regime,
Progress reports on the Negotiations on the EU-Moldova Association Agreement, 2010-11,
Progress Report of Bulgaria towards Accession to the Schengen Area, 2011

Progress Report of Romania towards Accession to the Schengen Area, 2011

Visa liberalization base-line study, Armenia, 2010

Information collected through interviews and specially designed survey for the purpose of this report

Data sources for section 5.3: Literature review

OSI country reports on EU accession: Romania, Bulgaria, Slovakia, Czech Republic, Slovenia, 2003-06

EC enlargement country reports on accession and negotiations: Turkey, Serbia, Macedonia, Croatia, Albania, 2009-11;

Information collected through interviews and specially designed survey for the purpose of this report

Data sources for section 5.4: Literature review

BOP 1999-2011, IPP,

Ethnic Barometer, IPP, 2006

European values data sets,
<http://www.esds.ac.uk/International/access/evs.asp>

European values studies,
<http://www.europeanvaluesstudy.eu/evs/publications/>

Perception of Linguistic and cultural policies by ethnic minorities, Resource Center for Human Rights (CReDO), 2008,
Countries in Transition surveys, 2003-11

6. HUMAN DEVELOPMENT AS KEY INPUT FOR A SUCCESSFUL EUROPEAN INTEGRATION

Human capital is a crucial factor in production and growth. Moldovan human capital was exposed to a series of transformations during the last decade; unfortunately, not with a positive outcome. European integration process, through political, economic and demographic shifts, contributes to the transformation of human capital, as shown by experience of countries that already joined EU²⁴. However, the whole process is more complicated. On the one side, European Integration brings new opportunities for Moldova, in terms of the economic changes and consequent changes on the labour market. On the other side, it requires the necessary human capital to assist the process of European integration. Thus, we should not just get optimistic about the perspectives offered by the European integration, but also realistic about the Moldovan capacity to integrate and assimilate.

6.1. ASSESSING THE IMPACT OF THE HUMAN CAPITAL DEVELOPMENT ON POLICY IMPLEMENTATION: EUROPEAN INTEGRATION REFORMS AGENDA AS A CASE STUDY

European Integration as a process represents a series of reforms that need to be implemented with the necessary human capital. Certainly, the efficient implementation of reform agenda depends on all actors involved: the Government and public institutions, legal entities and business sector, civil society and the citizens. Nevertheless, every time there should be a pioneer who initiates the change. During the last few years we have seen that many initiatives come from abroad and not once has Moldova engaged in actions required by international institutions, donors and EC. This imposition and not full engagement of the Government caused the stagnation of some launched actions, or the partial fulfillment of some recommendations and requirements to the extent they might be reported to those institutions who imposed/required them. Of course EC, or any other institution, cannot check on the progress for every recommendation and it is not their role to do so. But if we really need these changes, why are we seized? What is the cause of such slow developments?

Certainly, we can blame the political situation, low level of economic development as described in Chapter 2 of the report; but there is one more, but very important input factor in the process in all its phases – human capital. The harmonization of legislation with the *acquis communautaire*, the successful implementation of new legal requirements, the proper functioning of the new created institutions require qualified labour force, sometimes

²⁴ Seda Domanic, “The Human Capital an EU Integration: Lessons learned from Poland, Portugal and Spain”.

in areas totally new for a country. The evidence shows that one of the major determinants of European integration process has been human capital²⁵.

Does Moldova have the necessary human capital potential for the implementation of European Integration Agenda? Is the human capital a strength or a weakness for Moldova in its aspiration of European integration. In order to answer to these questions we will analyze the expired and current documents of European integration agenda of Moldova (the EU-Moldova Action Plan and Action Plan for implementing the Recommendations of the European Commission for the future negotiations of the Deep and Comprehensive Free Trade Area (DCFTA) between the Republic of Moldova and the European Union) and spot:

- The arrears of the above mentioned documents and areas with slow progress during the implementation, or actions fulfilled only on paper, with no proper implication of the further development of the sector. For each of these we will identify the source of delay, i.e. human capital, financial resources or other factors;
- Fields where Moldova succeeded in implementation and the role of human capital involved in the process;
- How have the above mentioned documents accounted for the need in human capital development and what actions were proposed? Were they efficient?
- Does the Association Agreement imply the need of qualified labour force in some new areas? Which are these areas? What kind of external assistance is needed and implied (financial, technical or human capital) for the proposed actions in the lack of qualified specialists in these areas?
- How the new-EU member states trained their human capital in new areas of action. Are any of those experiences relevant for Moldova? What would be the optimal solution for Moldova to train the staff involved in the process?

6.2. FOSTERING HUMAN CAPITAL NECESSARY FOR EUROPEAN INTEGRATION

Labour force, once being considered a comparative advantage of Moldova (qualified and cheap), currently lost this fame. The level of skills is considered as a main constraint to their activity by 41% of employers²⁶ and many foreign investors invoke the lack of qualified labour force as an obstacle to set their business in Moldova. A possible European integration and all other forms of positive evolution in relations with EU imply further changes on the national labour market. Successive phases of European integration have both positive and negative effects on national labour markets. These effects have taken place, in the countries that already joined EU, both indirectly – through trade-related measures and their effects on

²⁵ Seda Domanic, "The Human Capital an EU Integration: Lessons learned from Poland, Portugal and Spain".

²⁶ According to World Bank Enterprise Survey 2009.

enterprise and worker behaviour - as well as directly – by affecting labour market conditions and regulations²⁷.

Trade has been regarded as the most important factor in most models, modeling labour markets of EU countries before the accession and, in this respect, it is the most relevant for Moldova in short and mid-term. Indeed, theoretical analyses of the relationship of trade and labour markets have emphasized how deeply connected they can be, given the impact of a free trade agreement on the internal economic structure.

Also, another goal of European integration is to attract more investments, including foreign, that will also require qualified and probably different human capital. Does Moldova has the necessary human capital?

Thus, ultimately we need a responsible public service, skillful and competitive workers labour force for the real sector of the economy and a strong civil society, which will contribute to the achievement of the goals set. Is it feasible for Moldova to achieve this? How long will it take to achieve it and what methods could be used? This sub-chapter will be focused on the link between human capital and European integration by analyzing:

- How do we assess the public sector capacity, in terms of its human resources to integrate? We will base our assessment on conclusions from the previous sub-chapter;
- The potential impact of European Integration on the economic structure of our country and consequently, the expected changes in the labour market needs in terms of quantity, specializations, skills and qualifications. Although it is rather difficult to make labour market forecasts, we will try to identify at least the potential trends based on the results in Chapter 4;
- The competitiveness of the labour force in order to identify if we can achieve a sustainable economic growth and attract investment in high value added areas. Due to the “brain drain” process and worsening of educational system some of the countries already reported the fact that attracting investment in high-skilled activities is not easy at all²⁸. Most of the data indicate the same problems are valid for Moldova too. However, are there any sectors that we can compete in? Here, we will also look at the wage competitiveness both from the perspective of investors that come to Moldova and also for the citizens that will have the opportunity to migrate easier to countries with higher wages;
- What kind of civil society do we need in order to ensure the transparency and efficiency of progress? Do we need to train the civil society and how do we see its role in the process?

²⁷ Philip Raines, “The impact of European Integration on Developments of national labour markets”, 2000.

²⁸ Albania National Human Development Report: Capacity Development and Integration with European Union, UNDP, 2010.

- What is the role of the education system in the process? Firstly, we will analyze the current state of educational system and quality of education, using international indicators for comparison. Many studies track down the incapability of the educational system to adapt to the current economic needs. Is it true? How do we see then its capability to adapt to totally new needs?
- Education is a legitimate area of EU responsibility; however, EU has a complementary role in this field, with the member states having full responsibility over the education structure, curriculum and administration. Thus, we will look at the new EU requirements, the assistance that could be expected from EU and own efforts to be done by Moldova in order to contribute to the development of human capital. How to make the best out of EU transfers?
- Even if done correctly, the reform of educational system is difficult and lasts long, most of the effects being expected in long-term, while the needs are in short- and mid-term more visible. Therefore, the role of lifelong learning should be emphasized. Currently, it is almost ignored in Moldova and the share of adults involved in life-long learning is incomparable to any European countries, being under 1%. How do we expect this to change?
- We will also look at the R&D sector as a part of human capital creation for a competitive economy and its correspondence to the society's needs;
- How does Moldova 2020 Strategy takes into account all these problems and what solutions it offers? Are there any connections between the strategy and Europe 2020 strategy and other strategic documents in Europe? The relevance of Lisbon Strategy and Europe 2020 goals for Moldova. It is actually agreed that the Lisbon strategy and Europe 2020 represents a useful tool for implementing future social and economic reforms and obtaining a greater level of policy convergence for the accession countries²⁹.

6.3. SUCCESSFUL EUROPEAN INTEGRATION THROUGH SUCCESSFUL DECENTRALIZATION

Decentralization is one of the main arrears of Moldova, not to European Community or any other international institution/organization, but to itself and to its people. Moldova is lagging behind in this field despite various initiatives undertaken already and the on-going work on decentralization strategy. This is an obvious result of the lack of political will for this important step. Decentralization is one of the most complicated reforms that might be undertaken in a country, and the discontent of some groups of population is fateful. Similarly, it will be impossible to please every institution, or every Ministry, especially based on the out-dated principles some of them use in their work. Additionally, in Moldova there are no strong push-factors yet, like ethnic incentives, that turned out to accelerate the decentralization process. So, without a clear political will and the designation of a strong person or structure to deal with it, only some marginal effects may be achieved, with no

²⁹ From the Lisbon Strategy to Europe 2020, Delegation of EU to Croatia, 2010.

real, full decentralization and all the results expected to succeed. Nevertheless, Moldova may revise its priorities in order to increase local governments' capacities to deliver scale efficient public services and thus increase living standards outside of the capital city given the fact that some EU structural funds, in the scenario of an eventual accession, and/or other resources available for the partner countries will depend on the state of decentralization.

The questions that need an answer are:

- Is the Government ready and willing to do this sacrifice?
- What are we looking really for through the decentralization process?
- Is it really a way to this right?
- Who should be responsible for this process?
- What are the challenges we should accept? Are they worth?
- Are we doing it for ourselves or for those "watching" on us?

Whatever is the answer to the last question it is clear that by signing the European Charter for Local Self-Government, Moldova has accepted some challenges. Moreover, the European Integration process will require the commitment to some of them that were successfully bypassed by now. Actually, there is a two-way causality link between European integration and decentralization. On the one side, European integration requires strong and powerful local public authorities; on the other side, European integration aims to improve the state of the local authorities by giving them more authority. Actually, in some countries that already joined EU, European integration was hastened by local authorities expecting to gain substantial authority³⁰.

As the final purpose of decentralization is to improve the state of the citizen and therefore contribute to human development, we will look not only at the central Government capacity and will to do the change but also at few other relevant aspects:

- How is the current situation in key areas of decentralization reform (fiscal and financial decentralization, local governments' functions and administrative-territorial organization) affecting human development?
- Do local authorities understand the process of decentralization and how will they benefit from it? In many countries that already went through this process, local authorities were the most enthusiastic about the accession due to the opportunities offered and financial resources expected mostly from structural funds. How is Moldova different in this respect?
- How are the local authorities informed about structural funds or other funds available for partner countries?

³⁰ Bulgaria National Human Development Report 2006: Are we prepared for European Union funds?, UNDP.

- Do they have the necessary resources to attract these funds? What resources do they lack?
- Do they have the necessary experience to participate in the process? How are they going to improve their capacity?

This would also allow the central government to focus on strategic issues while LGs should be entrusted more responsibilities so that they become increasingly eligible for EU assistance on local and regional development.

As the role of the report is not give an option for decentralization to the Government, we will use mostly existent information (reports, assessments) for this sub-chapter, adding the fresh view of authorities and citizens collected through interviews and/or survey and add our perception of the need of decentralization in the European integration process. To understand and/or spot the importance of decentralization we will also use some regional indicators. Although to calculate HDI components and related indexes it is impossible for regions, we will use proxies where available to demonstrate how the centralized system generates inequalities and endangers human development.

METHODOLOGY AND DATA SOURCES

The methodology used for this chapter will include quantitative and qualitative research. It will be based on rich literature review on the issues of human capital and decentralization in the new-EU member states, progress reports on European Agenda of Moldova and other countries. The qualitative part will be enriched with information collected through interviews and data collected for a special designed survey. The quantitative part will consist of regional comparisons and forecast.

Data sources for section 6.1: Literature review

Governmental and independent progress reports on implementation of European Agenda documents of Moldova

Data sources for section 6.2: Literature review

NBS and ILO data for labour statistics

Global Competitiveness Report of World Economic Forum for competitiveness issues, R&D and quality of education

Information collected through interviews and specially designed survey for the purpose of this report

Data sources for section 6.3: Literature review

NBS data for Moldova regional statistics

Information collected through interviews and specially designed survey for the purpose of this report

7. CLIMBING THE MODERNIZATION TREE: CONCLUSIONS AND POLICY RECOMMENDATIONS

7.1. THE FUTURE ASSOCIATION AGREEMENT: ITS EXPECTED ESSENCE AND IMPACT ON HUMAN DEVELOPMENT

- What are the links between the European integration and Human development in Moldova?
- How do we expect that these links will change in result of Moldova entering a new stage of cooperation with EU, reflected by the Association Agreement?

7.2. MAKING FULL USE OF EUROPEAN INTEGRATION BENEFITS

European integration will certainly provide Moldova new economic, political and social opportunities. However, experience of other countries, including of those joining in the years 2000s is not universally positive, and many of them have missed many benefits because of poor 'absorption capacities'. How ready is Moldova – especially in terms of institutions, procedures and human resources – to make use of the European integration: this is the main topic of this part.

7.3. REMAINING SOBER: UNDERSTANDING THE COSTS AND UNDERTAKING THE RISKS

Consolidating its integration with the European Union will require Moldova to put in place sustainable policies for modernization and bear at least a part of the related financial and political costs.

- Is Moldova ready to embark upon this long journey?
- Is Moldova fully aware of the balance of benefits and costs?
- And how to properly manage the related risks and opportunities?

7.4. POLICY RECOMMENDATIONS: CONSOLIDATING THE VIRTUOUS CIRCLE OF EUROPEAN INTEGRATION AND HUMAN DEVELOPMENT

- This section will include a set of specific policy recommendations structured by types of implementing agencies, degree of urgency (short-, medium- and long-term) and type of resources / actions involved;

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TECHNICAL NOTES

1. HUMAN DEVELOPMENT INDEX AND ITS COMPONENTS
2. HUMAN DEVELOPMENT INDEX TRENDS, 1980–2011
3. INEQUALITY-ADJUSTED HUMAN DEVELOPMENT INDEX
4. GENDER INEQUALITY INDEX AND RELATED INDICATORS
5. MULTIDIMENSIONAL POVERTY INDEX

STATISTICAL ANNEXES

HUMAN DEVELOPMENT INDEX (HDI)

GENDER-RELATED DEVELOPMENT INDEX (GDI)

GENDER EMPOWERMENT MEASURE (GEM)

FEMALE HUMAN POTENTIAL INDICATORS

DISPARITIES BETWEEN MEN AND WOMEN

COUNTRY DEMOGRAPHIC PROFILE

KEY ECONOMIC INDICATORS

KEY BUDGETARY INDICATORS

KEY FINANCIAL INDICATORS

KEY HEALTH INDICATORS

KEY EDUCATION INDICATORS

KEY LABOR FORCE INDICATORS

DISPOSABLE INCOME AND CONSUMPTION BY TYPES OF HOUSEHOLDS

REGIONAL AND LOCAL DEVELOPMENT: KEY INDICATORS