



**SOCIAL INEQUALITY AND WHY IT MATTERS FOR THE
ECONOMIC AND DEMOCRATIC DEVELOPMENT OF EUROPE
AND ITS CITIZENS: POST-COMMUNIST CENTRAL AND
EASTERN EUROPE IN COMPARATIVE PERSPECTIVE**

**DELIVERABLE 2
DESK RESEARCH**

MOLDOVA

Scientific consultant: Median Research Centre

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Introduction

Moldova declared its independence in August 1991, after the disintegration of the Soviet Union. One of the poorest countries in Europe, Moldova is at this moment trying to establish a feasible strategy to surpass the period of transition in the process of reinforcing democracy. Soon after acquiring independence, given the high ethnic diversity and the significant early ethnic tensions, Moldova adopted a constitution with generous political rights for minorities¹. The social differences define the main cleavages in society; social polarization, income-fragmentation, urban-rural, huge variations in education, access to primary services and job opportunities are key factors in the weakness of the society. We can say that the territorial split, the economic development, the quality of governance and old-fashioned elites are the key factors that hinder the development of a democratic regime in Moldova.

After obtaining their independence, Moldovans had to face four fundamental transitions:

- Nation/state building: from nation to country, which meant the construction of the state institutions appropriate to manage the internal and external affairs of the country.
- Political: from an authoritarian to a democratic regime, which implies the creation of the political space where the principles of democratic governance are able to become manifest – the political transition from a totalitarian government to a democratic regime.
- Economic: from central planning to the regulation of markets, from social delivery of basic needs to market provision, which implied a revolution in the manner by which the population was employed, provisioned with basic necessities, educated, and provided with health care – the socio-economic transition (UNDP 2005).
- Social transition: from a centralized welfare state (successful from the point of view of Moldovans, who, nostalgically, regret the Soviet period especially the Brezhnev period when Moldovans' welfare increased), to a deregulated capitalism in the making. Social polarization and economic-driven migration are two of the main by-products of the social transition influencing perceptions of social inequalities.

¹ The ethnic composition of this country concerns in about 6 ethnical groups: Moldovans / Romanians – 76,1%, Ukrainians – 8,4%, Russians – 5,8%, Gagauzian - 4,4%, and Bulgarians - 1,9%. – http://www.un.md/romanian/country_prof_r/index.shtml

Section 1. Objectives indicators of social inequality

1.1. Trends in income and wealth

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Economic recession was the defining feature of the economic transition in Moldova in the 1990s, supporting the labelling of the country as “a truly developing country on the periphery of an affluent Europe” because of the “massive and rapid impoverishment of Moldovan population” (Orlova and Keune 1999, 128). By 1999, over 70 % of Moldovans were poor, with over 60 % extremely poor (UNDP 2005). This is mainly caused by limited job opportunities and low incomes, especially in rural areas and in the agricultural sector, as reflected in the existing studies on poverty in Moldova (IMF 2000). Poverty is a multidimensional concept with both monetary – income and consumption – and non-monetary – access to education and health services, housing qualities and availability of utilities - indicators of a household’s living standards (UNDP 2005).

Since 1999, in this transformation process towards a market economy, Moldova registered variations in the main economic indicators. Two main causes of the economic collapse in Moldova were identified by Nina Orlova and Per Ronnas (1999, 374). Both of them were of external source: “the collapse of the former Soviet Union” and the “financial collapse in Russia in the autumn of 1998”. Although the inflation rate (consumer prices) decreased in 2001 and 2002 compared to 1999, to 9.7% respectively 5.3% compared to 39.2% in 1999, it took again an upward trend, increasing to 13.1% in 2005 and to 14.1% in 2006. In 2006 the industrial production increased by 6.9% compared to 2005 (CIA World Factbook 2007). In 2004, GDP increased more than 7 %, but the poverty rate fell by less than 3% percentage points –much less than the 11 percentage points decline in 2003. During first three quarters of 2005, GDP grew at a 7 % annual rate, but the seasonally adjusted poverty rate actually rose by 2.5 percentage points. In short, it seems that rapid economic growth is no longer reducing poverty. According to a World Bank report the annual GDP growth has averaged 7% over the last six years (World Bank 2006b) - (see also Table 1). A possible link between increase in poverty and increase in inequality might be established.

The main indices of the national economy activity confirm the maintaining of economy’s growth trend. In line with this stable economic growth, the overall trend of decreasing poverty and inequality continued in 2004. „Between 2000-2004 the real GDP increased by more than 30% and the poverty rate decreased by more than 50%” (World Bank 2005). Despite these economic trends 27% of the population lived in absolute poverty in 2004, with a level of welfare of less than 25.72 USD/month/adult. Each seventh citizen (15%) can be considered to be extremely poor. Moldova

continues to have one of the lowest levels of income per capita in Europe (World Bank 2006a). The Gini index² for income inequality increased from a value of 24 for 1987-1988 to 34.4 in 1992 and 36 in 1993. In 1997 the Gini index for income was 41 (World Bank 1998). In 2003 the Gini index was 33.2 according to CIA 2007 World Factbook.

Table 1: Moldova-Macroeconomic Framework 2001-2006						
	Actual				Estimated Projected	
	2001	2002	2003	2004	2005	2006
Real GDP growth (%)	6.1	7.8	6.6	7.4	7.1	3
CPI Inflation (average, %)	9.8	5.3	11.7	12.5	11.9	12.3
Exchange rate (average, MDL/\$)	12.9	13.6	13.9	12.3	12.6
Real effective exchange rate, %	-1.2	-6.1	-5.4	12.8	-1.3	1.8
Revenues and grants, % of GDP	29.2	29.6	34	35.4	39.5	40.3
Expenditures and net lending, % of GDP	29.4	31.5	33.3	34.6	37.9	40.3
Primary balance (cash), % of GDP	3.8	0.7	2.3	2.7	3	1.3
Overall balance (cash), % of GDP	-0.4	-1.4	0.2	0.8	1.7	0
Current account balance, % of GDP	-2.5	-4.6	-7.1	-2	-8.3	-10.4
Exports G&S growth (percent)	14.7	19.1	20.9	27.4	13.3	2.1
Imports G&S growth (percent)	12	18.9	33.5	22.8	29.1	18.1
Gross official reserves (months of imports)	2.1	1.9	1.7	2.1	2.2	2.3
Total External debt/GDP, %	105.1	100.8	88.7	63.8	54.7	51.6
of which, public and publicly guaranteed (PPG)	77	61.1	52.5	35.6	28.7	24.1
External Arrears (millions \$US)	17.5	42.9	86.1	50.6	56.3	0
PPG debt service to exports of GNFS, %	24.6	27.9	19.8	21	20.3	16.7
PPG debt service to revenues, %	59.5	52.8	34.7	25.2	17.7	14.9

Sources: Moldovan authorities (MTEF), IMF Article IV Staff Report, December 2006.
Fiscal accounts in the table are for those of the general government.
http://siteresources.worldbank.org/INTMOLDOVA/Resources/PRSC_eng.pdf

Paid services provided to the population in the reporting period amounted with 1.6% more than in 2005. The trade deficit was in 2006 1641.6 million USD, or 440.6 million USD (36.7%) higher than in 2005 (National Bureau of Statistics of the Republic of Moldova 2006).

²The Gini index of 0 represents perfect economic equality, and 100 perfect inequalities.

Table 2 -The main macroeconomic indicators of Moldova

	2004	2005	2006	2004 in% as compared to 2003	2005 in % as compared to 2004	2006 in % as compared to 2005
Gross Domestic Product, mil. Lei	32032	37652	44069	107,4	107,5	104,0
Average monthly salary per employee in the national economy, Lei	1103,1	1318,7	1695,4	123,8	119,5	128,6
Real salary per employee, %				110,1	106,8	114,1
Number of officially registered unemployed persons (at the end of the year), thou. Persons	21,0	21,7	20,4	106,9	103,3	93,7
Consumer Price Index				112,4	111,9	112,7
Sources: http://www.statistica.md/statistics/dat/927/en/Princ_indic_soc_ec_a_2006_en.pdf						

The average monthly salary of an employee in the national economy in 2006 amounted with 28.6% more than in the previous year. However, the income gap was very high in 2003, as reported in a World Development Indicators study of the World Bank. The share of the incomes of the poorest 40% of Moldovans was 22.3% of the total income/wealth held by Moldovans, the richest 40% of Moldovans held in 2003, 63.4% of the wealth, while the richest 20% of Moldovans accrued 41.3% of the total wealth. According to the National Agency for Labour Force Employment, at January 1, 2007 there were officially more than 20,000 unemployed. However, in accordance with the International Labour Organisation (ILO), in the 3rd quarter of 2006, there were about 80,000 unemployed (*ILO 2007*). Starting with 2000, the total unemployment rate decreased from 11.1% in 1999, to 8.5% in 200 and 7.9% in 2003, according to the World Bank (*World Development Indicators 2007*).

Table 3: GDP growth (annual %) -Moldova

Year	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05
Moldova	8.5	-2.4	-16	-29.1	-1.2	-30.9	-1.4	-5.9	1.6	-6.5	-3.4	2.1	6.1	7.8	6.6	7.3	7
Source: http://devdata.worldbank.org/data-query/temp/241322341.xls																	

**Table 4: An Overview of Poverty and Economic & Social Conditions
in Moldova and the Europe & Central Asia Region**

	1999	2000	2001	2002	2003	2004	2005	ECAd
National poverty rate, MEC measure a/	73	67.8	54.6	40.4	29	26.5	29	19.7c
GDP growth rate	-3.4	2.1	6.1	7.8	6.6	7.4	7.1 b	7.2
GDP per capita, in US\$, in 2000 prices	294	301	320	346	370	398	...	2,442.80
Consumer price index inflation	39.4	31.2	9.6	5.2	11.6	12.5	11.9	...
Employee salary inflation	21.6	33.9	33.3	27.2	28.8	23.8	19.5	...

a/ Absolute poverty, based on a poverty line of 327 Lei per adult equivalent in 2004; b/ Q1-Q3 figure; c/ Poverty rate at \$2 per day (purchasing power parity); d/ Europe & Central Asia Region, latest available year.

Source: <http://siteresources.worldbank.org/INTMOLDOVA/Resources/MDPovertyUpdateEng.pdf>

Cross-national comparisons reveal that Moldova ranks lower than other transition economies in terms of living standards and human development indicators. Gross Domestic Product (GDP) per capita in Moldova is lower than the average of former Soviet Union economies, and significantly lower than the average for Central European and Southern European transition countries (IMF 2000). According to the UNDP 2006 Human Development Indicator (HDI)³ Moldova ranked 114th out of 177 countries analyzed, with an HDI score of 0.694. Countries like Uzbekistan and Bolivia have similar value of this indicator - also see Table 5.

³ The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary and tertiary level) and having a decent standard of living (measured by purchasing power parity, PPP, income) - <http://hdr.undp.org/hdr2006>. According to the concept of the UNDP Human Development Reports, countries are subdivided into three groups, according to their level of human development: respectively countries with high (HDI > 0.800), medium (0.500 < HDI < 0.800) and low (HDI < 0.500) levels

Table 5: Moldova, Human Development Index 2006

HDI rank ^a		Human development index (HDI) value 2004	Life expectancy at birth (years) 2004	Adult literacy rate ^b (% ages 15 and older) 2004	GDP per capita (PPP US\$) 2004	Life expectancy index	Education index	GDP index	GDP per capita (PPP US\$) rank minus HDI rank ^d
1	Norway	0.965	79.6	..	38,454	0.91	0.99	0.99	3
30	Czech Republic	0.885	75.7	..	19,408	0.85	0.93	0.88	4
35	Hungary	0.869	73.0	..	16,814	0.80	0.95	0.86	4
37	Poland	0.862	74.6	..	12,974	0.83	0.95	0.81	11
42	Slovakia	0.856	74.3	100.0	14,623	0.82	0.92	0.83	1
44	Croatia	0.846	75.2	98.1	12,191	0.84	0.90	0.80	7
54	Bulgaria	0.816	72.4	98.2	8,078	0.79	0.92	0.73	12
60	Romania	0.805	71.5	97.3	8,480	0.78	0.90	0.74	3
62	Bosnia and Herzegovina	0.800	74.3	96.7	7,032	0.82	0.87	0.71	16
63	Mauritius	0.800	72.4	84.4	12,027	0.79	0.81	0.80	-10
65	Russian Federation	0.797	65.2	99.4	9,902	0.67	0.95	0.77	-6
73	Albania	0.784	73.9	98.7	4,978	0.82	0.88	0.65	26
112	Nicaragua	0.698	70.0	76.7	3,634	0.75	0.75	0.60	2
113	Uzbekistan	0.696	66.6	..	1,869	0.69	0.91	0.49	32
114	Moldova, Rep. of	0.694	68.1	98.4	1,729	0.72	0.89	0.48	33
115	Bolivia	0.692	64.4	86.7	2,720	0.66	0.87	0.55	7
122	Tajikistan	0.652	63.7	99.5	1,202	0.65	0.90	0.41	34
177	Niger	0.311	44.6	28.7	779	0.33	0.26	0.34	-7

Source: <http://hdr.undp.org/hdr2006/statistics/>

Figure 1
Average - Gross domestic product per capita, current prices /U.S. dollars /units
1996-2007

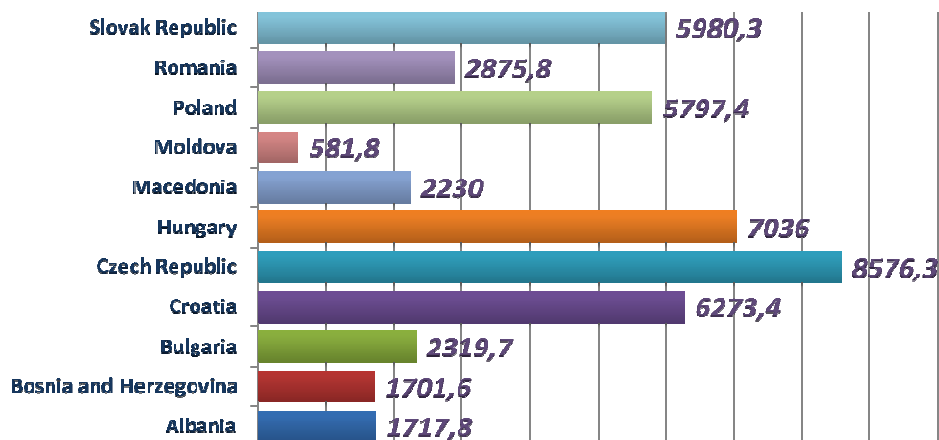
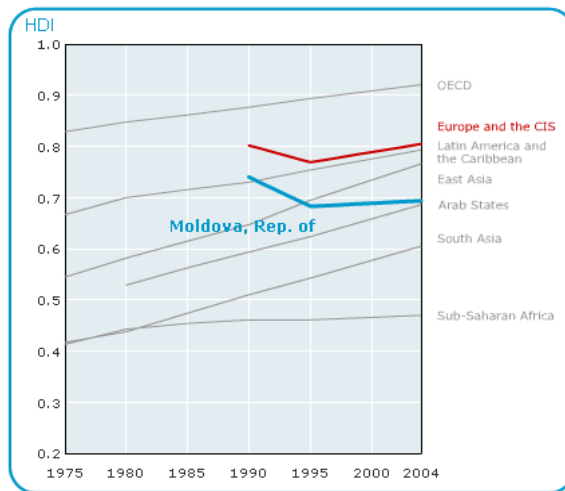
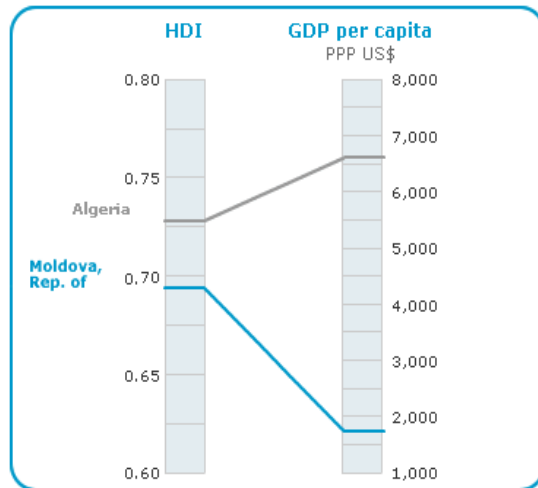


Table 7 –Migration	
Migrated people	Share of total population
2000	11.00%
1990	13.20%
Net migration	Per 1,000 population, 5 year average
1995-2000	-2.4
1990-1995	-5.7

The report underlines that the value of other development indicators is extremely low, displaying the critical economical situation of the country (life expectance at birth is 58.1 years – ranking Moldova on the 103rd place, GDP per capita is about 1,729 USD).

Figure 3 - The human development index gives a more complete picture than income



Sources: *Human development Report 2006* /UNDP <http://hdr.undp.org/hdr2006/statistics>

Since 1991, Moldova passed through an ascendant line in the poverty phenomenon arriving in 1999 at 53.4% of households with consumption below the poverty line. After this year, poverty has declined significantly in Eastern Europe and the Former Soviet Union and Moldova makes no exception in this matter. The largest reduction in poverty was achieved in Moldova, where 22% of the population moved out of absolute poverty (World Bank 2004b).

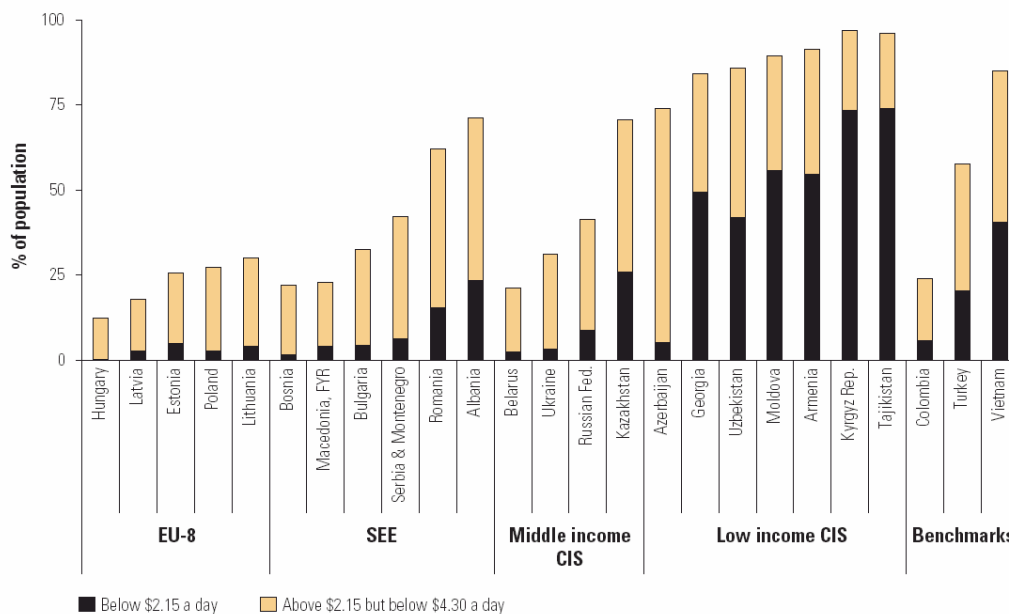
Table 6: Poverty Using Absolute Poverty Line									
	1997 Q3	1997 Q4	1998 Q3	1998 Q4	1999 Q3	1999 Q4	2001 pop. living below poverty line %	2002 Pop. living below poverty line%	1990-2003 Pop. living below poverty line %
P0	30.4	37	41.3	46.1	55.6	53.4			
P1	9.7	13.2	15.4	15.8	21.9	19.5			
P2	4.7	6.6	7.8	7.5	11.3	9.5	64.1	67.2	48.5

Note: P0 is the headcount for poverty - the percentage of households with consumption below the poverty line; P1 is a measure of the poverty gap or depth of poverty, and P2 is the severity of poverty

Source: <http://www.imf.org/external/NP/prsp/2000/mda/01/111500.pdf>

During the period 1989–2003, in Moldova the poverty dept is higher than in other the other European ex-communist countries, but lower than countries like Tajikistan, Georgia (See figures 3 and 4).

Figure 3.
Poverty Incidence Varies across Countries in the Region, around 2003

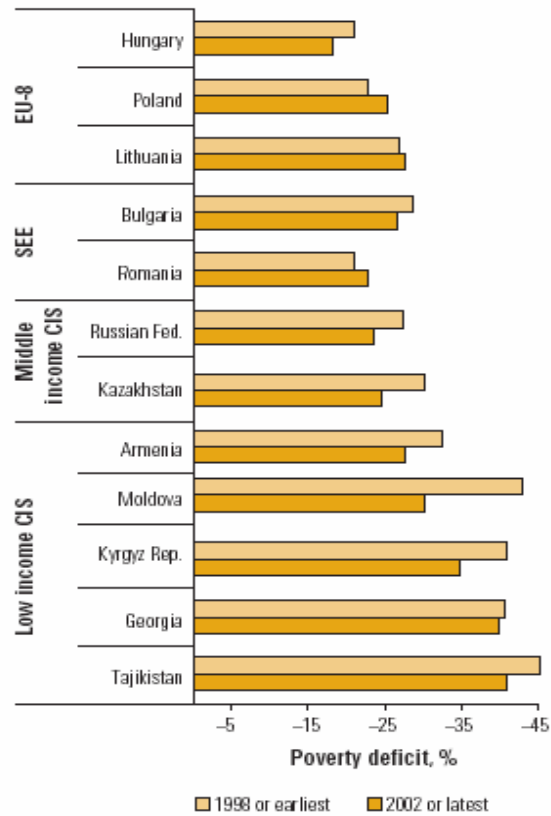


Source: World Bank staff estimates using ECA Household Surveys Archive; see appendix table 2 for latest year.

Note: In 2000 PPPs.

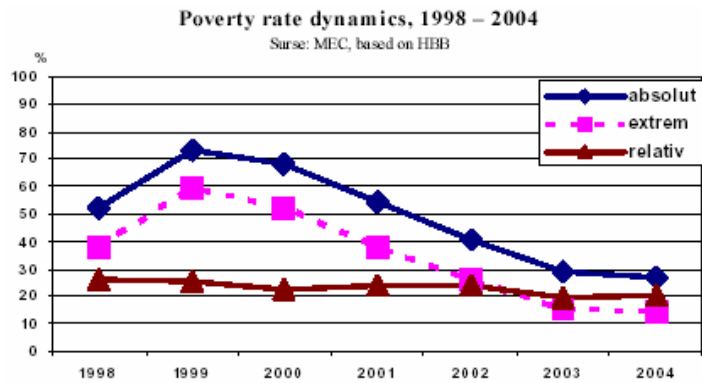
Source: <http://siteresources.worldbank.org/INTECA/Resources/ch1-poverty.pdf>

Figure 4 - Poverty Depth in the Region, 1998–2003



World Bank staff estimates using ECA Household Surveys Archive; see appendix table 2 for data and years used by country. *Note:* Poverty depth is the distance between consumption per capita of an average poor and poverty line, expressed as percent of poverty line. For the EU-8 poverty depth is assessed using \$ 4.30 a day, for other countries, \$ 2.15 a day.
 Source: <http://siteresources.worldbank.org/INTECA/Resources/ch1-poverty.pdf>

Figure 5

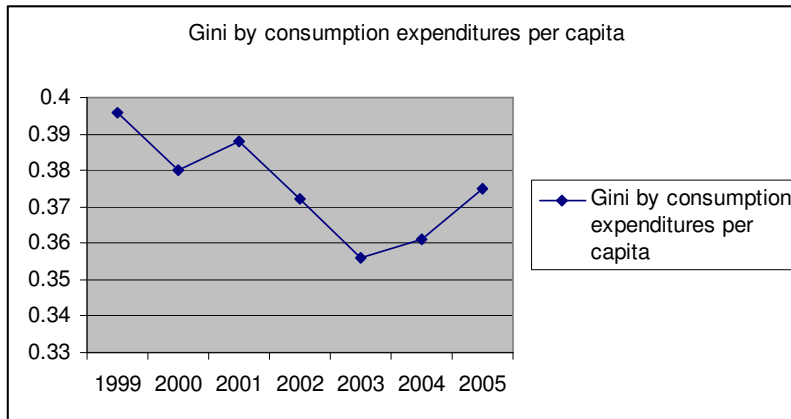


Source: [http://siteresources.worldbank.org/INTPRS1/Resources/Moldova_PRSP\(April2006\).pdf](http://siteresources.worldbank.org/INTPRS1/Resources/Moldova_PRSP(April2006).pdf)

The increase in poverty has been associated with an increase in inequality. From a very egalitarian society at the end of 1980s Moldova turned into an extremely polarized one. By international standards-the coefficient of income concentration (the Gini index) varied from 24 in 1988-89 to about 1988 to 34.4 in 1992, 36 in 1993, 41 in 1997 and 42 in 2002, which indicates rather high inequality (World Bank 1998). We can talk about an ascendant direction in the inequality line since 2002 –see Table 7 and Figure 6.

Table 7 : Inequality of Household Consumption Expenditures							
	1999	2000	2001	2002	2003	2004	2005 Q1-Q3
Gini by consumption expenditures per capita	0.396	0.38	0.388	0.372	0.356	0.361	0.375
Sources: Gov of Moldova-MEC & Household Budget Survey							

Figure 6



Migration is also an important phenomenon that Moldova faces since 1991. In almost every village, the majority of working age women has left their localities, so that the villages are populated by the elderly and children. In this way the country is getting depopulated, and is diminishing its chances to eradicate the poverty and register sustainable growth. Instead of importing capital and knowledge in order to modernise, the country exports cheap labour for creating their means of survival (Sudosteuropa Gesellschaft 2005).

Migration has increased the income of many Moldovan households. In fact this can be correlated with the fact that most of the immigrants declared that their motivation to work in another country is related to the current consumption. In fact the main motivations for migration include a desire to earn more money to meet basic subsistence needs, repay debts, and fund consumption (World Bank 2005).

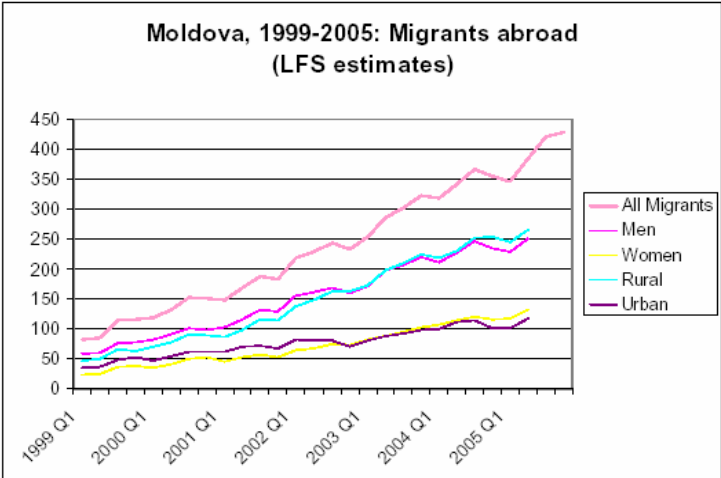
Migration has been an additional consequence of poverty for many people unable to meet basic subsistence costs. About 39% of the economically-active population worked abroad at some point in 2003-2004 (World Bank 2005).

Table 8 –Moldova: Migrants - 2006 Survey extrapolated (thousands)			
	Currently abroad	Plus: was abroad recently	Plus: plans to go abroad
Chisinau	23	34	73
Other Urban Areas	60	85	162
Rural areas	169	222	317
Total	252	340	551
Total 2004	214	293	389

Source: http://www.iom.md/materials/migrants_day2006_en.pdf

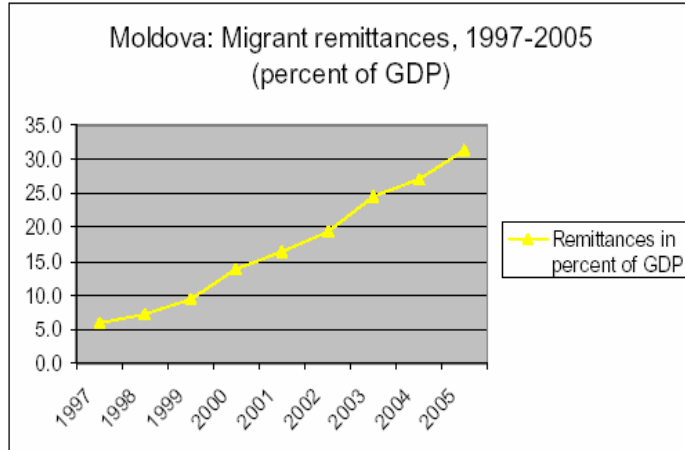
Since 1999 migration knew practically linear growth. It is believed that migration rates increased from 1998 after dropping during the mid-1990s. 83% percent of migrants departed for the first time after 1998, especially due to the Russian financial crisis (World Bank 2005). As a consequence of this phenomenon, in 2005 the remittances were about 32 % of GDP. In fact, according to this indicator, Moldova was placed in 2003 among first four countries in the world (World Bank 2005).

Figure 6



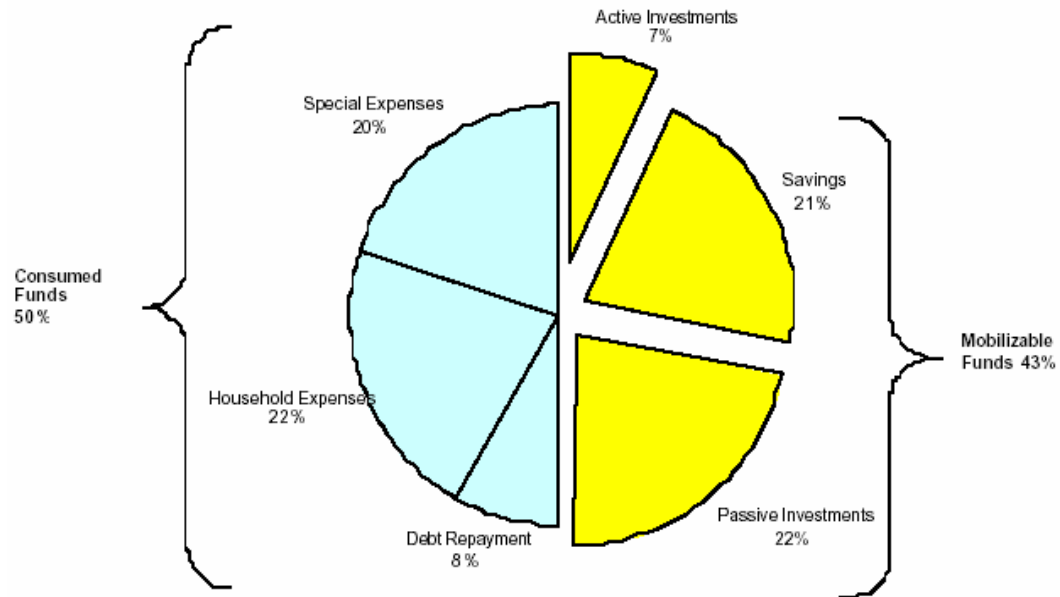
http://www.iom.md/materials/migrants_day2006_en.pdf

Figure 7



http://www.iom.md/materials/migrants_day2006_en.pdf

Figure 8: Remittances Spending Patterns 2005



Source: siteresources.worldbank.org/INTMOLDOVA/Resources/cem05.pdf

1.2. Population health characteristics

According to Environmental Pollution and Human Health Report of the United Nations Economic Commission for Europe "the population of Moldova is relatively young, with more people below 15 years of age and fewer people aged 60 years or more (13%) than most European countries (except Albania). Little more than half this population (54%) lives in urban areas, which puts Moldova among the less urbanized countries in Europe. The proportion of urban population was about 32% in the early 1970s. Life expectancy at birth decreased from 69.0 years in 1989 to 65.9 years in 1995, with a greater fall in males (by 3.5 years, to 62.0) than in females (by 2.6 years, to 69.7)" (UNECE 1998). The decreasing trend continued in the second half of the '90s and after 2000. In 2006 the average life expectancy at birth was 65.65 years for the total population, 61.61 years for the males and 69.88 years for the females (CIA World Factbook 2007 and World Development Indicators – World Bank 2006).

In 2004, the discrepancy between life expectancy of men and that of women was even more obvious. On average, men's life expectancy is higher in the Republic of Moldova in comparison with other CIS countries (64.5 year compared to 61.8 years in CIS), and lower in comparison with the EU countries (68 years for men and 79 years for women). While looking at life expectancy for women we can say that the values are very close (72.2 in the Republic of Moldova in 2004, 72.9 in CIS in 2001). In 2006, in comparison with other countries from Eastern Europe, Moldova has the smallest life expectancy for woman (World Bank 2004a).

Table 9: Moldova -Life expectancy at birth (years)

2000	2001	2002	2003	2004	2005
64.45	64.6	64.74	64.88	65.03	65.18

Source:<http://www.indexmundi.com/g/g.aspx?c=md&v=30>

Table 10: Life expectancy at birth, Years - 2006				
	Total	Male	Female	Total fertility rate
Bulgaria	69	63	75	1,2
Czech Republic	76	73	79	1,3
Hungary	73	69	77	1,3
Moldova	69	65	72	1,3
Poland	75	71	79	1,3
Romania	71	68	75	1,3
Slovakia	74	70	78	1,3
Ukraine	68	63	74	1,2
Slovenia	77	74	81	1,2
Albania	75	72	79	1,9
Bosnia-Herzegovina	74	71	77	1,2
http://www.prb.org/pdf06/06WorldDataSheet.pdf				

According to The Population Reference Bureau the infant mortality rate for Moldova is about 12 infant deaths per 1,000 live births, one of the highest in Easter Europe (PRB 2006). Child Mortality for Moldova in 2005 Child Mortality Rate was 24 deaths per 1,000 children under age 5 (UNICEF 2007).

Table 11: Child Mortality														
	Under 5 mortality rate deaths per 1,000 children under age 5							Infant mortality rate deaths per 1,000 live births						
	1960	1970	1980	1990	1995	2000	2004	1960	1970	1980	1990	1995	2000	20
Azerbaijan	-	-	123	105	98	93	90	-	-	95	84	80	77	
Hungary	57	39	26	17	12	11	8	51	36	24	15	11	9	
Kazakhstan	-	-	85	63	67	73	73	-	-	72	53	57	63	
Kyrgyzstan	-	130	109	80	74	70	68	-	104	90	68	63	60	
Moldova	88	61	53	40	44	37	28	64	46	41	30	34	29	
Poland	70	36	24	18	15	9	8	62	32	21	19	14	8	
Romania	82	57	36	31	26	22	20	69	46	29	27	21	19	
Russian Federation	64	36	35	29	30	25	21	48	29	28	23	24	20	
Slovakia	40	29	23	14	12	10	9	33	25	20	12	11	9	
Slovenia	45	29	18	10	7	6	4	37	25	16	8	6	5	
Syrian Arab Republic	200	128	74	44	31	22	16	134	90	55	35	26	19	
Tajikistan	-	-	147	128	123	120	118	-	-	114	99	95	93	
Ukraine	53	27	27	26	30	24	18	41	22	22	19	22	18	
http://www.childinfo.org/areas/childmortality/countrylist.php														

The high rate of death rate at the beginning of '90s implied the decrease of the life span. The lowest level of this indicator was registered in 1995 – 65.8 years, with a slight difference between women and men. In 2005, the life span was about 67.9 years and the difference between women and men was almost 7.9 years in the women's advantage. This important difference is due to the premature death of men. People living in rural areas live on average less, with 3.5 years, than their urban fellows.

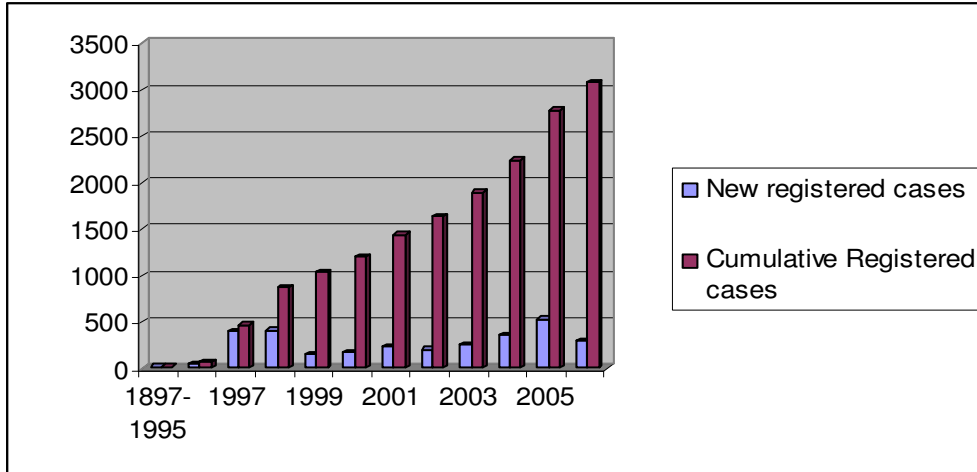
The HIV/AIDS epidemic has developed into a serious problem for the public health in Moldova. During the communist period, in 1987 the first HIV cases were recorded in Moldova but until 1995 we can not talk about a real problem regarding the infection with HIV. In 1996 then, the situation worsened and the HIV incidence rose by 7.8 times to 55. Starting 1997, HIV infections developed into an epidemic (ILO 2001). In 2006, 3083 cases of people infected with HIV were registered (See Table 12 and Figure 9).

Table 12 : Officially registered HIV cases in Moldova

1 January 1987-1 July 2006												
Based on data from National AIDS Center												
	1987-1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
New registered cases	19	48	404	408	155	174	232	199	253	357	533	301
Cumulative Registered cases	19	67	471	879	1034	1208	1440	1639	1892	2249	2782	3083
Prevalence per 100 000	0.4	1.5	10.6	19.7	24.1	28.3	33.9	36.1	40.1	45.5	58.2	65.4
Annual Incidence per 100 000	0	1.1	9.1	9.2	3.6	4.1	5.5	4.7	6	8.5	12.8	7.3

Source: <http://www.afew.org/english/statistics/HIVinMoldova.htm>

Figure 4 - Officially registered HIV cases in Moldova. Based on data from National AIDS Center



Section 2. Main social causes and correlates of social inequality

2.1. Poverty and social inequalities

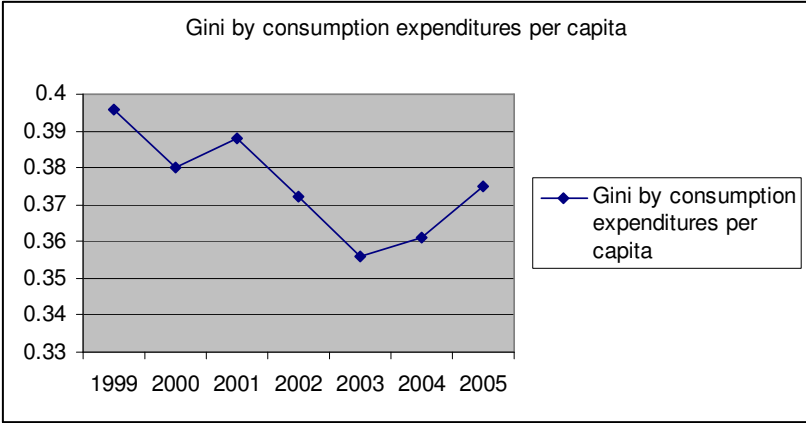
An analysis by the Department for International Development in 2004 pointed out some specific Moldovan factors that determine poverty and implicitly of social inequalities: The report identifies 4 types of specific factors that can determine the poverty phenomenon:

- *“Environmental factors -unstable weather and high incidence of natural disasters that affect the agricultural sector. Frequent droughts, frosts and landslides have the most significant impact.*
- *Geographical factors -large distances from the main export outlets, a landlocked geographic situation and political and technical barriers limit Moldovan exports. Out-migration is leading to de-urbanization.*
- *Social factors - society is conservative, resistant to change and dominated by a “wild” business culture. Moldovan society manifests strong paternalistic attitudes and distrust of the market economy.*
- *Political factors - the Transnistrian conflict has led to particular problems in financing the state budget and tackling corruption. It is also a factor impeding more foreign direct investment in Moldova.” (Prohnychki 2004)*

From a very egalitarian society at the end of 1980s Moldova turned into an extremely polarized one. By international standards-the coefficient of income concentration (the Gini coefficient) increased from 0.24 in 1988-89 to about 0.42 in 2002, which indicates rather high inequality. We can talk about an ascendant direction in the inequality line since 2002 –see Table 12 and Figure 5.

Table 12: Inequality of Household Consumption Expenditures							
	1999	2000	2001	2002	2003	2004	2005 Q1-Q3
Gini by consumption expenditures per capita	0.396	0.38	0.388	0.372	0.356	0.361	0.375
Sources: Gov of Moldova-MEC & Household Budget Survey							

Figure 5



2.2. Rural/Urban inequalities

During the transition period the small towns and the rural area were the regions most affected by the economic recession. Most of the state companies were closed or have reduced their activities while increasing unemployment. As a result of these economic measures in small towns we find the highest level of poverty in rural localities a lower level of poverty and in large cities the lowest level of poverty. In rural areas, four out of ten children under ten years live in extreme poverty (World Bank 2006c).

Formatted: Bullets and Numbering

Poverty continued to decline in urban areas over 2004 and the first three quarters of 2005. But the poverty rate in rural areas, where 63 % of the population lives, increased over 2004 and 2005 Q1-Q3, rising by 6.8 percentage points from 2003. In 2005 the poverty rate in large cities was 14.7%, in rural areas it was 42.5% and 48.5 % in small towns (World Bank 2006c). Transition has had a marked negative effect on gender equality, and women now make up a large percentage of the rural poor. Whereas men often migrate to the cities in search of employment, women are left to care for children on the farm and become trapped in subsistence production.

2.3. Regional inequalities

Table 14: Poverty Rate by Region (in percentage points)						
	1997	1999	2002	2003	2004	2005 Q1-Q3
Large cities	32.1	50.4	28.6	22.7	17.3	14.7
Small towns	62.5	80.9	62.3	49.4	45.7	48.5
Rural	51.9	76.9	51	35.7	37.1	42.5

Notes: Figures for 2005 Q1 through Q3 are seasonally adjusted. This & all further figures use the ordinary poverty line.
Source: World Bank & Household Budget Survey.

Figure 8

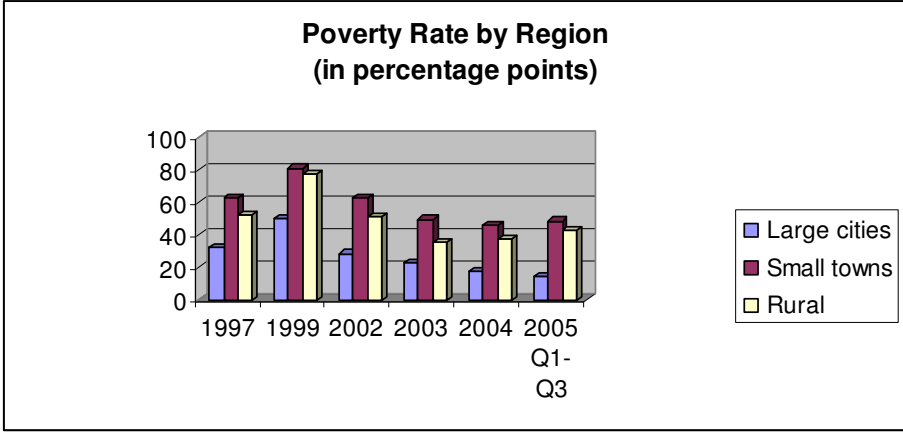


Table 15: Decomposition of the Rural Poverty Rate by Alternative System of Classification -1997-2005(Q1-Q3)
in percentage points

	1997	1999	2002	2003	2004	2005(Q1-Q3)
Rural	50.6	76.6	51.5	35.7	37.1	42.5
By age of household head						
<30 years	52.3	88.2	65.3	46.5	43.7	35.4
30-39 years	52.2	82.3	63.3	40.9	41.5	38
40-49 years	52.9	75.6	52.8	38.6	38	42
50-59 years	52.7	71.9	42.7	35.6	36.9	39
60-69 years	41.7	69.6	42.3	29.3	31.5	28.7
>=70 years	48.5	72.7	47.2	24.5	32.7	32.8
By education of household head						
Higher education	38.1	61.9	28.8	15.7	22.8	19.9
Vocational	54.4	74.6	48	26.3	23.9	39.8
Secondary regular	51.9	79.3	54	39.8	37.4	49.9
Primary	52.2	78.7	54.4	39.7	44.9	43.6
Illiterate	46.3	74.7	49.6	30	34.5	34.9
By sex of household's head						
male	51.4	77.5	52.4	35.6	39.1	39.5
female	47.8	73.6	49.2	36	32	33.3
By No. of children in household						
No children	35.3	64.5	36.1	20.8	24.8	28.9
1 child	50.5	79.4	55.9	41.1	38.6	38.1
2 children	56	84.3	64.5	47	50.9	48.2
3 children	63.5	88.1	72.8	62.2	53.9	67.1
4+ children	76.8	90.2	79	68.1	65.2	72
By household head's activity						
Farmer	49.9	73.5	53.7	35.3	41.8	47.8
Hired in agriculture	54.3	80.8	66.6	53	47.4	51.2
Hired in non-agriculture	51.5	77	41.5	32.3	29.4	31.5
Self-employed	31.9	65.7	26.4	14.2	11.7	16.4
Pensioner	45.4	72.5	44.8	28.8	31.9	33
Other	32.7	71	25.4	30.4	18.8	28.7
Unemployed	55.3	88.2	34.7	31.7
By household head's employment status						
Employed	51.9	78.4	54.7	38.7	39.3	39.2
Inactive	47.7	72.7	44.4	28.6	31.8	32.7
Unemployed., looking for work	65.9	81.3	34.7	31.7
Sources: World Bank and Moldova Household Budget Survey. PLEASE INDICATE SOURCE (LINK)						

Inequalities may also be observed between various geographical units – disparities which, mostly, are the result of unequal regional economic development. Like in the case of individuals, real incomes and the consumption levels of different geographical units would show significant disparities, with some of these units being marginal to the processes of production and consumption of GDP. More than 80% of the population of the country live in the regions, which receive less than 20% of foreign investments, account for less than 40% of exports, and have wage levels almost half those in the capital (IMF 2004).

The product per capita in the poorest regions is three times lower than in Chisinau - the most developed region. Consequently, Moldova's regions are funded from the state budget, that is why local budget resources are used to finance current expenditures, and not for investments and development. Agriculture predominates (43%) in regional output, and its share in the regions is twice as high as in the economy as a whole. The share of services in the economy of regions (37%) is also almost half that in the economy of the capital (71%) (IMF 2004). The fact that Transnistrian self-proclaimed government of the region to the left of the Dniester controls the region's economic resources (energy, transportation, and distribution of gas and oil) negatively affects the country's economic development (CIA World Factbook 2007).

2.4. Inequalities by major economic activity

Moldovan economy is based on exporting of agricultural products like fruits, wine, tobacco and vegetables. Of the total Moldovan labour force in 2005, 40.7% are employed in agriculture, 12.1% in industry and 47.2% in services (CIA Factbook 2007). The negative impact of the low productivity in agriculture and industry on citizens' welfare was exacerbated by "the increase in energy prices and the disruption of trade links and distribution channels" (Orlova and Ronnas 1999, 376). The economic recession in the early 90's was marked by a hyperinflation between 1990 and 1993. Pensioners, public sector employees and the farmers were the most affected by the reduction of welfare, through "sharp fallen in wages and other incomes from employment", the "wip[ing] out of all personal savings" and large – usually monthly – delays in pension payments (Orlova and Ronnas 1999, 386). Since 1992, the real value of pensions decreased in the 90's to 26% compared to the 1990 level. Social issues of transition increased the role of social benefits and subsistence agriculture in the family welfare

The decomposition of national poverty rate by major economic activity of the head of household reinforces the conclusions from the decomposition by rural/urban. Since 2003, the poverty rate for households which are headed by a farmer increased by 12%. Poverty rates also increased in 2004 and 2005 Q1-Q3 among households headed by pensioners.

Table 15: Poverty Rate by Main Economic Activity of the Head of Household (in percentage points)						
	1997	1999	2002	2003	2004	2005 Q1-Q3
Farmer	50.4	74.3	53.9	35.7	41.8	47.7
Hired in agriculture	55.1	80.7	66.4	53.2	47	50.5
Hired in non-agriculture	43.5	65.6	40.5	31.7	28.3	30.5
Self-employed	35.7	51.7	32.1	21.2	22.5	17.1
Pensioner	47.3	72.8	47.4	32.4	33	35.1
Other	41.4	67.9	25.8	34.1	20.4	NA
Unemployed	62.5	74	64.3	54.3	24.1	NA

Notes: 2005 Q1-Q3 figures are seasonally adjusted.
Sources: World Bank and Household Budget Survey.
<http://siteresources.worldbank.org/INTMOLDOVA/Resources/MDPovertyUpdateEng.pdf>

2.5. Income inequality

According to the statistics in 2002 more than half of aggregate consumption is accounted for by the richest quintile and only 11% of consumption belongs to the poorest one. There is a slight variation between rural and urban areas but this is not significant. Interestingly, the largest inequality underlined by the Gini Coefficient of 0.43 in 2002 is observed amongst households reporting other sources as the main source of income. Within this category of other sources of income the most important one is related to the remittances from relatives working abroad. The least income inequality is among farmers and workers in the agricultural sector (also the poorest group). In Moldova, poverty is most present among agricultural employees (56%) and farmers (47.3%) (Prohnitchi 2004).

Table 16: Decomposition of the National Poverty Rate by Alternative System of Classification -1997-2005(Q1-Q3)						
in percentage points						
	1997	1999	2002	2003	2004	2005(Q1-Q3)
By region						
Large	32.1	50.4	28.6	22.7	17.3	14.7
Small towns	62.5	80.9	62.3	49.4	45.7	48.5
Rural	51.9	76.9	51	35.7	37.1	42.5
By age of household head						
<30 years	48.2	72.3	44.3	32.7	26.7	35.4
30-39 years	49.2	77	54.6	37.2	36.1	38
40-49 years	50	71.1	50.5	38.4	36.7	42
50-59 years	47.7	66.1	43.7	34.7	34.3	39
60-69 years	43.4	68	44.1	31.5	30.5	28.7
>=70 years	49.2	73.3	47.9	30.4	33.7	32.8
By education of household head						
Higher education	30.2	49.7	23.8	17.8	15.2	19.9
Vocational	50.2	69.9	44.3	30.4	25.7	39.8
Secondary regular	52	76.2	53.9	39.7	36.6	49.9
Primary	52.7	79.1	54.8	41	44.5	43.6
Illiterate	47.5	75.1	52.9	33.8	37.7	34.9
By sex of head of head of household						
male	48.5	73.2	49.7	35.8	35.8	39.5
female	47.6	67.9	46.1	33.9	31.1	33.3
By No. of children in household						
No children	36.2	60.8	36	24.1	24.7	28.9
1 child	47.5	72.6	51.2	38.8	35.2	38.1
2 children	55.4	80.6	61.4	46.3	47.9	48.2
3 children	61.9	88.5	74.8	60.9	55.2	67.1
4+ children	76.6	89.1	84.1	64.5	66.4	72
By household head's activity						
Farmer	50.4	74.3	53.9	35.7	41.8	47.8
Hired in agriculture	55.1	80.7	66.4	53.2	47	51.2
Hired in non-agriculture	43.5	65.6	40.5	31.7	28.3	31.5
Self-employed	35.7	51.7	32.1	21.2	22.5	16.4
Pensioner	47.3	72.8	47.4	32.4	33	33
Other	41.4	67.9	25.8	34.1	20.4	28.7
Unemployed	62.5	74	64.3	54.3	24.1	31.7
By household head's employment status						
Employed	48	71.5	49.3	36.2	35.2	39.2
Inactive	49	72.5	46.1	32.2	32	32.7
Unemployed., looking for work	59	75.2	63.8	56.4	24.1	31.7
Sources: World Bank and Moldova Household Budget Survey. – http://siteresources.worldbank.org/INTMOLDOVA/Resources/MDPovertyUpdateEng.pdf						

2.6. Informal economy and the new inequalities

With increasing polarization between rich and poor people, those living in absolute or relative deprivation are the ones more inclined to migration. By looking at the country's cash inflows, it is noticeable that the new dimension of the informal sector – through illegal labour migration – has, in fact, spread far beyond the borders of the country. “Moldova is a net exporter of labour with various estimates suggesting there are around 600,000-1,000,000 Moldovan workers employed abroad, although official statistic reports there are about 234,000 workers” (ELDIS 2003).

In the 4th quarter of 2006, there were 1.2 million employed persons in Moldova. Their distribution on national economic activities proves that 32.7% of them were employed in agriculture (56.4% among them worked in their auxiliary households), 12.6% in industry, 15.9% in commerce. In the same period 10.7% of the persons employed in economy worked in the informal sector and 35.4% had an informal job (National Bureau of Statistics of the Republic of Moldova 2006b).

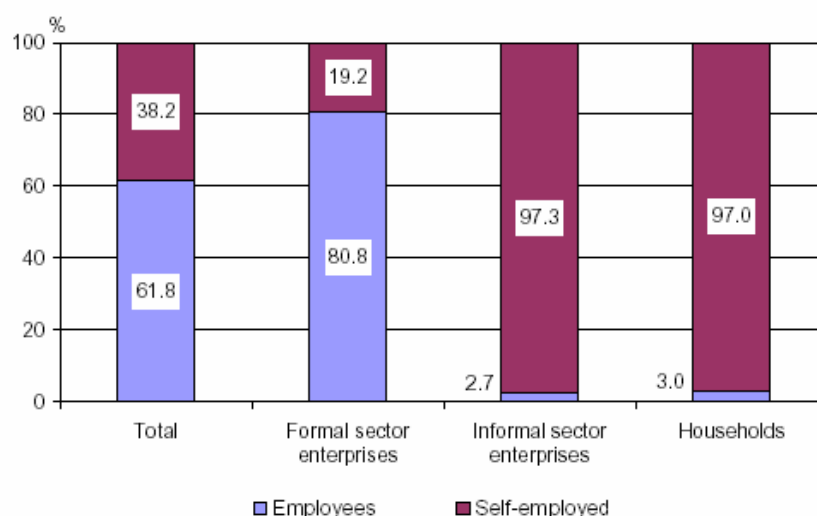
Table 17: Employed persons Moldova 2006			
	Nr. Employees in thousand	Employment Rate %	Unemployment rate %
Total	1271,1	43,4	5,6
Urban	574,5	46,3	7,6
Rural	696,5	41,2	3,9
Males	637,5	46,1	7,0
Females	633,5	40,9	4,1
http://www.statistica.md/statistics/dat/933/ro/PiataFM_ocup_somaj_trIV_2006.pdf			

Table 18: Employed persons by type of production units, status employment in thousands							
		Total economy		Self employed		Employees	
	Total employees	Formal sector employment	Formal sector employment	Formal sector employment	Informal sector employment	Formal sector employment	Formal sector employment
Total employees	1271,1	821,6	449,4	120,5	282,3	701,1	136
formal sector employment	960,2	821,6	138,6	120,5		20,2	701,1
informal sector employment	135,4		135,4		111,1	10,9	
Household	175,4		175,4		171,3		

http://www.statistica.md/statistics/dat/933/ro/PiataFM_ocup_somaj_trIV_2006.pdf

80.9% of the persons employed in the formal sector were employees. By contrast, the informal sector is a self-employment sector composed of 89.4% own account workers, employers, or members of producers cooperatives and 7.9% unpaid family workers, but only 2.7% employees. A country with a vibrant informal economy will, first of all, fail to provide stable economic growth but also overall social welfare (ILO 2004).

Figure 10 - Employed persons by type of production units and status employment

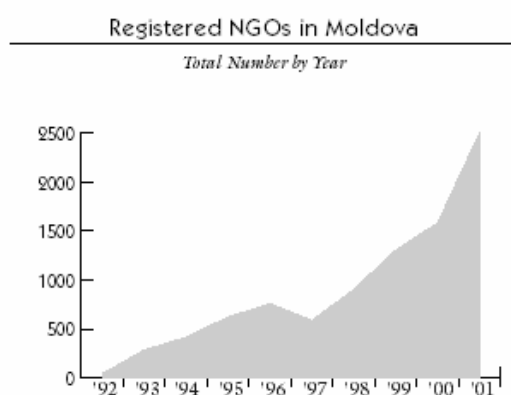


Source ILO 2004. *Employment in the informal economy in the Republic of Moldova*, ILO Bureau of Statistics in collaboration with the Department for Statistics and Sociology of the Republic of Moldova, December 2004 - <http://www.ilo.org/public/english/bureau/stat/download/papers/wp41.pdf>

Section 3. Social inequality and national political culture

Since 2001, Moldova has been governed by a pro-European Communist Party. This situation weakened the opposition parties and the political culture has not fully absorbed democratic values. Even though democratic institutions are constitutionally enshrined, in practice these institutions are under serious strain. The Parliament is not really receptive to alternative opinions and policy recommendations. Like in most post-communist societies, traditions of civil society are weak and expectations from state and government are high. The number of effective non-governmental organizations is small and most of them are fully dependent on international support and funding.

Figure 11



Source: International Foundation for Electoral Systems and the Ministry of Justice, 2000

After the fall of the Soviet Union the non-governmental sector is re-emerging, and is getting more involved in the political, social and economic areas. Despite the low institutionalization of the non-governmental sector, several NGOs like Soros Foundation Moldova, the Euro-Asia Foundation, the Rotary International Club, Transparency International - Moldova and the Philanthropy Foundation have managed to attract international financial and voluntarism support (UNDP 2000).

In Moldova, there is little communication between NGOs and political parties. Political parties, in government or opposition, do not engage in regular dialogue with civic groups to develop inclusive, comprehensive public policies and governance programmes. It highlights a

more general problem common to countries of the „third wave of democratization” regarding the fact that the practice of democracy depends very much on the willingness of key actors – political parties, civil organizations, business, etc. - to play according to democratic rules.

As an IPP survey from November 2004 revealed, trust in political institutions continues to be low: 25% for political parties, 31% for the judiciary, 42% for parliament, 47% for the government and 56% for the president, compared with 79% for the Church. Similarly, ratings for the economic and social policy of the government are devastating and most respondents assume that corruption has become more widespread since 2001 (BTI 2003). This situation didn't changed in 2006, the results for Barometer of Public Opinion pointing out that among institutions, the church (70%) and the media (58%) still enjoy an important trust. The respondents have very much trust or some trust in the President (44%) and local government (50%). The respondents trust the least in political parties (21%) and trade unions (31%) (IPP 2006).

Nations in Transition Report published by Freedom House in 2006 proves that the rating for national democratic governance⁴ in Moldova is lower than this index's average for Balkan's countries, reflecting the absence of effective checks and balances. Also the civil society rating for Moldova is the lowest from the other former communist countries. In 2006, Moldova was labelled as a transitional government or hybrid regime with 4.96- See Tables 19 and 20.

Moldova's Transparency International rank for 2004 is 112th of 146 with a score of 2.3, labelling this country as the most corrupted country in Europe.

Table 19 : Governance Ratings 2006 - Freedom House									
	1997	1998	1999-2000	2001	2002	2003	2004	2005	2006
Average the Balkans	4,25	4,57	4,36	4,29	4,14	4,21	4,28	4,04	3,91
Moldova	4,25	4,50	4,50	4,50	4,75	5,25	5,50	5,75	5,75
http://www.freedomhouse.org/uploads/Chart97File114.pdf									
The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The 2006 ratings reflect the period January 1 through December 31, 2005.									

⁴ The Democracy Score is an average of ratings for Electoral Process (EP); Civil Society (CS); Independent Media (IM); National Democratic Governance (NGOV); Local Democratic Governance (LGOV); Judicial Framework and Independence (JFI); and Corruption (CO).

Table 20: Transitional Governments or Hybrid Regimes Democracy Score – Freedom House	
Bosnia	4.07
Ukraine	4.21
Georgia	4.86
Moldova	4.96
NOTES: The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The 2006 ratings reflect the period January 1 through December 31, 2005.	
http://www.freedomhouse.hu/nitransit/2006/democracyscorerankings2006.pdf	

Table 21: Civil Society Rating 2006 Freedom House									
	1997	1998	1999- 2000	2001	2002	2003	2004	2005	2006
Albania	4.25	4.25	4	4	3.75	3.75	3.5	3.25	3
Bosnia	n/a	5	4.5	4.5	4.25	4	3.75	3.75	3.75
Bulgaria	4	3.75	3.75	3.5	3.25	3.25	3	2.75	2.75
Croatia	3.5	3.5	3.5	2.75	2.75	3	3	3	2.75
Romania	3.75	3.75	3	3	3	2.75	2.5	2.25	2.25
Yugoslavia	n/a	5	5.25	4	3	2.75	n/a	n/a	n/a
Moldova	3.75	3.75	3.75	3.75	4	3.75	4	4	4
Poland	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Slovakia	3.25	3.00	2.25	2.00	1.75	1.50	1.25	1.25	1.25
Slovenia	2.00	2.00	1.75	1.75	1.50	1.50	1.50	1.75	1.75
The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The 2006 ratings reflect the period January 1 through December 31, 2005.									
http://www.freedomhouse.org/template.cfm?page=257&year=2006									

3.1. Common perceptions of inequality

Standard (objective) measures of inequality and poverty, based on absolute and relative poverty line measures, indicate trends in distribution and welfare pointing to an increase in inequality. The perception regarding social inequalities is the subjective perspective in measuring the dimensions of this phenomenon. Subjective poverty analysis may also provide an important link between economic and social reforms and their political legitimacy. Democratic consolidation and legitimacy of democratic regimes and ongoing reforms relies not

only on the economic and social output, but also on people's perceptions and interpretations of it.

Public perception of the poverty phenomenon is contradictory and reflects the discrepancy between the real situation and the optimism the government tries to produce. In 2004 every 2nd Moldovan believed that:

- the economic situation of the country slightly or significantly improved in 2004; but at the same time that things are not going into the right direction.
- poverty, prices and unemployment continue to be the most oppressive factors shaping their subjective perceptions (IPP 2004).

The results of the Public Opinion Barometer from November 2006 points out that 53% of the population think that the country is moving towards a wrong direction. 45.1% of Moldovans are not content with their living standards while 33% are discontent with these standards.

Table 21. Evaluation of country's direction of development

		The direction is right	The direction is wrong	I do not know	No response
Gender	Male	36,7%	53,2%	9,3%	,7%
	Female	34,9%	52,9%	10,6%	1,6%
Age	18-29 years of age	39,5%	48,7%	11,9%	
	30-44 years of age	34,8%	58,4%	5,6%	1,1%
	45-59 years of age	35,1%	54,2%	9,0%	1,7%
	60+ years of age	33,8%	50,4%	13,9%	1,9%
Living environment	Urban	35,8%	52,7%	10,4%	1,0%
	Rural	35,7%	53,3%	9,7%	1,3%
Nationality	Moldavian	36,5%	52,8%	9,7%	1,1%
	Romanian	18,9%	70,3%	5,4%	5,4%
	Russian	33,3%	53,3%	12,2%	1,1%
	Ukrainian	40,4%	50,0%	8,7%	1,0%
	Gagauzian	25,8%	54,8%	19,4%	
	Bulgarian	37,5%	54,2%	8,3%	
	Other	36,4%	36,4%	18,2%	9,1%
Education	No education	34,7%	51,0%	14,3%	
	Incomplete secondary education	32,6%	54,5%	11,6%	1,3%
	General school	41,8%	48,0%	8,2%	2,0%
	Vocational school	32,3%	56,9%	10,5%	,4%

Table 22. Satisfaction with various life issues.

	Discontent	Not so content	Quite content	Very content	I do not know	No response
Jobs	34.7	45.7	13.8	1.0	4.3	0.5
Living standards	33.0	45.1	19.6	1.2	1.0	0.1
Salaries	42.2	38.8	10.8	1.6	5.8	0.9
Pensions	35.8	33.2	15.5	2.0	12.3	1.2
Fighting against corruption	34.9	41.0	11.0	1.2	10.3	1.6
Industry	26.1	41.1	15.1	1.7	13.4	2.6
Agriculture	28.9	41.7	19.6	2.1	7.0	0.9
Education	15.1	34.7	36.3	4.0	8.8	1.0
Culture	18.7	35.0	32.0	3.7	9.2	1.5
Health care	27.0	41.0	27.0	1.6	3.0	0.5
Foreign policy	21.6	39.8	15.6	1.0	19.1	2.9
Settlement of the Transnistrian conflict	35.7	38.6	8.9	1.2	12.6	3.0

The results of the Public Opinion Barometer from November 2006 point out that Moldovans are concerned about poverty. For example, 35% of individuals included in the national sample consider that poverty is the most important issue that concerns them.

Table 23. Issues of citizens' most concern

	First	Second	Third	Total
Poverty	35.0%	13.0%	11.5%	59.5%
Prices	24.6%	29.4%	10.6%	64.6%
Unemployment	10.5%	12.3%	13.4%	36.2%
Crimes	4.3%	6.6%	4.4%	15.3%
Corruption	5.2%	9.3%	9.8%	24.3%
Famine	1.4%	4.7%	6.4%	12.5%
Children's future	10.6%	11.6%	16.1%	38.3%
Ethnic relations	0.5%	1.9%	2.8%	5.2%
Natural calamities	0.7%	1.0%	2.1%	3.8%
A war in the region	1.0%	1.8%	3.5%	6.3%
Establishment of a dictatorship	0.7%	1.6%	1.9%	4.2%
Illness	1.8%	3.1%	7.3%	12.2%
Lack of heating in winter	3.0%	3.1%	7.0%	13.1%
I do not know	0.3%	0.6%	1.9%	2.8%
No response	0.4%		1.3%	1.7%

One third of the respondents 32% consider their incomes as being insufficient even to the minimum conditions of life, while over 40% say that their incomes barely reach the required daily consumption basket. Indeed, due to the increase of prices for energy, most of public utilities sharply raised in the last couple of years (IPP 2006).

Section 4. Social inequality and the national party system

4.1. Early years of multi-partyism

After Moldova gained its independence, the single party system was changed with multi-party competition. However, the process of party institutionalization was marked by intense party system changes. Party pluralism characterized Moldovan political life since its independence, The Freedom House rating it as “one of the most pluralistic post-Soviet states” (Freedom House 2006). The founding elections took place in 2004. Besides the thirteen parties that registered candidates in the 1994 parliamentary elections, other twenty independent candidates ran for the seats (University of Essex 2002). Four parties managed to obtain legislative seats. PDAM – The Democratic Agrarian Party of Moldova (Partidul Democrat Agrar din Moldova) won 43.18% of total votes 56 seats (53.85% of the 104 total seats). The second party was PSMUE - Socialist Party and 'Unitate-Edinstvo' Movement Bloc (Blocul electoral Partidul Socialist si Miscarea ""Unitate-Edinstvo""") winning 22% of the votes, 28 seats (26.92% of total seats). The third party was BTI - Peasants and Intellectuals Bloc (Blocul Taranilor si Intelectualilor). It won 9.21% of the votes, 11 seats (10.58%). AFPCD - Alliance of the Popular Christian Democratic Front (Blocul electoral Alianta Frontului Popular Crestin Democrat) was the last party winning seats in the unicameral Moldovan Parliament (7.53% of the total votes, 9 seats - 8.65% of total seats, were the electoral results of AFPCD (University of Essex 2002).

No party that had representatives in the 1994 legislature, was re-elected in the 1998 parliament (Birch 2001, 6). The second electoral cycle reinstated the communists as the main political force of Republic of Moldova. PDAM was ousted from the parliament under the context of strong economic recession and high dissatisfaction with governmental welfare policies (Orlova and Ronnas 1999). The newly established (in 1993) Party of Communists of Republic of Moldova, won 30.01% of votes, translated in 40 seats (39.6% of total seats). The second party was CDM - Electoral Bloc Democratic Convention of Moldova (Blocul Electoral Conventia Democrata din Moldova) winning 19.42% of total votes, 26 seats (25.74% of total seats). Another party was PMDP - Electoral Bloc for a Democratic and Prosperous Moldova (Blocul Electoral Pentru o Moldova Democratica si Prospera). It won 18.16% of total votes, transformed into 24 seats (23.76% of total number of seats). The last party to win seats in the parliament in the 1994 elections was PFD - Party of Democratic Forces (Partidul Fortelor

Democratice) - 8.84% of votes, 11 seats (10.89% of total seats) (University of Essex 2002). Despite the high number of seats won the communists, did not make it for the government, a coalition of pro-democratic parties managing to form a governmental coalition. Only in the next electoral cycle – parliamentary elections of 2001, did they win enough votes to form the government. The constitution was changed in 2000, and Moldova adopted a parliamentary regime.

The results of the third free parliamentary elections from 2001 marked a strong polarization of the party system. PC – The Communist Party (Partidul Comunistilor) won 50.07% of votes, 71 seats (70.3% of total seats). Another party that won enough votes to pass the 6% threshold was BEAB - Electoral Bloc 'Braghis Alliance' (Blocul Electoral "Alianta Braghis"). It won 13.36% of votes translated into 19 seats (18.81% of total seats). The last party winning seats was PPCD - Christian Democratic Popular Party (Partidul Popular Crestin Democrat) with 8.24% of votes, 11 seats (10.89% of total seats) (University of Essex 2002). “[O]n the promise of a return to the Soviet-era living standards [...] Vladimir Voronin [the president of PC] was elected president” in the 2001 presidential elections (Freedom House 2006a).

The last elections took place in 2005 and confirmed the communists as the first party in Moldova, although they received fewer votes and seats compared to the previous elections. The Party of Communists of Republic of Moldova is the current main governmental party and *de facto* and *de jure* successor of former Communist Party. In the 2005 elections it received 45.98% of votes, 56 seats. BMD -Electoral Bloc “Moldova Democrată” is the second political actor to gain access in the parliament with 28.53%of votes and 34 seats. The third party winning more than the electoral threshold was PPCD - Christian Democratic Popular Party (Partidul Popular Crestin Democrat), keeping its 11 seats won in the 2001 elections, receiving this time 9.07% of total votes (E-democracy Moldova 2007). Soon after elections the electoral threshold was lowered to 4%, thus increasing the expectations of smaller parties to win seats in the next general elections – as in every electoral competition since 1994 at least one party received between 4% and 6% of votes, or almost 4%, and very probably increasing the party fragmentation, which was manifest immediately after 2005 elections. BMD was dissolved as soon as the Democratic Party of Moldova – DPM, accepted to give its votes for president of the republic to Vladimir Voronin in the Parliament. As a result of its support, DPM was accepted as junior partner in the second post-Soviet communist government (the president of

PC] was elected president” in the 2001 presidential elections (Freedom House 2006a). Our Moldova Alliance – Alianta Moldova Noastra is now the successor of BMD in the parliament.

4.2. Present political spectrum and their perspective improving social inequalities

The Communist Party and the social policy

The program of the Party of Communists proposes rather general mechanisms to improve the economic situation of the country. Among these mechanism are the reform of fiscal policy and the elaboration of state programs aimed to support domestic producers in certain branches of the economy (such as scientific and high-tech productions), the introduction of a system of taxation on preferential terms for domestic producers. The social goals of reforms sustained by this party are the abolition of unemployment, the restoration of the right of citizens to labour, to rest, to free medical assistance and various types of education, permanent indexation of salaries, pensions, stipends, and other payments according to the inflation rate; as well as the right to housing; state support in boosting science, education, culture, and comprehensive resolution of environmental problems. The general aims of the party include also state support to family, motherhood and childhood, restoring the network of children and youth rehabilitation institutions; liberty of conscience of all the citizens (E-democracy Moldova 2007). PCRМ populist program addressing very important issues of social and economic reform, with very general solutions, and electoral oriented social spending (Freedom House 2006a) helped their candidates to win two successive electoral cycles. However, these measures were not very successful in dealing with the declining welfare. As a consequence of the 2005 parliamentary elections PCRМ lost the large majority and was forced to form a governmental coalition with DPM, even to accept certain political and economic measures to be taken in accordance with the propositions of opposition parties and DPM (like for example changes in the Electoral Code and improvement of economic standing) (Freedom House 2006b).

The opposition alliance – Our Moldova Alliance – Alianta Moldova Noastra

The Alliance supports the integration of Moldova in the European structures and has putted pressure on the communist government to adopt measures that would direct Moldova’s economy toward more developed relations with other countries than CIS states. The Party is

looking for ensuring a balance between central and regional interests, the interests of different ethnic groups, an atmosphere of social, inter-ethnic and religious tolerance (E-democracy Moldova 2007). The priorities of Our Moldova Alliance in the field social protection are according to their electoral program: “the realization of a national poverty reduction program to create jobs, including the youth; the increase in standard of living and diminishing of the existing sharp difference of income of different categories of population; the creation of a modern and democratic system of education, professional training and continuous education, which would help diminish unemployment, illegal migration; the increase of budget funds for all social sectors, including healthcare, with a subsequent implementation of a European model of insurance system in healthcare, which would contribute to the improvement of health condition of the population; and finally, the continuous improvement of the system of social assistance, to ensure assistance from the state to the most disadvantaged categories of population” (E-democracy Moldova 2007). These outcomes are closely related to the re-launch of the privatization program and the attraction foreign investments; the adoption of a simulative fiscal cod; and the creation of better conditions for developing small and medium size businesses (http://www.amn.md/romanian/index_ro.php). However, the party did not manage to gain power in the last two electoral cycles, keeping thus the proposals at the level of future aims.

Democratic Party of Moldova

The party was established in 1997. It soon managed to become an important political actor and successfully entered the 1998 competition for parliamentary elections, winning with the PMDP - Electoral Bloc for a Democratic and Prosperous Moldova (Blocul Electoral Pentru o Moldova Democratica si Prospera) 23.76% of total number of seats. It took part in the governmental coalition until the 2001 early elections, when it suffered a major defeat, not being able to win a single place in the Parliament. In 2004 it formed the Democratic Moldova Bloc – BMD, together with Our Moldova Alliance and the Social Liberal Party. However, soon after the 2005 elections it disserted from the BMD, in order to support the communists in the formation of the new government.

The priorities of the Democratic Party concerning the social problems are eradicating poverty by reducing the unemployment, and ensuring citizen access to a minimum social

security. The “active social policy” as labelled by the party program (<http://www.pdm.md/>) is concentrated on general issues like fighting unemployment, reform of the education system, ensuring a minimum retirement payment for every Moldovan, and increasing every Moldovan’s welfare. Besides these general, populist aims, it seems that the party presented more particular solutions concerning the healthcare system, like the development of a health system based on state services from public hospitals and private services resulted from decentralization of local health providers; development of the prophylactic medicine with more budget support of this type of services and with a compulsory systematic medical exams of the population. According to the official party website (<http://www.pdm.md/fractiunea/initiative.html>) the party successfully proposed 10 amendments to change the bills of social impact, like the change of the Retirement Payments Law, the Law on Migration, the Fiscal Code and the Education Code.

Section 5. Mechanisms for amelioration of social inequalities

“Moldova is facing several serious problems, related to the state weakness and the fragmentation of the country, the social and economic situation and the underdevelopment of the non-governmental sector” (Sudosteuropa Gesellschaft 2005). Moldova is certainly trying to establish an exit strategy out of its current difficulties. The persistence of redistributive state policies is deepening the social inequalities. The current social insurance system in Moldova is still based on the equalizing principle of distribution. Although the stratification of incomes is one of the highest in Moldova, the current social protection system still bears the principle of equalization. Some social categories pay the largest burden of social insurance costs, while other categories benefit of much more compared to what they contribute. An impressive number of clientele groups are favoured by the system on the account of the others. There are a number of categories of people which are outside the general scheme and this is due to the fact that there isn’t a systematic view of social programs. It is therefore not surprising that about 45 % of social benefits reach the wealthiest categories while only 3 % reach the poorest (Sudosteuropa Gesellschaft 2005).

Since the middle of 1990s Moldova has been taking actions by means of improvement of the legal basis institutional structure to reform the system of social assistance for the needy population. At present, it includes social assurances targeted compensations, support of

institutions meant to support the physically impaired, pensioners and children and material aid, which is financed by the fund of social support of the population and charity.

At the same time, state programs targeting to support vulnerable groups of the population do not yet make a positive impact on inequality reduction because of the inadequate targeting of these programs. Both government transfers and private remittances from abroad contributed to the rapid reduction of poverty over 1999-2002, and these flows continued over 2003-05. Analysis of data for 2002-04 shows that relatively small shares of public and private transfers flowed to the poorest groups (World Bank 2006c). The Government budget for social assistance reaches across the entire population, but is not targeted to the poorest groups. Moreover, the recent fast gains in private transfers are not compensating for the decline in other sources of income, notably incomes from agriculture. “In 2002, 20% of the least wealthy receive only 6.6% of the total social transfers (pensions excluded), whereas the wealthiest 20% of the population received 46%” (Sudosteuropa Gesellschaft 2005). In 2004, an analysis of the public expenditures structure shows that circa 66% of discretionary public expenditures are socio-cultural expenditures, out of which social protection – 30%, education – 20%, health protection – 14%. Besides this, circa 18% of discretionary public expenditures are on general public services, public order and national security, and circa 13% - expenditures on infrastructure and national economy branches (IMF 2004). The state has the responsibility to develop efficient social programmes, targeted at these specific vulnerable groups, but the massive illegal migration jeopardizes the efficiency of these programmes. There is no exact data about the number of people working abroad and in this way the social programmes have an inadequate coverage and could be barely considered relevant as efficient mechanisms for income re-distribution.

In 2002 the Government declared that “the poverty reduction strategy will be founded on three pillars: (i) sustainable and inclusive economic growth that will provide the population with productive employment; (ii) human development policies emphasizing increased access to basic services (especially primary medical services and primary education); and (iii) social protection policies targeting those most in need” (IMF 2002).

The public opinion, the opposition parties and the international organizations have putted pressure on the Government in order to take some important measures to develop the economy and to reduce poverty. In 2004 the Moldovan government issued the EGPRSP (Economic Growth and Poverty Reduction Strategy), setting up the main economic, social and

political targets to be resolved in a three-year period. The Poverty Reduction Strategy Papers is a strategic plan that tries to find solutions for fighting against poverty and social inequalities. This strategic paper was made with the consultation of development partners, including the staffs of the World Bank and the IMF. Regarding the mechanisms of amelioration of social inequalities, this paper outlines different measures regarding the fiscal policy and social assistance.

The 2005 fiscal policy was consistent and predictable and was achieved through a gradual and planned reduction of the natural persons income tax rate, increase of personal and special relieves, reduction of the income tax rate on business activity, liquidation of fiscal facilities on indirect taxes unjustified from the economic point of view, development of new provisions and enhancement of existent provisions with regard to the application of tax legislation, and optimization of tax administration.

In order to support the low-income population and gradually transfer the burden on medium and high income population, the low and medium income personal tax rate was reduced with no modifications to the annual tax grid, from 9 to 14% set for 2005, to 8 and 13% in 2006.

Growing budget revenues allowed the state to increase social expenditures, primarily for healthcare and education. From 1999 to 2002, state expenditures for healthcare rose from 2.9% of GDP to 3.6% of GDP, and for education from 4.7% of GDP to 5.6%. However, access of the population to social services remains limited because a considerable part of services are provided for payment – about 40% of medical services and over 30% of services in education (IMF 2004).

Regarding the budget and fiscal policy for 2004-2006 there are some measures regarding the improvement of social inequalities:

1. improving the structure of tax rates in order to reduce the tax burden and continuous broadening of the fiscal base,
2. reducing fiscal exemptions with the aim to maintain only those targeted at efficiently supporting economic growth and poverty reduction,
3. Increasing the efficiency of fiscal administration (IMF 2004).

To support people with low income and gradually shift the tax burden on the population with average and above average incomes, the tax grid of individuals was changed in 2004, and

beginning with 2005 a gradual increase in personal income tax relief was envisaged from 3,600 Lei in 2004 to 3,960 Lei in 2005, and 4,500 Lei in 2006. Income tax relief and deductions for individuals increased towards raising the minimum subsistence level (IMF 2004).

Regarding the alternative mechanisms for amelioration of social inequality, I must add that they are also encouraged by the governmental sector by a series of financial measures: A Moldovan business that sponsors public benefit associations and foundations are entitled to a tax deduction for any donations made for charitable purposes, provided that those donations do not exceed 7% of taxable income in 2002 and 10% in 2003 (Trombitsky and Gorbunenko. 2002).

Due to the poor economic conditions in the country, philanthropy is very limited. The Law on Foundations of 1999, which permits local business to create foundations, has not led to the establishing of corporate grant-making foundations to support public benefit activities of nongovernmental organizations. Local business is not sufficiently sustainable, nor is it aware of the traditions and methods of philanthropy. Foreign foundations in (including governmental aid agencies) do not support any activity in this field (Trombitsky 2006).

Sustainable poverty eradication is possible only with higher economic growth. Without an economic growth, governmental redistribution policies are only ephemeral measures.

Section 6. . Main problems in existing data and understanding

A small amount of information related to social inequalities is available from national sources in Moldova. Most of the dates were identified in international reports, especial World Bank and UNDP reports. The number of books and academic papers written by Moldovan nationals related to the economical situation of the county are scarce.

Another problem was related to the information before 1990, from the communist period. To make a comparative analysis of the absolute indicators for the post-Communist period and the communist period is very difficult due to the deficiency of statistics.

It was impossible to present an economic comparison between the territorial-administrative units in Moldova due to the absence of disaggregate statistics for this type of territorial units. A comparison between Transnistria – the administrative unit with high concentration of industries and the other regions was not possible.

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