



## CHAPTER 5.

## PROBLEMS IN MAINTAINING HUMAN SECURITY

### 5.1. Social Protection of the Disabled. Human Security of the Elderly

Social protection systems play an important role in the provision of human economic security. Correlated with the levels of well being, social safety systems are meant to impede the erosion of income resulting from the adverse impact of different eventualities. In the case of a turbulent economic environment such as Moldova's, safety nets are expected to attenuate the social costs of economic reform and to help withstand deterioration in living standards among the socially vulnerable. A broader definition presents social security and social assistance as instruments intended to reduce the degree of a person's dependence on the environment around him.

In the economic transition under way in the Republic of Moldova, considered a radical change in terms of changes in the social, cultural and economic behaviour of people, living standards and the degree of human security for a major part of population have been undermined. Thus, economic imbalances, accompanied by a large-scale economic decline, have led to mass pauperization, to a degradation of the health care system, and to destruction in the education system.

The entire society feels the painful effects of transformation processes. However, especially hard hit are those who cannot work, whose welfare depends on the social allowances allocated by the state, by non-governmental organizations or by private persons and organizations. Due to the penury of budgetary resources and the economic decline the social protection benefits of the past have been largely degraded. At the same time no mechanism to attract alternative financial resources for social protection needs

has been created. As the state is unable to provide adequate assistance and the tertiary sector is still in a very early stage of development, the situation of people from this category continues to deteriorate. The state, and also non-state institutions, must undertake an enormous managerial effort to reform the social protection system, so that the latter corresponds to the philosophy of the new society and to principles on which the new economic system is meant to function.

Elderly people, invalids and children are the most vulnerable groups within a population and their human development fundamentally depends on fluctuations of the social and economic environment. Each of them constitutes a distinctive social group and subsequently needs special measures of social protection. Thus, a reform of the social protection system assumes a set of measures for each separate group.

**Social protection of the elderly within the context of pension reform.** The year 1999 was declared "The Year of the Elderly" by the UN. The actual attention given this problem in Moldova is determined on one hand by the fact that people older than 60 represent 16.6% of the country's population, and on the other hand by the difficult situation in which older people now find themselves during the transition period.

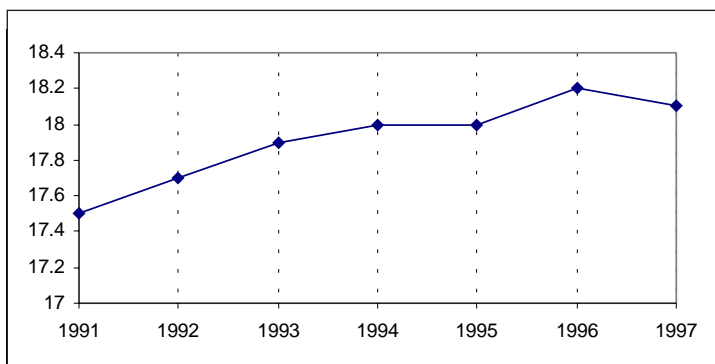
Older people constitute the most numerous and controversial category in this society both from the welfare point of view and due to their social preferences. Their representation in the social network continues to grow, reaching almost one fifth of the entire population in 1998. The lack of homogeneity among this group requires the application of a diverse range of instruments in order to strengthen their social security. The main instruments are the following:

*"Disaster is the best time for virtues."*

Seneca

Fig. 5.1.1.

Share of population being 55 years old and over, %



Source: Public Health in Moldova 1998, CSP

- Pensions;
- Allowances and compensations;
- Institutionalised social assistance (homes for elderly, asylum, health resorts);
- Social assistance in home conditions;
- Privileges in consumption of a number of public goods and utilities;
- Occasional material aids.

The central element in social security for the elderly is provision of a pension. That system in place in the Republic of Moldova at present covers approximately 758,000 citizens or approximately one-fifth of the population of the Republic. Of these, some 560.4 thousand people benefit from old age-pension (of these 150.9 thousand are privileged pen-

sions); 109.2 thousand are invalid pensions; 40.6 thousand are pensions for breadwinner loss (or a descendent pension); 39.3 thousand are social pensions and 8.5 thousand are military pensions. Lately in the Republic of Moldova there has been a tendency to allocate privileged pensions, which are slightly smaller compared to general equity criteria.

Thus, every fifth pension belongs in the category of a special benefit. Subsequently, the pension structure is substantially distorted: only one-third of it constitutes the basic pension, which is directly correlated to the contribution made by the recipient. The other two-thirds constitute different supplements or additions. This phenomenon is connected with the low viability of the public pension system and is actually meant to complement the income of the elderly.

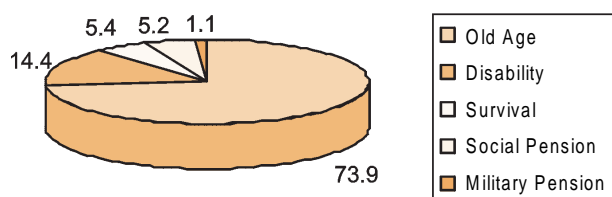
Nevertheless, the real value of pensions has significantly diminished lately. Relative to the minimum consumption basket, the average monthly pension provides only 17% (one of the smallest indices among countries in transition). This has been partially caused by inflation, partially by the decreasing salary coefficient in respect to pensions. In 1998, compared to 1992, the relation between the average pension and the average salary decreased from 60.3% to 33.9%. (The ILO considers that the substituting coefficient should be 75% in order that the degree is ensured in redistributing social income). Certainly, such a pension could go far to ensure the elderly a decent living standard.

Although during the last three years there was a 1.2 fold increase in total expenditures, achieving almost 10% of GDP in 1998, the actual public pension system, nevertheless, is not able to ensure beneficiaries a decent and secure human security. The reasons that have led to such a situation are the following:

- Fragile and unstable financial support for the public pension system
- Exaggerated arrangements of the state in respect to its financial possibilities

Fig. 5.1.2.

The number of pensioners in 1998, %



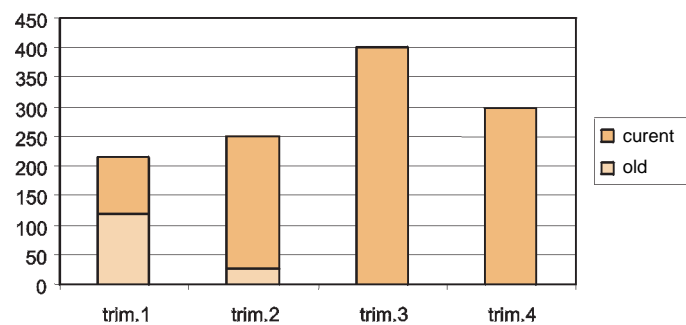
Source: data of MLPSF

- Weak link between contributions and benefits
- High degree of discretion of the respective institutions in establishing the amount of pensions
- Transformation of pension arrears into a chronic phenomenon
- Imperfect legal framework.

Poverty becomes more and more frequent among elderly people. This is not in line with earlier research, according to which pensioners do not appear to be the group most affected by poverty. The explanation would be the fact that a large number of them have jobs or are supported by their children. However, as a rule, single, or old-aged pensioners, have an extremely poor way of life. Thus, according to data obtained from the survey of household income and expenditures, more than 76.7% pensioners, according to their consumption expenditures, do not reach the minimum for a decent life (233.3 lei), whereas 16.2% of the total number of pensioners are under the 70 lei poverty line. In addition, the consumption structure of those 16% of pensioners classified below the poverty line shows that more than 72.6% of their expenditures are for food. This is an exaggerated level for this population group, which needs higher quality nutrition and, additionally, adequate medical care and more decent living conditions.

The elderly constitute the most vulnerable category from the point of view of health. In the present conditions of insufficient medical care they need additional expenditures, which by far exceed the individual or family financial possibilities. Research has also indicated that 43.8% of pensioners assess their living standards as bad and 21.5% as very bad. All these things inevitably lead to an increase of morbidity and mortality among old people. Subsequently, this has an impact on the life expectancy of the population — one of the main indicators, which determines the degree of sustainable human development in a society, and,

Fig. 5.1.3.

**Pension arrears in 1998, million lei**

Source: Social Fund data

in the end, drastically affects the social and economic security of this group.

*Pension arrears* have a substantial impact on the social security of old people. Chronic delays in the payment of pensions and allowances lead to a direct erosion of the elderly's well being and increase their vulnerability. Financial deadlock of economic entities and an imperfect taxation system are the main causes, of pension arrears. Although the Government treats the solution of arrears as a priority, payment in the near future seems very difficult to achieve. Payment of historic debts (accumulated in the past) is exceeded by an accumulation of new current debt. Thus, the total amount of arrears to pensions grows. At the end of 1998 total debts to the pension system reached the amount of 30 million lei or 3.4% of GDP. On average, the arrears extend for 5 to 5.5 months, although in certain rural areas the delay in payment reaches 8 to 9 months.

The problem becomes even more severe when treated in the context of the unfavourable demographic situation. The dramatic decrease in the natural growth of the population, accompanied by the increase of real unemployment and labour migration, will considerably increase the burden of social security systems for the economy. Compared to the situation at the beginning of the economic reform in 1991, the demographic task coefficient rose 1.46 fold. At present there is a conventional ratio of 1 pensioner to

1.3 employees in the national economy, compared with the 1:2 ratio several years ago. The inevitable *demographic aging*, a topic frequently discussed by specialists and in decision-making forums, gives birth to multiple and numerous difficulties connected with the rapid increase in the number of beneficiaries, and subsequently in the financial need for pensions and social security. One may not expect that macroeconomic stability, or economic growth, or even an improvement of the situation on the labour market will be able to overcome the effects of the demographic aging. On the other hand, neglect of this issue may lead to a sustained deterioration in the well being of the elderly.

In order to ensure a way out of this situation, it is necessary to undertake decisive, untraditional measures and to reform the existing social security system for old people, and subsequently the pension system. One of solutions may be the large-scale implementation of social security principles. The market economy presupposes each person's personal responsibility for his or her situation, including the social and economic situation. An individual should ensure his protection against different social risks such as unemployment, unfitness for labour due to disease, poverty, etc. through social security. Old age is also a social risk. In this context, according to concepts of the market economy, the pension system represents a security system for old age. Due to the fact that old age is an inevitable risk for each person, social insurance for old age is compulsory.

In October 1998 the Parliament of the Republic of Moldova passed a new law regarding public pension insurance. This law foresees the replacement of the old pension system with a new one. The old system, based on the principle of generational solidarity, has proven inefficient and in current conditions has a built in non-incentive due to exaggeratedly large taxes. The new system is based on the principle of personal contributions to one's future pension. New pension proposals to some extent assume an individual's free choice in determining the size of his pension. A person has the possibility of participating through contributions both to public pension funds via compulsory insurance and to private pension funds via voluntary insurance, which makes possible a considerable increase in one's potential pension. Thus, the size of a pension will depend on the contributions of a person and on the duration of payments to pension funds. This is meant to ensure adequate social equity in the new pension system and encourage contributions through increased incentives. In this way the new system is planned to correspond to market principles ensuring efficiency and equity.

The new pension system should foster a real improvement in the situation of

Box 5.1.1.  
**New Pension System vs. Old Pension System**

<i>Old System</i>	<i>New System</i>
<ul style="list-style-type: none"> <li>● Integral public</li> <li>● Uniform universal coverage</li> <li>● High degree of discretion in pension establishment</li> <li>● Obscure and controversial pension conditions</li> <li>● Lack of incentives to make contributions</li> <li>● Inter-generation redistribution function only</li> <li>● Multiple privileged pension types</li> <li>● Relatively low retirement age compared with international standards</li> <li>● Labour experience almost has no influence on pension</li> <li>● Integral reliance on financing with public resources</li> <li>● Contributions are used to pay pensions</li> </ul>	<ul style="list-style-type: none"> <li>● Mixed public-private</li> <li>● Differentiated benefits</li> <li>● Close connection between pensions and contributions</li> <li>● Eligibility criterion clearly defined and quantified</li> <li>● Strong incentives to make contributions</li> <li>● Partial redistribution with the focus on accumulation</li> <li>● All types of privileged pensions are annulled</li> <li>● Retirement age is adjusted to international standards</li> <li>● All labour experience is taken into consideration</li> <li>● Focus on individual contribution and the one made by the employers</li> <li>● Possibility to invest the accumulations</li> </ul>

*Source: Strategy of the pension reform in the Republic of Moldova, MER, 1998.*

the elderly. However, in order for this system to function, it will be necessary for a certain period of time to elapse, during which pension funds will accumulate enough resources to be able to honour the payment of pensions. Thus elderly people cannot now benefit from the new pension system, because, there is no money on their personal accounts. In view of this, the new pension law foresees a transition period, during which both pension systems would function, covering present pensioners and future pensioners. The share of the new pension system is envisaged to gradually increase.

An increase in the pension age constitutes one of the basic components of the new pension system, foreseeing a retirement age of 65 years for men and 60 years for women. This measure is necessary in order to attenuate the aging effects of the population and to diminish the demographic pressure on the active population. It is also expected that such a measure will reduce the payments to pension funds for compulsory insurance. In order to avoid tensions in the society in connection with social equity, the law foresees that the increase in pension age will take place gradually, 6 months annually, during 10 years period of time.

Implementation of the new pension system does not solve the problems of well being of actual pensioners. To improve the current conditions of the elderly, the Government with the assistance of UNDP has worked out a complex program "Insurance of Old Age". This program, along with the implementation of the new pension system, foresees a number of measures aimed at contributing to poverty alleviation among the elderly and ensuring a decent old age. Among the most important measures included in this program are the following:

- Liquidation of all arrears to pensioners and putting in place a mechanism aimed to exclude any delays of pension payment in future;
- Improvement of targeted (nominal) allocation of social security serv-

ices and social assistance, so that the limited available resources go to the most vulnerable parts of old population;

- A complex survey intended to find more efficient solutions to problems faced by the elderly and to enlarge the range of social assistance services rendered to them;
- Mobilization of all political and economic forces of the society which, via non-governmental organizations, can in a realistic way contribute to the improvement of social security for the current elderly population.

**Social protection of invalids.** There is a greater probability that families with one or more invalids fall into the category of the poor. Invalids represent a social group, which, unlike other social vulnerable groups, depends entirely on state social assistance institutions. Any worsening of the economic situation in the state has a direct influence on the social and economic security of invalids.

The number of invalids in the Republic of Moldova is approximately 152.4 thousand people. Compared to 1996, their number went up 1.18 fold, especially in case of labour invalids and invalid children. Persons who lost their capacity to work as a result of trauma during production processes have the form the largest share in the total number of invalids — 76.8%. The tendency of child invalidism to stabilize at a high level is an alarming signal for overall human security. Constituting 18% from the total number of invalids, this indicator is higher than that in most other countries in transitions.

Although, similar to pensioners, the number of invalids in the entire structure of population is relatively small, in view of the peculiarity of this group, a special nutrition regimen is required as is more intensive social and medical assistance. This, of course, entails higher consumption expenditures compared to other categories of population.

As a result of deep economic crisis, the social security institutions in the Re-



public of Moldova are not able to ensure invalids adequate social support.

Financial difficulties of the state have led to a deepening of poverty among invalids and their families. Thus, the household income and expenditure survey shows that, from the point of view of consumption expenditures, 19.9% of the total number of families with invalids fall under the poverty line and 74.1% of invalids respectively are in the category below minimum existence. The degree of invalidism has an essential influence on the risk of poverty. Thus, 30.6% of group I invalids fall below the poverty line compared to only 7.4% of group III invalids. This is explained by the fact that a large part of group III invalids have jobs and subsequently have additional revenues compared to social allowances allocated by the state.

The actual social security system in the Republic of Moldova offers a number of services to invalids, among which are:

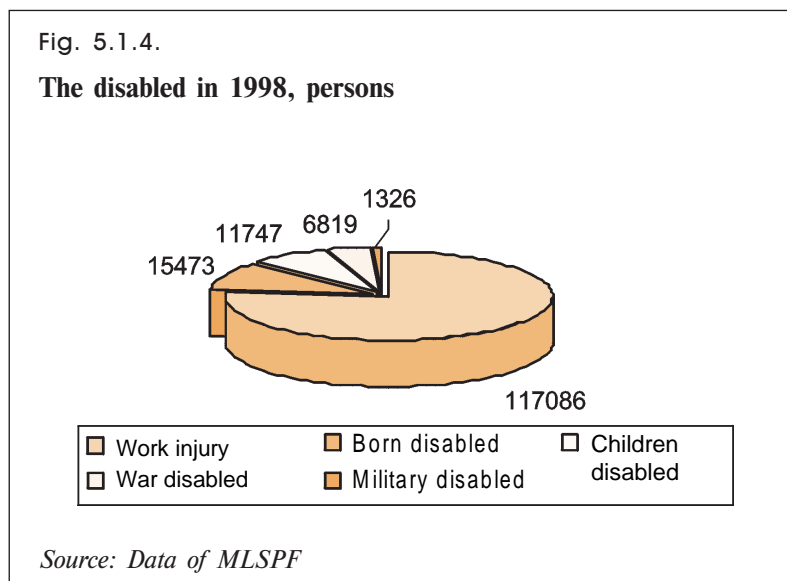
- Provision of pensions;
- Provision of additional allowances from the Social Security Fund;
- Provision of a number of privileges and subsidies for the procurement of drugs, the use of public transportation and the payment of utilities, etc;
- Free treatment vouchers in resort houses and balneological institutions;

- Provision of invalids with prostheses and other means that facilitate their movement;
- Delivery of social assistance services in home conditions;
- Support of invalids in boarding houses, etc.

The acute deficit of financial resources does not make possible real and systematic delivery of these services. Only a small number of invalids benefit from these services and, as a rule, not the very ones who indeed require a real social support. In these conditions, in order to improve the social economic situation of invalids and to reform their social support system, a number of measures need to be undertaken. This is expected to bring the system in line with the new economic conditions and to meet the respective efficiency and equity requirements. The following actions would be necessary for this:

- i. Improvement in the targeting mechanism in support and subsidies delivery to invalids, so that beneficiaries are in the first place the most vulnerable categories of invalids;
- ii. Involvement of non-governmental organizations in the process of attracting new financial resources to the social protection system;
- iii. Decentralization of the social support system of invalids via provisioning of a relative autonomy to local social support sections. Encouragement of local decision-making processes regarding the delivery of social support services to this social group, based on availability of local financial possibilities.

**Social protection of children.** Children represent the most vulnerable social group suffering the negative effects of transition, their fundamental needs of development being especially affected in this case. The acute insufficiency, as far as material and moral spiritual needs are concerned, brings about, especially in case of children, noxious effects, with a strong im-



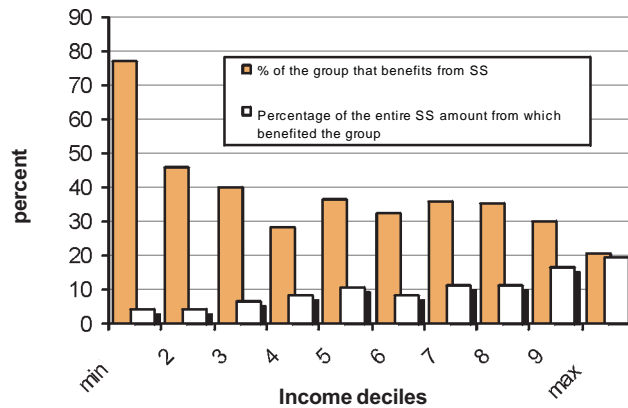
impact on their physical, psychological and social development. It is difficult to expect to revitalize the economy of a country with a generation of underdeveloped children from the physical and intellectual point of view and subject to social psychological trauma during their most fragile periods of development. In this society a stable and prosperous economy is possible only through the optimal use of human resources, they being the main factor of production here. Thus, it is very important that due attention is paid to processes of creation and consolidation of a solid capital of human resources. This will be of ultimate importance for revitalization of the future economy.

It is well known that the family is the most important and adequate environment for growth and development of a child. The family is traditionally meant to provide for the well being of a child, offering material but also the psychological-affective and social conditions necessary for the development and preparation of a child for adult life. A family's ability to fulfill its function of bringing up and educating children depends not only on the educational competence and responsibility of parents, but also and especially on available resources and possibilities. In the case of dysfunctional families (alcohol consuming, with delinquent children, etc.), but also in the case of those with a low level of income and precarious conditions of life, the educational potential is especially low.

The impact of the country's economic decline on families with children is disastrous. Thus, the household budget survey data indicate that the families with many children are the social groups mostly affected by the poverty risk and that the number of children in the families constitutes the decisive factor that leads to the increase in the degree of poverty. Whereas in families with only one child 17.8% are below the poverty line, in families with four and more children 36.4% are below the poverty line.

Box 5.1.2.

### Social security in Moldova does not seem to have a well-defined scope



Source: "Moldova: Poverty Assessment" WB Study, 1999

At the same time, the survey "Situation of Children in Disadvantaged Families" (UNICEF-ASEM, September, 1997) indicated that the group of children in difficult situations reaches significant proportions at the national level. The survey took as a basis the size of *disadvantaged families* and the greater number of children as compared to other families.

The essential predominance of disadvantages among families with a lower educational level among parents indicates their inability to adapt to current social and economic conditions. In fact, a considerable part of the population found itself in the new social-economic context without a minimum required "qualification".

According to conclusions drawn in this survey, the *social deprivation of children* in a family occurs most often due to the following circumstances: (i) the family has a low economic potential; (ii) the parents are not able to ensure the minimal material and educational conditions required for a child's care and development; (iii) parental incompetence in meeting the child's supportive and educational needs; (iv) the parents' irresponsibility in respect to the existential needs of a child; (v) an unfavourable psychological and moral environment in a family accompanied by a high degree of vio-

lence; (vi) the psychological and emotional imbalance of parents resulting in irrational and sometimes extremely rough response to unacceptable behaviour by children; (vii) the physical, emotional and educational neglect of children by adults.

The rather frequent involvement of children (36% in disadvantaged families and 16.5% in other families) in income-generating activity disrupts the educational process, leading to gaps in the psychological and intellectual development of a child;

The effort to provide a child with food, clothing, books and other school requisites (in rural areas) represents the main and most wide-spread difficulty faced by families. It is necessary that priorities, orientation and the content of social support and protection programs for children and families are established, taking into consideration the intensity and nature of difficulties met by parents in bringing up and educating children.

Not only is the health of children affected by disadvantageous conditions but also their psychological and intellectual development. The fact that very low educational results and negative behaviour of

children take place most frequently in disadvantaged families is a main argument for the conclusion drawn above. In this context it is obvious that children's education is strongly influenced by a family's well being.

A comparative analysis of schooling and education in disadvantaged and in better-off families indicates the following: A child has a negative attitude towards education in 13.3% of disadvantaged families and in 4.8% of better-off families. Respectively, 32.9% children from poor families and 10.7% from other families are looked down on in school. Punitive behaviour by teachers happens towards 4.6% children from disadvantageous families and 2.9% other families. Lack of textbooks and necessary literature is observed in 38.5% of disadvantaged families and 24.1% other families. 68.9% disadvantaged families and 29.0% of other families, respectively, can not afford to buy necessary supplies. Teachers apply physical punishment, respectively, in 11.8% of cases involving children from disadvantaged families and in 6.5% of those from other families. There is nobody in the family to work additionally with the child in, respectively, 24.0% of disadvantaged families and 11.5% of other families.

The fact that one-third (32.5%) of families with minor children are experiencing acute need reflects the real dimensions of poverty in the Republic of Moldova and reveals the desperate situation of disadvantaged families.

Of course improvement in living conditions and the attenuation of harmful conditions to children's development depends primarily on a comprehensive resolution of the economic crisis. It is also necessary to work out a special program of social protection focused on children and families during this difficult transition period. Such a program needs to set as a central goal the halt or maximum minimization of processes with a degenerative character for the society. This would, however, presuppose a good knowledge of phenomena, processes, and

#### Box 5.1.3.

##### Children and Transition

Although reforms are undertaken for the benefit of people, especially for the generation to come, unfortunately, the children are the ones who suffer more from their adverse effects. Every third family with minor children is affected by poverty. Due to this reason approximately 40% of minor children (up to 14 years) have to practice different income generation actions to the detriment of the education process. About 70% of families declared that they do not have money to pay the education fees and to purchase school supplies. Subsequently, every 10<sup>th</sup> child quit school for different periods of time. Malnutrition is frequently met among children: about 1/5 of them have no breakfast and 1/10 have no dinner. The situation becomes even more deplorable due to poor quality nutrition: it covers only 62% of the energy daily value necessary for children and only 40% of protein requirement. Additionally, more than half of the total number of children suffer from low immunity. This problem is especially acute in rural settlements where the degree of medical care is insufficient.

*Source: Survey carried by UNICEF-Moldova and Ministry of Health*



prominent or hidden realities characteristic for social life, and the implied risks. Taking all this into consideration, it is necessary to make decisions with an efficient cooperation with research centres so that a coherent plan of action match realities in the field.

Another fundamental need in the area of child and family area is the creation of a social protection system based on professionalism. This implies the necessity of training highly-qualified personnel specialized in the social support of families. Bearing in mind the acute insufficiency of resources and means for this purpose, it would be necessary to achieve an efficient management of the available resources and assets. This goal presupposes the involvement of all interested and available forces in the resolution of child-related issues. It also requires unifying efforts in form, content and intensity into one single well-targeted effort.

Along with these priorities, the following are important:

- Creation of a methodology assisting in the identification of families facing difficulties and of a matrix specifying the degree and nature of disadvantages;
- Establishment of support and social aids based on family needs and on the nature of difficulties and risks families face in respect to children;
- Creation of a number of local social support structures, institutionalized from the administrative and legal points of view, that are active under local mayoralties;
- Establishment of a monitoring system for disadvantaged groups' situations but also to monitor concrete local or global activities undertaken to solve these cases, problems, etc.
- Facilitation of a more thorough control over activities displaced by social protection institutions.

## 5.2. Social Protection of the Employed

Acute problems have appeared related to workers at displaced enterprises subject to reorganization and liquidation. The social policy promoted by the state at present possesses one important facet: the provision of social insurance for persons who have lost jobs against their will. This possibility represents the basis of economic protection of citizens fit for labour.

The solution of this problem depends on a number of factors, the predominant ones being increased production and efficiency, liquidation or attenuation of imbalances in the labour market and facilitation of a complete utilization of production forces.

*State policy, in the long-term perspective* regarding the labour market, sets a priority on measures that ensure the utilization of fit and willing workers. However, there is a high rate of officially registered and of hidden unemployment (forced leaves and incomplete use of labour forces), and also there is a large number of citizens with no hope of finding employment through the support of the State Service for the Utilization of the Labour Force. These facts lead to a dramatic reduction in possibilities of financing programs aimed at developing the labour force and to a considerable increase in expenditures for the social protection of the population fit for labour.

The population fit for labour is considered a *subject of social protection* whenever the right to productive labour and incomes are infringed due to a lack of jobs, a change in the structure of employment or a decrease in the number of jobs. Taking into consideration the multiple aspects of unemployment, causes and factors, the social protection of persons fit for labour is divided into four groups and constitutes an integrated index of the economic security:

- Payment of unemployment benefits and social aid;
- Allowances to unemployed workers whose entitlement to unemployment benefits has expired and also to unemployed parents with many children, etc.;

*“By helping others, you help yourself.”*

**Moldovan proverb**

- Contributions to the evolution of the labour force utilization process, which includes training and retraining of the unemployed, development of public works, subsidies to the unemployed for setting up their own business firms, credit allocation and subsidies to job-generating employers;
- Material aid allocation to certain employees in enterprises subject to restructuring, bankruptcy or reduction of jobs as temporal support and also to workers on forced leaves or a reduced labour regimen not covered by respective payments.

Measures for the social protection of the population fit for labour are financed with resources from the social insurance

budget and, respectively, with resources from the Unemployment Fund.

The share of expenditures designated for payment of benefits and other allowances predominates in expenditures of the Unemployment Fund. During the first stage of labour market formation (1993-1994), it didn't exceed 47%, reaching its peak of 56% in 1996, after which it started to decrease again. Expenditures for training, skill improvement and for new jobs equalled 23.4% and their share is growing with every year.

The special expenditures of the Unemployment Fund show a rising tendency in the Republic of Moldova. Real services for labour force utilization are being established.

Compared to 1996 expenditures for social protection increased with 14.9%, out of total amount of which 11.5% stand for benefits and social allowances, 30.6% for training and retraining of unemployed and 9.0% for the operation and maintenance of labour force offices.

The increase of expenditures for social insurance of unemployed persons is determined by the rise of benefits, growth of average salary in the Republic and is accompanied by a reduction in the share of persons receiving benefits in respect to the total number of registered unemployed.

Although an insignificant rise in benefit payments to graduates of different higher education institutions took place, the established amounts do not provide for the minimum physiological needs of citizens in the Republic. It would have been more adequate to provide for citizens without labour experience, women who interrupted their employment in order to care for children and group III invalids' entitlements to unemployment benefits adjusted to the subsistence minimum.

Problems of *persons with reduced labour capacities* (citizens with certain physical and mental deficiencies, including invalids) have become more acute as have those of young people along entering the market economy. The local administrative bodies are tasked with solving these problems. Special laws regarding the employment of persons with reduced labour

**Table 5.2.1**  
**Dynamics of Resources Spent by the Unemployment Fund**  
**resources spent by the Unemployment Fund**

Years	Unemployment Fund Resources (%) in Respect to:				
	GDP	FRM	Social share	Average per Employee, Lei	Average Monthly Amount of Unemployment Benefits, per person, Lei
1992	0,03	0,06	0,17	23	-
1993	0,04	0,11	0,32	374	-
1994	0,09	0,22	0,42	2529	29,6
1995	0,15	0,42	1,32	6160	47,9
1996	0,14	0,44	1,33	8610	72,9
1997	0,13			10636	81,0
1998	0,14			12122	79,5

*Source: Data provided by MLSPF*

**Table 5.2.2**  
**Share of Unemployed Receiving Benefits in Respect to the Total Number of Officially Registered Unemployed, %**

Years	Total	Women	Men
1995	28,4	36,5	19,6
1996	26,5	36,2	15,9
1997	23,8	31,3	14,7
1998	20,0	28,1	11,4

*Source: Data provided by the MLSPF*

capacities exist in certain countries (Poland). In other countries (the Czech and Slovak Republics) special chapters in the general Law are dedicated to unemployment. Support for persons with reduced labour capacities assumes measures to increase their social and professional chances in all spheres of social and economic life. Measures that might ensure jobs for such persons would be taxation privileges for employers offering these jobs and the allocation of privileged credits for the creation and maintenance of such employment.

Drastic measures undertaken to register unemployed persons, and to establish benefits have an unfavourable impact on legalization of the labour force and on the economic prospects for the working age population. Frequently, for different reasons, following a reduction in payments to unemployed persons, these payments are suspended altogether. Thus in 1997 payments were halted to more than 3.7 thousand unemployed people, out of which only 20.2% had a reasonable ground. Such measures are linked with concrete social economic realities and the character of unemployment itself.

In the case of structural unemployment “motivational” measures may also be built in. In most countries in the world, the establishment of benefit payment deadlines is linked either to work experience or the availability of employment. Amounts and terms of unemployment benefit payments are larger than in the Republic of Moldova. A considerable support may come from the social support systems at the disposal of unemployed persons when their unemployment benefits expire and they still haven’t new employment. However, in Moldova such a social support institution hasn’t been created yet. Expenditures for payment of nominal monthly compensations and allowances to the unemployment benefits for support of children under 14 years in 1997 accounted for 7.2% of the total expenditures designated for this purpose. Only 46 unemployed received material aid in the amount of 2.2 thousand lei from the resources allocated by the local administration power bodies.

Education and professional training are important aspects in the creation of economic and psychological conditions that sustain the working age population. A significant help would be training aimed at increasing the degree of utilization both of the unemployed and the partially employed labour force. At present the Ministry of Labour and Family Protection and the Ministry of Education and Science largely promote common education programs oriented toward training the unemployed to prepare for work. The share of the 1997 Unemployment Fund resources set aside for professional training of unemployed equalled 23.4%. During 1997 the number of trained unemployed constituted 6749 people or 4.1% of total number of registered unemployed. Out of them only 9.6% were trained on the job, at enterprises and in organizations. The share of persons who benefited from professional training within enterprises shows a rising trend compared to previous years (table 5.2.3.).

Training was offered for 60 professions. Of those professions accountants (27.7%), dressmakers (18.1%), operators (15.4%) and hairdressers (10.8%) predominated. The average duration of training per one unemployed person was 5.5 months and cost per trainee averaged 415 lei.

Public works projects may be undertaken with the goal of social protection. During 1997 labour offices started to combine the temporary use of labour force with retraining. Along with the positive impact on the actual situation on the current labour market, this measure also cre-

Table 5.2.3

**Dynamics of the Unemployed Training Structure**

	1994	1995	1996	1997	1998
Share of Registered unemployed who Benefited from Training	8,1	11,4	11,7	13,6	11,5
Women	5,2	7,3	7,6	9,4	15,1
Trained at job within enterprises	7,0	9,0	7,3	9,6	11,0

*Source: Data provided by MLSPF*

ates grounds for future improved labour force usage and makes possible progressive structural changes. With the same purpose, it would be necessary to revisit the definition of public works, presently considered to be activities that don't require special qualification and presuppose hard physical labour. Other countries' experience shows that public works may be used in all branches of the economy, including spheres of intellectual, social and ecological works.

In spite of financial and organization obstacles in their development process, public works have achieved a certain evolution (Table 5.2.4).

Delivery of economic, organizational and legal aid to people dismissed because of the organization of private business operations might be one possibility to regroup employed persons during the economic restructuring of enterprises. The creation of a considerable number of supplementary jobs and the development of non-traditional forms and types of labour force use is also envisaged. Thus, in 1998 the creation of 5000 jobs to employ persons in the poorer levels of society was planned and, respectively, 5800 and 6500

for 1999 and 2000. The organization of potential lines of credit of credit to unemployed persons who want to start businesses and to economic entities trying to create jobs constituted another planned activity. However, these plans, as well as other important actions from the social point of view, were not supported with the necessary organizational and financial support.

Contributing to the social protection of the working age population are the social guaranties by enterprises to employees in case of dismissal, forced dismissal or reduction of labour hours (days). Mass dismissal and restructuring of the state sector have become a usual phenomenon during radical economic reforms. The foreseen measures are temporary and don't correspond to the general economic situation.

Social insurance in Moldova has a special importance for the reorganization process of dismissed employees in rural areas. Many of them have enjoyed ownership of a land plot, value share and other assets. Some rural dwellers created peasant farms; others leased their assets. At the same time there are people who did not use their assets for production pur-

Tabelul 5.2.4

**Development of Public Works**

	Years					1998 in
	1994	1995	1996	1997	1998	respect to 1994
Number of economic entities, which have created jobs (units)	98	189	165	241	278	2,8 times
Number of unemployed engaged in remunerated public works, (persons), out of them (%)	510	595	737	971	1360	2,7 times
• One month	33,1	41,2	25,2	26,7	32,8	-0,3 p.p.
• From one to three months	21,8	30,4	30,3	45,3	41,6	16,8 p.p.
• Three and more months	45,1	28,4	44,5	28,0	25,6	-19,5 p.p.
Costs for organization of public works, (one person), lei	31	78	177	165	227	7,3 times
Structure of financing resources for public works (%):						
- local budget	2,6	14,9	1,0	12,9	7,9	5,3%
- resources of the enterprise	36,0	80,9	98,8	86,4	90,3	54,3 p.p.
- <b>Unemployment Fund</b>	56,4	3,6	0,2	0,7	0,8	55,6 p.p.
- <b>other resources</b>	5,0	0,6	-	-	1,0	4,0 p.p.

Sources: Data provided by the MLSPF



poses and, respectively, for income generation. In view of this situation it would be irrational to deprive this category of employees of social support. They should be entitled to social support at least until they organize their production of goods or receive an income from the lease of their assets not less than the minimum subsistence per one family member. A second measure that might help resolve labour force usage would be “labour division”. This could occur without the interference of state administrative bodies. It is frequently used in countries with developed industries. The essence of this method is the slogan “Work less, there is enough work for everybody.” It implies that for the sake of employing a larger number of people, the division and shortening of the working week is shared by a number of employees.

A practice in which extra employees are not dismissed and the working day (week, month) is reduced or one in which management sends people on long-term leave without payment leads to the following situations:

a) Dismissal of employees under the so-called “at one’s self-initiative” provision of the law (without payment of dismissal allowances and without entitlement to unemployment benefits upon immediate registration at labour force offices). In 1998 due to the lack of jobs, 74.1% of dismissals were based on applications using the “at one’s self-initiative” formula. By sector, the formula was used by 80% of the agrarian sector dismissals, by 8.1% in the trade and repair services; by 85.2% in the education sector and by 88% in the service delivery sector.

b) Maintenance of employees who don’t work for long periods of time in the staff of enterprises means both the maintenance of their entitlement to material goods and the extension of their longevity as a basis for pension allocation.

c) Less active search for new jobs on the part of employees, especially those foreseeing training or retraining.

d) Incomplete use of labour forces in conditions when payment for labour is a miserable one (in Moldova this leads to a decrease in the living standard).

#### Box 5.2.1

##### Looking for a Job

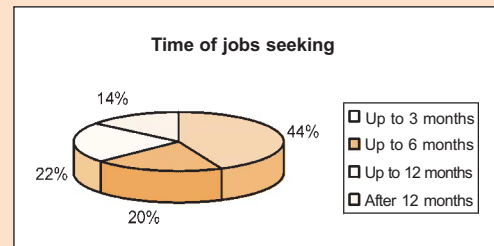
It is becoming more and more difficult to find a job now that reform processes have started to go deeper. New sectors of the economy based on private initiative

are still fragile and do not possess enough capacity to absorb the available labour force. Only every tenth dismissed person from the public sector could find a remunerated job in the private sector. In general the aggregate demand shows a declining tendency on the labour market: during the last four years it has shrunk 1.25 fold. At present the active population measures 44.3% compared to a magnitude of 80% in 1990 at the beginning of the economic reform.

As a result, access of the population to the labour market is continuously dropping and opportunities to be employed are insignificant. There exist a proportion of ten officially registered unemployed persons to one vacant job. Situation is even more drastic in case of locksmiths, drivers, mechanical engineers, librarians and agronomists, where the proportion is 1:12 in average. The cumulative effect of the disequilibrium signifies an aggravation of job insecurity. Thus, a person in the republic spends in the average 7 months in search of a job. For people in urban areas the length of time spent in search of employment is slightly more, 7.5 months. Although people in the rural area spend in the average less time in search of employment (6.7 months), the seasonable fluctuations are very large, a fact that increases the degree of uncertainty.

During one year the duration of employment ranges from 8 to 9 months to 4 or 5 months in summer. Consequently, the unemployment period increases and this has adverse economic and financial implications both for the state and the person. At present every fifth person registered at a labour office is experiencing unemployment for more than 6 months. This inevitably leads to the extension of long term unemployment, a phenomenon considered by the World Labour Organization as the worst form of unemployment. Compared to 1995, there is a 1.25 fold increase in this phenomenon, and it covers at present 14.4% of the total number of unemployed.

*Source: Data provided by the MLSPF and HBS, 1998*



e) Enforcement of labour division and incomplete use of labour force (could be used by certain enterprises to reduce their costs).

Such an approach might lead in the future to the concentration of labour in a small number of better-remunerated and highly efficient jobs and to an increase in the number of those without employment and income sources.



Different methods of reducing working hours has acquired a certain evolution in a number of countries in the world. It fosters an amelioration of labour conditions for women with many children, for young people who also study, for older persons, invalids and other citizens who need free time or a flexible labour timetable. Such a form of labour organization is connected with personal initiative and material provisioning. In 1998, 85.7% of people used this form of labour organization at the initiative of the administration, very often to the considerable detriment of their salaries. This indicator constituted more than 90% in 12 districts of the Republic. One should mention the fact that, compared to 1997, in 1998 the number of those not fully employed has risen by 18.0%. In 33.6% of the cases this happened at the initiative of the administration.

The third method, according to widespread statistics in Moldova, is the practice of sending different workers on leave without preserving the payment of compensations.

Such leaves may be theoretically assessed as a certain privilege granted by the enterprise, and especially by the state, due to the fact that they presuppose mainte-

nance of labour experience, the possibility to adjust to the new market economy and the maintenance of psychological equilibrium. During 1998, 146.4 thousand citizens were on administrative leaves of this type. Each person stands for 87.4 labour days, the differences between territories being from 14 labour days per person, as for example, in Camenca district up to 270 labour days per person in Dubasari district. Thus, during four months, approximately 150 people didn't work and, respectively, did not receive a salary. At the same time they were not registered as unemployed and did not receive the unemployment benefit.

Among branches of the economy, the most critical situation has been registered in construction, where 55% of the employed people were on leave more than 127 labour days. In the processing industry the respective indices are 51.5% and 108 labour days.

Along with the deepening production crisis and the promotion of the privatization process, the system of work reduction, which in the future would assume a democratic solution due to relations between employer and employees, at present appears to contribute to decreased empathy and increased friction in the employer-employee relationship. Long term, non-paid administrative leave requires workers to adjust to new conditions and to accept a job, either in their own locality or abroad. Often these jobs don't correspond to a worker's profession or qualification. A person's loss cannot be compensated by the maintenance of a formal link with the enterprise, cannot be compensated by extending the employment relationship only on the enterprises's formal roll (workers used to keep their labour certificates at the enterprise) or by certain social goods, all of which feed the volatile hope of regaining the old job.

Such a process brings about a reduction in the percentage of qualified workers. Some employees who have no possibility of obtaining a job at other enterprises lose their professional qualification and continue living miserably. Others part find part-time employment or engage in a small business, thus quitting their basic profession and maintaining only a legal, formal link with their enterprise. With the aim of revitalizing labour utilization, it

#### Box 5.2.2

##### Unemployment profile

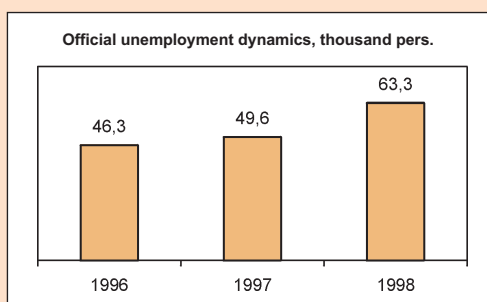
Although the rate of official unemployment is low (about 2% of the labour force) its growth rate is very significant: in 1998 the number of persons registered as unemployed at labour force offices has gone up 1.3 times.

Those who face the greatest risk of finding themselves unemployed share the following profile: women (59%), especially mothers after maternity leave; young people up to 30 years (45%), especially young people without a specialty and those released from the Army; unskilled workers (57%), especially from mechanical industries; seasonal workers (47%), especially those linked to the agrarian sector.

The principal arguments made for dismissing employees are: financial blockage of economic entities (34%); restructuring of enterprises (25%); merging of enterprises (17%); bankruptcy (15%).

From the point of view of professions, the most vulnerable to unemployment are locksmiths, drivers, construction workers, librarians, engineers and agronomists.

Source: Data provided by MLSPF



would be rational to legalize its forms (reduced labour week, day, etc.) including the normative time and compensation of income arrears (salaries). This would also impede an abrupt transformation of hidden unemployment into an officially registered one. In France, for example, the program that compensates income in the case of partial unemployment, namely in situations when the labour force is utilized less than 40 hours per week, foresees compensation in the amount of 50% of the total compensation per hour.

For the purpose of maintaining labour potential, especially of qualified workers, it would be rational in Moldova's current circumstances to introduce subsidies for the use of labour at prosperous enterprises. This would require application of a structurally rationalized policy both at the national and territorial levels along with a selective support of competitive enterprises for investments. It would ensure maintenance of hidden unemployment, which may not be handled at present. It can also ensure a more efficient utilization of the transition period for adjustment of labour to new conditions.

To ensure the material and psychological security of dismissed employees, a payment of allowances and privileges is envisaged. These include compensations to average salary, privileges offered by enterprises regarding access to social economic services taking into consideration the contribution of employees to the development of production and material assistance of dismissed employees. The possibility exists to benefit of nominally designated money allowances and scholarships in cases of an income decrease caused by studies and retraining. There exist privileges in payment of fees for departmental lodgings and other allowances to members of families unfit for labour.

However, certain enterprises that have found themselves in a difficult financial situation are violating the Bankruptcy Law. The administration requires some employees to sign annual labour contracts, in cases in which otherwise the enterprise needs to be declared bankrupt. Workers receive no salaries during this period of time. One year later they are dismissed without receiving dismissal allowances.

Box 5.2.3 <b>Real Unemployment vs. Official Unemployment</b>	
<b>Real Unemployment</b>	<b>Official Unemployment</b>
<ul style="list-style-type: none"> <li>● Includes all people of working age in search of an employment</li> <li>● Is related to employed people</li> <li>● Covers all types of unemployment: open, hidden and frictional</li> <li>● Gives an assessment of real dimension of the labour force reserve in all sectors of economy</li> <li>● The rate is 9.4%</li> </ul>	<ul style="list-style-type: none"> <li>● Includes only dismissed employees at the initiative of administration</li> <li>● Is related to population active from the economic point of view</li> <li>● Covers only a segment of unemployment, namely the open one and which is officially registered</li> <li>● Gives a partial assessment or the labour reserve, mainly with regard to the public system</li> <li>● The rate is 2.0%</li> </ul>
<i>Source: CISR estimations</i>	

In order to achieve this it will be necessary to make amendments and additions to the Labour Code of the Republic of Moldova in respect to the following issues:

- Temporary transfer to a new job when there appears such a necessity for the production process;
- Annulment of a labour contract at the initiative of the administration;
- Grounds and procedure for dismissal of employees;
- Privileges and compensations to dismissed employees in case of replacement of the proprietor;
- Monitoring of the rights of employees who are sacked due to staff reduction, with regard to assets in possession of the enterprise whenever the enterprise is subject to liquidation, privatization or commercialization.
- Terms of payment in case of dismissal of an employee;
- Differentiation of mass dismissal criteria for enterprises of different types and sizes.

At present the Law in force foresees social guarantees for citizens out of jobs who apply for support at unemployment offices. It would have been equally bene-

ficial for citizens, proprietors and unemployment offices, should amendments and completions be made to this Law. This would ensure the regulation of a mutually advantageous cooperation during the period prior to employees' dismissal as a result of reorganization of enterprises, downsizing, bankruptcy and management from outside. The concrete situation on the labour market imposes the introduction of amendments to the social protection mechanism of sacked employees. That is why the adoption of the law "On Protection of Employees in Connection with Insolvency of Proprietors" is necessary. It needs to foresee payment guaranties in case of the most important arrears in conformity to the labour agreement, irrespective of the state of affairs of the debtor's property and the liquidation process.

A high level of unemployment requires an increase, by all available means, of the financial resources required to implement state programs on labour use and to partially provide social insurance for the unemployed. It is due to this very fact that financial possibilities for developing programs are considerably limited.

**Conclusions.** The constant rise in unemployment in the Republic of Moldova leads to the diminution of the state's possibilities of financing programs to help develop the labour market and to provide social insurance for the working-age population. This is true with respect to both the creation of new jobs, the social insurance of the currently-registered unemployed, and the assistance possible for programs dealing with partial use of the labour force as well as employees dismissed due to restructuring and the insolvency of enterprises.

Due to the decrease in employment there is an annual increase of financial resources in the Unemployment Fund designated for personnel. However, the amount of the Unemployment Fund for the last three years (1996 — 1998) constitutes only 0.13 — 0.14% of the global domestic product, which is much less than in most countries with a market economy. Although there is an artificial diminution in the number of people entitled to unemployment benefits, the estimated average monthly amount of benefits constituted in 1998 only 79.5 lei per person, which

does not ensure the minimum physiological subsistence for the unemployed. During training and retraining of the population of working age and also with regard to public works, important tendencies have been noticed, indicating a rise in the degree of adjustment of unemployed people to labour market conditions and to their material conditions. About 12% of all registered unemployed benefited from professional training, according to unemployment offices' data. However, the share of employed people from among those who completed training is insignificant and in 1998 constituted only 31.5%. The situation is much more deplorable in the sphere of public works. During 1998, only 1360 unemployed were involved in these works, or 2.2% of the total number of registered unemployed. In fact more than 90% of resources designated for financing public works are being used by enterprises. The local budgets share accounts for less than 10% and resources from the Unemployment Fund for less than 1%.

Although foreseen in the State Program for Labour Forces Use, no allocation of resources has been made for job creation, nor designated for programs for groups less engaged in the labour market. This leads to a worsening situation in the labour market and affects the socially vulnerable layers of society. Taking the above into consideration, the following points should be included in planning remedies:

1. When drafting the State Programs for Use of Labour Forces, the measures specified should be accompanied by indications of the resources for their financing;
2. In establishing the Republican Unemployment Fund, its relationship to the total domestic product of the Republic of Moldova should be established with consideration given to the prognosis of the social economic situation and experiences of countries with developed market relations;
3. In order to increase the efficient use of Unemployment Fund financial resources, it is necessary, in conformity to the request of proprietors, that training and retraining of unemployed at enterprises be held for a longer period, e.g., up to 9 months;
4. The drafting of national and regional programs aimed at job creation for vulnerable levels of society is imperative.