

4.7 Support of entrepreneurship and small business

In new market economy conditions for Moldova, the entrepreneurship and small business are principal components of the national economy that create new jobs, income for population, state and local budgets. In the period of 1991-1997, the entrepreneurship did not enjoy due support on the part of the state, despite the availability of respective legal framework and a state program in this regard.

For the years of 1998-2000, elaborated was the draft of *a new state Program for small business support* which sets a cooperation system between entrepreneurship and state, including modifications of legislation, by increasing the list of priority activities that can be performed by small businesses supported by the state. It is suggested to include in this list enterprises which: produce basic need goods, use local resources and untraditional energy sources as secondary raw materials and manufacturing wastes from other enterprises, exports its own products, manufacture machines and flexible equipment, both compact and modular for small enterprises, small enterprises and small innovational enterprises, which elaborate and implement in manufacturing results of scientific research, render medical services to the disabled, pensioners and other vulnerable groups of population, publish manuals for schools, lyceums, higher education institutions.

The *system of small business support on the part of the state* supposes:

- elaboration of normative legal basis;
- formation of infrastructure for small business support;
- financial support;
- technical support of manufacturing sector;
- creation of protection system provided by the state and social support.

Elaboration of normative basis provides a continuation of forming a stable and transparent legislative basis which should allow to simplify and facilitate small business registration and closure, licensing of entrepreneurial activities, getting on lease or in private ownership by the small enterprises of equipment, facilities, land plots, participation of small enterprises in delivering products for satisfying the state needs. For this purpose, in response to the changed conditions, certain modifications and amendments are needed to the "Law on Support and Protection of Small Business" and the "Law on Purchase of Goods and Services for State Needs" (particularly the part referring to stipulating a mandatory share of state order assigned for small businesses). Enactment of the laws "On Business Licensing" and "On the Chamber of Commerce and Industry in the Republic of Moldova" is also necessary. In order to diminish the fiscal burden of the small business and create conditions for legalizing the shadow transactions, it is necessary to introduce certain amendments to the Fiscal Code.

Formation of infrastructure for small business support supposes formation of a network of special enterprises and organizations offering various services to entrepreneurs related to registering and operating small businesses.

For implementing the state policy in the field of small business, *a National Agency for Small Business Development* should be established which will be in charge of coordination of activities of state and non-government organizations in this field, concentration of allocated means from various sources for supporting entrepreneurship, tenders manner of getting advantageous lending, providing subsidies and guarantees. Equally, a *Bank for Investments and Development* and a *Mortgage Bank* are needed as channels and instruments of financial support by the state to small business. The National Agency for Small Business Development should be in charge of

providing investment and lending assistance. Its activity has to be coordinated by the Ministry of Economy – particularly by its College – jointly with the ministries and departments of the Government, Chamber of Trade and Industry, territorial bodies, associations of entrepreneurs, employers and branch trade unions and donor countries.

Institutional support implies creation of business centers, mutual lending companies, mutual insurance companies, consulting companies, free entrepreneurship zones, industrial, technological, research and innovational yards, leasing and franchising companies. In the cities and raion centers, structures should be created for granting services required by entrepreneurs.

Information should be provided by way of setting information and consulting centers in the city of Chi°inãu, with subsidiaries in other towns of the country. One of these centers needs to be included in the European system of information centers, and the others have to be oriented to meeting the needs of the entrepreneurs from the country. Access to the data bank should be simple and easy for entrepreneurs.

These information centers should offer services in providing commercial information, addresses, statistics, information regarding investment projects, registration of enterprises, marketing, technical-material supplies and sales, business cooperation, finding production capacities, accounting services, reporting, E-mail, etc.

It is necessary to organize a network of business schools to provide practical assistance to entrepreneurs in setting up new enterprises and efficient use of business opportunities, in order to develop and realize some training programs in management, marketing, finance, accounting and foreign economic relations.

Financial assistance. The entrepreneurial network could be enlarged based on some modifications of the normative and legal acts which should allow:

a) to apply neither VAT, nor customs duties on imported medical equipment and medicines, regardless of the terms of delivery and source of funding;

b) to exempt from tax funds allocated by investors for developing production, science and design, as well as funds of enterprises invested in development of production and creation of new industrial capacities;

c) revision of fiscal facilities granted under the "Law Regarding Support and Protection of Small Business" with a view to include medium enterprise, to reduce profit tax of small businesses down to 15% to 20%, depending on the product. Such a mechanism should stimulate development of entrepreneurship and movement of capital to manufacturing; exempting from payment of profit tax during the first 2 years of operation of the businesses that are involved in: production of food stuffs, medicines, medical equipment and other medical items, bake products, goods for children and schoolchildren. In the 3rd and 4th years of operation, the above mentioned enterprises should pay profit tax at 25% and 50% of the regular rate respectively, provided that the collections from the mentioned activities will make up no less than 90% of the overall amount of collections from sales of products and services. The mentioned facilities cannot refer to businesses created based on reorganized or liquidated enterprises or their subsidiaries. It is recommended also to exempt small businesses from real estate tax during the 1st year of operation after registration, except for enterprises created on the basis of the reorganized or liquidated enterprises or subdivisions thereof; not to increase taxes within 4 years from the moment of registration. If after the registration taxes have been increased, the small enterprise should pay its taxes at rates established at the time of registration. If the tax rates have been reduced, however, the small enterprises should pay at current lower rates;

d) granting facilities and partial compensation to lending institutions against eventual losses from lending to small businesses for periods of 1 to 3 years, based on tender and advantageous terms;

- e) granting to small businesses the right to apply method of accelerated depreciation of fixed assets exceeding two times the established norms. Together with the application of accelerated depreciation, during the first year of operation, the enterprises should be permitted to write off as depreciated 50% of the face value of machinery and equipment with terms of utilization more than 3 years;
- f) granting guarantees and collateral in borrowing from commercial banks;
- g) partial compensation to insurance companies in case they provide services to small and micro-businesses, based on advantageous terms;
- h) supporting the associations of production and innovational enterprises in case they are created for non-profit activities;
- i) at least 30% of state purchase orders should be placed with small businesses;
- j) granting assistance to small businesses in organizing mutual lending and insurance companies;
- k) supporting exports;
- l) granting assistance in training personnel and enhancing their qualifications;
- m) stimulation of cooperation among small and large companies;
- n) reduction of rates of lease payments during the first 2 years of operation for the following institutions that create the small business infrastructure: entrepreneurial and innovational centers, joint-ventures, leasing companies, information centers.

Technical assistance in operation should be realized in: supplying the small enterprises with modern technologies through a process of conversion, creation of leasing companies, transfer to small enterprises of new technologies and know-how, granting assistance to small enterprises in certifying products for sale in international markets, creation of business centers, technological operation and innovational centers, creation of free production sites for industrial enterprises belonging to the state and industrial joint-stock companies in which the state holds the controlling package of shares, establishment of a network of small subcontracting enterprises.

Creation of protection system by the state and social support implies granting assistance to firms specialized in security service that are involved in fighting crime, racket, corruption and economic crime, as well as for companies ensuring integrity of enterprise assets. All these measures should contribute to enhancing security of entrepreneurs and build their confidence in the state as a guarantor of free development of entrepreneurship.

Supported should be those entrepreneurial organizations whose activity is oriented towards safeguarding legitimate rights of the small business actors. Support is needed for the mass-media in publicizing the experience of small business entrepreneurs, their problems and needs. It is recommended to organize some contests of the best entrepreneur and exhibitions & fairs of products made by small businesses, as well as some charitable events.

Penalties should be toughened for the actions of state officials who infringe on the legal rights and interests of small business entrepreneurs.

The Program and respective measures should be carried out in compliance with the current legislation using the following **sources of funding**:

- at least 1% from the state budget;
- privatization earnings;
- foreign assistance furnished to the Government of the Republic of Moldova.

Estimated results of the implementation of the program can be measured in terms of the following indicators:

- per each leu of guaranteed and loaned funds allocated from the state budget, there should be 3 to 4 lei of investments and soft loans obtained from domestic and foreign financial institutions;
- 2 more financial institutions, supported by 2-3 leasing companies, for granting guarantees must be founded;
- a 5% to 10% growth in domestic products manufacturing for local markets;
- 5,000 new small businesses, first of all in the processing industry, sales and storage of agricultural products, small scale industry, urban public services (housing) and craftsmanship, employing the unemployed men, women and young;
- new small business support infrastructure: agencies, business centers, technical yards;
- formulation of normative acts ensuring small business development.

Measures provided in the Program should contribute to reaching certain positive changes in small business and economy as a whole, which, by year 2000 can make possible to:

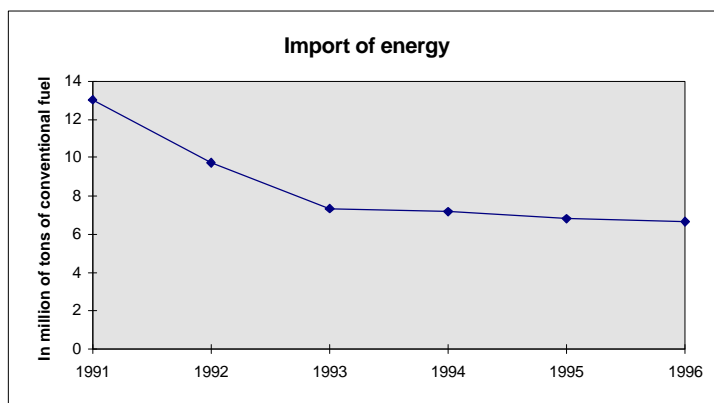
- reduce social tension through creation of about 10,000 to 15,000 new jobs, extend the state's tax base, enhance the level of tax collections from small and micro-businesses up to 90% to 95%;
- curtail the share of small businesses' shadow trade and thus legalize some products and services worth of 100-120 million lei; provide necessary conditions for raising small business to a qualitatively new level, for its penetration in foreign markets and promotion of foreign trade.

By year 2000, when the share of private sector should account for no less than 60% of the GDP, a need will appear to develop a new program of small business support, for next five years.

4.8 Energy sector

Current situation and problems

Energy sector, having a share of 15% in the structure of industrial production, supplies the country with electric, thermal energy and gas. High density of population and of economic concentration of the country's territory determines quite high volumes of energy consumption in the household sector. Generally speaking, the functioning of energy complex determines the country's energy security. Moldova imports 90% of primary energy resources, mainly natural gas (in 1997– about 60% in structure). Increase in prices of energy resources, crisis in production sphere, reduction of households incomes explains the almost 2 times decrease of the import of primary energy resources in the 1990s. Until



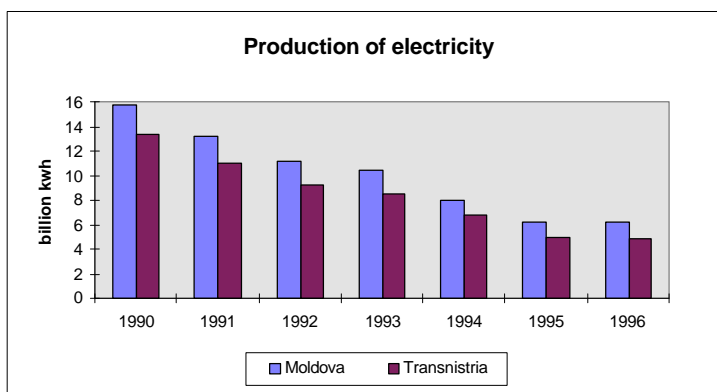
1997, energy sector of Moldova was represented by 5 state enterprises: "Moldenergo" Company which imports, produces and supplies the electricity to consumers; Concern "Moldovagaz", which ensures gas supply; Joint Stock Company "Tirex-Petrol", which supplies petrol products; "Termocomenergo" Company and Joint Stock Company "Termocom" providing thermal energy to

consumers. Four of these are monopolists, and only "Tirex-Petrol", although having a big share of market, competes with private companies.

Prevalence of state property in energy sector, its conservatism, led to the fact, that energy sector has become the factor slowing down the recovery from crisis.

Production of electricity is done by electricity stations of the Unified Energy System, including block-stations of sugar plants, having a total power of about 3,000MW. Supply of thermal energy to households and production sphere is provided by heating plants built in large cities and localities. In the 90s, there was a tendency of installing personal heating devices by households, in spite of the fact that centralized heating is considered worldwide to be more efficient. The total power of centralized thermal energy sources is 9,700 Gcal/h.

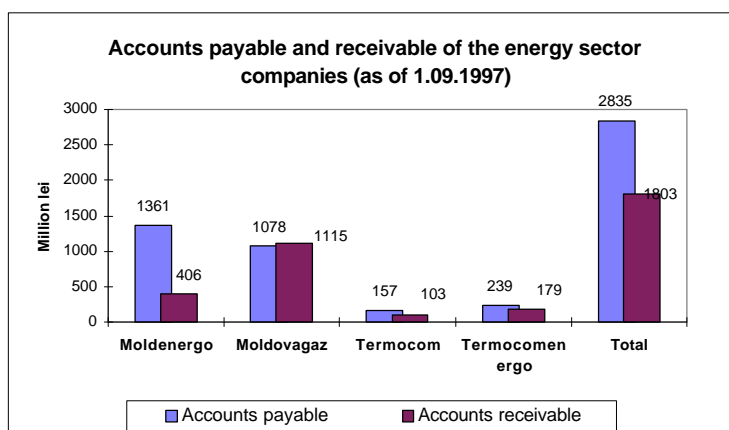
Crisis in economy caused reduction in volumes of produced electricity. The problem of Transnistria is tampering the functioning of energy complex as an entire system, because 85% of electricity is produced at Cuciurgan Electric Power Station, placed in this region. Between 1990-1997, production of electricity has suffered a 3 times reduction. Out of those 12 generators installed at Cuciurgan EPS only 3 are functioning. All generators are working above the feasible limit, and this threatens to cause accidents.



Their modernization demands investments worth over US\$140 million. In conditions of rising uncertainty and growing prices for centralized electricity, the economic entities are moving to autonomous sources – diesel stations. In 1996-1997, there were employed 136 such stations with a total power of 8.9MW.

During the 90s, Moldova transformed from a country exporting electricity into an electricity importing country. If in the 80s, 40% of electricity was exported to Bulgaria and Romania, today Moldova imports from Ukraine 30-40% of consumed electricity. Moldova's energy system is connected to the energy systems of Bulgaria, Ukraine and Romania through high voltage power lines. The causes of slow pace of reform in energy sector are: unwillingness to increase the average level of tariffs for energy consumers for the reason that it could increase the inflation; delay in increase of energy tariffs for households for social and political reasons; fear to cause a disequilibrium in supply of energy for the country; lack of political will to accept the decision of demonopolization and privatization of energy sector enterprises, on the one hand as a natural monopoly, and on the other – as an attractive sector for private investors.

As a result of delays in reforming the energy sector, accounts receivable and payable are growing with an expansion of spread between them. The cause lies in low level of tariffs for energy resources, which do not cover the production expenses of enterprises. Government has approved (1997) the decision regarding introduction of new increased tariffs, which have not been supported by the Parliament so far. The difference

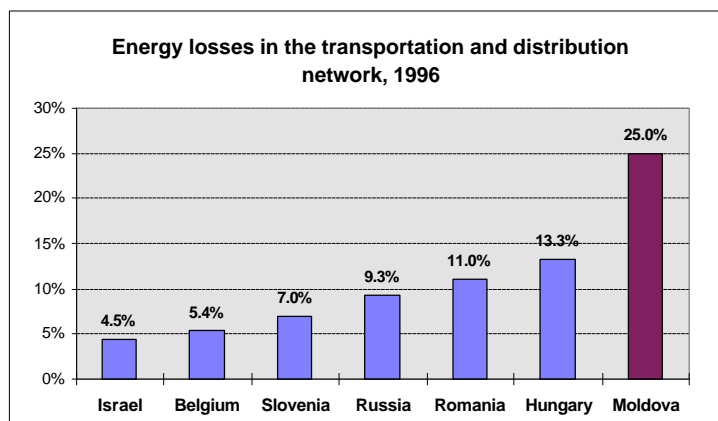


between accounts receivable and accounts payable of the energy companies account for more than 1 billion lei, and taking into account real possibilities of collecting accounts receivable, this amount could be doubled.

Country's foreign debt for energy resources has reached very high levels – almost US\$350 million to RAO "Gazprom" for gas and about US\$50 million to Ukraine for electricity. Along with difficult financial standing of energy sector enterprises, there are state administrative pressures to provide energy resources for free to some economic entities, including a number of insolvent enterprises.

Non-satisfactory financial standing of the energy sector has led to fact, that in last decades there were no important investment in this sector. As a result, a big part of equipment is obsolete: life time of 60% of fixed assets exceeds 21 years, 40% – 26 years. For producing one kW/h, 2-3 times more conventional fuel is used than at West-European enterprises. The efficiency of "Moldenergo" Company is quite low – 80 clients are serviced by

only one employee, comparing to the ratio of 1:145 typical for European experience. Technical losses and thefts of energy exceed 25% of total consumption. Quality of offered services in energy sector is at a low level. Voltage and frequency of the alternative current in the wires does not comply with technical specifications, which generates malfunction of technological and households' equipment. Numerous shutdowns of energy at enterprises, villages, and in a number of cities have become a daily phenomenon. Even the consumers who pay in time for the energy supplied are disconnected. Because of this, the entrepreneurs do not fulfill the contracts, foreign companies do not undertake the risk to invest in an economy, which is non capable to ensure the energy protection of production.



Main factors that underline the situation of crisis in energy sector:

- Low level of payments collection from consumers has resulted in chronic accounts receivable, the biggest part belonging to budgetary institutions and state enterprises;
- An important share of payments for energy is effected through barter transactions and on clearing basis (which accounts for 60-65% at former state company "Moldenergo", about 70% at "Moldovagaz", 75-85% at "Termocomenergo"), and this obviously reduces the effective level of collections;
- Tariffs for electricity, thermal energy and gas, both for households and for industrial consumers, did not cover expenses needed for ensuring the viability of the electric energy sector. This, along with lack of collections, losses and stealing has led to the fact, that accounts payable, not covered by accounts receivable in this sector exceed 2/3 of total debts;
- Level of real tariff is actually significantly reduced from the set one, because of many privileges granted to different consumers;
- Technical losses and considerable stealing of electricity in networks (1/4 of the total supplied energy) are caused by obsolete equipment, lack of permanent maintenance, and insufficient level of monitoring and control of the system;
- Lack of transparent systems of financial and accounting management generates latent losses which at present can not be estimated;
- Tariffs are subject to different revisions resulted in an economically unjustified reduction, due to social-political considerations;

- Possibility of energy sector enterprises to disconnect the non-payers from the networks is limited by political decisions, which hamper implementation of normal commercial practices.

Settling the problems of efficient activity of energy sector is possible only after its reforming and opening to competition, attracting and encouraging investments. These objectives could be realized through the process of privatization and restructuring of energy companies.

Energy sector reorganization

Starting from 1997, the electric energy sector is being decentralized and incorporated. State Company "Moldenergo" was split, according to the functional principle, in generation, distribution and transport enterprises. Incorporating of sub-units of former state company "Moldenergo" provides for establishing new commercial relations between different players in the electroenergetic market, which need adjustment of the legal framework and a regulatory body that would arbitrate these relations. With regard to the gas sector, it is not decentralization that is needed, but an merger of existing distribution and transport enterprises into a single joint-stock company. Thermal energy sector will be transferred into municipal ownership. In 1998, finished will be the split of Joint Stock Company "Tirex-Petrol" into independent enterprises and their privatization.

Taking into account the long-run nature of reformation of energy sector, it is necessary to elaborate a government program of reorganization and technological renovation of this sector for the period till 2005.

Legislative and institutional framework. Since 1997, Moldova has a *legal framework for long-term development of energy complex*. In this context, there were elaborated about 10 laws and normative acts. An institutional support is needed for their implementation.

National Agency for Energy Regulation (ANRE) was created in August 1997, being considered to be the main regulatory body of the relations between energy market players. Basic functions of ANRE are: issuance of licenses for activities related to producing, transportation, dispatching services, distribution, supplying, import and export of energy; regulation of tariffs for the energy products and services; ensuring protection of energy consumers rights; promotion of competition in the energy market. There need to be approved laws on electricity and gas, which would serve as main regulatory norms for relationships between energy market operators and would enforce an independent status of the regulatory body. An operational code for regulating activities in the energy market should be created.

Privatization of energy sector. Privatization represents a possibility for quick revitalizing of the sector and supplying consumers with energy and energy resources in a reliable and efficient way, at minimal costs.

Starting in 1998, there will be privatized 8 electric power enterprises: 3 – generating ones, and 5 – distributing, all created as a result of split of Joint Stock Company "Tirex-Petrol". For paying off the debts for gas, a part of state's shares in the enterprise for gas transportation and distribution is being transferred to the Russian Joint Stock Company "Gazprom".

Main objectives of privatization of energy sector enterprises are:

- obtaining a maximum amount of financial resources needed by the state;
- increase in reliability and quality of energy products and services;
- attraction of capital investments for rehabilitation/expansion of electro-energetic sector;
- improvement of efficiency of sector's utilization and of enterprises' management through attracting managerial experience and launching competition in the electro-energetic sector.

Strategy of privatization of electro-energetic enterprises is based on objectives that should be attained and on world experience. Strategic investors will be offered a package from 50%+1 to

90% of shares having voting rights. Depending on enterprise' financial and technical standing, strategic investors could be offered different proportions of participation in statutory capital.

Working collectives of companies would be offered up to 10% of shares at a reduced price up to 10% comparing to that paid by strategic investor, with a possibility to pay on 3 year credit. Remaining shares belonging to the state should be auctioned, including at Stock Exchange, offering strategic investors the priority right to acquire them. For the purpose of maximization of privatization income, the enterprises' balance should be restructured, whose shares will be offered for sale.

Government should undertake the difference between accounts receivable and account payable of these enterprises, and would approve the mechanism of managing the undertaken stock of debt. As a main source of financing expenditures, for repaying the undertaken debts, would serve tariffs for electricity and gas, which should include a margin for servicing foreign debt, and budget allocations originated from privatization.

Energy conservation. Due to the fact that Moldova practically does not have its own energy sources, and taking into account the strong energy component of GDP (increase by 1.5 times, expressed in tons of conventional fuel, during 1990-1997) the problem of saving energy resources has become critical.

Thus, it is necessary to reach a 20% of GDP energy component till 2005 through:

- stimulation of introduction of technologies saving energy;
- installation of meters at all consumers, especially budget organizations;
- partial electrification of railways;
- support of activities of National Agency for Energy Conservation;
- increase of level of thermal insulation of buildings.

Introduction of a competition environment. In petrol products sector and in wholesale supply of electricity, the competition is practically created, access being regulated by licenses.

At the energy retail level, introduction of competition would be possible after adjusting the regulatory framework. During 2-3 years there will be admitted (at a license basis) suppliers that do not hold electricity networks. These suppliers would trade electricity at non-supervised tariffs, main consumers having the option to choose. This fact would allow for creation of competition in the main consumers' market. Competition should lead to an increase in efficiency of sector's exploitation, and finally to tariffs reduction.

New investments, diversification energy sources. Consolidation of enterprises' financial standing, setup of an adequate regulatory framework, and presence of private interest would allow for new investments in energy sector both from enterprises' internal funds (profit), and from outside (re-equipping of existing capacities or development of new capacities). Along with private investments in energy distribution and generation, there should be made investments in high voltage networks for increasing maximum transmitted power. For improving supplying with petrol products is under construction an oil terminal at port Giurgiulesti and a network for their transportation.

In thermal energy sector, the following modernization will be done:

- replacement of existing pipelines with pipes covered with plastic materials having a 25-30 years life time;
- installation of thermal energy meters at nodes and groups of household consumers;
- diversification of sources of thermal energy.

The presence of the said conditions will lead, also, to diversification primary sources of energy and finally to increase the level of country's energy security and to tariffs reduction. State should stimulate new investments in generating capacities, so that local production (excluding Cuciurgan EPS) to reach the level of 50% in 2005. In gas sector, effected should be considerable

investments at the distribution level – gasification of localities that are presently supplied with liquid gases. The first oil terminal, that started to be built on the bank of Danube close to the village Giurgule^oti, is aimed at diversifying the structure of energy sources' suppliers. Its capacity – 2.1m tons of oil products per annum. It will allow to satisfy the most part of Moldova's demand in these products. Overall cost of the project – 38m USD. For its realization in 1995 there was set up the Moldovan-Greek joint-venture "Terminal". According to financial plan, investments amount to 12.5m USD. The other funds, – 22.5m USD – are loaned by EBRD for a 30 years term, provided Greek banks will grant an advance financing in amount of 9.0m USD. The construction of the terminal is scheduled for 1.5- years.

Adjustment to international demands

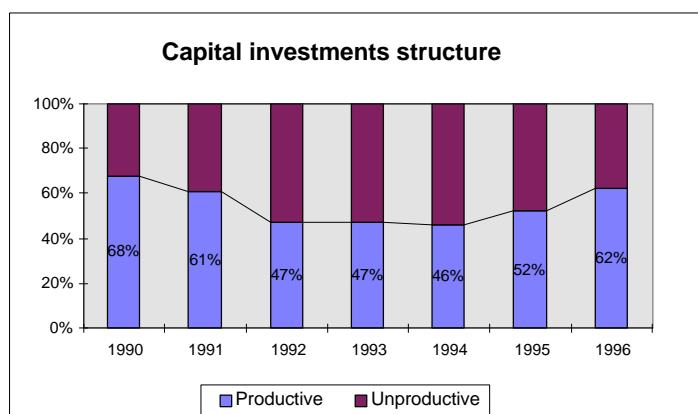
Investment should be linked to the evolution of energy systems of countries of the Black Sea area and Balkan region. Increasing the energy transportation capacity and adjusting of technical parameters (voltage of 400kV, constant frequency at 50Hz) will allow the junction of local networks to UCPTTE networks. During 7 years, it should be promoted the policy of creating reserves of liquid fuels, so that in the year 2005 these reserves be sufficient for 90 days. Activity of companies acting in the energy market (projects of investments, economic relations) would correspond to the demands of the Treaty for Energy Chart signed by the Republic of Moldova.

4.9 Construction complex

Current situation

The construction complex, along with the machinery building industry, provides the country's investment potential and accounts for 9-10% of GDP. The economic crisis of the transition period produced a serious investment crisis. The reduction of GDP and of the capital saving rate diminished the demand for construction services.

During the 90s, the share of capital investment into manufacturing in the total volume of capital investment in the economy diminished, but recently there has emerged a positive tendency for growth. The acceleration of housing construction and of service units, as well as development of small businesses in food industry, takes place mainly in the private sector.



A considerable part of Moldovan construction labor force works outside Moldova, but the issue of these activities' legalization is not solved yet at the interstate level.

The legal norms and standards in construction are old. At present, about 1,300 of joint stock companies and firms are involved in building projects in the country. Most of them do not have an appropriate production base, quality control systems, there is no normative base.

The same kind of situation was created in the design domain. At present, there are about 140 institutions and firms engaged in architectural design and engineering. Small firms are unable to assure the elaboration of the design documentation at an appropriate quality level.

Availability of local raw materials presents a significant advantage for the complex. Raw materials' deposits are sufficient enough for satisfying Moldova's needs and even for exportation of

such important materials as limestone, lime-sand, gypsum, granite, natural stone, clay, raw materials for brick manufacturing, etc. There are some mineral sediments which could be used for construction materials manufacturing : heat-resistant glue, chalk, ceramic glue, quartz sand for glass production.

Construction materials' industry is a promising sector for future investment. From the 11 objects finished in 1997-1998, 5 belong to the construction complex and were supported by foreign capital. The problem of privatization (with the participation of a foreign partner) and reconstruction of the Cement Plant from Rezina are still to be resolved, for its competitors in Romania and the Ukraine have solved this problem.

Perspectives of construction sector reform

The documents adopted by the Government in 1996-1997 serve as a normative base for the construction complex development policy until 2005 and provide:

- Strategy for construction sector development;
- Main directions of the construction materials industry development in the Republic of Moldova until 2010 (Concern "Inmacom");
- The concept of municipal economy and housing reform;
- National housing strategy;
- Forecast of constructions, industry of construction materials, municipal economy sectors' evolution until 2005.

The next necessary step is to accelerate reforms in every branch of the complex: constructions, construction materials industry, urban planning, architecture, housing- organizational and economic reformation, investment activity revitalization, creation of a competitive environment in this field etc.

Main directions in the construction and construction materials industry development:

- Elaboration of the legislative base and norms for developing the construction and construction materials industries' market;
- Continuation of enterprises' privatization and demonopolization, renovation of viable enterprises and closure of bankrupt firms;
- Stimulation of fixed assets' renovation;
- Implementation of a uniform methodology for organizing auctions for designs and constructions according to European standards.

Construction Design system reform. The methodology of design should be modified in line with the national system of standards formation and improvement of institutional and organizational mechanisms. The main directions of its improvement are:

- enhancement of designers' responsibility for the architectural solutions and proposed techniques by taking into consideration that the utilization of standard projects will diminish, but technical norms in architecture will offer larger possibilities for urban designs;
- assuring an equilibrium between public and personal interests through the designing system, assuring ecological security and continuation of technical state policy in the process of realization of construction projects;

Geopolitical traditions and conditions of the Republic of Moldova are favorable for the implementation of the policy in the field of urban and ***territory management***. Based on this, the followings has been noticed:

- assuring sustainable development practices at all stages and territory levels, environmental protection, rational utilization and management of natural resources;
- stoppage the sprawl of cities and towns into agricultural lands and gradual implementation of intensive urban development, on the basis of reconstruction and improvement of territory arrangement, by assuring simultaneously protection of monuments, buildings of historical and cultural value;
- assurance of society's requirements to aesthetic qualities of the housing environment;
- raising the role and extension of the local governments regarding the solution of problems related to localities' development, a larger participation of the population in the preparation, adoption and realization of urban planing.

In the domain of *architecture*, it is especially important to work on architectural solutions in designing and construction of civil and industrial objects. The reform in this domain will include:

- extension of the individual designs by emphasizing the particular functionality according to the local specifics – as a priority direction in the construction of civil and industrial objects;
- creation and renovation of architectural and design normative acts with the purpose of approaching the European standards and according to the forecasts of socio-economic development of the state;
- elaboration and implementation of the methods to provide for new types of buildings in urban architectural ensembles well balanced in terms of "function and form";
- a broader utilization of new forms of houses and public buildings construction form, assuring necessary comfort.

The regulation of the processes in the domain of *housing* must be realized by:

- elaboration and implementation of the Regulation regarding mortgage lending for house building, as a consequence of the "Law on Collateral" with the purpose of broadening the population's possibilities to receive credits for purchasing and construction of housing, elaboration of a Law on Mortgage;
- renovation of legislative and normative system in the field of apartments' construction and purchasing; implementation of new forms of financial and credit mechanisms for attracting financial resources of population and legal entities for construction of new housing and completion of unfinished constructions;
- contribution to the implementation of apartment construction based on housing certificates.

Importance of primary reformation of construction complex is determined by the fact, that jointly with agri-industrial complexes employ local resources and produce more than 50% of GDP, and can serve as a bridge for recovering the economic development of the country in the near future. Reform of this complex will be important not only in terms of accelerated economic development (based on local materials and people), but also from the point of view of social benefits – quality of housing, architecture and improvements both in urban and rural areas.

4.10 Transport

Precarious situation of means of transportation and roads in the Republic of Moldova dictates the necessity of an urgent reforming of this sector. Depreciation rate of the fixed assets of railway transport is 46.3% and of the motor transport – 60.6%. The threat of man-caused accidents is growing.

Motor transportation and network of roads. Unsatisfactory conditions of the road network in the 90s worsens the utilization of the fleet park, reduces the transit traffic through the country's territory, and discourages potential investors. The strategic orientation of the development must be oriented to construction and reconstruction of roads by European standards. Given the lack of budget resources for road reconstruction and maintenance, it is necessary to give concessions for road construction, introduce fees for the use of bridges and roads successfully approved in other countries with transition economies.

One of the most important objectives is the *inclusion of Moldova in the European system of transportation*. The 9th European transport corridor will cross over the territory of Moldova will accelerate the integration of Moldova in European life and create a favorable environment for the economy and population's employment. It is in Moldova's interests that this corridor run through the Ukraine – Dubăsari- Chi°inâu – Cimi°lia – Comrat – Giurgiule°ti – Romania. At the same time, reconstruction of some portions of Chi°inâu – Giurgiule°ti road is needed.

Development of the *network of national and local roads* is based on marking the principal centers linked together through transportation routes. These centers include big economically developed localities. In general, this kind of road network does exist already, but for its improvement financial resources from both the budget and private sector are needed.

Quality improvement, reduction of construction and maintenance costs require an encouragement of competition among private enterprises engaged in road construction and maintenance. Construction and maintenance contracts should be awarded through competition.

For the development of *motor transportation*, it is necessary to determine, at the state level, the principles and optimal structure of the country's fleet park formation (freight transportation, bus fleet, special machines), by taking into consideration the European structural and quality standards of the fleet in terms of its technical maintenance.

The crisis of the 90th worsened the situation of the *municipal transportation*. Its enterprises have always been under the pressure of the population and various political forces to maintain cheap fares. Municipal authorities do not have enough financial resources for covering the debts to transport enterprises and, as a result, the latter are unable to renovate their assets. The priority tendency in the reformation of the urban transport should be its privatization, liberalization of the transport enterprises' activity and amelioration of the competitive environment. The municipal authorities should take measures oriented to rationalization of pricing and subsidizing policy in public transportation system, to improving the road engineering system for the traffic.

Moldova's **rail-road transportation** is represented by the monopolistic concern "Calea Ferată a Moldovei". The difficult financial situation does not allow to change the rolling stocks. Restructuring of the enterprises is necessary toward separation of railway infrastructure from the freight activities, and of freight traffic from the passenger transportation. This will offer stimuli to reduce expenditures through closure of the inefficient enterprises, to reduce staff and introduce unsubsidized realistic passenger fare rates, which will diminish the burden of the state budget.

The necessary *measures* for the modernization of the rail-road transportation sub-sector are:

- repairs of the worn-out railroad segments;
- modernization of the means of communication and traffic regulation, installation of modern systems of information management;
- extension of the road network along the routes Râbnîþa-Rezina-Orhei-Sângeră-Căinari-Cahul-Giurgiuleºti – Galaþ i (Romania); Cahul – Giurgiuleºti; reconstruction of the segment Sângeră – Căinari;
- a qualitative amelioration of the rolling-stock for passenger transportation;
- use of "Inter-city" trains for major routes.

Air transportation sub-sector includes the activities of 5 state and 13 private companies (1997) offering international air flights. At present, civil aviation of the Republic of Moldova does not meet the modern standards in terms of both the service level and its growth rate and cost effectiveness. To attain European standards in civil aviation is possible through the attraction of foreign investments and provision of support by the state. The first step in this direction should be reconstruction, with the EBRD support, of the Chiºinãu airport starting in 1998. *The fact that six air corridors pass through Moldova from the Near East to the North of Europe serves as a premise for a future efficient activity of the main airport and the whole civil aviation of the country.*

According to "The Concept of Civil Aviation Development in the Republic of Moldova until 2005", the priority tendencies are:

- integration of aeronautic services of Moldova in the European system of the supervision of air-flights; renovation and modernization of air-navigation equipment, and of the monitoring and communication systems;
- renovation and modernization of the aircraft and helicopter fleet;
- creation of an integrated road network;
- use of the international computerized system of flight reservation;
- Moldovan airline companies' joining international associations and the international conventions of flight security.

Creation of Euroregion *of free economic zones "Lower Danube"* in the south of Moldova will require respective development of transportation net in this part of Europe, including based on inter-state cooperation.

4.11 Telecommunications and post

Communications and post are among the "infrastructure stimulators" for economic growth, and the efficiency of operators in these two sectors is important for the success of economic transformations in the country.

Postal services, telecommunications, information networks and electronic media in Moldova are coordinated by the Ministry of Communications and Information (MCI). The reform in this sector, started in 1993, had the initial focus on separation of planning and operating functions

through the establishment of two state enterprises: "Moldtelecom" and "Po"ta Moldovei". MCI has connected Moldova to international networks by seeking membership in a range of international telecommunications organizations UPU, ITU, PTEC, EUTELSAT, TERENA.

Telecommunications

Moldova has near 600,000 telephone numbers, out of which 75% are in urban areas, and some 4,000 public phones. Only 5% of telephone stations have digital equipment (e.g., Slovenia – 60%). At the same time, there are about 200,000 orders for phones to be installed. The country has direct telephone connections with Romania, Bulgaria, Greece, Canada, Denmark, the CIS, Baltic states and, through an international communications center in Montreal, with the rest of the world. A masterplan for telecommunications development was prepared by MCI together with "Detecon" (Germany) for the period of 1994-2003. It includes:

- Increasing the number of phone numbers from 12.5 to 21.8 per 100 persons till 2003;
- modernization and extension of the networks introduction of by-the-minute charges for local calls;
- implementing a mobile phone network (GSM standard), paging (ERMES), data trafficking services.

To achieve these goals, the following measures were envisaged:

- Laying down a fiber optic network Cahul-Chi"n"u-B"al"i-Briceni with a connection to international hubs CAFDS (Gal"i) and TEL (Cerr"u"i).
- Installing digital equipment in telephone stations that would allow the introduction of phone cards.

The forecast of development of telecommunications during 1998-2005 elaborated by the Ministry of Communications and Information stipulates a 32% increase of the length of telephone networks, 78% increase of the number of urban phones (to 628,000) and rural – by 20% (to 153,000). Until the year 2005, Moldtelecom expects a 28% raise in profits, 153% raise in capital investment; while the number of employees is expected to remain virtually the same (155), the average salary will increase from current average of 220 lei to 1,275 lei.

Problems

The main issue on the agenda is the privatization and development of Moldtelecom, identification of a strategic partner/investor and modernization of Moldtelecom to international standards.

The monopoly in communications sector hinders the decrease of rates (especially for international calls), fast development of new services, and attraction of necessary investment for extension and technical modernization. For this same reason, the implementation of GSM cellular phone network is delayed (e.g. in Finland, one third of population uses cell phones) in favor of the NMT standard which is much more expensive for users. Potential local alternative operators are being left out in the search for a strategic partner. Access to the Internet in Moldova is still inadequate due to lack of competition in electronic communications.

Objectives

Extension of services: telecommunications are among the most dynamic service sectors, with new products being developed almost each year – the latest being the Internet and cellular phones. Fast development of such new services can be achieved only by liberalization of the telecommunications market, ease of market entry for newcomers, free access to Moldtelecom networks for alternative operators.

Ensuring a penetration rate of 23% (lines per 100 persons) until 2003. Better coverage of National territory: the phenomenon of decreasing quality of service and line density from the capital to the periphery is well known. The modernization of telephone stations, extension of public phones network are also objectives of the Strategy.

The modernization will start equipping 50% of telephone stations with digital equipment by the year 2003 (first stage), developing fiber optic networks throughout the country and ensuring better surface and radio international connections.

Policy measures

Attracting additional sources for modernization of telecommunications sector. Since the resources of internal operators are limited, additional funding will be attracted through foreign investment.

The tariff policy has to be adjusted to an increased competition.

The gradual liberalization of access to Moldovan market of telecommunications (equipment, services, infrastructure) and gradual privatization of Moldtelecom.

Postal services

The law on postal services in Moldova gives a large degree of monopoly to the National company "Po^ota Moldovei". This monopoly includes forwarding of parcels, letters, money orders, distribution of pensions and social allowances. Other services provided by PM include philately, periodicals delivery, etc. Only express mail and courier services are open to competition, where, beside the national "PRIORIPOST", there are two international competitors – DHL and TNT.

Currently, the rate policy, licensing, international representation of national operators is the responsibility of MCI.

The organizational chart of "Po^ota Moldovei" includes 37 mail centers, that have 2,167 subsidiary postal offices, 86% of which are located in rural areas. There are 4,367 mail boxes in the country. The PM is one of the largest employers in the country with 6,493 employees that receive professional education at the College of Communications in Chi^oin^ou. Currently there are no institutes of higher education in this field.

According to current quality standards, the internal mail has a (D+3) delivery time.

Problems

In spite of the fact that Po^ota Moldovei remains a profitable enterprise, during 1993-1996, the total number of processed letters decreased by 60%, parcels – by 75%, and money orders – by 80%. Even though in the same period the total income increased from 22,500 lei to 27,900 lei, the profitability of enterprise has decreased from 21.9% to 11.3%. The drop of letter/person ratio brought to an excess of capacities which can not be used any more by the operator. The postal sector suffers from chronic under-investment in buildings, equipment and transportation.

The current money order service is operational only with the CIS countries and Baltic states. 40% of PM income today is generated from pensions distribution. To diversify the income structure, other services could be introduced for better asset utilization: postal banking, financial services, etc.

Rates for postal services are too low for capital accumulation necessary for modernization of postal infrastructure. To create a sound financial base for postal services, it is necessary to adjust the current rates in accordance with real costs.

A set of recommendations concerning the functioning of Po^ota Moldovei was prepared by a mission of the Universal Postal Union (May 1997).

Objectives

More prompt mail delivery, reaching by the year 2000 a one working day delivery term (D+1) for internal mail and (D+2) for external mail to the border of the given country.

Increasing accessibility of postal services through increased coverage of rural areas and through extension of existing urban network (e.g. mail boxes could be placed near the "Moldpresa" kiosks, collecting the mail simultaneously with periodicals delivery). Ensuring 100% integrity of mail deliveries.

Enlarging the service range (banking, financial) provided by the postal network. Increasing the profitability of "Po"ta Moldovei".

Actions and measures

Technological reform: modernization of logistical system, postal codes. Increasing professional qualification through setting up higher postal education. Development of a new system of dispatch and computerization of postal services.

Economic policy: adaptation of rates to market costs, ensuring more flexibility through amendments to the Postal Code. Setting up central and regional marketing offices.

Institutional reform: until the year 2000 PM, will be transformed from a state enterprise into a stock company, where, according to the existing law, the state will retain 51% of shares, employees – 20%, and the remaining 29% will be sold on the stock market.

Gradual liberalization of the postal services: the parcels and telegrams by the year 2000, and the rest by the year 2005, except letters weighting less than 350g and costing less than 5 minimal tariffs.

4.12 Informatization

Information, along with raw materials and energy, has become a crucial resource for ensuring the socio-economic prosperity. Taking into account that information volume doubles every 20 years, in order to provide for an efficient operation of the economic and social systems, important is the availability of selective and complete information duly provided in a manner that might facilitate its subsequent processing. To meet these requirements is possible only in a society with a high level of information technology.

In Moldova, information technology development and computerization is carried out in conformity with the Concept and Pilot Project on Society Computerization in the Republic of Moldova, approved by resolutions No. 415 of the Government of 5 July 1993 and No. 155 of 6 March 1995.

The state policy in this field is promoted by the Ministry of Communication and Informatics. At present, about 170 companies operate in the field of informatics (informational centers, laboratories, university departments) which use 14,000 computers, 200 local area networks, 15 broader networks, including 4 public networks. A more advanced level of computerization has been reached by the banking and financial sector, telecommunications, Ministry of Internal Affairs, Ministry of Social Protection, Customs Department, Statistics Department, higher education institutions, and successful companies. The costs in the computerization field equaled 44 million lei in 1996, which accounts for 0.6% of the GDP.

Computerization in the Republic of Moldova encounters the following main obstacles:

- generally limited use of computers (most sectors of the economy are under-computerized);
- use of some obsolete information technologies;
- low amounts of stored data;
- lack of interconnections between the large public nets;
- high rates for public services provided by information systems, etc.

The basic indicators of our society's computerization are 30 to 200 times below those of the highly advanced countries. For example, in USA there is a computer per each 2-3 inhabitants, whereas in Moldova – only per 250-300 inhabitants. The share of Internet users in the USA is of 12 per cent, whereas in Moldova – only of 0.1 per cent. The maximum speed of data transmission in the large area nets in the USA is 2.5 Gbps, whereas in Moldova it is only 256 Kbps. Low level of computerization has negative impact on the development of the national economy. Of course, computerization is possible without intervention of the state, yet, it would be slower, more expensive and less effective. Consequently, the socio-economic development will be harder. This is why an active policy and more radical actions on the part of the state to intensify computerization of the society are required.

Objectives

The general purpose of computerization of society is to ensure quick exchange and flow of information amongst the state and public institutions, companies and population. It is imperative to reach, over the course of 10-15 years, an adequate level of computerization and information network development compatible to that in developed countries. It is also necessary to implement modern information technologies. To attain these goals, it is necessary to implement the following major objectives:

- adjusting the information networks to European and world standards, and
- modernization of the public information services infrastructure.

Setting up a public pivot-net for data transfer at working speed varying, depending on the traffic, from 128 Kbps to 45 Mbps, which by the year of 2005 might cover entirely the area of Moldova, at least to the level of raion centers. To implement by the year of 1999 some pivot international channels for data transfer with a capacity of at least 2 Mbps, on the basis of the data traffic, required for business activities, education, general knowledge, following and implementation of modern industrial and agricultural technologies, science, interests of integration into Europe and world community. For this purpose inter-connections are needed with the 4 major directions: Western Europe; USA, Canada, (via Bucharest); Romania; Ukraine and Russia;

- setting public servers to provide information on major socio-economic activities, storage of both domestic and external data. These servers should be equipped and render services in finding necessary data. As regarding the major fundamental data, the informational center of the Republic of Moldova should intend to represent complete data with a view to obtain data from abroad, and, undertake measures in order to specify and localize the respective data, part of which, particularly mostly required by most users, should be accessed also right from these servers;

- development of domestic hardware and software products and improving their quality. Increasing the competitiveness of the information sector on the domestic market;

- enlarging the range of information services and improving their quality. Ensuring, by the year of 2005, a 5% share of computer users;
- ensuring access of the general public to information sources and services. Rendering public information services to companies, institutions and individuals on uniform conditions and without any discrimination;
- adjusting the tariffs, and their gradual alignment with those from Europe, aiming at subsequent integration into European structures, encouraging competition in this field. By realizing these objectives, it should be possible to enhance the competitiveness of the information sector in Moldova, gradually meeting the requirements of the domestic market.

Directions of activity and measures

For realizing the objectives and reaching the established targets, the following measures should be undertaken:

- adjustment of the information sector to European legislation and standards, including that regarding regulation of relations in the spheres of production and usage of computer information products, prevention of privacy violations and suppression of individual liberties;
- additional funding with a view to advance the modernization of the informatics sphere, including through attraction of foreign investments;
- gradual deregulation and liberalization of access to information market in the Republic of Moldova, particularly in regard to transfer of data. The National Program on Information Integration of the Republic of Moldova should form the basis for adapting the computer information systems to market economy conditions;
- sustaining and encouraging the economic and scientific cooperation based on the principles of mutual advantage and profitability;
- reforming the tariff policy pertaining to information services, by taking into account the growing competition and inflation processes;
- implementation and enforcement of state policy in this field (Ministry of Communications and Informatics) through defining priorities and scheduling actions based on due regulations and stipulations.

Computerization actions should be lined up with other activities so that they provide for the promotion of reforms and socio-economic development of the Republic of Moldova in general. Experience of the developed countries shows that the effects of computerization justify investments. Given that computer information technology is one of the most dynamic and profitable industries, it possesses considerable potential to accelerate the development of all the national economy.

4.13 Services: domestic trade, tourism

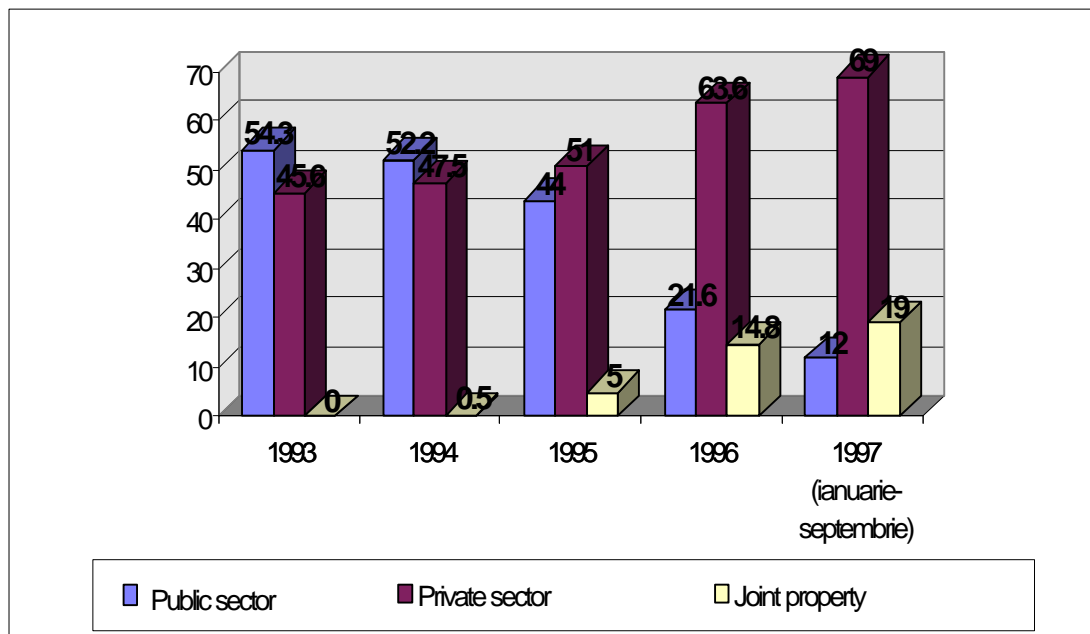
Services sector is an increasing part of national economy, characterized by the higher flexibility and dynamism in comparison with other sectors of economy. The services share, excluding public services, in the GDP structure was 23.5 % (1997), which is higher in comparison with 1995 figure – 14.8 %. This indicator in different developed countries is between 30 % (Denmark) and 58 % (United States). The main types of services in Moldova are commerce, all type of repairs, transportation, storing, communications as well constructions. The biggest share in services is hold by internal trade, which was the first privatized and liberalized branch. Tourism is

the most promising branch of this sector, since Moldova has favorable natural and historic-cultural conditions.

Domestic trade

The importance of trade is significant in market balance as an intermediate phase between production and consumption. The share of internal trade amounts approximately 8 % in GDP. The integration of Moldovan trade relations to European distribution structures should be possible throughout development of private sector and competition with ensured business profitability. Retail trade activity in Moldova shows an increase of private sector in last 4 -5 years from 45.6 % in 1993 to 63.6 % in 1996 and to 69 % in January – September 1997.

The structure of retail trade, including catering, by type of ownership in 1993 – 1997 (%)



The internal trade restructuring in the Republic of Moldova in new competitive environment is taking place simultaneously with public sector diminishing, from 54.3 % in 1993 to 12 % in January – September 1997, and reduction of consumer's co-operation capacity, which registered in January – September 1997 21,8 % of total retail trade volume. The increasing role of trade units has tendency to create a new competitive environment in internal trade, which generate higher efficiency and advantages to consumers. As a result of privatization, a lot of big modern stores appeared with perfect customer service. The renewal and re – equipment of trade outlets took place and enlargement of commodities assortment in some ex public trade sector. Exclusive stores of Moldovan producers have been developed, which are a part of trade distribution: "Aroma", "Vitanta", "Bucuria", "Cricova", "Ionel", "Steaua", "Zorile", etc.

Trends and problems

The analysis of internal trade in Moldova shows some negative trends and changes. Creating of new private trade companies in internal trade created a lot of problems which require new strategies in trade regulations. The main problem is insufficient protection of consumers rights, which creates violations of trade regulations.

The rational location of retail trade companies is also an actual problem and should be the major occupation during the period of trade modernizing to market economy. In Chi'inău alone

the number of food stores was 1,773 as of the beginning of 1997, compared to 343 in 1993. The number of non-food trade companies grew more than four times: from 85 in 1993 to 400 in 1997.

This sharp increase in trade floor area and number of trade outlets was because of increase in the number of small food shops with areas under 100 m² placed in unbecoming places. At the same time, the trade spaces and storage facilities in former public trade are used inefficiently.

Privatization of trade companies directly influenced the change of assortment, the new owners oriented to profitable types of goods with negative impact on *current consumer goods* and products. One specific phenomena for internal trade in Moldova is the sharp development of non-organized, informal trade which amounts to 53 % of total sales in January – September 1997. Non-authorized trade in public places has negative tendencies in the national economy. The lack of wholesale trade registration in Moldova do not permit to control and estimate the phenomena of wholesale market formation and the relationship between demand and stocks.

It is necessary to mention that trade units reduced additional services to consumers. The increase of stores number did not reflect an improvement in customer service level and goods assortment.

Priorities for development

The mentioned tendencies show the necessity of:

- elaboration of some rational relationship between private initiative and public activity to organizing of retail trade;
- revival of wholesale trade activity and improvement of statistical control;
- enforcement of legal framework regarding consumers rights protection represents a base condition of trade discipline.

Involvement of domestic trade in new competitive environment requires a number of measures aimed at promoting different types of trade:

- establishment of associated enterprise, depending on types of sales;
- development of specialized trade through creation of specialized distribution groups in food products and in non-food trade;
- re-establishment of specialized trade network for vegetables and fruits sales;
- adequate estimation and rational use of retail and warehouse spaces;
- development of big stores chains;
- development of distribution through modern communication technologies implementation.

Tourism

One characteristic economic feature of tourism is its dynamic development even in the crisis period. Accumulated experience in planning of specific tourist regions becomes an essential factor of underdeveloped zone. The present situation of Moldovan tourism is due to inadequate level of services and lack of developed tourism infrastructure. The insufficient use of available capacities remains an important problem. Low quality level of housing capacities and output from tourist activities place the Republic of Moldova in group of countries with undeveloped tourism. In most developed countries, tourism is considered priority sector of economic development, with foreign exchange revenues running at 10-35 % of exports volume.

Profits from tourism amounted 9.3 million lei in 1993, with increase to 33.7 million lei in 1995, especially through transit tourism, and with the double decrease in 1996 – 18.6 million lei. In January – September 1997, this indicator was 15.4 million lei, which was 18% lower in comparison with the same period of 1996.

It is important that the largest share of profits is from international tourism (93% in 1996, and in January – September 1997 – 88% of the total). The number of foreign tourists in January – September 1997 decreased by 26% compared to the same period of 1996, and the total tourism turnover reduced by 44%.

The tourist activity in the Republic of Moldova is characterized by considerable increase of private sector in total inputs (up to 92 % in January – September 1997). But the private tourist companies activities are oriented to tourism abroad which amount to 66.4 % of total external tourism inputs in January – September 1997 (the share of private sector in this period was 95 %).

On the basis of the above-stated, some *conclusions* can be drawn:

- Actually, the Republic of Moldova is a tourists importer, having a negative balance in international tourism, which shows an excess of tourism out over tourism in.
- Internal tourism in Moldova is underdeveloped, but tourist capacity and advantageous geographic position in the region create favorable prerequisites for tourism development.
- Development of this sector in Moldova according to market requirements is impossible without joint actions by involved departments and enterprises.
- The creation of tourism legal framework and adoption of Concept for Tourism Development in Moldova is a necessity.

In order to realize the development objectives for tourism in Moldova, the following should be accomplished:

- creation of Tourism Department in Moldova;
- creation of interdepartmental structure for tourism coordination (National Tourism Council);
- elaboration of program for the creation and development of tourism infrastructure in Moldova;
- building of middle-sized and small hotels network, motels and other lodging facilities in tourist zones in Moldova using international cooperation;
- professional education;
- marketing and promotion of national tourist product.

4.14 Regional development

Despite the relatively small size of the country, the regional aspect of Moldova's development plays an important role in the structure of the country's economic and social life, relations with neighboring countries and integration of the country into European processes.

Regionalisation. Geographical, demographic and economic characteristics and resources of the various regions of Moldova are quite different. One of the goals of the strategy is to make full use of the potential of each region.

Historically, four integrated economic regions were formed in the Republic of Moldova: *Northern*, formed by the municipality of Bălți and the raions of Briceni, Edineț, Ocnița, Dondușeni, Râșcani, Glodeni, Drochia, Fălești, Sângerei, Florești, Soroca, Camenca, Rezina and Țldânești; *Central*, formed by the municipality of Chișinău and the raions of Ungheni, Călărași, Telenești, Orhei, Strășeni, Hâncești, Ialoveni, Nisporeni, Criuleni and Anenii-Noi; *South-eastern*, formed by the municipalities of Tiraspol and Bender and the raions of Dubăsari, Grigoriopol, Slobozia and Țefan-Vodă; and *Southern*, formed by the raions of Cantemir, Leova, Cimișlia, Basarabeasca, Căușeni, Comrat, Ciadâr-Lunga, Taraclia, Vulcănești, and Cahul. Their main characteristics and differences were determined by the specialization of the economy, similar natural conditions, the presence of cities as regional economic centers, the development of the settlement systems, and similarity of development perspectives.

Table: Economic Regions (1990, RM=100%)

| | Northern | Central | South-eastern | Southern |
|-----------------------|----------|---------|---------------|----------|
| Territory | 37,1 | 28,3 | 10,4 | 24,2 |
| Population | 31,7 | 41,1 | 11,8 | 15,4 |
| Density of population | 85,5 | 145,4 | 112,8 | 63,7 |
| Number of: | | | | |
| cities | 8 | 5 | 3 | 5 |
| towns | 16 | 12 | 6 | 8 |
| villages | 678 | 515 | 167 | 283 |
| Industrial output | 25,5 | 35,8 | 27,2 | 11,5 |
| Agricultural output | | | | |
| cereals | 41,8 | 19,6 | 12,0 | 26,6 |
| sunflower | 34,7 | 19,1 | 14,7 | 31,5 |
| sugar beat | 91,8 | 8,2 | - | - |
| vegetables | 18,0 | 21,2 | 39,9 | 20,9 |
| fruits | 40,0 | 28,3 | 21,1 | 10,2 |
| grapes | 6,4 | 44,9 | 8,2 | 40,5 |
| Road length | 38,2 | 38,7 | 8,0 | 15,1 |
| Urban population | 31,0 | 50,9 | 48,8 | 28,7 |

The most developed regions from the industrial point of view are the Central and South-eastern; from the point of view of agriculture, the most developed region is the North. The South is a *problem region* because of limited water resources, lack of building materials and a low population density. By comparison with the three other regions – Northern with Balti, central with Chișinău and South-eastern with Bender-Tiraspol – the Southern region lacks a distinct urban center – pole of growth, capable of performing the necessary social and economic functions.

The Moldovan *settlement system* comprises 21 cities, 45 towns and more than 1,600 villages. The process of urbanization in Moldova was intensified in the 1960-1980s, when the share of urban population increased from 23% in 1960 to 47% in 1989. In the 1990s, as a consequence of the crisis, part of the population moved from the towns back to the rural areas. A process of sub-urbanization also took place, as the suburbs of the larger cities have experienced intense activity of construction of private residences.

To determine the prospects for the country, it is necessary to take into consideration the specificity of the urban network: one large city (700,000 people); three middle-sized cities (between 120,000 and 250,000); and more than 60 small towns. Among rural settlements, large villages predominate. The average population of a Moldovan village (1,500) is larger than in the neighboring countries – Romania (600) and the Ukraine (700).

Moldova has an advantage in the well-spread nature of its settlement system: the average distance between urban settlements is 14.2 km, and between villages – 4.6 km. This fact determines the specific character of the country's infrastructure (health centers, schools, transport, roads, water supplies, postal services and communications, etc.), which needs to be considered in the perspective.

When Moldova joined the Council of Europe in July 1995, *it assumed a number of new obligations which follow, particularly, from the ratification of the European Charter of Local Self-Government*. The Parliament of Moldova ratified the Charter in July 1997. Now, it must bring national legislation, including the laws "On Territorial-Administrative Organization", "On Local Self-government" and "On Elections to Local Public Administration Offices", in line with the Charter.

Europe operates today in the context of a new juridical, political and socio-economic reality: *regionalism* manifesting itself in increasing the rights and responsibilities of regions in some countries (Germany, Spain, Austria, etc.), and developing cooperation among regions across national borders. The main problems here are as follows:

- (i) *How to distribute responsibilities between central and regional authorities in the best possible way for the country and the regions; and*
- (ii) *How to ensure that the process of decentralization does not undermine the national state.*

Moldovan regional development has acquired a new dimension during the 1990s. The armed conflict in Transnistria and the tensions that developed in the South in 1991-92 disturbed the territorial integrity of the domestic economic relations. The creation of a new territorial-administrative entity, Gagauz-Yeri (1995), partially defused political tensions in the South. However, the problems affecting the legal and financial relationships between the center and this region – as well as some others- have not yet been resolved.

The most durable solution to the regional problems of Moldova is the *development of a new economic base for local administration*. It is vital that the law "On the principles of local self-administration" (1991) be revised as it does not contain clear guidelines for the establishment of appropriate relationships between public authorities at the central and regional levels. New mechanisms are needed to create a financial and economic basis for local government, to set up the system of municipal property, to decentralize the budget and to provide the framework for trans-border regional cooperation.

The non-utilization of regional resources, excessive centralization of the national budget and the practice of giving subsidies and grants to the majority of raions have on the one hand paralyzed initiative, and on the other hand, pushed local administration together with local businesses into the shadow economy, barter arrangements, income concealment and tax evasion.

The strategic importance of regionalism follows from the fact that the activity of the state is exercised in all its aspects at the regional and local levels. It is at these levels that economic agents, population, social and productive infrastructure and natural resources come face-to-face, and the sooner Moldova succeeds in creating a legal and economic framework capable of ensuring that regional and local authorities fully exercise their capacity of initiative, the better. The success in reforming and stimulating the recovery of the economy as a whole depends on this.

Until the year 2005, *the strategic objectives of regional policy* are as follows:

- to finish laying down the legal basis necessary for strengthening of local government;
- to strengthen the financial autonomy of the regions on the principles of budget federalism;
- to take advantage of free economic zones, industrial and technological parks and border trade facilities to set up growth centers in regions and in certain cities;
- to implement measures of support by the state to areas subjected to natural disasters, technological or ecological catastrophes; and
- to develop inter-state trans-border regional cooperation.

The territorial-administrative reform. The inappropriate territorial-administrative division of the Republic of Moldova in 40 raions and the small size and low demographic and economic potential of these raions represent an obvious barrier to the successful achievement of regional self-government. As far back as in the 90's research institutions formulated scientific arguments in favor of *increasing the size of the territorial-administrative units of Moldova, and proposed alternatives contemplating 18, 12, 9 or even 7 regions.*

The draft of territorial-administrative reform submitted by the Government in June 1997 contemplates the division of the country into 8 raions (Edineş, Bălţi, Soroca, Orhei, Ungheni, Hânceşti, Căuşeni, Cahul), two autonomous regions (Transnistria and Gagauz-Yeri) and the Municipality of Chişinău.

In the future it will be necessary to elaborate special programs addressing the needs of depressed regions. The designated growth points on territory include the free economic zones of Ungheni- Otaci, Giurgiuleşti and Tighina, and the technological parks of Bălţi, Tiraspol and Taraclia.

Based on joint efforts of Moldova, Romania and the Ukraine it is necessary to set up 2 *Euroregions* – “Lower Danube” (Galăţi, Giurgiuleşti and Reni) and “Upper Prut”, at the border junction of those countries near the Carpathians.

In all, the regional policy until the year 2005 is geared to the establishment of a new legal base for *maximizing regional initiative and the utilization of regional resources*. For this purpose, it must be coordinated with various sectoral policies – budget and fiscal policy, in the agricultural, industrial, energy and transportation sectors, development of tourism, improvement of medical services, etc.

Beginning in the year 2000, once the territorial-administrative reforms are complete, regional policy should be brought closer to the principles and economic and political mechanisms prevailing in the European Union.

4.15 Protection of the environment

The transition period is characterized by a change of general conditions of environment management: on the one hand, decline in manufacturing activities led to diminished pollution levels; on the other hand, because of the state's weakness, irresponsible attitudes to nature are prevalent (subterranean resources, animals and plants, soils and woods).

The environment policy in the Republic of Moldova is headed by principles elaborated by the UN Conference in Rio-de-Janeiro (Agenda 21, 1992) and development principles which are implemented in most of European countries.

Actual situation and problems

Water. 3.2 km³ of water per year is used in the economy. Water supply is not sufficient from the point of view of both water quality and its availability in some areas. Potable water quality is deteriorating. The mineralization of the Nistru river water increased by 50% (the Nistru holds 54% of water supply). The main water pollution sources are untreated (or undertreated) industrial effluents, cattle farm wastes, etc.

Atmosphere. Massive air pollution with contaminants can have unexpected consequences. The main pollution sources are industrial discharge (73 kt), transportation (235.7 kt), and pollution inflow from abroad.

The quantity of **solid wastes** is on the continued increase. Industrial wastes come from plants, boiler-houses, construction sites, etc. **Household wastes** amount to 800,000 tons per year, 300,000 of which come from Chi'inău. Around one third of landfill sites are not authorized, and the number of waste incineration facilities is inadequate.

Species diversity in Moldova is extraordinary. Cynthetic fauna (deer, boar, gamebirds, etc.) represents a special value. In the 1990s, the main ecological documents were elaborated: **The Strategic Program for Long-Term Environmental Protection** (adopted by a Presidential Decree in October 1995) determines scientific direction for sustainable development and major objectives to be fulfilled; and **The Concept of Environmental Protection** determines the basic directions and mechanisms of the environmental protection policy in the period of transition to market economy. Efforts were made in the previous years to elaborate **sector strategies** (Concept of Natural Resources Management, Hunting & Fishing Code, Strategies on Water Resources Use and Biodiversity Conservation, etc.) At the same time, some strategic documents of sectors development include chapters on the production **ecologization** problem (Concept of Industrial Policy, Energy Sector Program, etc.).

Changes in **environment protection financing system** are required. These kind of activities should be financed by enterprises, local budgets, and state budget resources should be used for financing of special programs and projects and operations of the environment departments. Foreign financing is necessary for research and implementation of the environment protection projects.

Objectives

Major objectives of environmental policy are oriented to living conditions improvement: forests enlargement, urban parks and recreation areas, potable water quality improvement, maintaining and improving of air quality, ecological food products. Within the Strategy for Development, the main goals can be formulated as follows:

- maintaining of natural capacity of this territory as the base of production, ecological security of the population and favorable environment quality;
- use of biological resources in limits of their regeneration capability, increase of their productivity. Rationalization of use of non-renewable resources, use of alternative resources, raw materials and energy, minimization of raw material and energy consumption for each unit of output, reduction in non-biodegradable wastes and recycling.

Measures

Institutional measures: Revision of functions and institutional reorganization of natural resources management in order to divide managing function from exploitation function and autonomous branches creating. Creating of *an integrated government office* for natural resources management and environment protection or of an interdepartmental structure which will guide the activities for natural resources management and environmental protection in different sectors.

Legislative measures: updating of the legal framework, management functions decentralization, impact assessment of all projects which have direct or indirect effects on the environment; elaboration of new documents on population security (radiation, potable water, chemicals use in agriculture and forestry, etc.); reviewing of ecological standards in order to harmonize them with the European Union standards.

Economic reform and sector policies

At the macroeconomic level, the core of the state policy must be oriented toward an efficient economy with a minimal impact on the environment. It is important to support the development of the national economy's branches oriented toward the reduction of the local raw materials' and energy consumption. In agriculture, needed is a gradual transition from the system based on concentration and specialization to the one based on the agro-ecological potential of the territory. Support is necessary for the development of organic agriculture and incorporation of environmental standards in sectoral policies.

Ecological management. Ecological certification of enterprises must be completed and extended over the territorial units (villages, communities, raions, municipalities). An increase in the role of the economic mechanism in the management of natural resources' utilization and protection of the environment, information and attracting of large masses in making decisions and realization of measures in natural environment protection.

Agriculture. Maintaining environmental standards and requirements during the process of reforms in the agricultural sector, especially in ***agri-pedology, agricultural chemistry, selection, diagnostics.***

Industry. Stimulation of environmentally friendly industrial output should be oriented in two ways: on one hand, strict control (ecological certification) and taxation (tax on CO₂, etc.), and on the other hand, stimulation of Ecological Products demand.

Energy sector is major pollutant and new technology in this sector is required as well as use of unconventional energy resources.

Transportation: a new control system of car gas emissions (ecological certification). Economic stimulation of pure fuel use (liquid gas, non-ethyl gasoline), imports duties according to pollution level.

Wastes. A Program for wastes minimizing and using is necessary as well as new waste processing technologies. Tight control of toxic waste production, transportation and burial or liquidation (National Register), building of new waste incinerators.

Ecological framework creation. The ecological framework should be elaborated and implemented in Moldova, first of all, through expansion of green spaces, forests, recreation areas and national parks protected by the state.

Main goals:

- Environmentally friendly products. use of "Ecological Product", "Recycled Product" in food and industrial products labeling under Environment Department license.
- New non-polluting technologies implementation, ecological certification, crediting of ecological projects. Taxation of CO₂ emissions.
- Development of technology and infrastructure for recycling.
- Forests planting (13% of territory till 2005), municipal parks.
- Program for potable water quality improvement (including new sources).
- Gradual reduction of greenhouse gases to meet European standards.
- International cooperation for pollution prevention of the Nistru, Prut, and Danube basins (Romania, Ukraine, Commission of Danube Countries).
- Participation in international projects of environmental research.

4.16 Improving accounting and statistics

Accounting

In a perspective, it is of a fundamental importance to bring the accounting and financial reporting in accordance with international norms, that would contribute to the creation of favorable conditions for developing of capital and securities' markets, increasing investment, integration of Moldovan economy into the world market, as well as for optimization of interaction of economic agents, the state and external beneficiaries of information.

The main goal of accounting reform is the creation of a reliable financial database for the development of capital and securities' markets, promotion of investment, fair assessment of businesses activity, expansion of foreign economic relations, obtaining a common system for comparing the financial data. This would provide the state authorities with data to be used as main information source in resolving economic issues, financing various sectors and regions, as well as taxation and formation of the state budget.

Regarding this goals it is necessary to enhance the role and the efficiency of accounting in managing the economy. In this conditions it is necessary to draw a line between accounting and taxation, to apply the basic principles of accounting and the international standards in financial operations.

The efficient and successful implementation of accounting reform in Moldova will be achieved in several *stages*:

- Elaboration of National Accounting Standards (NAS);
- Elaboration of a new system of financial operations;
- Elaboration of a new Charter of Accounts;
- Approval of NAS and Charter of Accounts in enterprises;
- Approximation of current legislation to the newly elaborated NAS;
- Training of business accountants and other categories of employees;
- Implementation of NAS and Charter of Accounts throughout the business community of the country.

Legal base amendment. The accounting reform requires a series of amendments to the current legislation, resulting from NAS in the process of elaboration, that, after the approval, will be submitted to the Parliament.

Some principles of accounting will have an influence and will require amendments to the laws on entrepreneurship and enterprises, accounting, auditing, etc. This amendments will provide for harmonization of national legislation with fundamental international principles and norms of accounting accepted in a market economy.

While elaborating the NAS, the book keeping methods will be brought into conformity with the Fiscal Code. In case that the Fiscal Code provisions will infringe the NAS requirements the latter will prevail, since it is designated to all legal subjects.

Statistics

In order to govern the state, correctly estimate the indicators and processes in the national economy, of crucial importance is the reform of statistics. Certainly, the informational basis of the current statistics of Moldova is unsatisfactory for carrying out serious analytical studies. Procrastination of national system development was related first of all to unavailability of mobilizing ideology, able to be profiled into a well defined concept and into an efficient action program.

The reform Concept of the statistical system in the Republic of Moldova needs to be realized during 1998-2002, whose basic elements are:

- Reorientation from the exhaustive pattern towards statistical observations based on the polls of some characteristic (grounded, systematically adjusted in time) samples;
- Necessity to elaborate a main analysis scheme of the social-economic phenomena occurring in the society, based on a complex system of statistical indicators;
- Assurance of comparability of statistical data both in time and space through implementation of national registers and classifiers of technical-economic and social information correlated between them;
- Setting up such a National Register of the economic agents which might allow to univocally identify them in any fields of activity;
- Putting the macroeconomic syntheses (accounts) on the top of the statistical information system's pyramid: *i.e.* National Accounts, monetary picture, state budget and payment balance, the activity of the Statistical Department being focused on setting up and developing the National Accounts System.
- Adherence to international practice as regards statistics and harmonization of the National Informational system with the European one.

To mention is, that the set guidelines are defined too generally, which is specific to a conceptual document, yet, the following stage should be distribution of priorities and development of reform projects, based on very clear, well pondered and defined concepts.

Among the pilot projects there should be set up one related to the National Statistical Information System (overall number of national and classifying registers) that would provide for comparability and correlation of statistical data. Missing of the latter lead to that what we got today: in order to identify the economic agents, various state institutions need to spend in vane much money and human power - with very poor results; the current informational basis of the statistics does not allow various selections and syntheses of some analytical studies of more complex or deeper economic phenomena.

It is necessary to elaborate and promote the National Accounting Standards through a working group - a team of high rank professionals, hired through a contest, well paid, who should have concrete terms and tasks.

The lack of competent personnel in the field of statistics determines the opportunity to launch a state project in training the personnel and post graduate specialization in the European countries, the persons being selected through a contest and bound based on contract to work for 5 years in the field of the national statistics.

Revision is needed of organizational structure and national statistical technology which might allow to manage better the available resources with a view to reform it faster and more efficiently. The performance of the modern computation machines allows to install them on shrunk premises, thus having a sufficient capacity of storage. It might be more efficient if the employees of the Department take part more directly in data processing technology (something similar to how are being drawn-up other macroeconomic accounts). Utilization of emptied premises might allow to cover a part of the costs needed for a radical reform of the national statistics.

Another source for covering the expenditures might be technical assistance solicited for implementing pilot projects (of major importance for the national economy).

Also, statistics might get profit from granting informational services.

Another important issue - statistics archive. It is necessary to provide for sustainability and development of dynamic series.

In order the statistics reform in Moldova to succeed, it needs to be radical and managed from a sole Center based on some correlated projects with well defined priorities.