

Highlights of the Transition in Moldova
March 10th, 2010

- (1) Drawing from the Monitoring Country Progress (MCP) indices, Moldova is amidst the Eurasia leaders on both reform dimensions and human capital. Economic performance in Moldova, however, is below the Eurasia average and scores slightly worse than Tajikistan (***Figures 1 and 2***).

According to the EBRD, Moldova made no gains economic reforms in 2009; According to Freedom House, Moldova backslid on democracy in 2008 due to a decline in electoral process and independent media. Democratization has been eroding in Moldova since 2000.

- (2) Moldova lags considerably in the majority of the areas in economic reform (in large scale privatization, enterprise reform, infrastructure, and financial reform), democratic reforms (across the board but particularly in governance), economic performance (energy security, economic growth, foreign direct investment, and employment in the micro, small and medium size enterprise sector), and human capital (highly vulnerable populations, low per capita income, and low life expectancy) (***Figures 3-6***). Moldova is a very poor country by E&E standards and even by global standards. Of the E&E countries (including Central Asia), only the Kyrgyz Republic, Tajikistan, and Uzbekistan have lower average income. At \$2,800 (in purchasing power parity terms), Moldova's average income is comparable to that found in Nicaragua or Mongolia.
- (3) ***Figure 7*** shows results from the World Bank's *Doing Business* survey. These microeconomic reform indicators complement the more macro economic reform indicators from the EBRD that go into the *MCP*'s economic reform index. Overall, Moldova's business climate ranked 94th out of 183 nations worldwide in 2009, an improvement since ranking 108th out of 178 in 2008. Moldova's average rank masks considerable diversity of performance among the business climate indicators that go into the overall ranking. Moldova scored the worst (i.e., ranked the highest) in 2009 in, dealing with construction permits (161 rank) and employing workers (141 rank). Additionally, on these two components, its rankings worsened since 2008. However, Moldova scores well in terms of registering property (17 rank) and enforcing contracts (22 rank).
- (4) According to Transparency International's global dataset of corruption perceptions, corruption in Moldova is perceived to be high though not quite at the "rampant" corruption level (by Transparency International's definition). Moldova has the lowest perceived level of corruption in Eurasia after Georgia and is comparable to Rwanda, Serbia and China (***Figure 8***).
- (5) ***Figure 9*** shows the entire transition region has been hit hard by the global economic crisis. Economic output is estimated at -8.5% in 2009 in Moldova down from 7.3% growth in 2008.

- (6) **Figure 10** shows the range of current account balances in the transition region and combines these figures with external debt to GDP figures. Moldova has the lowest percentage of energy and metals for export of all of Eurasia, only 5% of GDP (vs. 26% in Ukraine), and is hence less vulnerable to plummeting prices of these exports. Nevertheless, Moldova has a very large current account deficit and very small inflows of foreign direct investment to finance those deficits. Perhaps most importantly is Moldova's significant reliance on remittances (almost one third of GDP) and the adverse consequences of the global economic downturn on those revenues. Russia is the destination for at least one-quarter of Moldova's migrants, and it is now in recession. Italy is the second most popular destination and its economy fell into recession in 2008.
- (7) Moldova is highly energy dependent and energy inefficient. Moldova is also highly dependent on Russia for its energy receiving all of its gas supplies from Russia's Gazprom via Ukraine. At least as of 2006, roughly 65% of Ukraine's domestic consumption of natural gas came from Russia. **Figure 11** measures energy security by combining energy dependence (net energy imports as a percent of energy use) and energy efficiency (GDP per unit of energy use). We divide the transition countries into four categories. The most troublesome country group consists of countries which are both energy dependent and energy inefficient (Quadrant II). Moldova falls into this highly energy insecure quadrant. Moldova has the highest dependency on energy imports as a percentage of energy use of all the E&E countries.
- (8) **Figure 12** provides an overview of our newest index, peace and security. The components of this index are drawn closely from the U.S. government's foreign assistance strategic framework of peace and security. The P&S index is made up of six components, with data drawn from global datasets, each of which is an index in itself: (1) *counterterrorism*; (2) *combating weapons of mass destruction*; (3) *stabilization operations and security sector reform*; (4) *counternarcotics*; (5) *combating transnational crime*; and (6) *conflict mitigation*. With a total P&S score of 2.9 out of 5.0, Moldova is just above below the 2.8 average for the Eurasian countries and is comparable to Serbia, Kosovo, Belarus, Armenia and Azerbaijan.

Monitoring Country Progress in Moldova

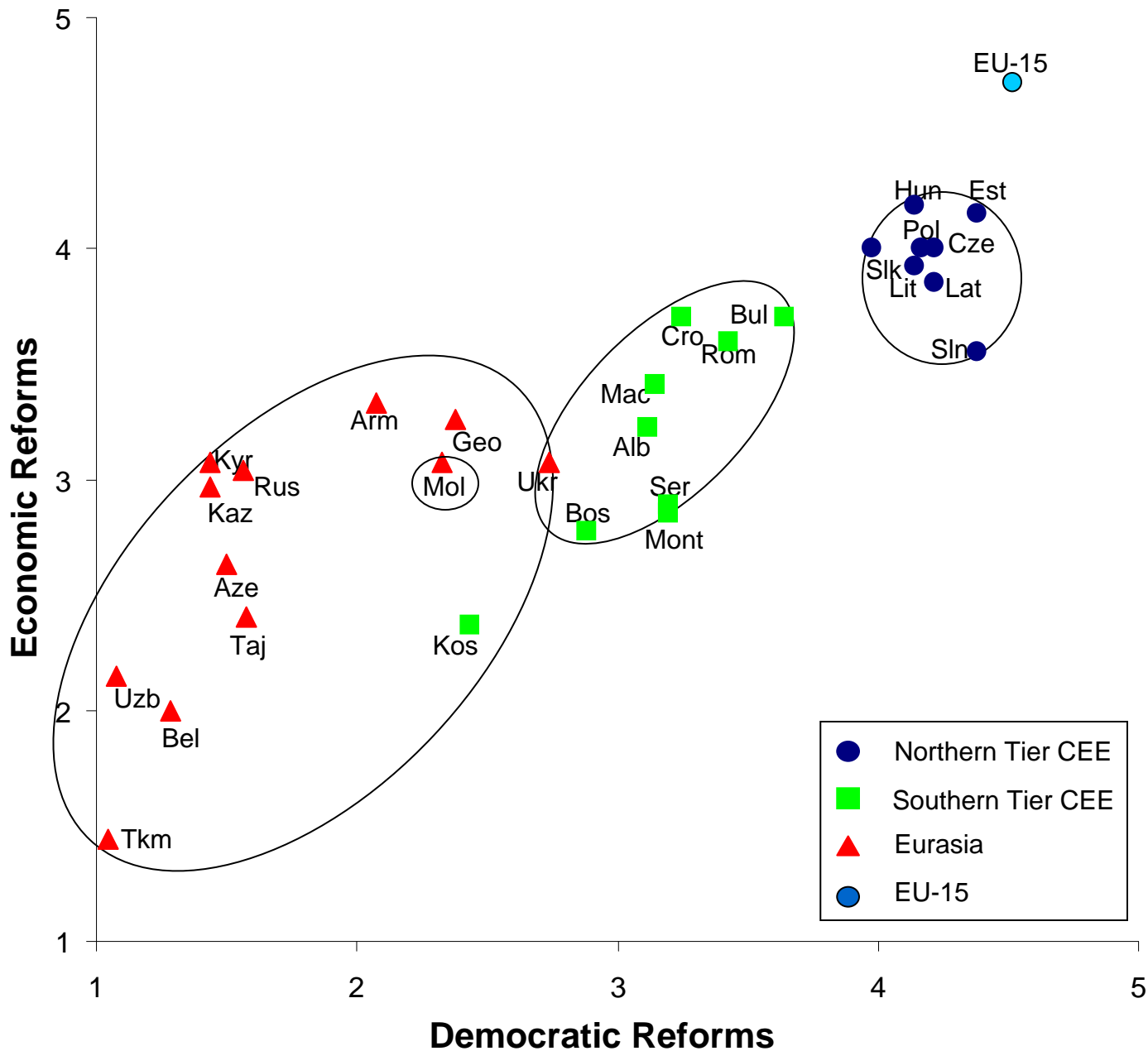
Program Office
Bureau for Europe and Eurasia
U.S. Agency for International Development

March 2010



Figure 1

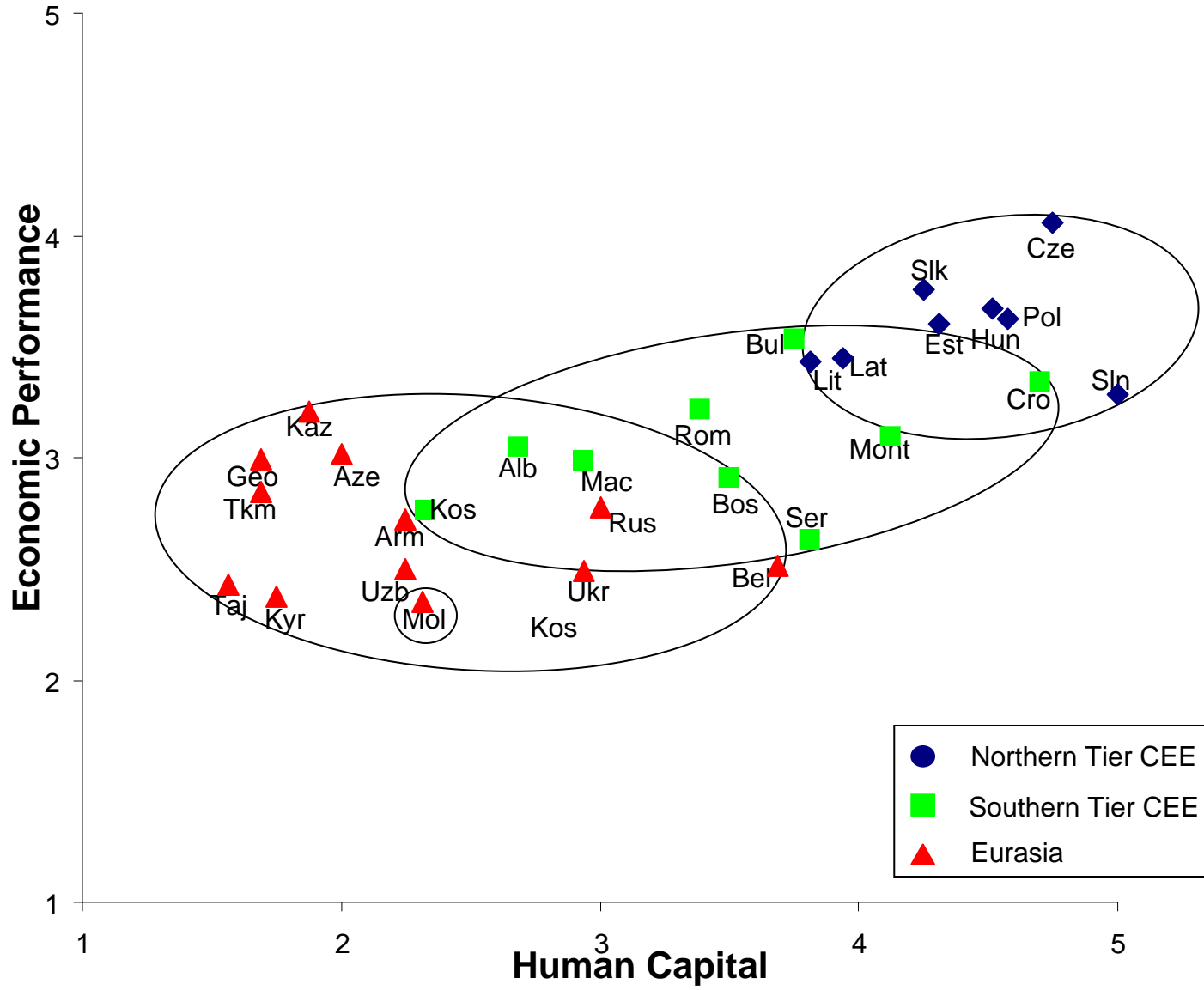
Economic and Democratic Reforms in 2009



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2009* (2009); *Freedom in the World 2010* (January 2010) and EBRD, *Transition Report 2009* (November 2009).

Figure 2

Economic Performance and Human Capital in 2007-2009



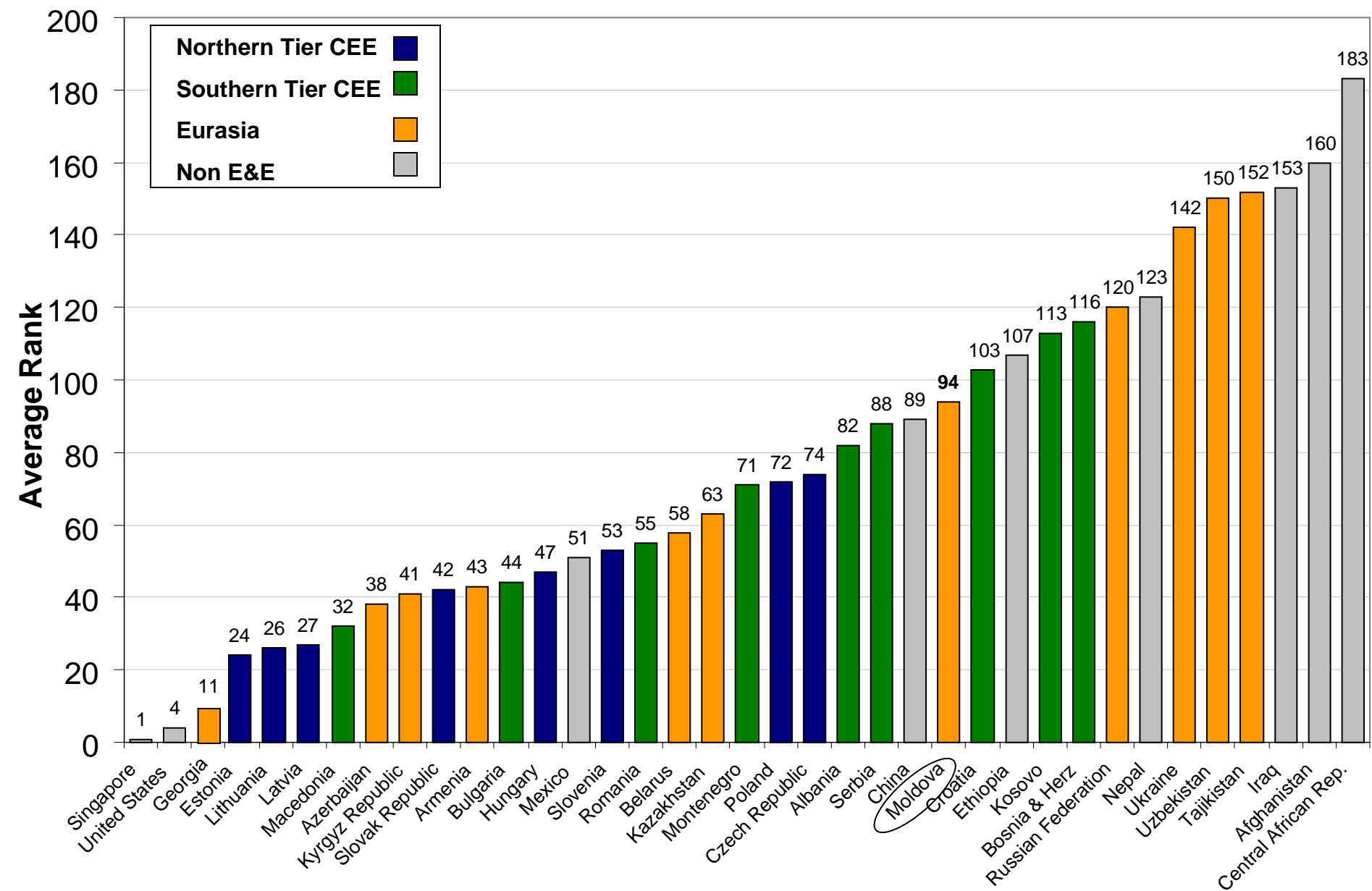
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #12 (2009 forthcoming) drawing from World Bank, *World Development Indicators 2009* (May 2009); EBRD, *Transition Report 2009* (November 2009), UNECE, *Statistical Division Database* (2009); Fund for Peace, *Failed States Index* (2009); IFC & World Bank, *MSME Database* (2007); UNICEF, *TransMONEE Database* (2009); World Health Organization European Health For All Database (2009); IEA, *TIMSS International Mathematics Report* (2008 and 2004), *TIMSS International Science Report* (2008 and 2004) and *PIRLS International Report* (2008 and 2003); OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000* (2003), *First Results from PISA 2003* (2004) and *International Adult Literacy Survey* (2000).



Microsoft PowerPoint
Presentation

Figure 7

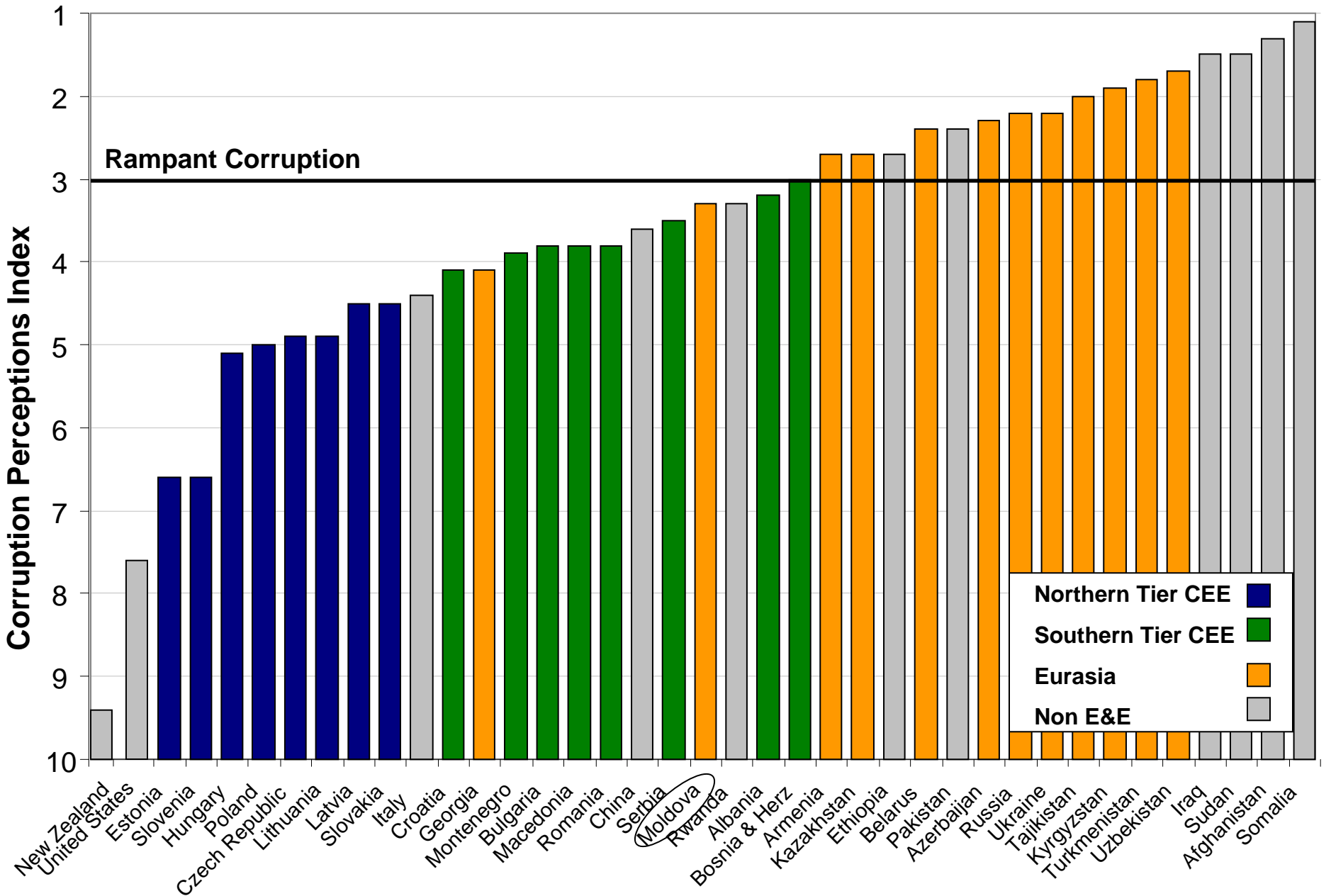
Business Environment in 2009



World Bank, *Doing Business in 2010* (September 2009). Worldwide scores range from 1 to 183 and include 10 topics: starting a business, dealing with construction, hiring and firing workers, registering a property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.

Figure 8

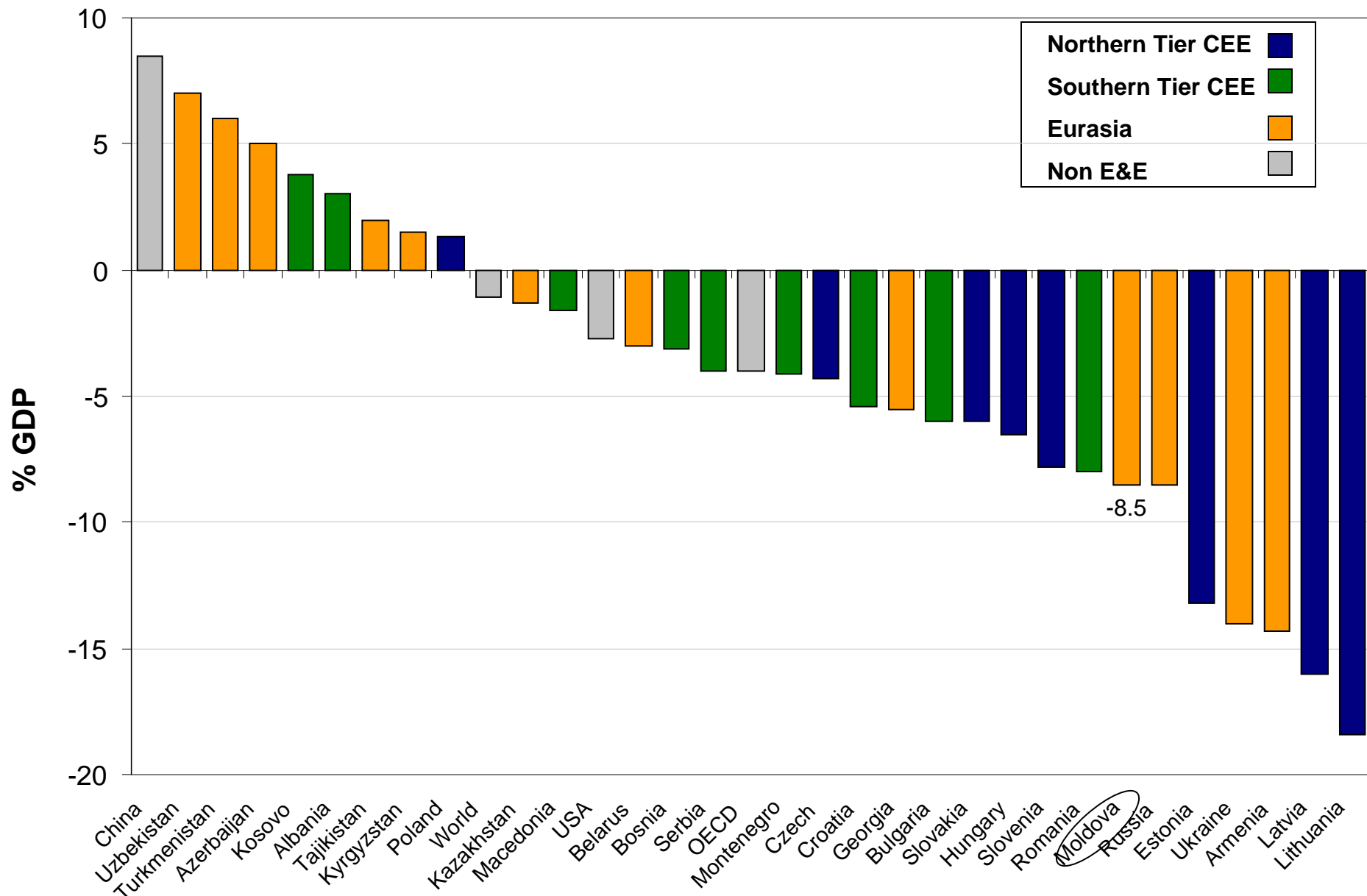
Corruption Perceptions in 2009



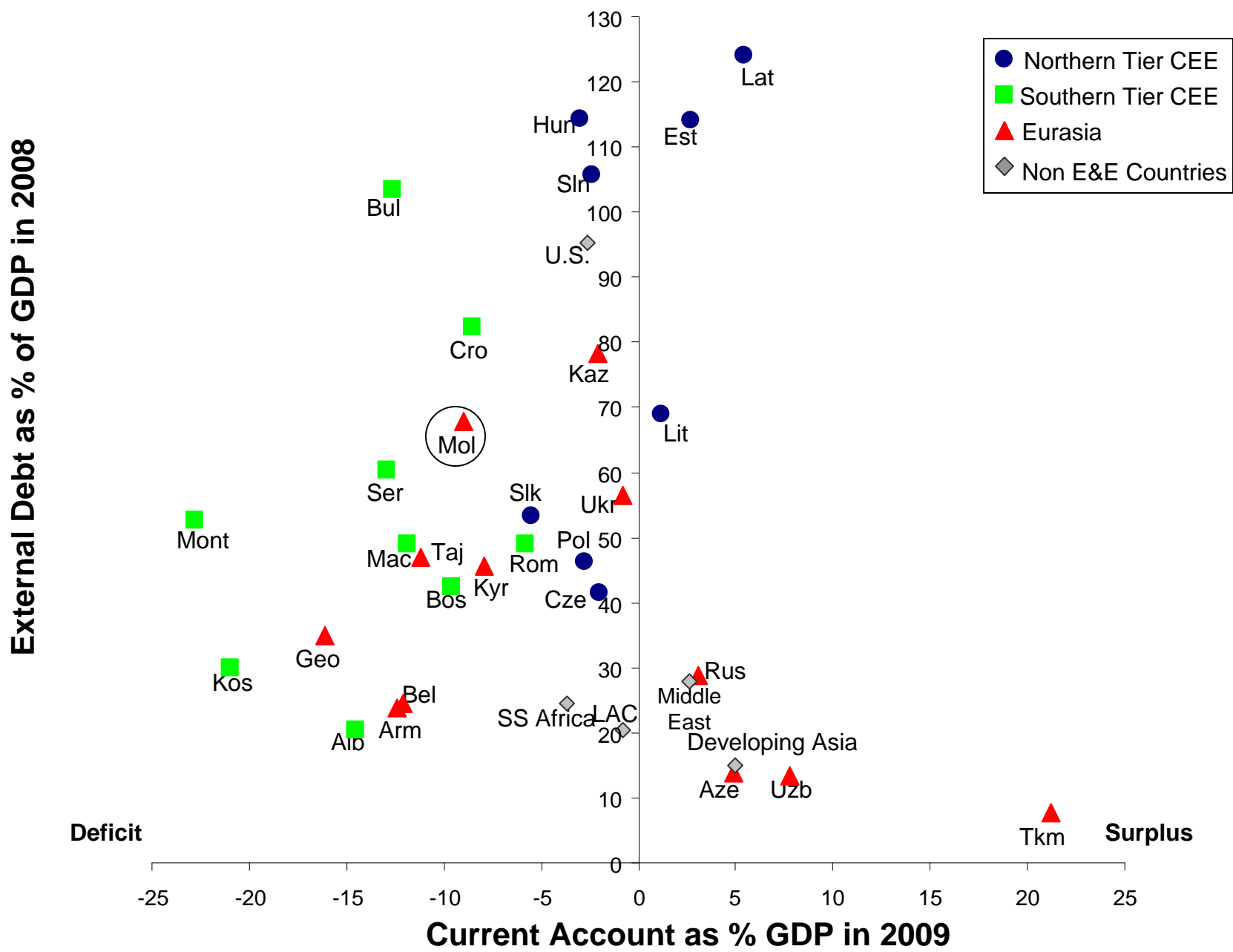
Transparency International, *Corruption Perceptions Index 2009* (November 17th, 2009). Ratings on a 1 to 10, with 10 representing least amount of perceived corruption..

Figure 9

GDP Growth Projections, 2009



Current Account Balance & External Debt



Energy Dependency and Efficiency

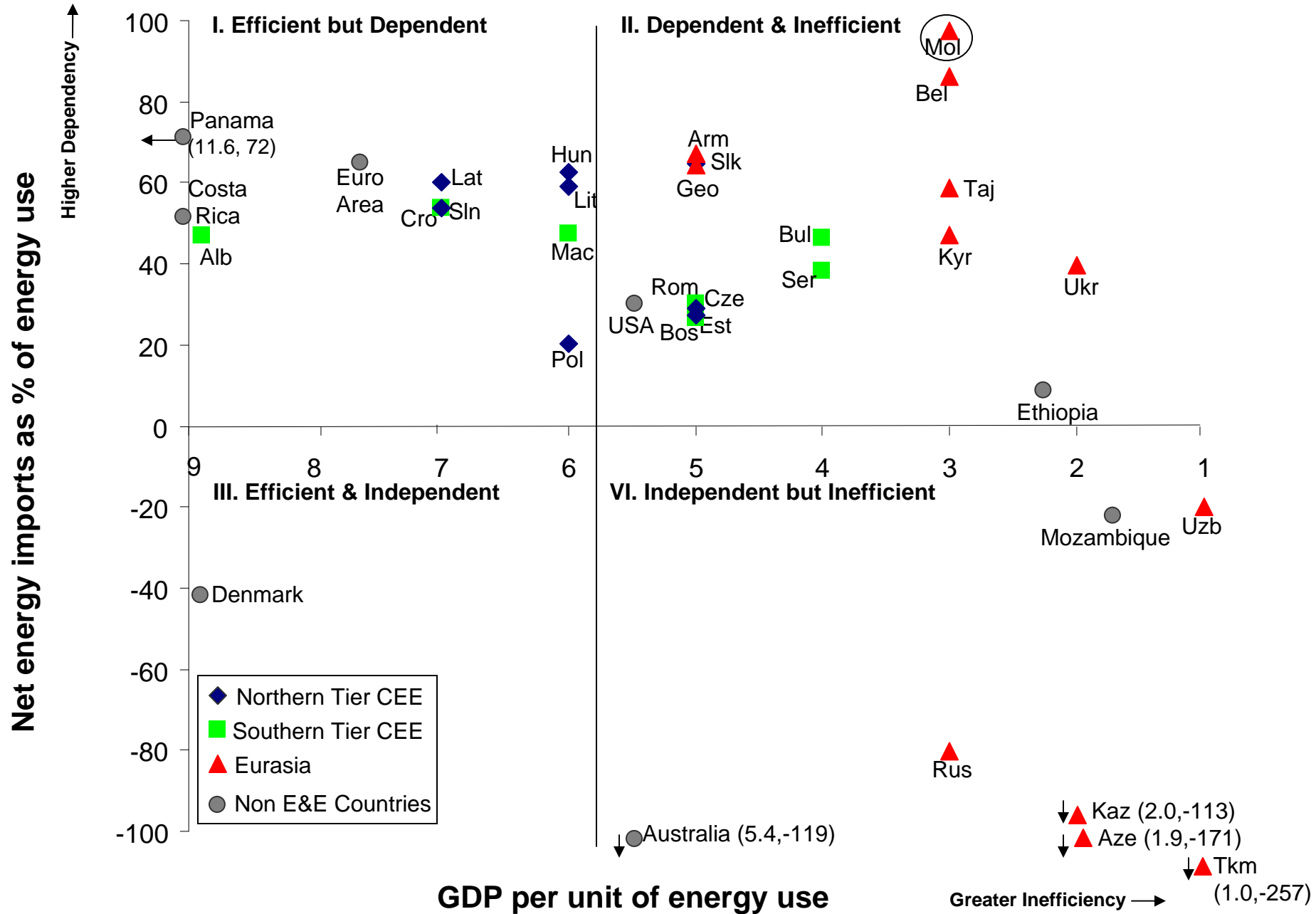
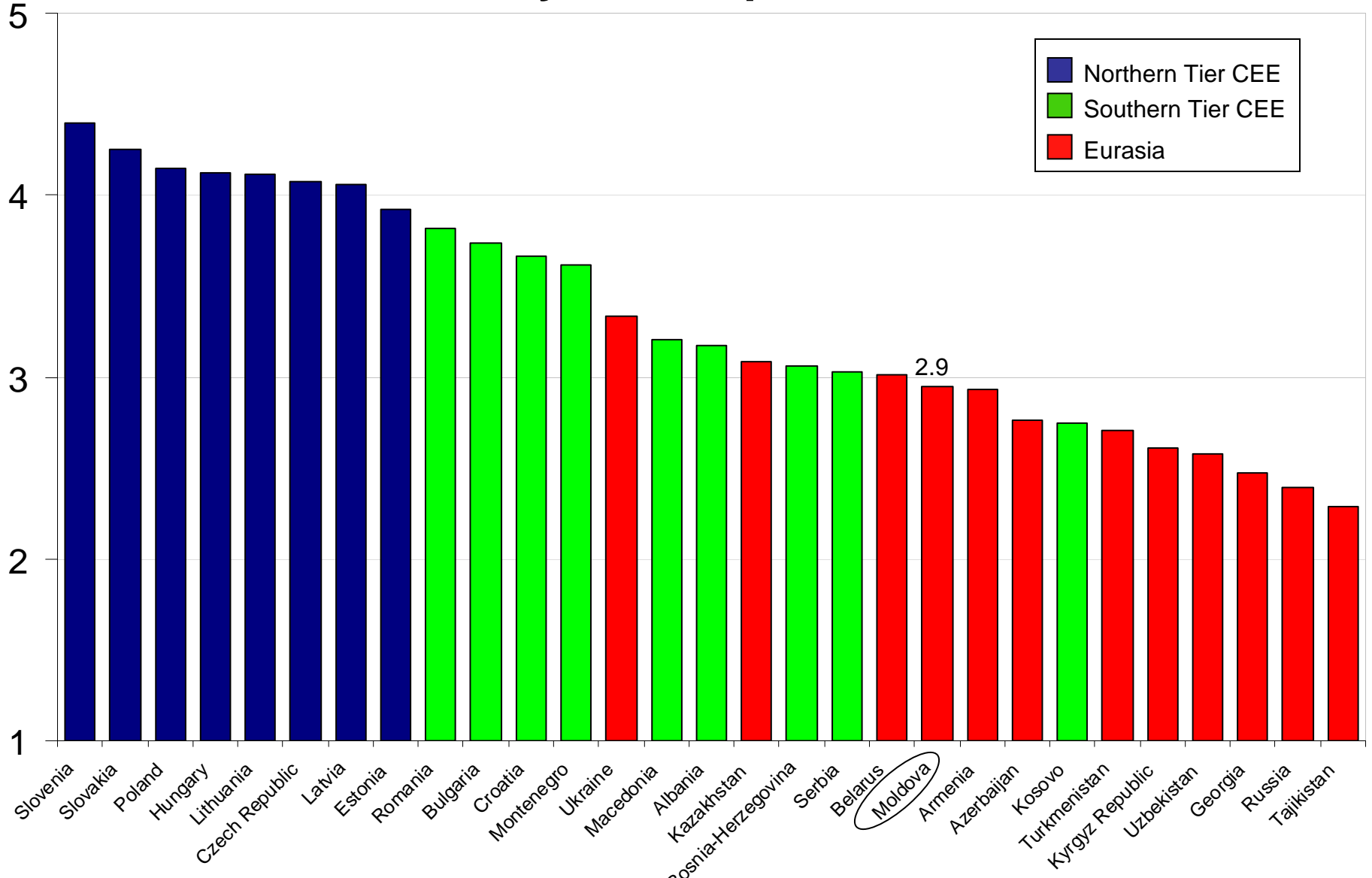


Figure 12

Peace and Security in Europe & Eurasia in 2009



US State Department, *Country Reports on Terrorism* (2009); National Counterterrorism Center, (2008-2009); Foreign Policy Magazine and the Fund for Peace, *Failed States Index* (2009); World Bank Institute, *Governance Matters Indicators* (2008); US Commerce Department, *Export Control Policy*, (2009.) US State Department, *Export Control/Border Security Assessment* (2009) Binghamton University, Cingranelli-Richards *Human Rights Dataset*, (2007); UNICEF TransMONEE (2003-2006); World Bank, *World Development Indicators* (2009); A.T. Kearney/Foreign Policy Magazine, *Globalization Index* (2007) UNODC, *World Drug Report*, (2009) ; US Department of State, *Trafficking in Persons Report* (2009); USTR *Special 301 Report* (2009) ;US Department of State, *International Narcotics Control Strategy Report* (2009); Center for Global Policy, George Mason University, *Political Instability Task Force* (2006-0) USAID/DCHA/CMM *Instability Alert List* (2009)