

Foreign Policy Association together with Friedrich-Ebert-Stiftung offer you a newsletter on foreign policy and European integration issues of the Republic of Moldova. The newsletter is part of the "Foreign Policy Dialogue" joint Project.

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NEWSLETTER

MONTHLY BULLETIN • OCTOBER 2020 • NR.10 (176)

Synthesis and Foreign Policy Debates

The newsletter is developed by Sorina Ștefăruță, editor-coordinator

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News in brief



The Republic of Moldova is lagging behind in the implementation of the Association Agreement with the European Union. Six years after the document was signed, the Moldovan authorities have failed to make significant progress: key institutions remain fragile, the economy is on the verge of collapse, and political games continue to be played behind the scenes. Thus, the country's justice, freedom and security stand to lose. These are the conclusions of the alternative Report "Six years of the Association Agreement implementation", produced by the Institute for European Policies and Reforms. The idea was supported during the presentation of the Report by the EU Ambassador to the Republic of Moldova, Peter Michalko. "I think we can rather talk about stagnation, and in some cases about regress. Regarding the justice reform, not only there is no vision, but there are changes in the legislation, either without public discussions, as it has been the case of the Law on Prosecution, or in contradiction with the recommendations of the Venice Commission, as in the case of the new composition of the SCM", said Michalko. According to the European official, the failure is due to the lack of political will in this direction.



The Embassies of the Republic of Moldova in Austria, France and the United Kingdom of Great Britain and Northern Ireland will get a person in charge of commercial and economic services. In October, the government approved the additional staff for these embassies. The diplomats will have the mission to actively promote the investment opportunities offered by our country and thus to capitalize on the trade and economic relations. "These economic offices that we already have under several embassies need to work more efficiently, their main task being to attract foreign investors for the 18 industrial platforms that we are creating in the districts. Each of our economic representatives has to come up with investors, otherwise, the resources we spend on those platforms are useless", mentioned the Prime Minister Ion Chicu. He asked the Ministry of Foreign Affairs and European Integration to regularly check the efficiency of those offices and inform the society about the results achieved.



The developments in the Transnistrian settlement process have been the central topic of the six-monthly activity report of the OSCE Mission to Moldova, presented recently at the OSCE Permanent Council. There have been mentioned Tiraspol's unilateral actions aimed at installing illegal checkpoints along the administrative line, restricting free movement and degradation of the human rights situation in the region, which led to a critical reaction in the Council. Chisinau reiterated its concern about the destructive nature of Tiraspol's premeditated actions, which affect the political climate in the "5 + 2" negotiation process, jeopardizes the fulfilment of the commitments under the "Berlin plus package", erodes the existing mechanism of peace maintenance and drastically reduces the possibility of interaction in other areas. The international partners, in turn, have called on Tiraspol to remove the illegal checkpoints, to ensure free movement, to respect human rights and to release persons in illegal detention, to ensure the full exercise of property rights and education, to cooperate in the implementation of measures aimed at preventing and combating the COVID-19 pandemic.

MACRO 2020: It's time to learn lessons from crises



Sorina Ștefăruță

The eighth edition of the MACRO International Conference organised on 20 October 2020 by the Independent Analytical Center "Expert-Grup" and Friedrich-Ebert-Stiftung Moldova (FES) was atypical only in form. Like most things happening in the current pandemic year, this event has adopted a hybrid format

- with some of the guests physically present and the others, together with the audience, following the event virtually. However, the topics addressed by this year's MACRO edition were not at all virtual (abbreviation: "Moldova: Assessing Country Risks and Opportunities". The tone has been given by the conference title - *How to strengthen the economic and social*

resilience to crises. Lessons learned from the COVID-19 pandemic...

The purpose of the current edition of the Conference was to identify the main economic and social problems caused by the pandemic crisis, which has overlapped this year with a severe drought, and to find solutions to increase the

► economic and social resilience to crises. The organizers aimed at raising the public awareness of the importance of implementing urgent measures to mitigate the consequences of the pandemic during and after the crisis.

To this aim, as in the previous editions of the conference, political leaders and decision-makers, representatives of local public authorities and the private sector, local and foreign experts, representatives of civil society, academia and the donor community have been invited to discuss the developments over the last year and the current state of the country. The already traditional "State of the Country Report", developed by Expert-Grup in partnership with the Friedrich-Ebert-Stiftung Moldova served as a starting point in the discussions. The central topic of this year's report has been the pandemic crisis. The analysis comes up with a series of strategic recommendations that you can read in the summary presented in this newsletter, as well as in the interviews with two of the participants in the MACRO 2020 conference. What is certain is that the current crisis has shown us how socially vulnerable we are; how important the public policies to protect human health and safety are; how important are the employees' rights for resilience and even the survival of businesses...

...De facto, we all have to learn the same lesson - to be united and supportive; to develop a clear exit strategy; to develop mechanisms to strengthen the economic and social resilience to future shocks and stresses. And we still have to learn the lesson of political will and national interest, which should be above the small rivalries of the moment if we want to survive as societies and as... biological beings. The year 2020 is, more than ever, about this.

A society is only as strong as its weakest link

Valentina Barca, freelance consultant in social protection



"Countries with good public information system, digitalisation, better organized local government, greater community involvement and a better relationship between authorities and civil society can better respond to such challenges. Such countries can better cope with shocks of any kind...". These are some of the ideas presented at the MACRO 2020 International Conference by Valentina Barca, a freelance consultant in the field of social protection, currently - leader of the FCDO/GDC funded Social Protection Approaches to COVID-19 team (SPACE). With extensive experience in the field of social protection, Valentina Barca has agreed to share her vision on how governments have responded to the pandemic crisis, but also to tell us how she sees the future of social protection systems.

COVID-19 has accentuated existing societal fractures

■ Mrs Barca, along with "COVID" and "pandemic", "inequality" is one of the

words that marked 2020. How have inequalities manifested themselves and sharpened in the EU, in Europe, but also in the rest of the world?

■ What we can say for sure based on data that we have available is that COVID-19 has not been a "big leveller", it has not decreased inequalities. In fact, it has been a "big revealer" of existing inequalities and it has accentuated existing societal fractures. There is, for example, research coming from the US where excess mortality is especially in low-income groups - and the same applies for economic and social effects. Across the world we are seeing young people, women, low-skilled people, people in precarious jobs and the informal sector being affected dramatically, while others have actually had opportunities to increase their earnings or simply have higher saving rates because they have been spending less. Some of the tech giants have been consolidating their presence and reaping huge benefits from the COVID-19 crisis. One nice way of putting it comes from a Professor at IDS University, Stephen Devereux, who talks about "COVID intensified" vulnerabilities, alongside "COVID specific". Let's also remember it's not just inequality of income,

but also at many other levels, e.g. access to schooling, with potentially dramatic future consequences. Ultimately, what we are seeing is that initial inequalities end up making a huge difference: the type of job that you have, whether you access to social insurance, whether you had a saving buffer that protects you from recurring to negative coping strategies. People who could cope, who had that resilience, could stop and cope - while many others have fallen a lot deeper.

■ **During your intervention at MACRO, you pointed that “the COVID-19 crisis has shown very clearly where the deficiencies and inequalities are, which countries have valid protection systems and which not...”. Could you give an example - which models worked best and which can Moldova take over?**

■ In terms of protecting their populations from the shock, what we can say is that the *first* key difference across countries has been between countries that had stronger (contributory) social insurance systems and labour market policies - especially where there was a large majority of population working in the formal sector or where efforts had been made to formalise informal workers in recent years - and those who did not. Think of unemployment insurance, think of wage subsidies - these are designed to be automatic stabilizers, and that is how they worked! Obviously, it can cost a large percentage of GDP to protect population from economic impacts this way, but many high-income countries have done this, investing e.g. 15 per cent of GDP. Of course, this was especially in European and OECD countries - Germany, UK, etc. - but even some countries from across Latin America and Asia, for example. The *second* core difference, especially among those countries that didn't have strong social insurance mechanisms, has been the way they have used their non-contributory social assistance. There were some countries with stronger systems in the first place that were able to build on those and support those affected by the crisis before it was too late: before people started recurring to negative coping strategies, such as selling off their assets, migrating etc. Ultimately, responding effectively to a crisis is about reaching all those who were affected (*coverage*), with the right level of support

(*adequacy*), addressing the multiple risks people face e.g. not just loss of income (*comprehensiveness*), before it is too late (*timeliness*), while serving the needs of those affected (*accountability*) in a way that is *cost-effective* and also *sustainable*. These are the outcomes we should be collectively trying to achieve!

■ **How big was the role the technologies have played in addressing the pandemic?**

■ What we've seen very clearly is that countries that had stronger data and information systems serving the social protection sector, alongside digital ID systems, have been able to use existing data to expand caseloads very rapidly. Many countries across Latin America have done this, but also Pakistan and Morocco as examples - many complementing existing data with new data collection via SMS, dedicated websites or apps. Similarly, countries where implementation capacity, especially at local level, was stronger, were able to use their social workers and workforce to respond effectively - understanding the evolving needs of populations. The civil society relationship has also been fundamental in many responses: where government has worked alongside civil society (NGOs, informal workers' organisations, organisations of people with disabilities, women's groups etc), where there was a constant feedback between the two, that is where governments were able to design programmes that effectively responded to needs. There are interesting examples from South Africa and Thailand, but also my own country - Italy. Obviously, these are not changing which can happen overnight but there are promising trajectories from some countries and I think that the issue of Moldova is that a lot of these building blocks are actually there. The issue is why they have not been leveraged and used more effectively.

We should realise that shocks are our “new normal”

■ **There is a new wave of pandemic and kind of a new confrontation between societies, people and states, because it's difficult to support a new lockdown. How do you think this new wave will unfold?**

Can we speak about a new wave of solidarity between people, societies or it will be more difficult to achieve that?

■ We are going through this right now in Italy, where we haven't reached a full-blown second lockdown, but the stringency of measures is increasing every week. But remember that the issue here, especially with lockdowns, is that these are imposed by government. It's not just an event that's happening externally, it's a very tough choice that is “imposed”. If that choice is not shared, if it doesn't come with a solidarity approach that aims to supporting populations groups that are most affected, then the risk of mass revolt and social discontent is incredibly high. In Italy we've already started to have uprisings in a few major cities around the country: people who had been forced to shut down their economic activities and did not feel that they would be receiving enough in exchange. They are worried about paying their bills, their mortgages etc. That's why it is so crucial that COVID-19 is tackled as a “pact” that's coming from two sides. In Peru emergency social assistance was explicitly labelled “Bono Yo Me Quedo En Casa” (“I will stay at home support”).

■ ***It has been said that the world will change after this pandemic - from declining consumption to revision of security and social protection systems. What can we expect in the social field? Is there a universal “remedy” or, in the end, each state will have to decide individually which way to go and what policies to adopt?***

■ Ultimately, what we should be expecting is for social protection to fully perform its core function and support those that are in need, when they are in need: acknowledging that *everybody* (including ourselves) is a potential recipient of social protection in a situation like this. A society is only as strong as its weakest link. We need to make sure that we are supporting those that are most affected by these types of shocks... And concerning a universal remedy... my feeling is that it doesn't exist, but *there is a universal way that we should be thinking about it*. We should realise that shocks are our “new normal”: different types of shocks will keep on coming, whether it's an economic recession, a drought, an incredibly cold winter, a

flood, a pandemic or even climate change. Whatever the type of shock, these have been increasing over time, compounding existing vulnerabilities - we need to be systematically thinking what this means for our sector and societies. We need to look ahead, plan, risk-inform our strategies, understand our populations' vulnerabilities, prepare, and ultimately realise that crises are nothing but mismanaged shocks. If we were managing those shocks effectively, we wouldn't get to a crisis situation. This was a crucial message from the 2008 crisis as well - some countries performed a lot better than others because they invested in their people.

■ ***The pandemic has revealed the fragility of the Moldovan social protection system and the vulnerability of people. What would you advise the Moldovan authorities to do as a matter of priority to improve the social protection of the vulnerable sections of the population in the context of the pandemic?***

■ It's a tough question for me as an "outsider". Overall, the international evidence over these past few years is incontrovertible: the multiplier effects of a strong social protection system cannot be denied. Good social protection creates an income buffer that helps people to avoid poverty traps (falling deeper and deeper), while also providing broader, multidimensional support to individuals and households via employment services, social worker case management, psycho-social support, just as some examples. It's critical that we take this seriously, and invest now, because waiting will not make anything any better: *the cost of inaction will be much higher*. The speed at which small household enterprises have to shut down because they have run out of working capital, the speed at which people have to start migrating (e.g. in Moldova), the speed at which social tensions will start to arise will be inevitable if action is not taken now.

That is not only about watering "after" the shock

■ ***Where to start from?***

■ First of all, building on the evidence that you also contributed to building (shared

during the Conference) on who has been most affected and what the needs of those people are. Secondly, building on your existing system: the social assistance and social insurance programmes you have and the way they are managed. Moldova has made quite significant investment in its social protection system since the 2008 reform. You cannot just design a programme and then that's it - it's about improving it over time. For example, you have a strong system for on demand registration and you have the CNAS as a strong information system backbone for the sector (with information on current beneficiaries, but also people who have applied in the past). Some countries have used that information to scale up swiftly: if people have gone through the effort of requesting support from government, it is because they are in need. Many countries have provided support to past applicants during COVID - easing the eligibility criteria and increasing coverage. Third, in the medium-term it will be worth slowly supporting the process of transitioning towards coverage through mandatory and subsidised social insurance - there are many success stories on this that the International Labour Organization has been documenting. There is a lot that can be done... this is just the start.

■ ***How can we build an inclusive and just social system? How realistic is to speak about global solidarity and social justice? Or this pandemic will make the states behave more selfishly?***

■ My feeling is that we are at the cross-roads and we could go either way. On one side, obviously, even countries that are traditionally donor countries and have now spent massive percentage of their GDP on supporting their own population, will likely be diminishing their funding to other countries (especially where commitments are expressed as % of GDP). There will be a call for austerity and in the medium-term, this is a big risk that we need to be fighting. It could go either way - and we should take responsibility and make sure that the rational for investing in the social sector stays as an utmost policy priority, because, ultimately, it's better for all of us in the medium-term.

■ ***But can we speak about international solidarity today? For example, Moldova***

was helped a lot by the European Union, by the EU member-states, but at the same time, we cannot constantly wait for such assistance. We should build something more sustainable. So how would you qualify that - is it solidarity or rather charity what we are getting now, in times of pandemic?

■ I am not an expert on this, but what I can say is that countries that were able to respond effectively even in this crisis were countries that had moved beyond the charity approaches and that had started taking on responsibility for their own fiscal space to be supporting poor and vulnerable populations; countries where the social protection sector is not donor-financed but domestically financed; where there have been some courageous and innovative decisions on how to finance social sectors, from combating illicit financial flows to reforming taxation in more progressive ways. Having said that, there are some types of crises that exceed national capacities to respond, so I don't think global solidarity and humanitarian assistance will ever truly come to an end - and for good reasons.

■ ***How do inclusion policies help countries to be more resilient to crises?***

■ As I said above, we are only as strong as our weakest links. Imagine a field of plants that are growing, and then a drought comes. If those plants don't have some form of a watering system, during that drought they will die and that crop will be 100% lost. A small investment to water those plants can save the crop. The same concept applies to us - as human beings, as a society, we need to make sure that we are still watering, that we are still providing support to those in need, when in need - building that resilience over time. Of course, that is not only about watering *after* the shock, there is a lot that can be done *in advance* too: strengthening the seed and soil. The same applies to us once again - effective, adequate and comprehensive social protection in "regular"/non-shock times helps to support people's coping capacities, helping them to stand on their own feet.

■ ***Thank you for the interview!***

Sorina Ștefăruță

Editorial

MACRO 2020, looking for post-crisis solutions

Adrian Lupușor, executive director of Expert-Grup

At least once a year it is important to analyse MACRO the economic and social trends at the country level in order to identify both constraints and development opportunities. Such an evidence-based reality check is crucial for the formulation of appropriate policy interventions. This exercise is extremely necessary, especially in the context of today's "new normal", when the economic and social developments are becoming increasingly uncertain and exposed to numerous shocks. Under the given conditions, the capacity to adapt defines, de facto, the resilience to crisis situations of the country, as well as of the companies and population.



The current edition of the MACRO 2020 International Conference was dedicated to this very topic - economic and social resilience to crises which arises from the fact that this year the Republic of Moldova has been hit by an unprecedented sanitary and economic crisis caused by the global spread of the SARS-CoV-2 virus, the situation being exacerbated also by the drought. As a result, the country's economy is expected to shrink by about 7.5 per cent in 2020 (according to the baseline scenario). Despite the fact that we anticipate an economic recovery of about 4-5 per cent for 2021 against the background of the low comparison base, the dissipation of the drought effects, but also of the expected gradual improvement of the pandemic situation, the recession will be even worse than in 2009. Thus, the MACRO 2020 conference has discussed the impact of these two overlapping shocks (pandemic and drought), as well as the policy recommendations to compensate for the economic and social losses, but also to strengthen resilience to future crises.

An economy that was already slowing down

The focus on the resilience of MACRO 2020 comes in the context of the country's poor level of preparedness for this year's crisis and, implicitly, the drought. De facto, the crisis has caught

the Republic of Moldova with an already slowing economy (for example, the exports of goods have started to decline since November 2019), a limited fiscal space (the budget deficit was planned to exceed 3 per cent of GDP) and a low level of competitiveness, human development and efficiency in the fight against corruption. For example, a simple analysis of the current scores based on the most well-known international indices, relevant for assessing the state of a country (GDP per capita¹, Global Competitiveness Index², Human Development Index³ and Corruption Perception Index⁴), points out that Republic of Moldova has worsened its position compared to other Central and Eastern European (CEE) states, and has stagnated compared to its neighbours (Romania and Ukraine). In addition to the 7.5 per cent

recession in 2020, another impact of the corona crisis is the deepening of inequalities, which have presented until now important challenges for the country. At the company level, the inequalities have increased between the small and medium-sized enterprises, most of which are poorly prepared for such shocks, and the large enterprises, which are more resilient thanks to technological endowments, liquidity reserves and long-term contracts with suppliers and customers. At the population level, the labour market and income indicators show that women, young people, people with low level of education and those with low incomes have been most affected. As a result, in the absence of adequate response policies, the corona crisis has aggravated the economic and social inequalities in the Republic of Moldova, which has major repercussions on the state of the country: increasing poverty and social strain, worsening the competitive environment with negative impact on consumers' welfare, and last but not least, stimulation of a new wave of migration that could happen after lifting the international traffic restrictions.

1 GDP per capita, PPP (current international \$), reported by the World Bank in the World Development Indicators Database.

2 Presented in the Annual Global Competitiveness Reports of the World Economic Forum

3 Calculated by the United Nations Development Program

4 Calculat de Transparency International.

Anti- and post-crisis strategy, an emergency

Although the costs of the corona crisis for the economy (impact on GDP) are estimated at about 40 billion MDL (forecast for the entire shock duration based on the calculated general equilibrium model), the Government failed to develop a complex anti-crisis programme for companies and population. For example, only 90 million MDL was allocated for the Interest Subsidy Programme on loans taken out by companies in the context of the pandemic, and only 320 million MDL was allocated to subsidise the salaries of employees who ceased activity or those in technical unemployment. These interventions have been immeasurable with the value of the economic losses generated by the COVID-19 pandemic, even in the context of the limited budgetary constraints in which the Government operates. Estimated at only 0.4 per cent of GDP, this support is significantly lower than in other European countries which allocated from 3 to 6 per cent of GDP on average for anti-crisis measures.

The Republic of Moldova needs urgently an anti- and post-crisis strategy, including a short- and long-term vision, as well as firm measures focused on the most vulnerable. In this sense, the Government should capitalize on the macroeconomic elements that have shown resilience so far (despite the crisis, the Republic of Moldova is not doing badly in all aspects). These are related to a relatively low share of government debt in GDP, which is about twice as low as the maximum ceiling allowed; a well-capitalized banking system with liquidities; moderate inflationary environment; a relatively stable and controlled national currency and a comfortable level of international reserves held by the Moldovan National Bank. In addition, the Republic of Moldova has an Association Agreement with the European Union and can mobilize important financial, technical and humanitarian resources from development partners. All these opportunities should be used to mobilize financial resources for an anti-crisis programme of about MDL 20 billion (half of the total losses generated by the corona crisis, assuming that the other half will be absorbed by companies through optimizations and specialisations).

In particular, emissions of government securities should be increased, in parallel with the gradual reduction of the required reserves ratio. This will allow the state to borrow more and at advantageous rates from commercial banks given the abundance of liquidity in the banking system. In addition, there is a need to improve the relations with development partners and to streamline the coordination of external assistance. In this regard, the European Union has already made available to the Republic of Moldova about EUR 187 million for the recovery from the crisis.

Significant funds have also been mobilized by the World Bank and other development partners. Last but not least, Moldova can issue Eurobonds that could mobilize about EUR 500 million for measures that would allow the economic recovery in the post-crisis period (e.g. infrastructure investments).

The price of inaction, as a rule, is much higher ...

The resources mobilized should be directed urgently to two basic objectives of the anti-crisis programme: retaining jobs and ensuring the solvency of viable companies. The first objective is necessary to avoid a rapid rise in unemployment, which will make the recovery from the crisis much more difficult and costly (the previous investments of companies in employees' training will be lost, as well as their skills/ qualifications, with high costs for the labour productivity). This can be achieved through measures to subsidize the reduced working time based on the German 'kurzarbeit' model (the state compensates for part of the salary lost as a result of the reduction in the number of working hours) and the increase in the unemployment benefits. The second objective is important to prevent the rising insolvency rates in the private sector, which will generate a snowball-effect, further aggravating the crisis. This goal can be achieved by developing a comprehensive programme to guarantee bank loans for urgent purposes - for example, payment of suppliers, payment of commercial or bank loans, etc.

Obviously, such a programme should be implemented with caution, in order to rule out possible abuses and waste of public money, and support should go to companies which, although facing solvency risks, are viable in the medium and long term. Also, state grant and subsidy programmes are needed that could be co-financed by development partners - to promote business digitization, develop entrepreneurship management and marketing skills, facilitate producers' direct access to markets, stimulate the use/ processing of local raw material, promotion of domestic producers, and exports of processed and value-added products.

We understand that the Government of the Republic of Moldova operates in a limited fiscal space, but the experience of other countries in the region, also of how the economic crisis of 2009 was (not) managed, showed that the price of inaction is much higher than the cost of actions during such deep crises. In this regard, there is need for more visionary decision-makers, better coordination between state institutions responsible for macroeconomic stability and improved relations with development partners.

Also in this crisis our main problem has been lack of strategic vision



Marcel Spatari, economist, director of Syndex Romania

The MACRO Conference days have coincided with the reintroduction of pandemic restrictions in several countries. And the process has continued since then, which means new restrictions on activities, respectively new challenges for states and their economic systems that have barely managed not to succumb to the spring quarantine. Between these two “variables” are the people - those who have lost their jobs or those who are risking today to lose them; those who have to feed their families and for whom depending on the country in which they live and the resilience of the state - a new quarantine is a disaster that it is not known whether they will recover from. How did the states respond to this crisis, how did they ensure the balance between economic survival and employees’ protection, and how can the economic model be rethought to make it more resilient to crises? I have discussed about this with the economist Marcel Spatari, director of Syndex Romania, member of the French Syndex Group, which offers expertise and economic advice to social dialogue partners in Europe.

The government’s credibility problems have further accentuated

■ **Mr Spatari, the idea that the Chisinau authorities have failed to manage the pandemic crisis is almost an axiom today. At the same time, it is not ruled out that people think of different things when they say that - either the number of infected, or the fact that tomorrow they will not be able to buy bread. What are you thinking about?**

■ I’m thinking about the socio-economic aspect, combined with the medical one. I

have seen recently a comparative analysis between Sweden - which took a specific path in the context of restrictive measures trying to save the economy - and other Scandinavian countries. However, the time and statistics have shown that the number of infected in Sweden, but also the number of deaths, is much higher compared to Finland and Norway taken together (which together have about the same number of population as Sweden). The “separate” approach did not help them to develop the collective immunity of the population which they hoped to build, or to really save their economy. On the contrary, Sweden’s economy has suffered as much

as the economy of its neighbours. Today’s economy is far too globalized and large enterprises depend on the global situation or, at least, on the regional one. The Swedish “experiment” did not work.

■ **In general, there has been a great controversy: do we save the people or the economy? What have these nearly eight months of pandemic shown?**

■ Protection measures are needed for both. But if you give more importance to the economy than to people, you risk losing both. No one denies that the economy is in great suffering worldwide, including in the Republic of Moldova. However, I’d like to point out a few things here - first of all, the fact that the restrictive measures in spring have worked, and the population has responded quite efficiently to the authorities’ call for isolation and “stay at home”. It’s just that in order to stay at home, you need a kind of landing pad - financial and food reserves. When the latter run out, it’s natural that you start questioning the restrictions... So, the authorities have started well and on time, but because their subsequent messages were more than confusing - especially in terms of socio-economic support offered - the employees understood that they could no longer stay at home, stay on forced leave without pay or technical unemployment. When they saw that the Government was not going to provide the expected support, they have also started questioning the messages regarding the pandemic and the protection measures against the new coronavirus. The government’s credibility issues have further accentuated during this pandemic crisis.

■ **It was claimed that the medical workers were being helped, and the others ... on their own.**

■ I also have a big problem with the way medical workers have been supported - and not just because, by compensating those who got sick at work, you are running the risk of admitting gaps in the system, and conspiracy theories in society. Wages have to be increased systemically and constantly,

so that employees who come into the medical system have an income that ensures a decent life. My belief is that the practice of bonuses needs to be reviewed - they can be useful, but they cannot and should not replace salaries.

The government did not focus on job retention

■ **How do you assess the socio-economic measures taken by the Government during this period?**

■ At the MACRO 2020 conference an example has been brought of some Latin American countries, where "stay at home" bonuses were offered, it is how they called them. I am not necessarily saying that such bonuses should have been given to everyone in the Republic of Moldova, but the economically active people who contribute to the budget should have been supported in this way, in order to keep their jobs. But in Moldova this hasn't been a priority during the pandemic. The biggest problem with the way the Moldovan Government handled the crisis is that it did not focus on job retention.

■ **Speaking of jobs lost in the pandemic, at the conference you've announced a figure about four times higher than the number of unemployed officially registered during this period. Where do the estimates of "between 60-80 thousand" come from?**

■ First, I think it is absurd to imagine that all those who lost their jobs have immediately went to register with Employment Agency - we have neither the necessary culture, nor obvious benefits. It is true that during the pandemic, unemployment benefits have risen to a decent amount, equivalent to the minimum wage in the economy, and more people have registered with the Employment Agency. Unfortunately, in the Republic of Moldova there is no yet a single register of employment contracts, as in Romania (I understand though that a similar register it is in the testing phase and will be operational starting from 2021). As a result, we cannot know how many employment contracts have been terminated during the pandemic. Therefore, in order to make the estimation, we've analysed the volume of revenues to the State Social Insurance Budget and the Compulsory Health Insurance Fund during

the pandemic. These are revenues that the budget is collecting based on salaries. The data show that the salary funds have decreased by over ten percent, which is the equivalent of between 60 and 80 thousand employees. We do not know the exact cause of the non-payment - it can be unpaid leaves, the impact of the technical unemployment - but the figure reflects the extent of the employees' income loss.

■ **How will this decline in income affect the economy?**

■ Decreasing incomes is a natural feature of such a crisis, and having less money, the people manage their consumption more carefully, which in turn is being restructured. For example, some people will not go to shops to buy clothes, but to the market, and this means consumption of untaxed products, less VAT payments and, as a result, fewer payments to the budget. An almost vicious circle, in which it's again the people that have to suffer. Among the possible positive effects, I would risk mentioning the chance for the domestic food producers to gain market shares, with people turning more to local products, which are often cheaper. Of course, there remains the market of cheap imports from the East, which could also take advantage of today's situation.

Crises are opportunities, but not at the macro level

■ **Consequently, "the crises are an opportunity" - a statement we have been hearing since the pandemic broke out. Will it be the same for those who live on wages? Will we witness a restructuring of national economies to the "benefit of all"?**

■ Personally, I don't believe in this statement. If you put your hand in the fire and burned yourself, you learned a lesson, but the burn remained, and the scar depends on the power of the fire. So, I can't say that putting your hand in the fire is an opportunity... Crises are opportunities, but not at the macro level. For certain companies, for a certain market sector, for a certain duration - yes, they can be. But not for all at once, as is happening now ... In addition, in almost all cases, the companies that are affected first by the

crisis are the small ones, which do not have sufficient financial resources to overcome the crisis, and the state does not help them. In this situation, it is possible for large companies to buy the small ones and take them off the market, which will lead to the strengthening of monopolies. So where is the "opportunity"? And for whom is this situation an "opportunity"?

■ **In the rescue process, should governments lean towards the little ones or follow the principle of equity?**

■ There should be equity, but equity sometimes means supporting the little ones. The big ones should not be ignored either, because they are too big to fail. However, it all depends on the governments' strategies. In France, for example, strategies and mechanisms for retaining jobs during crises are built around the competitiveness concept. That is, the French economy has to maintain its competitiveness on the international market, which means, in their case, skills and a higher degree of complexity of the economy compared to other countries. Thus, in case of crises, including sectorial, the state can intervene and even pay technical unemployment benefits to retain jobs and skilled labour, and with it - the skills and thus the competitiveness of companies. Because they understood: skills are hard to develop and even harder to rebuild.

■ **During the conference you've presented comparative data by country. Is there a country that has acted in a complex way towards the companies and employees or everyone has done "as much as they could"?**

■ The state should help the economy to function and intervene as an insurer in certain critical situations, but the state cannot replace companies. One hundred years ago, in the event of a crisis, governments could intervene and nationalize some strategic sectors; this is no longer the case today, at least not in Europe. As a result, governments have the role of a doctor who helps the patient and it depends on both of them how things will evolve. There are no perfect measures, but it matters a lot how prepared you are when the crisis comes. In the West, especially in the EU countries, governments have learned the lesson of the last economic crisis, from 2008-2009,

when many sectors were severely affected. They invented mechanisms that still apply today - because they realized that, as a rule, the cost of inaction is higher than that of action - thus they have massively supported the employees, pumping money to save as many jobs as possible. In addition, after the spring quarantine, the dialogue between the EU countries has focused on identifying economic recovery mechanisms after the critical phase is over... While during the crisis, the existing resources are allocated for socio-economic measures - for example, for the financing of technical unemployment - in the post-crisis phase, the resources are mainly oriented towards infrastructure, research and development projects, leading to the increase in the competitiveness of the European countries' economy. Romania, for example, has adopted recently a EUR 100 billion relaunch plan for ten years that is very much focused on investments in infrastructure. Compared to the size of the economy of the Republic of Moldova, a similar plan would mean about EUR 5 billion for ten years.

The resources have been mainly used in a 'fire-fighting' manner

■ Where does the Moldovan Government fit into this context?

■ In general, I think that in the Republic of Moldova they are focusing too much on the discourse: "let's give some more facilities, maybe some more investors will come", while we should say: "let's invigorate the infrastructure and invest in people...". Because investors might come to low wages in the Republic of Moldova, but if there are no skills this fact does not matter so much. Cheap labour is a short-term advantage for labour intensive businesses with low complexity of processes. This competitive advantage should be more implicit than explicit, and it is not good to perpetuate it. The government should invest in skills, research, engineering ... not only in fiscal facilities, because if you cut taxes you will no longer have budget revenues. And one more aspect: many foreign investors import various components from other countries, which they assemble in the Republic of Moldova and then re-export, while there could be developed an internal supply chain - small companies to produce the

components needed by foreign investors, for example in the automotive sector. To make German companies in the Free Economic Zones buy from within the country what is imported from China today.

■ The "subtitle" of the MACRO conference was "lessons learned from the pandemic". What have we learned as a state, as a country, as a society from this crisis still under way?

■ I think our problem remains the lack of strategic vision. The resources, in addition to being limited, have been used ad hoc, in a 'fire-fighting' manner. The Republic of Moldova has allocated only 0.5 per cent of GDP to offset the economic impact of restrictive measures related to COVID-19, unlike other countries in the region, which have transferred in this direction between 3-5 per cent of GDP. In addition, in the Republic of Moldova, less than 10 per cent of the promised amounts have physically reached the recipients, for various reasons. For comparison, Romania and other countries in the region have used direct payments to the population, thus subsidizing the employees' income. In Romania, EUR 520 million was allocated for technical unemployment from which 1.5 million people benefited. Compared to the proportions of the Republic of Moldova, such a measure here would have cost about MDL 500 million. The Chisinau government has allocated three times as much to support economic measures, of which it has actually spent less than 10 per cent, as I said above, and the impact has been minimal. However, I would like to mention some positive aspects: the government has started looking for solutions to better manage the workforce. At present, it seems to be discussing with the employers' associations about the introduction of a mechanism inspired by the German model "Kurzarbeit". However, this model also has disadvantages, making the labour relations more flexible also outside the crisis periods. Another positive aspect is that the measures to support the economy taken during the restrictions were conditioned by salaries - the amount of interest subsidy, for example, depended on the salary fund that the companies had had before the pandemic. Thus, indirectly, there have been acknowledged and stimulated the companies that had paid fair salaries before the crisis. At least in theory. It is little, the

state should be more pro-active, but little progress does exist.

■ What do you think we will look like, as an economy and as a country, next March, after one year of pandemic?

■ I do not expect fundamental and radical changes in the Republic of Moldova, I do not see any sign in this regard, irrespective of the outcome of the presidential elections. Most likely, the Government will maintain its 'fire-fighting' style, continuing to respond to immediate needs and managing small budgets. The economy will also remain fragile, as we are in a period of time in which it is very difficult to attract financial flows from abroad. Many companies, due to the persistent uncertainty, will restrict their investment plans. There will be a certain relaunch compared to the spring and summer of 2020, but it all depends on the dynamics of the pandemic from a medical point of view. What is certain is that we will have to make some radical strategic decisions, including of geopolitical nature. In my opinion, there is need for clearer decisions on the Transnistrian region, which are difficult to take and can be painful; a more dynamic advance towards the acquis communautaire and European norms, including in the field of taxation (such as VAT, the reimbursement of which in the EU is normal and which is presented here as an advantage offered by the state). But for that you have to meet European leaders more often than Putin or Erdogan. Only when the Republic of Moldova will give clear signals that it is approaching the European development model, will the foreign investor be more willing to come to the country, because they will have more confidence that some key standards will be met - fiscal, judicial, etc. If you don't trust these systems, it doesn't matter how good the Moldovan wine is and how cheap the labour is, which, we have to admit, is harder and harder to find. The pandemic has brought many Moldovans home, but the young and skilled workforce has either not returned or ... can't wait for the traffic restrictions to be lifted to leave again. For now, they don't see their future here. And we should act now if we do not want to miss the train forever.

■ Thank you for the interview and looking forward to seeing you in better times!

Sorina Ștefăruță

Expert Opinion

State of the Country Report 2020: an edition of pandemic

The COVID-19 pandemic triggered a global crisis that affected the majority of the world's population and impacted all social, economic and political phenomena of 2020. The COVID-19 pandemic is also the "special issue" of the State of the Country Report 2020, presented at the recent MACRO International Conference. Traditionally, the study is developed by the team of the Independent Analytical Centre "Expert-Group" in partnership with the Friedrich-Ebert- Stiftung (FES). Apart from the pandemic, amplified by this year's drought, and the way in which the Republic of Moldova responded to them, the Report contains an analysis of the economic and social situation of the country. The main trends and developments that companies, people and government have undergone during this period have been presented by the authors of the report - Adrian Lupușor, Denis Cenușă, Iurie Morcoțîlo, Alexandru Fală and Stas Madan. Below, there is a summary of the study with its key messages. The full report can be downloaded at http://fes-moldova.org/fileadmin/user_upload/2020/Publications/RST_final_ENG.pdf.



2020 was marked by the Covid-19 pandemic, which caught the Republic of Moldova unprepared. The repercussions of the virus have amplified the underlying vulnerabilities related to the state of the country.

Already at the beginning of 2020, before the onset of the pandemic crisis, the economy of the Republic of Moldova had begun to slow down, the budget deficit was already increasing, and a number of key macroeconomic indicators (e.g.

exports) were in decline. In addition, the country entered the pandemic with a low level of competitiveness (86th place out of 141 states according to the 2019 Global Competitiveness Report – similar to Ukraine, Tunisia, Sri Lanka and Lebanon) and economic freedom (87th place out of 180 states according to the Heritage Foundation 2020 Index of Economic Freedom – along with Belarus and Samoa), and with a high level of corruption (120th place out of 180 states according to the Transparency International 2019 Corruption Perceptions Index, along with Sierra Leone, Niger and Pakistan). According to surveys, the majority of companies were unprepared for the pandemic, entering the crisis without (or with low) cash buffers and internal governance poorly adapted to crisis management, a low level of technological endowment, limited capacities to manage digital tools and a low level of diversification of suppliers and sales channels. All of these vulnerabilities, which have contributed to the country's decline from one year to the next, have increased substantially with the onset of the pandemic. Thus, the crisis caused by the Covid-19 pandemic undermined the competitiveness of the private sector because of restricted access to raw materials, markets and capital/ financial resources, as well as through the decline in labour productivity. At the same time, the quality of the democratic process, the legislative process and public policy-making in general has deteriorated.

Moldova continues to lose external competitiveness and fails to converge

with its neighbours and other countries from the Central and Eastern Europe. The analysis of the country's scores according to the most popular international indexes that are relevant for assessing the state of the country (GDP per capita, Global Competitiveness Index, Human Development Index and Corruption Perception Index) reveals that Moldova's position worsened compared to other ECE countries and stagnated in comparison with its neighbours (Romania and Ukraine). The only positive improvement that could be observed was with respect to GDP per capita, where some marginal convergence has occurred. It reveals the poor quality and sustainability of the economic growth that Moldova has registered during recent years, because it did not allow the country to improve its external competitiveness. During the Covid-19 crisis, the country's development gap compared to the ECE region will most likely continue to widen and this will generate significant medium- and long-term risks (e.g. failure to compete for foreign direct investments, emigration of the working age population, poor integration into international supply chains and globalization/regionalization processes etc.).

The Covid-19 crisis also revealed the chronic deficit of public trust in government, which worsened amid the social and economic repercussions of the pandemic, in parallel with an inefficient and inadequate anti-crisis response from the executive. Low confidence in government has always been a problem in Moldova. Many opinion polls show that most citizens believe that things in the country are going in the wrong direction, and that the main state institutions (political parties, government, Parliament and the justice system) are the least trusted by the public. This further undermined the effectiveness of pandemic mitigation measures: people almost completely ignored basic personal protection

requirements, such as wearing masks and physical distancing, which further aggravated the pandemic situation, creating a vicious circle. Moreover, the measures introduced to mitigate the economic and social repercussions of Covid-19 were neither sufficient nor effective. Invoking a rapid increase in the budget deficit, the Government failed to develop a comprehensive anti-crisis programme for both companies and the population. Except for unemployment benefits (which benefited only a limited number of people), a postponement of tax payments for a few months, a moratorium on state inspections and a mechanism to subsidize loan interest payments of companies facing urgent needs (which was not popular among SMEs), the Government failed to provide any vision or more substantial measures to compensate, at least in part, the losses incurred by companies and the population in the context of the pandemic. The figures serve as proof: they show that the total intervention accounted for about 0.4–0.5 per cent of gross domestic product (GDP), which is about five to six times less than the anti-crisis programmes implemented by other states in the region.

In addition to the pandemic, 2020 was also marked by drought, which highlighted another major vulnerability of the country – increased exposure to climate shocks. Extreme climate phenomena (droughts, frosts, hail, floods) are becoming more common in the Republic of Moldova, being a clear effect of global climate change, in parallel with poor environmental management (including corruption, weak institutions, failure to curb illegal deforestation, poor management of natural resources and water bodies, etc.). The neglect of environmental issues in recent years, manifested by sacrificing environmental goals in favour of economic ones, or in favour of vested interests (advocacy and lobbying), is a good example of the political myopia that politicians in the Republic of Moldova have long

shown. The effects of this neglect of environmental objectives, and the constant undermining of environmental governance and the related institutional framework, are increasingly being felt by both the economy and the country in general. The 2020 drought is a case in point. Also in relation to this crisis, the government has not shown a vision and firm actions to immunize, in the short-term, the agricultural sector against such shocks, and, in the medium and long-term, no measures were undertaken to strengthen the current environmental institutional framework and governance. Thus, after several protests, farmers were provided with tax facilities and subsidies in order to compensate them, at least in part, for the losses incurred because of the drought. At the same time, the government ignored the more fundamental issue of how to increase the resilience of the agricultural sector (e.g. through implementation of modern irrigation systems, reorientation of farmers towards more drought-resistant crops, stimulation of intensive agriculture with increased added value, elimination of anti-competitive arrangements among intermediaries of agricultural products, and facilitation of farmers' access to markets). No firm actions have been taken to ensure more sustainable and efficient environmental management (e.g. strengthening the Environment Agency, the environmental departments of the Ministry of Agriculture, Regional Development and Environment and other relevant institutions in the field; combating deforestation and ensuring a substantial increase in forest areas; more efficient regulation of the exploitation of water resources, etc.). Continual neglect of these issues will further weaken the state of the country, with increasingly serious repercussions for the agricultural sector, public finances and the environment.

The economy is forecasted to shrink by 7.5% in 2020, as a result of two overlapping crises: the Covid-19 pandemics and drought, making it a

worse crisis compared to the recession of 2009. The most affected sectors are the agriculture, where the gross value added (GVA) will decline by 33.8%, followed by transports (-16.7%) and the industrial sector (-8.2%). It will undermine the investment activity and exports, which will also be declining this year. Additionally, the budgetary deficit could reach a worrying level of 10% of GDP, limiting significantly the room for manoeuvre for the government. Hence, the magnitude of this crisis is harsher compared to the recession of 2009. Nevertheless, according to our baseline scenario, the economy is planned to revert to positive growth in 2021 (+5.7%), due to the low comparison basis, but also assuming that the Covid-19 pandemics will gradually fade away, allowing the economy of Moldova, and in the region, to breathe easier.

The way in which the authorities responded to the two major crises of 2020 (the Covid-19 pandemic and drought) reveals a fundamental vulnerability of the country: a low sense of statehood among politicians, government and society in general. By this we mean the sense of belonging to a country, a feeling which arises from a common desire for the nation to prosper in the long run. This fundamental weakness of the state of the country is revealed by the current weak management of the country, which is often inconsistent, unpredictable, influenced by vested interests and lacks a vision and systemic approach to priority development issues. A stronger sense of statehood would unite the government, politicians and society in the fight against Covid-19, help in efforts to mitigate the effects of the drought and, in general, ensure cohesion on issues that are critical for the long-term development of the country (e.g. a real fight against corruption, the development of a functional market economy system, the integrated and sustainable management of natural resources, etc.). Added to this problem

is the capture of the policy agenda by politicians whose horizons of interests and priorities are limited to electoral cycles. An eloquent example here is the dominance by politicians or high-ranking officials (the country's president, the head and some members of the executive) of the role of communicators on the management of the pandemic, despite the fact that none of these officials are experts in health issues or public communication. This has generated public disapproval, further weakening the relationship and trust between citizens and the authorities/the state.

Against the background of the impact of both the Covid-19 pandemic and the 2020 drought, the state of the country in the coming years will be significantly undermined by worrying economic developments. It is already clear that there will be an economic decline in 2020, and the developments we can expect in 2021 are uncertain. Most likely the pandemic will continue during 2021, constraining the process of global economic recovery. In this context, the economic outlook for the Republic of Moldova is quite bleak. According to forecasts, in 2021 the economy will not manage to recover to the level before the crisis. The economy is forecast to shrink by 7.5% in 2020, as a result of two overlapping crises: Covid-19 pandemic and drought, making it a worse crisis compared to the recession of 2009. The most affected sectors are agriculture, where the gross value added (GVA) will decline by 33.8%, followed by transport (-16.7%) and the industrial sector (-8.2%). It will undermine investment activity and exports, which will also be declining this year. Additionally, the budget deficit could reach a worrying level of 10% of GDP, limiting significantly the room for manoeuvre for the government. Nevertheless, according to our baseline scenario, the economy is planned to revert to positive growth in 2021 (+5.7%), due to the low comparison base (low economic growth

in 2020), but also assuming that the Covid-19 pandemic will gradually fade away, allowing the economy of Moldova, and in the region, to breathe easier. A more detailed forecast is presented in Table 1 below.

Another impact of the Covid-19 crisis is related to the deepening of inequalities, which even before the crisis posed important challenges to the state of the country. At the level of companies, inequalities have increased between small and medium-sized enterprises (SMEs), most of which were poorly prepared for such a shock, and larger enterprises, which are more resilient thanks to their technological endowment, liquidity reserves and long-term contracts with suppliers and customers. At the level of the population, the labour market and income indicators show that women, young people, people with a low level of education and those with low incomes (quintile 1) were most affected by the Covid-19 crisis. In the absence of adequate response policies, the Covid-19 crisis has deepened the economic and social inequalities in the Republic of Moldova, which has major repercussions for the state of the country: increasing the poverty rate and social tensions; negatively affecting the competitive environment, with a negative impact on the welfare of consumers/the population; and, last but not least, the stimulation of a new wave of migration that could take shape after the lifting of international restrictions on movement.

The Covid-19 crisis and the inefficiency of anti-crisis measures could stimulate a new wave of migration that will aggravate the demographic situation and lead to the loss of the demographic dividend. A possible increase in the emigration of the working-age population, after the elimination of international restrictions on movement, could be generated by the intensification of people's

interaction with the healthcare system in the Republic of Moldova, which is weak and has previously led to emigration. Emigration could also be caused by the closure/restructuring of businesses, which will remove a significant part of the working-age population from the economic system. In a context of deepening inequalities, limited economic opportunities and inefficiency/ lack of anti-crisis policies, this category of the population, which is also the most mobile, will become even more inclined to emigrate, further aggravating the demographic situation. This, in turn, could lead to the final failure of the second demographic dividend mentioned in the previous editions of the State of the Country Report, expected to be generated by the approach by the largest cohort of the population born during the demographic explosion of the 1980s to the age with the highest productivity and economic potential.

The Republic of Moldova urgently needs both an anti- and a post-crisis strategy, with a short- and long-term vision, and firm measures, focusing on the most vulnerable. First, it is necessary to increase the financial envelope for anti- and post-crisis measures. Resources have to be identified both internally (monetary easing by reducing the mandatory reserves norm given the favourable

inflationary environment, as well as increasing the issuance of T-bills, taking into account the low level of indebtedness of the country) and externally (improving relations with development partners, enhancing the coordination of external assistance and issuing of Eurobonds). According to the most modest calculations, these measures could allow the mobilization of about €1 billion, which will be enough to compensate for the losses caused by the pandemic and to ensure a rapid recovery in the post-Covid-19 period. Second, urgent and bold measures are needed to compensate for the losses suffered by companies and the population as a result of the pandemic. The support measures must aim at directly and immediately compensating 70–80 per cent of the lost income of employees, and fully guaranteeing loans contracted by companies for urgent purposes (e.g. paying wages and/or suppliers). In addition, there is a need for a radical change in the approach of the institutions that regulate the business environment (e.g. the Tax Inspectorate, the National Food Safety Agency etc.). The emphasis should be on providing advice to companies rather than on controls and fines. In this sense, a training programme is needed for officials of these institutions, who need to switch from regulators to business consultants. Third, state programmes are needed, possibly co-financed by

development partners, which would allow for a faster post-crisis recovery. These programmes should target five priorities: (i) digitalization of businesses (grants and subsidies for the development of online marketing and sales platforms, electronic payment instruments and training of employees to manage effectively digital mechanisms); (ii) training employees and the unemployed in order to make the labour market more flexible and to accelerate the reallocation of the labour force from the companies/ sectors most affected by the crisis to those that will be able to survive, or even grow; (iii) training, consulting and support actions to facilitate the access of SMEs to markets; (iv) grants and subsidies for processors using local raw materials, which will also support domestic raw materials producers, as well as boosting the creation of added value in the economy; and, (v) subsidies and state guarantees for loans aimed at increasing the level of technological endowment of companies and the orientation towards high value-added economic activities (e.g. advanced processing of local raw materials). These measures should target mainly the most vulnerable groups in the context of the crisis: SMEs, but also women, young people, people in rural areas and those with the lowest incomes.

The opinions expressed in the newsletter are not necessarily those of the Friedrich-Ebert-Stiftung (FES) or of the Foreign Policy Association (APE).



Foreign Policy Association (APE) is a non-governmental organization committed to supporting the integration of the Republic of Moldova into the European Union and facilitating the settlement of the Transnistrian conflict in the context of the country Europeanization. APE was established in fall 2003 by a group of well-known experts, public personalities and former senior officials and diplomats, all of them reunited by their commitment to contribute with their expertise and experience to formulating and promoting by the Republic of Moldova of a coherent, credible and efficient foreign policy.



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