

Moldova Gap Analysis
Europe and Eurasia Bureau, USAID
Strategic Planning and Analysis Division
June 11, 2012 draft

Highlights.

Overview. Moldova lags well behind the 11 E&E graduate countries on all five MCP dimensions, though most notably in democratic reforms and human capital. By Eurasian standards, however, Moldova's economic and democratic reform profile is among the more advanced, alongside Georgia and Ukraine.

Economic reforms. Moldova is more advanced in first stage macroeconomic reforms compared to the seven E&E Eurasian countries on average, though it is E&E Eurasian average in second stage macroeconomic reforms. As with most of the E&E Eurasian countries, macroeconomic reforms in Moldova have stagnated in recent years. In contrast, Moldova has made notable gains in business environment (or microeconomic) reforms in recent years, though the gains have not been linear. From the World Bank's *Doing Business* dataset, the most significant business environment constraints in Moldova have been dealing with construction permits, getting electricity, and trading across borders.

Democratic reforms. As with E&E Eurasia overall, democratic reforms in Moldova have regressed on balance since at least 1996 (the first year of Freedom House's *Nations in Transit* dataset). Of the seven democratization areas measured, civil society is the most advanced in Moldova, and it is the only aspect that has advanced on balance since 1996. Moldova's independent media has made notable gains in 2010 and 2011, though there was considerable backsliding in earlier years, from 1996 to 2009. Public governance has regressed the most from 1996 to 2011 in Moldova. In both the NGO and media sectors, the greatest challenges seem to stem from economic pressures.

Macroeconomic performance. Annual economic growth has been high for most years since at least 2004 to the present; the salient exception is the six percent contraction of GDP in 2009, in the depths of the global economic crisis. The longer term economic output picture for Moldova is more sobering. The economies of Moldova and Ukraine were the last economies in the E&E region to resume positive economic growth after the transition depressions, not until the year 2000. The economies of Moldova, Ukraine, and Georgia remain well below their respective sizes prior to the collapse of communism.

The size of the export sector relative to GDP in Moldova is relatively small and has been declining since the mid-1990s. Imports have far outweighed exports in Moldova's economy, contributing to chronically high current account deficits. Labor productivity is the lowest in the E&E region. Remittances are very substantial; close to one-fourth of the total active population in Moldova has been working abroad. Notwithstanding recent progress in energy sector reforms, Moldova has one of the most energy inefficient economies worldwide and one of the more energy dependent ones as well.

Human capital. Moldova's human capital has both extremes; very low (poor) scores on per capita income, life expectancy, and the incidences of tuberculosis, while very high scores in public expenditures in health and education. Life expectancy in Moldova in 2010 was 69 years, an increase from 67 years in 2000. Of the 7 E&E Eurasia countries, only Russia has a life expectancy as low as Moldova's. Infectious

disease trends are troubling. The tuberculosis incidence in Moldova has been steadily increasing since 1997 and is among the highest in the E&E region. The HIV incidence rate in 2009 is significantly higher than what it was in 2000.

Moldova lags behind E&E standards in primary school enrollment, and with a trend of declining enrollment since the mid-2000s. Upper secondary enrollment rates in Moldova are well below E&E standards overall. While steadily increasing, such rates in Moldova remain less than 60%. This is slightly higher than enrollments rates in the Central Asian Republics. Functional literacy test results for Moldovan students show results below OECD standards, though not alarmingly so. According to the IMF, a large proportion of public spending on education is wasted in maintaining empty schools and small classes.

Peace and Security. Moldova ranks 18th out of 29 E&E countries in MCP's peace and security index. Of the six peace and security areas, Moldova lags considerably and lags the most in its capacity to combat weapons of mass destruction, with low scores in export control of chemical and biological weapons.

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Introduction and Method. This gap analysis of Moldova utilizes the dataset and methodology developed by the Europe & Eurasia (E&E) Bureau's Strategic Planning and Analysis Division in developing the Monitoring Country Progress (MCP) system. The core of the MCP system consists of five indices: economic reforms, democratic reforms, macroeconomic performance, human capital, and peace and security. Public, well-established data sources are used, and the metrics are standardized to a 1 to 5 scale, in which a 5 represents the most advanced standards worldwide.

Primary data sources include E&E's *Monitoring Country Progress in Eastern Europe & Eurasia*, No. 13 (October 2011), the EBRD's *Transition Report* (November 2011), Freedom House's *Freedom in the World* (January 2012), Freedom House's *Nations in Transit* (June 2012), and the IMF's *World Economic Outlook* (April 2012). Moldova-specific sources include the UN, *Second Millennium Development Goals Report: Republic of Moldova* (2010), the UNDP and Republic of Moldova, *2010/2011 National Human Development Report* (2011), and the IMF, *Republic of Moldova Country Report: Fourth Review* (February 2012).

The twenty-nine E&E countries are categorized into four country groups in the analysis below: (1) the eleven countries which have graduated from USG foreign assistance (Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, the Czech Republic, Romania, Bulgaria, and Croatia); (2) six Balkan countries (Albania, Bosnia-Herzegovina, Macedonia, Serbia, Kosovo, and Montenegro); (3) seven E&E Eurasian countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia, and Ukraine); and (4) five Central Asian Republics (Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan).

Further elaboration of the MCP methodology is found in *MCP #13 Appendix 1* (available at the E&E Bureau website).

Overview (Figures 1-4). *Figure 1* provides an overview of Moldova's development profile along the five dimensions tracked in the MCP system and compared to the average standards of the eleven E&E graduates and the seven E&E Eurasian countries. Moldova lags well behind the E&E graduates on all five dimensions, though most notably in democratic reforms and human capital. Moldova's progress is somewhat more advanced than the E&E Eurasia country norms in economic and democratic reforms as well as in peace and security; it is slightly below the E&E Eurasia average in macroeconomic performance and human capital.

Figures 2 and 4 show Moldova's progress (in blue) in each of these five dimensions, disaggregated by the components of the five indices, and compared against progress in the E&E graduate countries (in red). In all cases, the higher is the score, the more advanced is the progress and/or the better is the result. *Figure 3* summarizes Moldova's economic and democratic reform progress vis-à-vis the twenty-eight other transition countries. Moldova is a reform leader among the E&E Eurasia countries (*Figure 3*),

alongside Georgia and Ukraine. However, considerable gaps and challenges remain in Moldova, particularly when measured against standards more rigorous than E&E Eurasia norms (*Figures 2 and 4*). Salient gaps (i.e., with a score of 2.5 or less) include five macroeconomic reform areas (infrastructure, non-bank financial, bank reforms, competition policy, and enterprise restructuring), four democratic reform areas (anti-corruption reforms, local public governance, national governance, and independent media), three human capital dimensions (per capita income, life expectancy, the TB incidence), two macroeconomic areas (energy security and competitiveness of the export sector), and one peace and security area (combating weapons of mass destruction).

As will be further elaborated below, Moldova's development profile is also characterized by considerable variation in progress within dimensions or indices. Perhaps the most striking is within the human capital dimension, where one finds very high public expenditures in health and education alongside very little progress in key health and education outcome measures.

Economic reforms (Figures 5-11). Drawing on trends over time of the average of EBRD's nine macroeconomic reform indicators (shown individually in *Figure 2*), three stages in Moldova's macroeconomic reform progress since 1991 are evident (*Figure 5*): (1) there were substantial gains in economic reforms through the mid-1990s; (2) fairly steady and notable gains were made from 1995 through 2007; followed by (3) no measurable change from 2008 to 2011. With the salient exception of Belarus, all the other E&E Eurasia countries have experienced a similar three-stage macroeconomic reform pattern to that found in Moldova from 1991 to 2011, including achieving little progress in macroeconomic reforms in recent years (*Figure 6*). Moldova's progress in macroeconomic reforms exceeds the E&E Eurasia average, as shown in *Figure 5*. However, this is because Moldova is further along in first stage economic reforms (price liberalization, trade liberalization, and privatization) than E&E Eurasia on average; Moldova is E&E Eurasia average on second stage economic reforms (*Figure 7*). Moreover, *Figure 3* highlights that the E&E Eurasia average of macroeconomic reform progress is skewed by two notable laggards: Belarus and Azerbaijan.

Moldova's progress in microeconomic reforms (or the business environment) is E&E Eurasia average (*Figure 8*). Unlike macroeconomic reform trends, however, Moldova has made notable net gains in business environment reforms in recent years, though the gains have not been linear; since 2005, reform gains and reform backsliding have alternated year to year in Moldova. It is important to note that these are relative gains and regressions, based on Moldova's percentile rank in the world.

Within the E&E Eurasia countries, microeconomic reform progress and patterns vary substantially more than they do in the case of with macroeconomic reforms (*Figures 9 and 10*). In 2011, Georgia was ranked 16th out of 183 countries or in the 90th percentile, while Ukraine was ranked 176, or roughly the 15th percentile. Moldova ranked 81 out of 183 (55th percentile), between Albania and Croatia.

The recent microeconomic reform gains in Moldova are generally consistent with a favorable May 2012 IMF assessment (in its *2012 Article IV Consultation, Concluding Statement*). According to the IMF, "in the last two years, Moldova has embarked on comprehensive reforms in taxation, civil service, education, pension and social assistance, energy sector, external trade, and business regulation. With

these reforms, the country has advanced 18 positions to rank 81 in the World Bank's 2011/12 *Doing Business* survey."

Figure 11 highlights the most problematic business constraints in the E&E Eurasia countries according to the *Doing Business* dataset. To derive the results in *Figure 11*, the three most significant constraints (out of 10) for each of the seven countries were tallied. "Getting electricity" was in the top three constraints in all seven of the E&E Eurasian countries. "Trading across borders" was a significant constraint in six of the seven countries. "Dealing with construction permits" was a significant business constraint in four of the countries. These top three business constraints align with Moldova's business environment. Specifically, Moldova scores the poorest in these three constraints, ranking 164 (out of 183) in dealing with construction permits, 160 in getting electricity, and 134 in trading across borders.

Democratic reforms (Figures 12-19). Of the five MCP dimensions, democratic reforms lag the most in Moldova (*Figure 1*). Nevertheless, democratization in Moldova is more advanced than the E&E Eurasia norm. Drawing on Freedom House's E&E region-specific analysis in its *Nations in Transit*, democratic reforms in Moldova are roughly comparable to that found in Georgia and Ukraine, and well more advanced than among the remaining E&E Eurasia countries (*Figure 3*). *Figure 12* tells a similar story, albeit with a broader measure of democratization and with a global dataset (of 153 countries). The democracy and governance measure includes five indicators; three from Freedom House (political rights, civil liberties, and free media), and two from the World Bank *Governance Matters* dataset (rule of law and control of corruption). A striking observation from this measure and analysis is that all of the E&E Eurasian countries (and three of the six Balkan countries), lag behind the global average of democracy and governance.

Figures 13-16 mine Freedom House's *Nations in Transit* dataset, which consists of seven democratic reform components. 2011 data are now available and have been incorporated into Moldova's web chart in *Figure 2* as well as the time series of the seven components in Moldova in *Figure 15*. *Figure 13* compares democratic reform trends in Moldova from 1996 to 2010 against the sub-regional trends in E&E. It shows a similar pattern of democratic reform backsliding in Moldova with that of E&E Eurasia on average until 2010, when Moldova advanced in these reforms while E&E Eurasia overall continued to regress. *Figure 14* disaggregates the E&E Eurasia country trends from 1996 to 2010. It highlights that only in Moldova in E&E Eurasia was there measurable democratic reform gains in 2010. The 2011 trends are more mixed for the E&E Eurasia region: three countries advanced (Moldova alongside Georgia and Armenia), three countries regressed (Ukraine, Azerbaijan, and Belarus), and Russia saw no measurable change on balance.

Figure 15 highlights the trends over time in the democratic reform components in Moldova. *Figure 16* provides a basis of comparison of such trends for the E&E Eurasia countries overall. For Moldova and for E&E Eurasia, civil society is the most advanced aspect of democratic reforms. For Moldova, it is the only aspect that has advanced on balance since 1996. Moldova's independent media has made notable gains in 2010 and 2011, though there was considerable backsliding in most of the earlier years, from 1996 to 2009. Governance (national and local governance combined) has regressed the most from 1996 to 2011 in Moldova.

Freedom House, in its June 2012 *Nations in Transit*, noted that “growing access to a variety of opinions in the media and efforts to improve public media and journalist ethics have had a significant impact on improving media quality and pluralism” in Moldova in 2011. Other summary highlights provide a mixed picture including generally positive trends (successfully carried out local government elections in June 2011 which were generally considered free and fair; slowly progressing judicial reforms; a continued focus by the ruling coalition on integration with the EU), with some negative trends (continued political deadlock and the inability to elect a president which posed major challenges to democratic governance during the year; and a stagnant reconciliation process with the breakaway region of Transnistria).

Figures 17-19 provide measures of democratization aspects from sources other than Freedom House, and, in the first two figures, allow the analysis to go deeper through more disaggregated data. The *Media Sustainability Index*, from IREX, allows one to analyze the media sector further by assessing relative progress in five key areas needed to establish a viable, sustainable media sector (*Figure 17*). Moldova’s media profile in terms of its leading and lagging dimensions is similar to that of the E&E Eurasian countries on average. In particular, business management aspects of media lag well behind all other aspects. In fact, in Moldova, business management of media falls into the “unsustainable” range of the index while the other four areas (free speech, professional journalism, plurality of news, and supporting institutions) all have achieved a “near sustainable” threshold. Each media dimension is more advanced in Moldova than it is in E&E Eurasia on average.

The lagging dimension in the NGO sector in Moldova and in E&E Eurasia overall, according to the *NGO Sustainability Index (Figure 18)*, is financial viability, or, in other words, an economic dimension, similar to the lagging dimension in the media sector. Advocacy is the leading dimension in Moldova’s NGO sector. Moldova’s NGO sector is more advanced than the E&E Eurasia norm in all but one dimension (service provision).

Transparency International provides a measure of the perception of corruption worldwide (*Figure 19*). By this measure, corruption is perceived to be less problematic in Moldova than most countries in Eurasia, all except Georgia in fact; and somewhat less problematic than that found in Kosovo and Bolivia.

Macroeconomic performance (Figures 20-29). Moldova’s economy has experienced extreme fluctuations in output change in recent years (*Figure 20*). Annual economic growth has been high for most years since at least 2004 to the present; the salient exception is the six percent contraction of GDP in 2009, in the depths of the global economic crisis. From 2004 to 2008, average annual economic growth exceeded six percent in Moldova’s economy. After the severe contraction in 2009, the economy bounced back in 2010 and 2011, again with growth exceeding six percent. Most of the positive growth years have well exceeded global growth standards; the contraction in 2009, as with E&E Eurasia overall, far exceeded global norms as well.

The longer term economic output picture for Moldova is much more sobering (*Figure 21*). Moldova’s economy suffered a substantial transition depression during all of the 1990s. In fact, the economies in Moldova and Ukraine were the last economies in the E&E region to resume positive economic growth

after the depressions, not until the year 2000. The economies of Moldova, Ukraine, and Georgia remain well below their respective sizes prior to the collapse of communism. This trend is in striking contrast to the other E&E Eurasia economies.

While trade liberalization has advanced significantly in Moldova (*Figure 2*), the size of the export sector relative to GDP is relatively small and has been declining since the mid-1990s (*Figure 22*). Imports have far outweighed exports in Moldova's economy, contributing to chronically high current account deficits (*Figure 23*). From 2008-2011, Moldova's current account deficit averaged 12% of GDP on an annual basis, a level which is not conducive to lowering external debt.

Added to these indicators which suggest an economy struggling to compete in the global economy, is labor productivity which is lowest in the E&E region (*Figure 24*). In addition, remittances are extraordinarily high; in essence, labor is one of Moldova's most significant exports (*Figure 25*). According to the UNDP and Republic of Moldova *2010/2011 National Human Development Report* (2011), drawing from a 2009 labor force survey, 23% of the total active population in Moldova worked abroad in 2009; slightly more in 2007 and 2008 (p. 59). According to the World Bank and EBRD *Business Environment and Enterprise Performance Survey* (2009), the proportion of businesses in Moldova which view that the skills and education of the workforces is a significant business constraint increased substantially, as it did most elsewhere in E&E, from 2005 to 2008, from 34% to 64% (*Figure 26*).

Both the EBRD (November 2011) and the IMF (May 2012) have noted recent progress in energy sector reforms in Moldova. The EBRD cites a rise in heating tariffs towards cost recovery. Nevertheless, and in that context, Moldova's energy sector remains highly insecure by at least two broad measures of energy security: dependency (energy imports as percent of energy use), and efficiency (GDP per unit of energy use). At least by these measures, *Figure 27* shows Moldova to have one of the most energy inefficient economies worldwide, and one of the more energy dependent ones as well. No other E&E economies compare; Belarus' economy comes closest.

Figure 28 highlights a measure of environmental sustainability across the countries of the world and how the E&E countries are faring in the global context on this measure. This index measures how an economy might influence climate change; the availability of natural resources (including agriculture, fisheries, and forestry); biodiversity and habitat; and water and air pollution. Of the E&E countries, Albania's economy is the most environmentally sustainable by this measure. By global standards, Albania ranks 24, and is surpassed by a diverse range of countries including Nepal (ranked 1), Iceland (2), and the Democratic Republic of Congo (3). Uzbekistan's economy is the least environmentally sustainable of the E&E countries. It outperforms only a handful of other countries in the world, all in the Middle East. Overall, only five of the E&E countries are in the top half of the world's countries in terms of environmental sustainability; four are among the E&E graduates (Latvia, Slovakia, Lithuania, and Romania) and one, Albania, a Balkan country. Moldova is ranked 114 out of the worldwide sample of 167 countries.

Finally, on macroeconomic performance, *Figure 29* provides a key outcome indicator on financial sector reform. In particular, domestic credit as percentage of GDP remains very low in Moldova's economy,

and since 2007 has stagnated. Nevertheless, in the context of vulnerability to the global economy, the IMF has observed that the banking system is generally sound with limited international exposure.

Human Capital (Figures 30-45). Moldova's human capital, as measured by the MCP human capital index, is low by E&E standards, roughly comparable overall to that found in Armenia and Azerbaijan (*Figure 30*). However, the index masks considerable diversity in outcomes in various aspects of human capital in Moldova. As shown in *Figures 4* and *31*, Moldova's human capital has both extremes; very low (poor) scores on per capita income, life expectancy, and the incidences of tuberculosis, while very high scores in public expenditures in health and education.

Per capita income in Moldova is lowest among the E&E Eurasia countries (*Figure 32*). Of all the twenty-nine E&E countries, per capita income is only lower in Tajikistan, Kyrgyzstan, and Uzbekistan. Incomes in the Chisinau municipality are likely much higher than elsewhere in Moldova. The poverty rate in the Chisinau municipality was five percent in 2009; outside Chisinau, it ranged from twenty-seven percent in the North to thirty-seven percent in the South (*Figure 33*). Apparently, however, the relatively low poverty rate in the Chisinau municipality does not shield its population from comparable hardships elsewhere in the country. In fact, according to a 2009 survey, the share of Chisinau households that cannot afford sufficient heat during the cold season is very high (65%), and a larger household share than in other parts of the country.

Poverty rates also vary considerably between migrant households and non migrant households. In 2009, migrant households had a poverty rate of 15%, while non migrant households had a poverty rate almost twice that, 28% (UNDP and GOM, *2010/2011 National Human Development Report*, p. 59). This large difference suggests that remittances play a very critical role in mitigating hardship.

Health. Life expectancy in Moldova in 2010 was 69 years, an increase from 67 years in 2000 (*Figure 34*). Of the E&E Eurasia countries, only Russia has a life expectancy as low as Moldova. However, Moldova and Russia differ significantly in terms of the size of the life expectancy gender gap (*Figure 35*). Russian females live longer than Moldovan females, 75 years vs. 72 years. Russia males live shorter lives than Moldovan males, 63 years vs. 65 years.

Figure 36 shows life expectancies in E&E compared to per capita incomes. In general, the wealthier is the country, the higher is the life expectancy. Moldova is one of the poorer countries of the E&E region and has one of the lower life expectancies as well, though not as low as the life expectancies found in the Central Asian Republics. Russia is a notable outlier in the chart; most E&E countries at Russia's per capita income have life expectancies ranging from 73 years to 77 years (vs. Russia, at 69).

Many adult deaths in parts of E&E are caused by noncommunicable diseases (NCDs), in particular, those diseases related to adverse effects of alcohol, smoking, diet, and lack of exercise. A proxy indicator for gauging NCDs is the adult mortality rate, which reflects the probability of dying between the ages of 15 and 60. Moldova is among the handful of E&E countries with the highest adult mortality rates, comparable to such rates in Belarus, though not as high as that found in Ukraine and Russia and three of the Central Asian Republics (*Figure 37*). The countries with the highest adult mortality rates are also

generally the countries with the highest life expectancy gender gaps. In other words, males are generally more prone to dying from NCDs.

Figure 38 shows under five mortality rate trends since 2005 in the E&E Eurasia countries. The under five mortality rate has been falling throughout E&E Eurasia and elsewhere in E&E. According to the World Bank, Moldova's under five mortality rate was nineteen deaths per 1000 births in 2010, roughly E&E Eurasia average. However, other sources cite other rates for Moldova, ranging from thirty-three deaths per 1000 births according to the IMF (February 2012) to fourteen deaths according to the UNDP (2011).

The tuberculosis incidence in Moldova has been steadily increasing since 1997 and is among the highest in the E&E region, far higher than in E&E Eurasia where the sub-region has seen a gradual increase, and even higher than in the Central Asian Republics, which have been experiencing declining incidences since 2003 (*Figure 39*). Moldova is also classified by the World Health Organization as an MDR-TB (multi-drug resistant TB) high burden country as well as a XDR-TB (extensively drug-resistant TB) high burden country, one of twenty-seven countries worldwide. The treatment success rate of TB in Moldova is decreasing while the number of drug resistant TB cases is rising.

The HIV incidence rate in Moldova in 2009 was among the highest in the E&E region (*Figure 40*). Only Ukraine, Estonia, and Russia had higher rates. The HIV incidence rate in 2009 is significantly higher than what it was in 2000 (*Figure 41*). Heterosexual transmission has become the main mode of transmission, and the HIV epidemic has become feminized (26.7% of cases in 2001 to 43.7% in 2008).

Figure 42 shows results of an effort to measure environmental health across the countries of the world. It is an index of three parts (and five indicators): (1) environmental burden of disease (measured by the disability-adjusted life expectancy); (2) air pollution's effects on humans (indoor air pollution or the percentage of the population using solid fuels, and outdoor air pollution or urban particulates); and (3) water pollution's effects on humans (access to water and to sanitation). This environmental health index represent 50% of the *Environmental Performance Index* which is produce by Yale University's Center for Environmental Law and Policy and Columbia University's Center for International Earth Science Information Network.

By this measure, Moldova ranks 86 out of 163 countries in environmental health. This is roughly global average, though well below E&E standards on average. Generally, the more developed the country, and/or the higher its per capita income, the more favorable is its environmental health. The OECD countries rank among the best in environment health, with Iceland, Canada, and Sweden on top. All of the worst performers are found in Sub-Saharan Africa.

Education. A primary source for education enrollment trends in E&E has been UNICEF's Transmonee dataset, an E&E region-specific dataset on human capital trends. However, in the past two years, UNICEF significantly changed the methodology and revised results of some of its education statistics for the region. Some data, previously available, are now unavailable. Education data from different sources, in particular from UNICEF, UNESCO, and the World Bank, do no always align closely.

With these considerable caveats in mind, UNICEF data show Moldova lagging behind E&E standards in basic education (or the primary school level) gross enrollment, and with a trend of declining enrollment since the mid-2000s (*Figure 43*). The declining trend is also supported by data from the UNDP (*National Human Development Report*, 2011), though the gross enrollment rate is reported to be slightly higher by the UNDP (in 2009, 94% according to the UNDP vs. 91% according to UNICEF). According to the UNDP, net enrollment rates in primary education had eroded from 94% in 2000 to 88% in 2009.

UNICEF data show upper secondary enrollment rates in Moldova to be well below E&E standards overall (*Figure 43*). While steadily increasing, such rates in Moldova remain less than 60%. This is slightly higher than enrollments rates in the Central Asian Republics, though well behind other parts of E&E (such enrollment rates are 100% in the E&E graduates).

Figure 44 attempts to summarize various efforts to measure the quality of education in the E&E region. There are three primary cross-country assessments on educational performance: (1) the Program for International Student Assessment (PISA); (2) the Trends in International Mathematics and Sciences Study (TIMSS); and (3) the Progress in International Reading Literacy Study (PIRLS). The PISA was launched in 1997 by the Organization for Economic Cooperation and Development (OECD). The PISA assessment measures students' abilities to apply math, science, and reading to practical "real world" (market economy) problems. This includes the basics toward financial literacy (e.g., the ability to balance a check book), the ability to think critically (e.g., by analyzing a newspaper editorial), or practical aspects such as basic understanding of the science of global warming. TIMSS and PIRLS were developed and are implemented by the International Association of the Evaluation of Educational Achievement (IEA), an international organization of national research institutions and government research agencies. The first TIMSS assessment was done in 1995; the first PIRLS in 2001. The TIMSS assessment measures trends in math and science achievement at the fourth grade and eighth grade levels, and the PIRLS assesses reading comprehension trends among fourth graders.

As shown in *Figure 44*, quite a few scores in quite a few E&E countries appear problematic. In contrast, test results for Moldovan students show results below OECD standards, though not alarmingly so.

In the MCP system, high public expenditures on education (and health) are assumed to be a favorable outcome. Yet, this does not seem to be the case in Moldova where the government spends more than 9% of GDP on education, almost twice as much as the regional average. According to the IMF, "a large proportion of this spending is wasted in maintaining empty schools and small classes. The World Bank estimates that the student-teacher ratio in Moldova is only two-thirds of the EU average; in some regions, schools have only 5-6 students per class. While the student population has declined by 27 percent since 2000, the reduction in the number of teachers and schools has lagged. Accounting for over 60 percent of public sector employment and almost a quarter of expenditure, a rationalized education sector is crucial for the fiscal adjustment effort." (IMF, February 2012, p. 8).

Gender Inequality. The MCP human capital index includes a measure of gender inequality drawn from the UNDP's *Human Development Report*. This index measures three dimensions: reproductive health (maternal mortality rate and adolescent fertility rate); political empowerment (share of parliamentary

seats held by each sex); and labor market participation (attainment of secondary and higher education by each sex, and labor market participation rate by each sex).

Figure 45 shows the overall results for 2009 across the 140 countries which are included in the sample, 21 of which are in E&E. All of the E&E countries score roughly equal to or better than the global average of gender inequality; i.e., gender inequality in E&E is lower than global standards. The Eurasian countries generally have higher gender inequality than do the CEE countries. Moldova has the lowest gender inequality of the nine Eurasian countries for which data are available.

Millennium Development Goals (MDGs). The eight MDGs, comprised of 21 targets and sixty indicators, were developed in 2000 as a strategy to reduce worldwide poverty by one-half by 2015. The E&E region has modest goals to reach compared to the developing world, but it is still not clear if Moldova will reach all targets. According to the UN 2010 assessment, the poverty rate in Moldova began to increase in 2008 due to a drought and a decline in remittances. Poverty has continued to grow in the rural areas, and it is unlikely that Moldova met its 2010 intermediate target of reducing poverty to 25%. However, extreme poverty reduction goals for 2015 have already been met. Final targets for reducing infant and under-5 mortality rates have already been met, but the target for reducing maternal mortality may not be reached due to the increase of poverty and migration. Additionally, Moldova may not meet the targets for combatting HIV and TB because of the current upward trends in incidence rates.

Peace and Security (Figures 46-48). *Figure 46* compares peace and security in Moldova to that of other E&E countries and with a handful of countries outside of the region. *Figure 47* and the peace and security web chart in *Figure 4* provide a picture of the sectors of peace and security in Moldova compared to E&E Eurasia (*Figure 47*) and the E&E graduate countries (*Figure 4*).

By this measure, with a rank of 18 out of 29, Moldova is less peaceful and secure than E&E standards (*Figure 46*). Nevertheless, of the E&E Eurasia countries, only Ukraine is more peaceful and secure than is Moldova. Furthermore, in four of the six dimensions, Moldova's score is comparable to that found in the E&E graduate countries (*Figure 4*). Moldova lags considerably in its capacity to combat weapons of mass destruction, with low scores in export control of chemical and biological weapons.

Human trafficking is included in the index's transnational crime dimension. In that regards, Moldova has remained on the Department of State's Tier 2 watch list for two years. The government does not fully comply with the minimum standards of the Trafficking Victims Protection Act, although it has been making significant efforts over the past year to eliminate trafficking.

Countries which are more peaceful and secure tend to also be more democratic (*Figure 48*). Moldova's profile on these two dimensions is very similar to that found in Armenia and Georgia.



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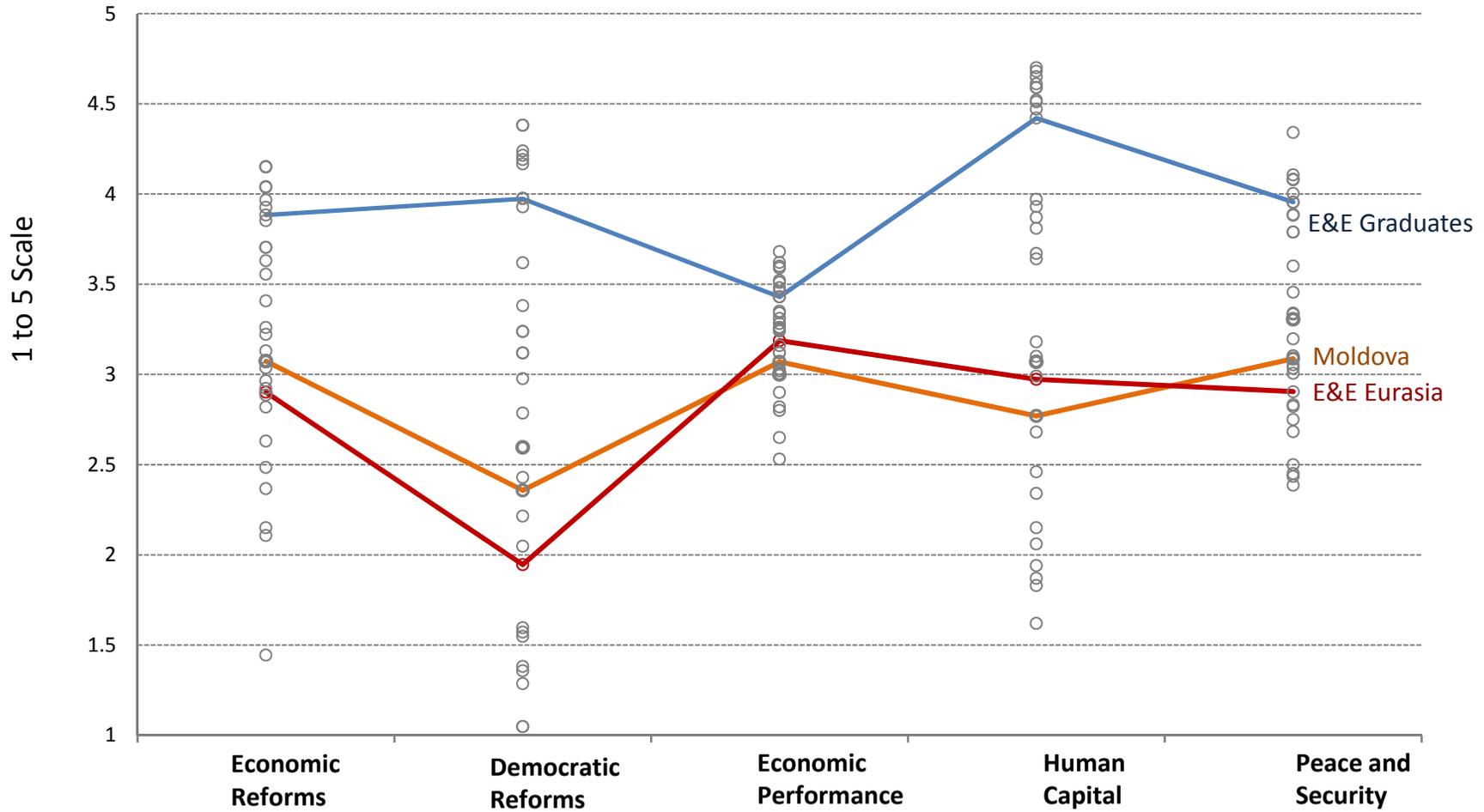
E&E Bureau

Strategic Planning and Analysis Division

June 2012

Figure 1

Moldova's Development Profile

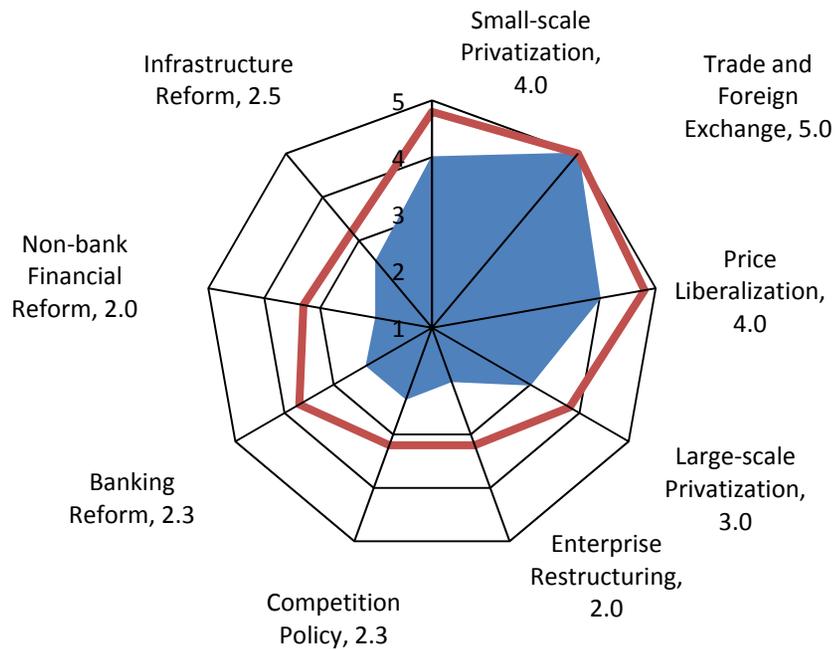


Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. The E&E Graduates (n=11) consist of Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Czech Republic, Romania, Bulgaria, and Croatia. E&E Eurasia (n=7): Armenia; Azerbaijan; Belarus; Georgia; Moldova; Russia; and Ukraine.

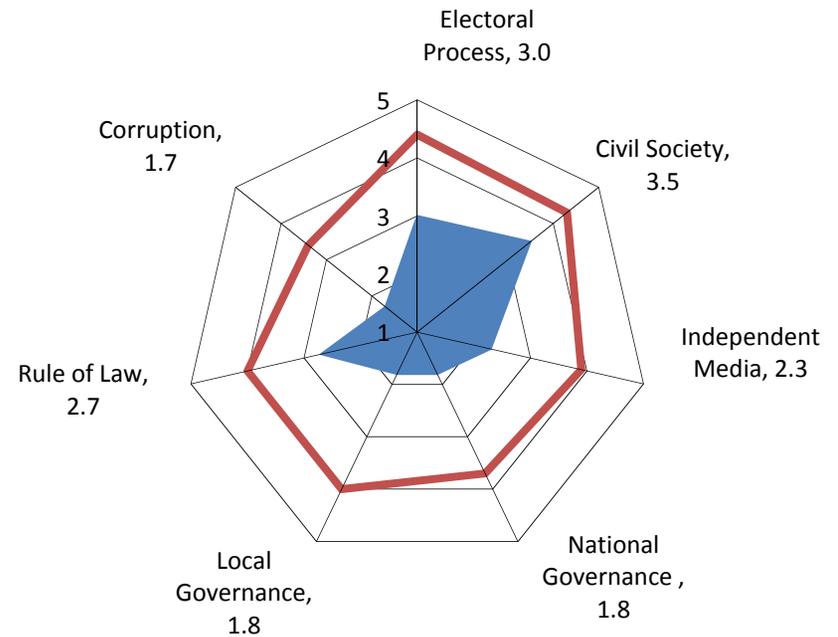
Figure 2

Moldova

Economic Reforms, 2011



Democratic Reforms, 2011

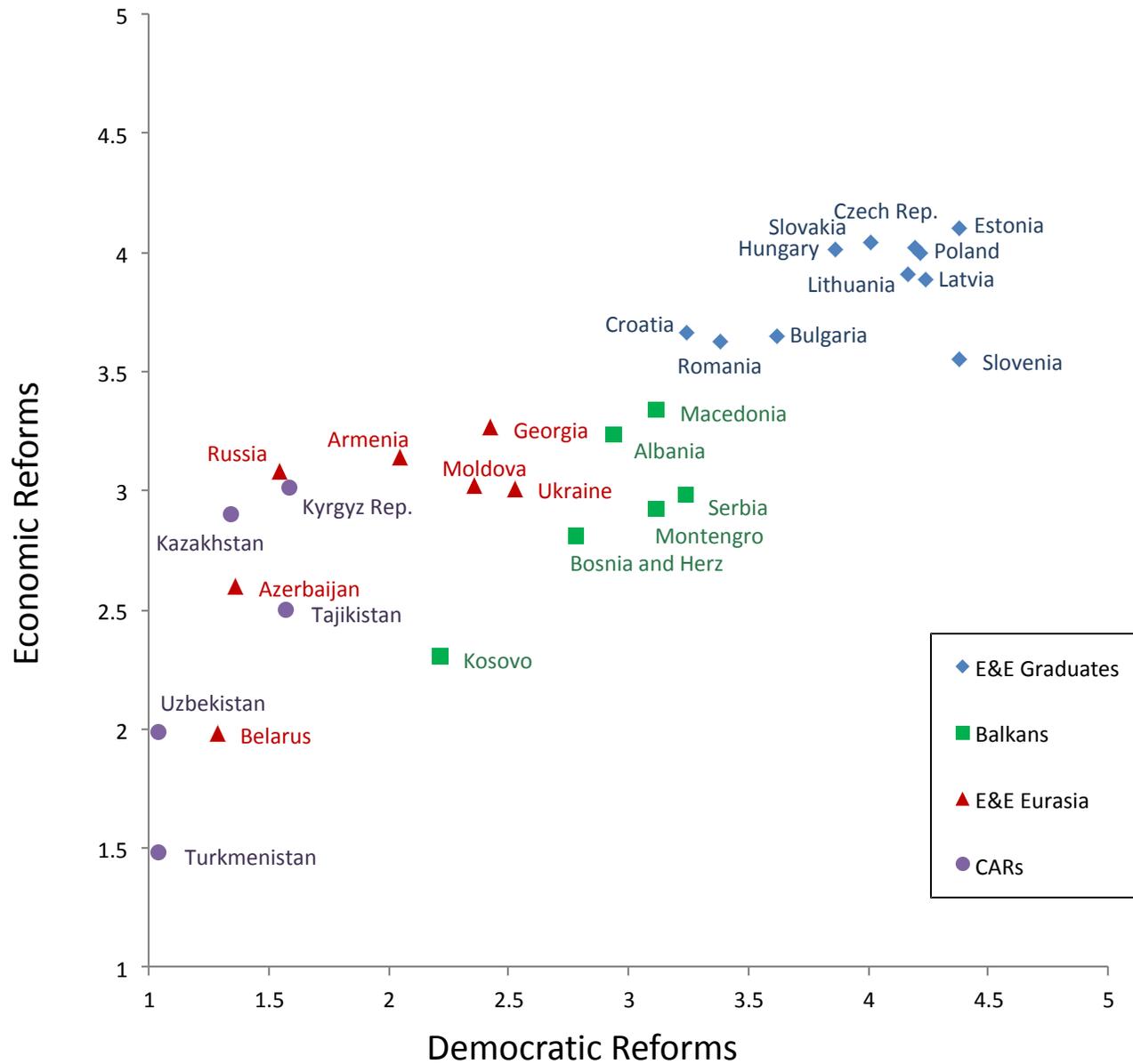


USAID Country Graduates

Country graduates = Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

Figure 3

Economic and Democratic Reforms in 2011

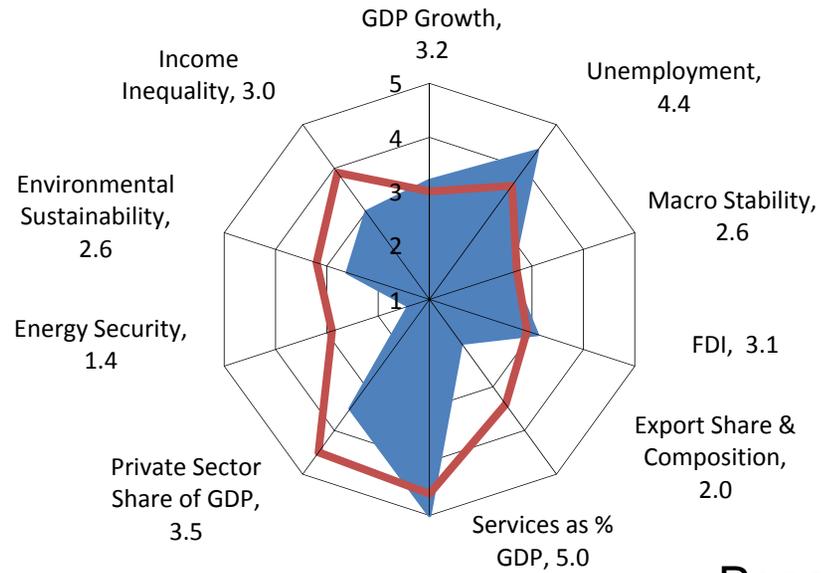


Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2011* (June 2011) and *Freedom in the World* (2012); and EBRD, *Transition Report 2011* (November 2011).

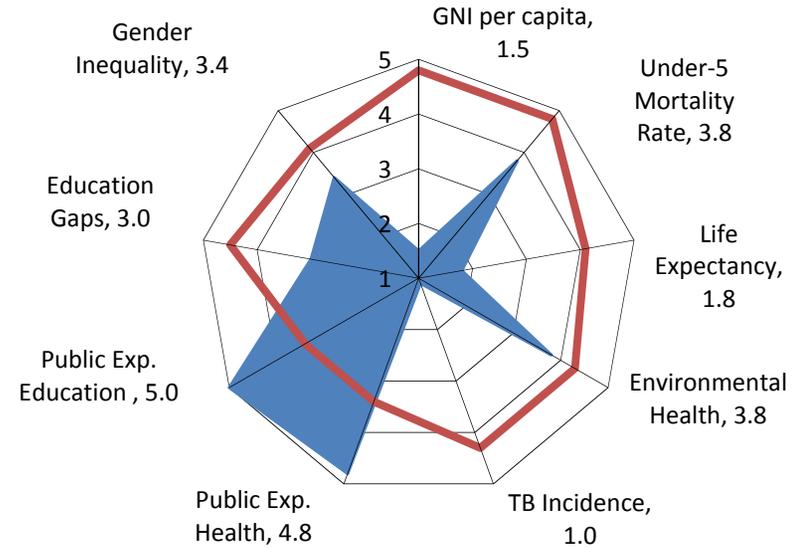
Figure 4

Moldova

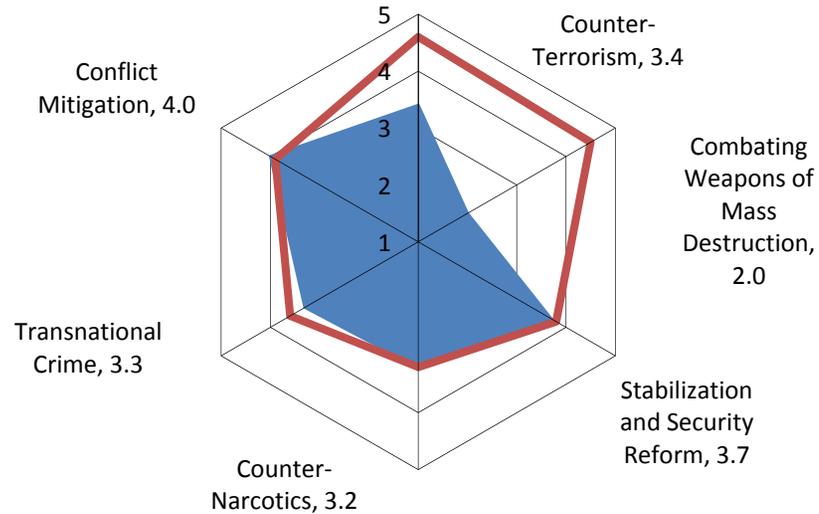
Economic Performance, 2008-2010



Human Capital, 2008-2010



Peace & Security

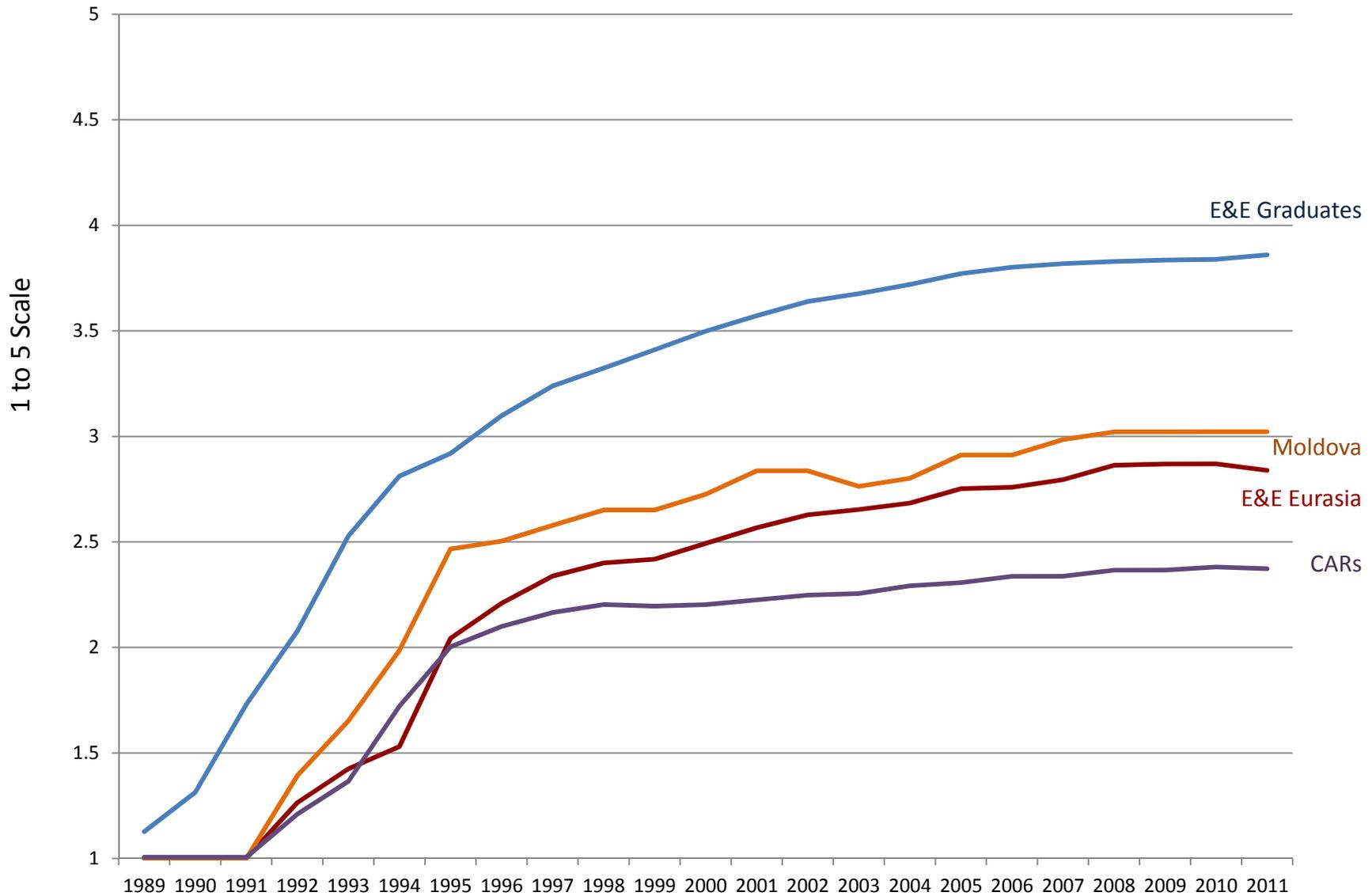


USAID Country Graduates

Country graduates = Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

Figure 5

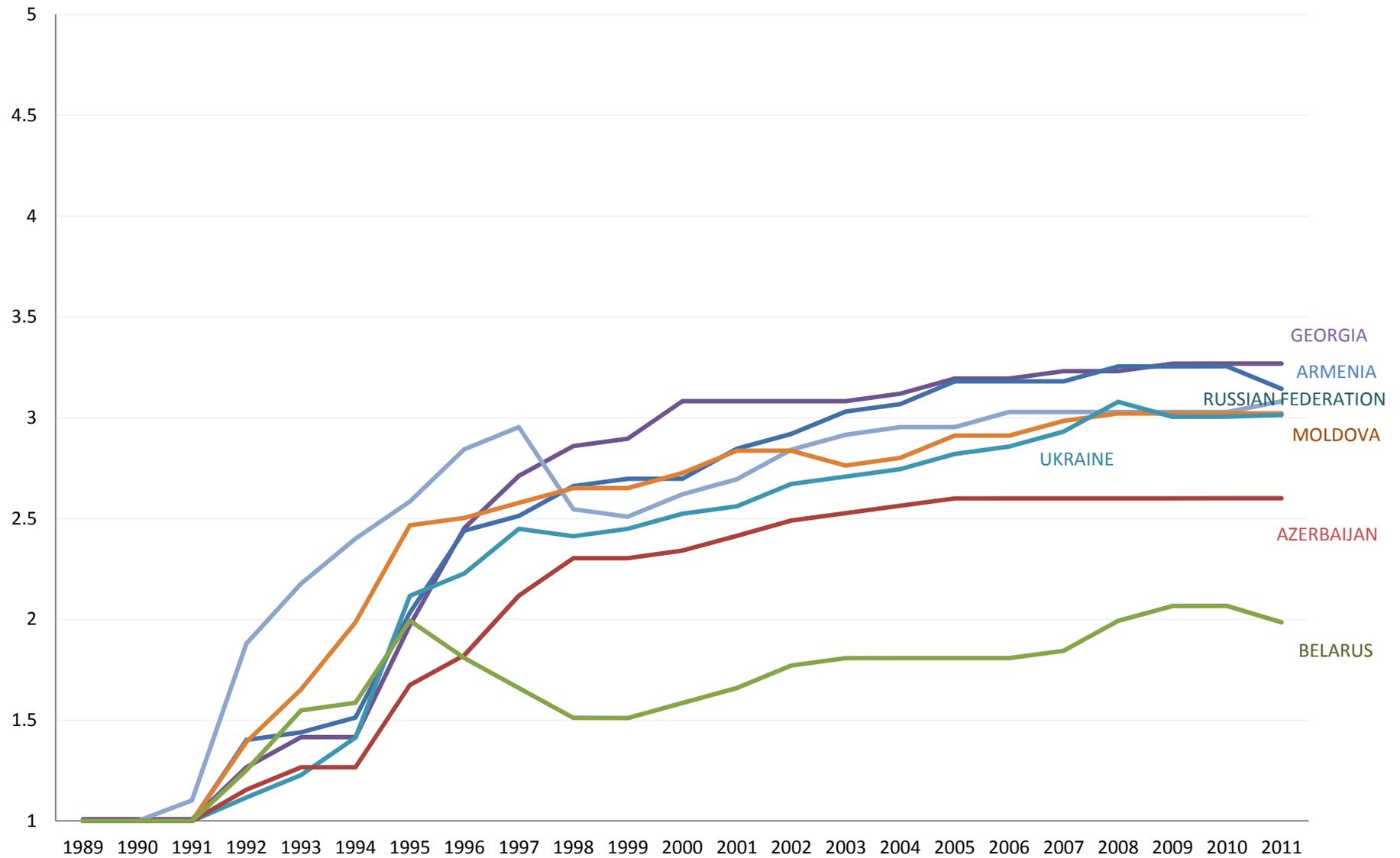
Macroeconomic Reforms in Moldova and E&E



Drawn from the EBRD, *Transition Reports*. Scores are based on 1 to 5 scale, with 5 representing the most advanced.

Figure 6

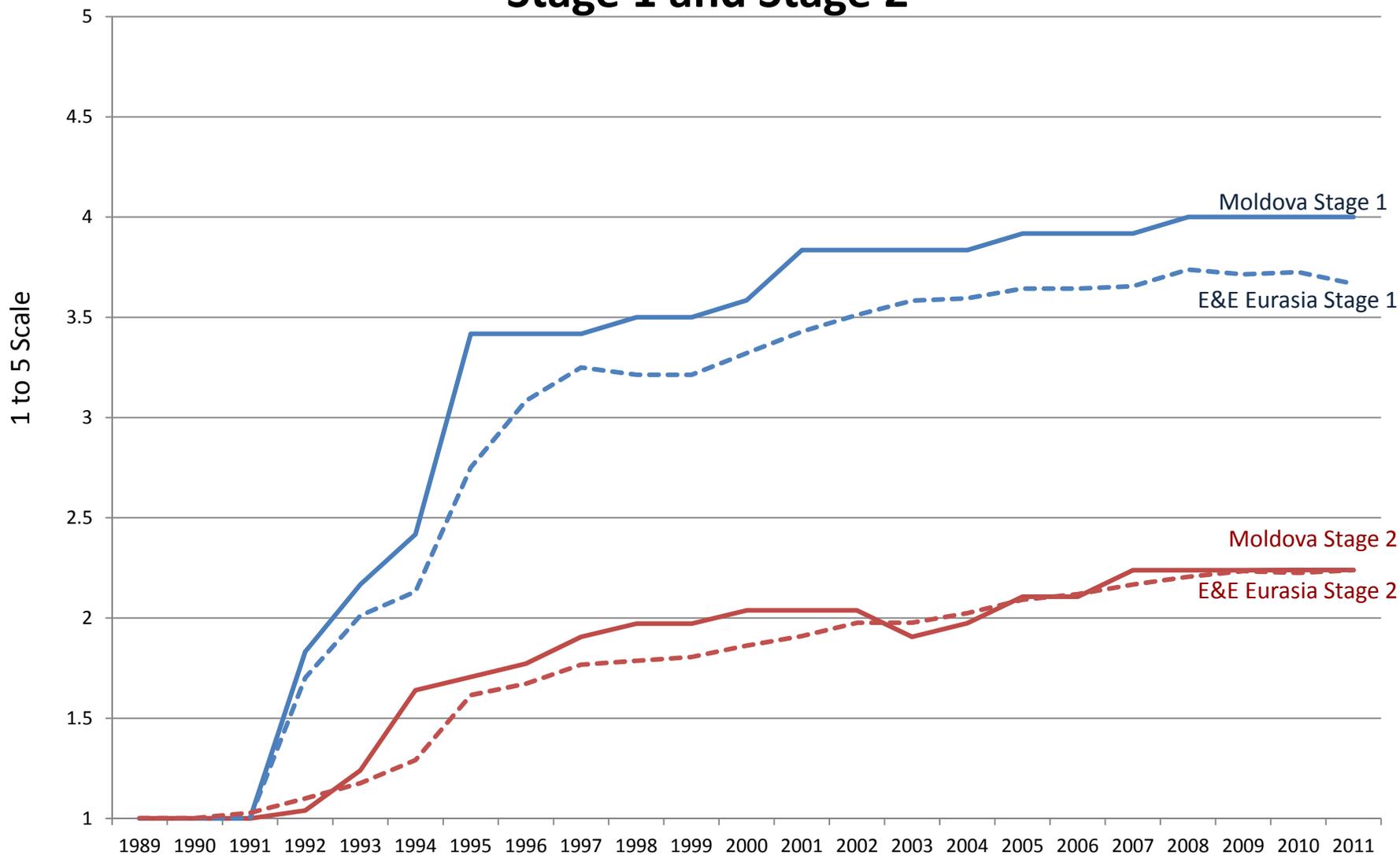
Macroeconomic Reforms in E&E Eurasia



Drawn from the EBRD *Transition Report* (2011 and earlier editions).

Figure 7

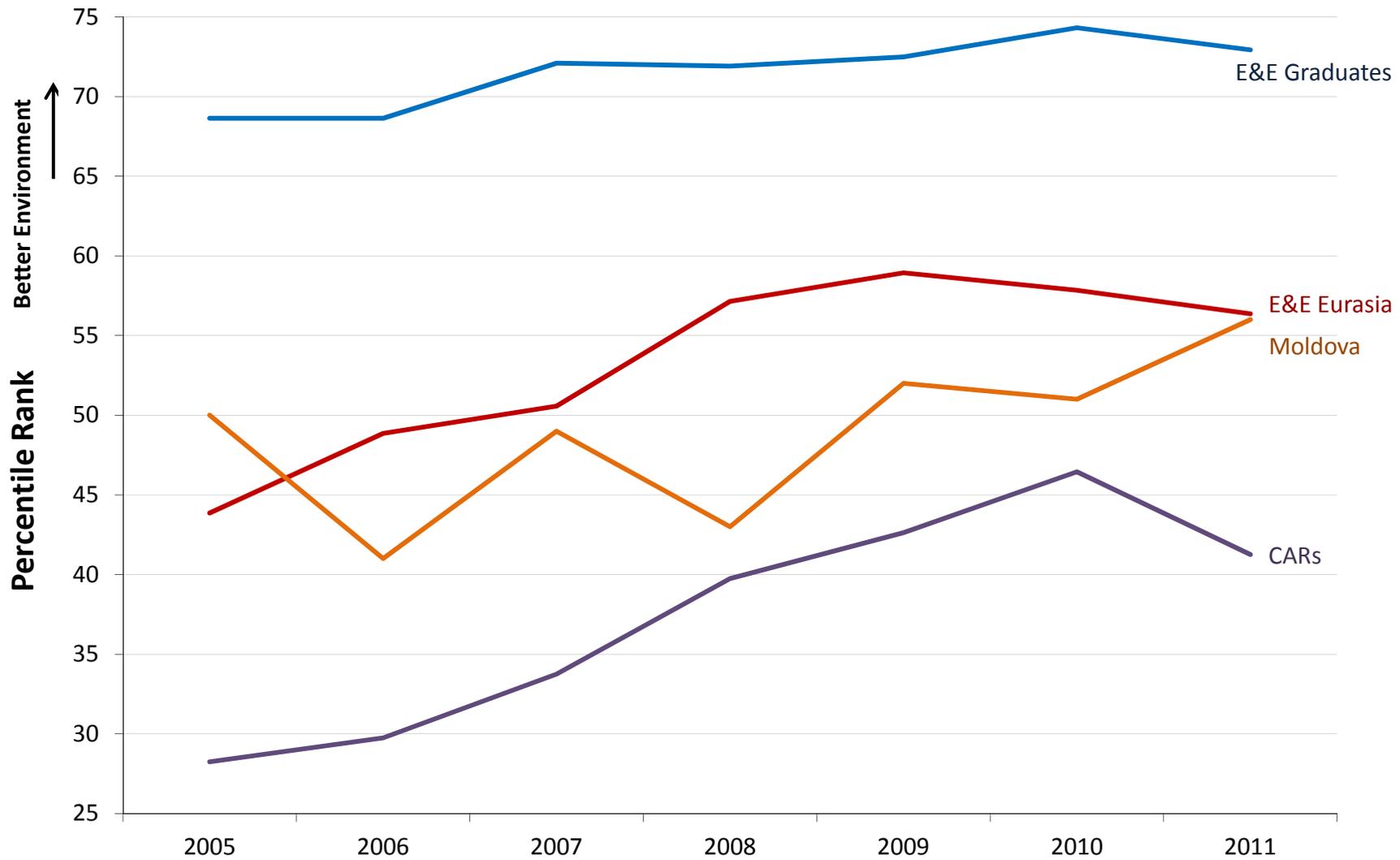
Macroeconomic Reforms in Moldova and E&E Eurasia, Stage 1 and Stage 2



Data are drawn from the EBRD, *Transition Report 2010*. Stage 1 Reforms: Small Scale Privatization, Trade and Foreign Exchange, Price Liberalization, Large Scale Privatization. Stage 2 Reforms: Enterprise Reform, Competition Policy, Banking Reform, Competition Policy, Non-Bank Financial Reform, and Infrastructure. Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

Figure 8

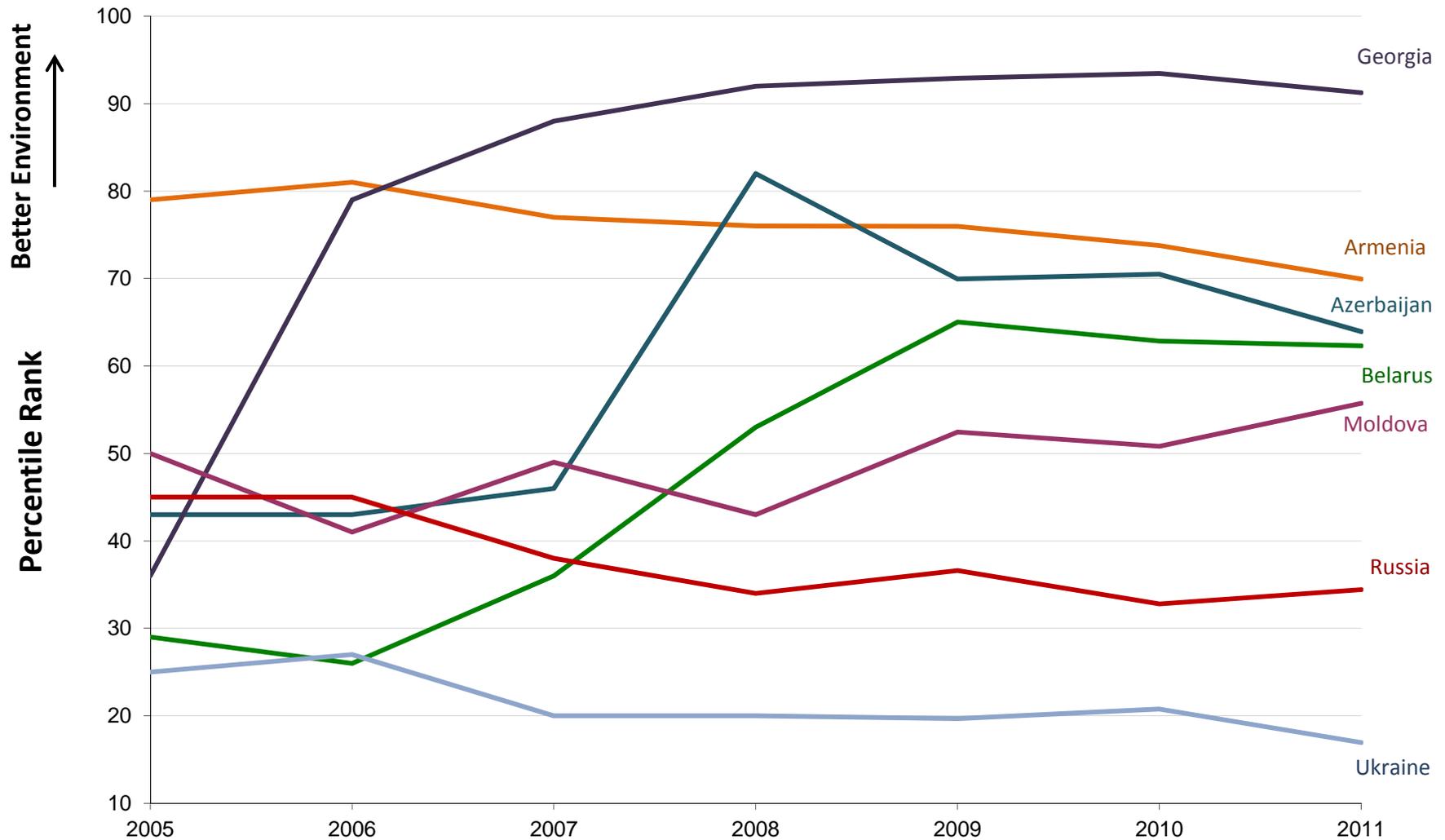
Microeconomic Reforms: The Business Environment in Moldova and E&E



World Bank, *Doing Business 2012* (October 2011). The analysis is based on 10 aspects: starting a business; dealing with construction; hiring and firing workers; registering a property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business.

Figure 9

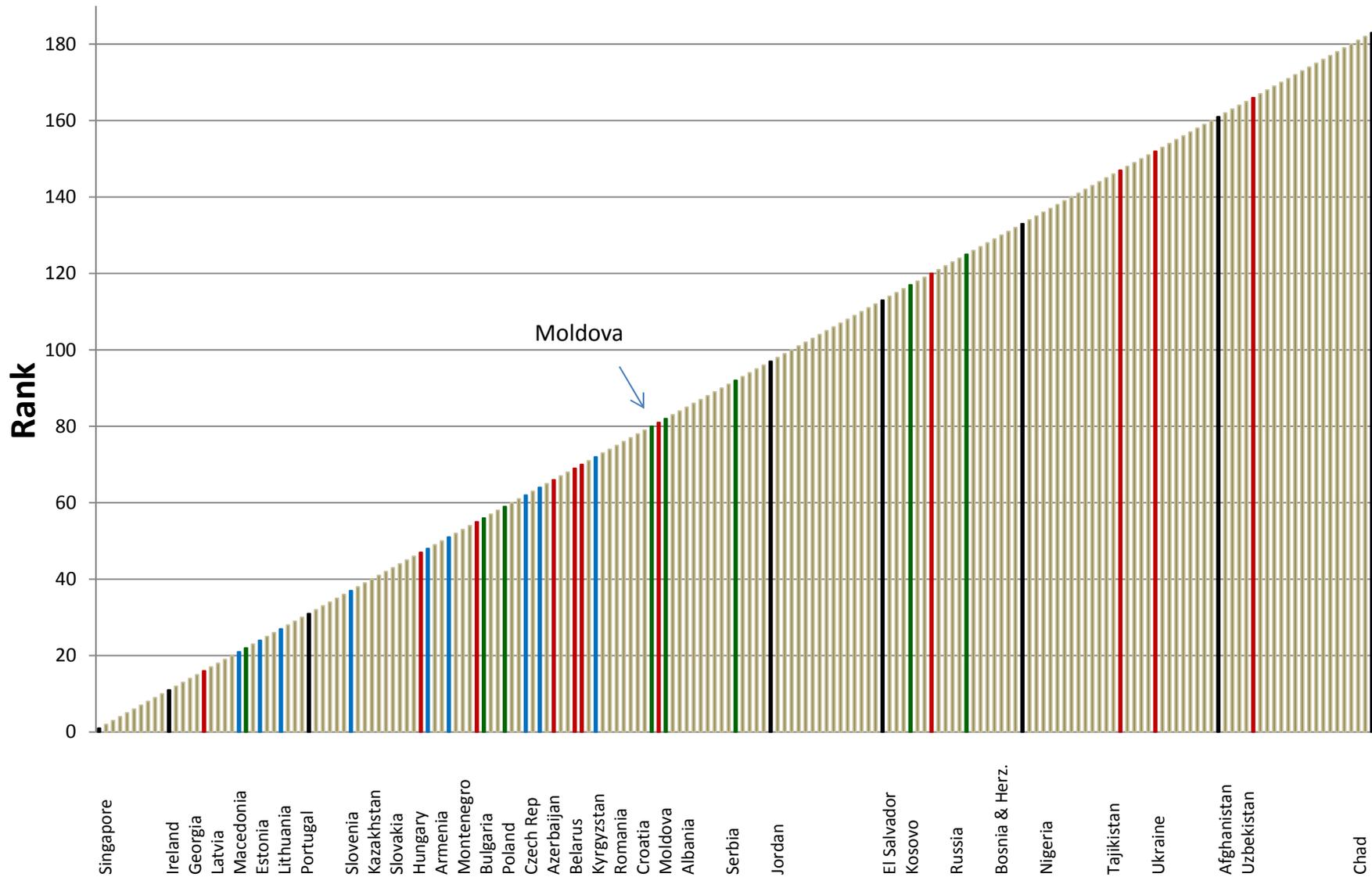
Microeconomic Reforms: The Business Environment in E&E Eurasia



World Bank, Doing Business 2012 (October 2011). The analysis is based on 10 aspects: starting a business; dealing with construction; hiring and firing workers; registering a property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business.

Figure 10

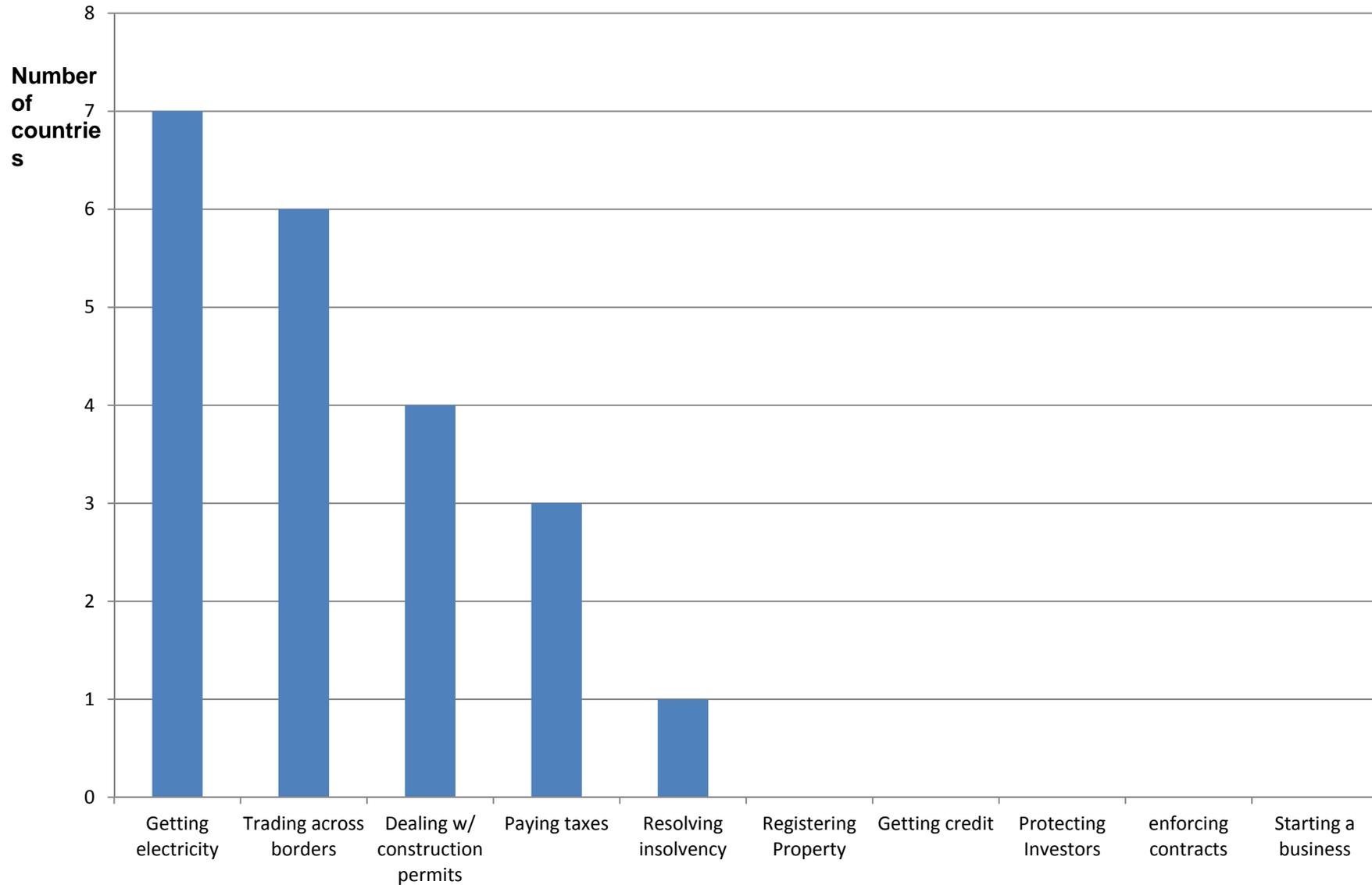
Business Environment in 2011



World Bank, *Doing Business* 2012 (October 2011). 183 countries are included in the analysis. The business environment is gauged based on 10 aspects: starting a business; dealing with construction; hiring and firing workers; registering a property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business.

Figure 11

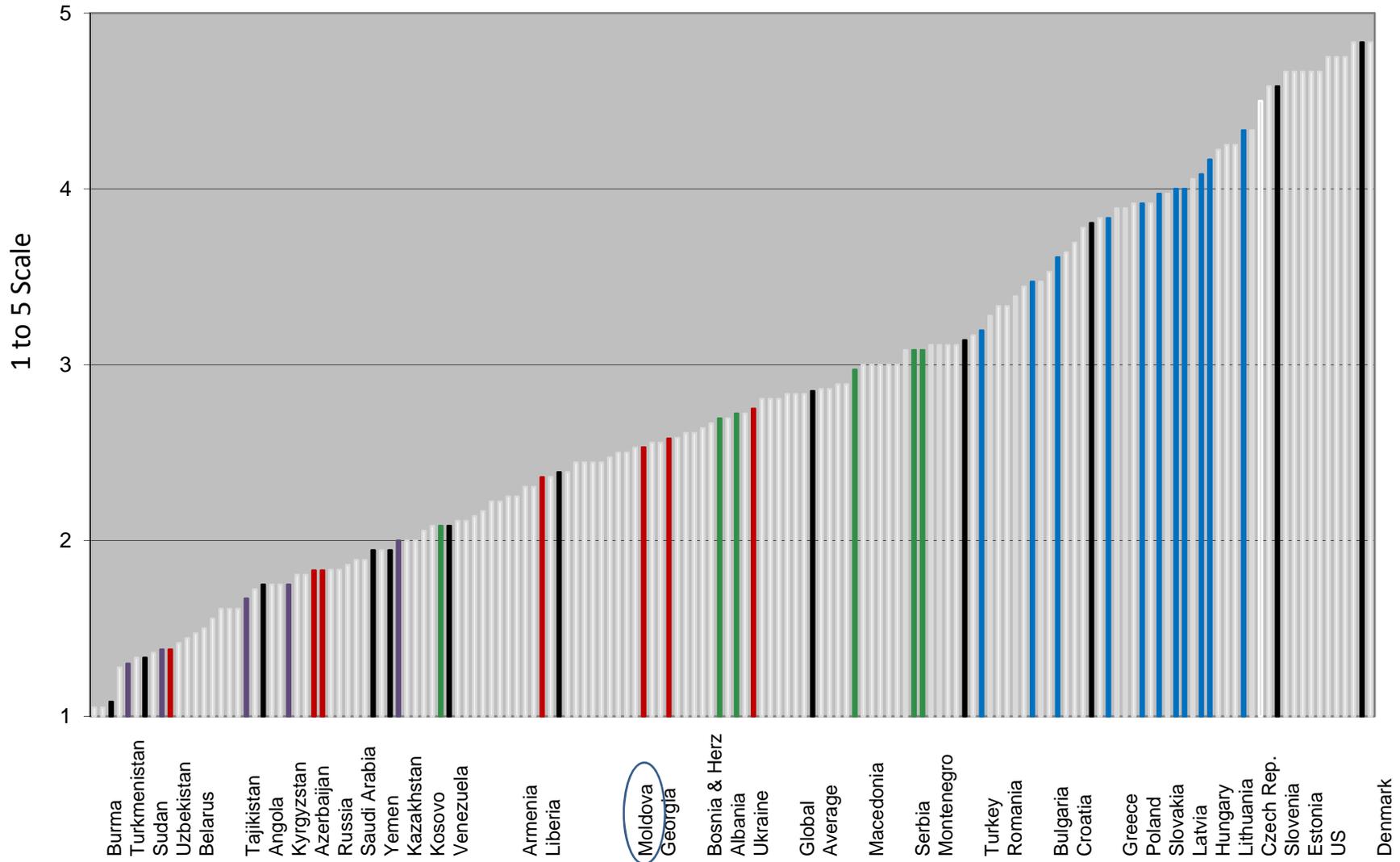
Most Problematic Business Constraints in E&E Eurasia



World Bank, *Doing Business 2012*. The three most significant constraints (out of 10) for each country were tallied. For example, “getting electricity” was in the top three constraints in all 7 of the E&E Eurasian countries.

Figure 12

Democracy and Governance in the World



Drawn from World Bank Institute, *Governance Matters Indicators* (2010); Freedom House, *Freedom in the World* (2010) and *Freedom of the Press* (2010). N=153. Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. An index of 5 indicators: rule of law; anti-corruption; free media; political rights; and civil liberties.

Figure 13

Democratic Reforms in Eastern Europe and Eurasia from 1996-2010

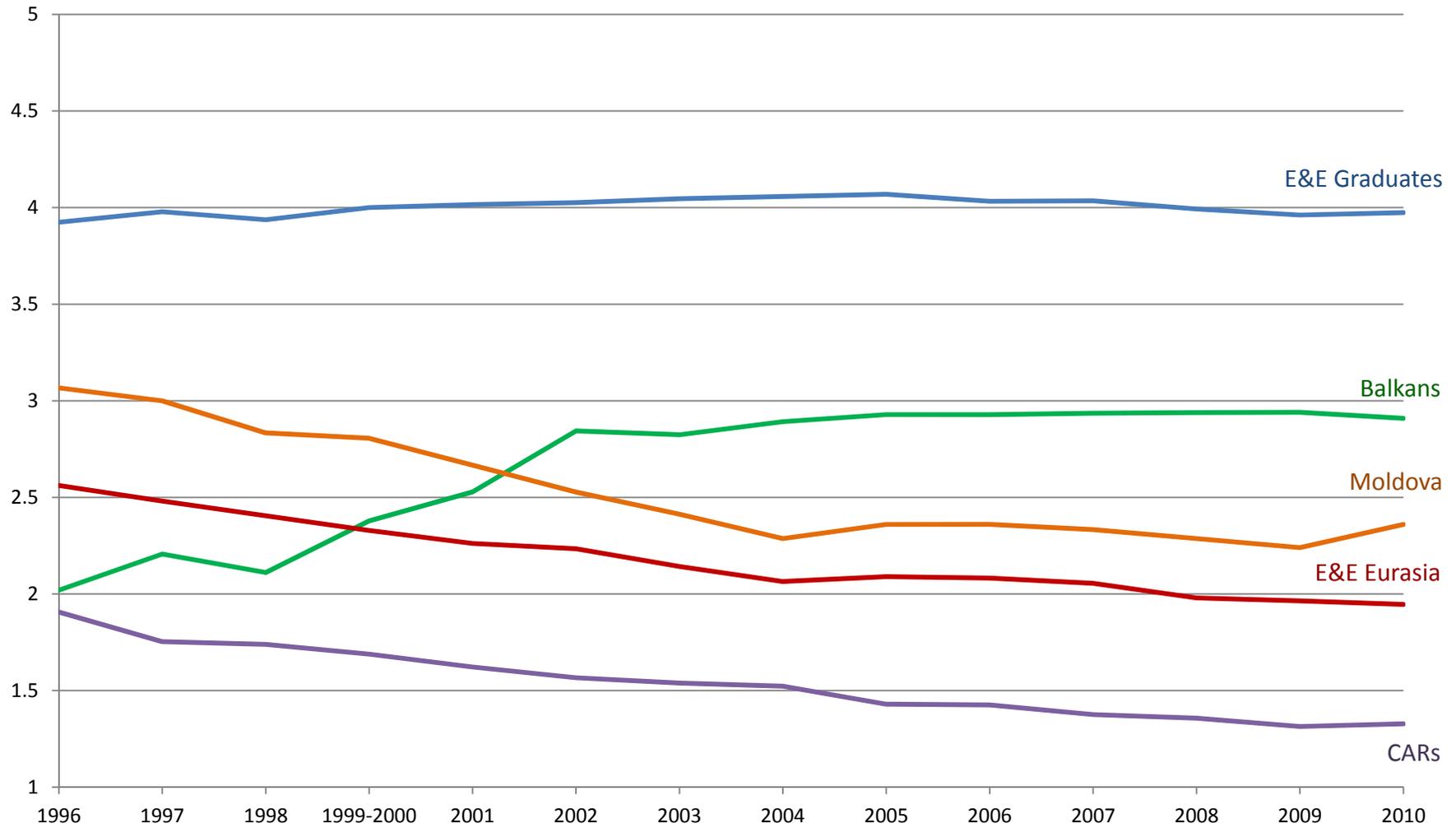
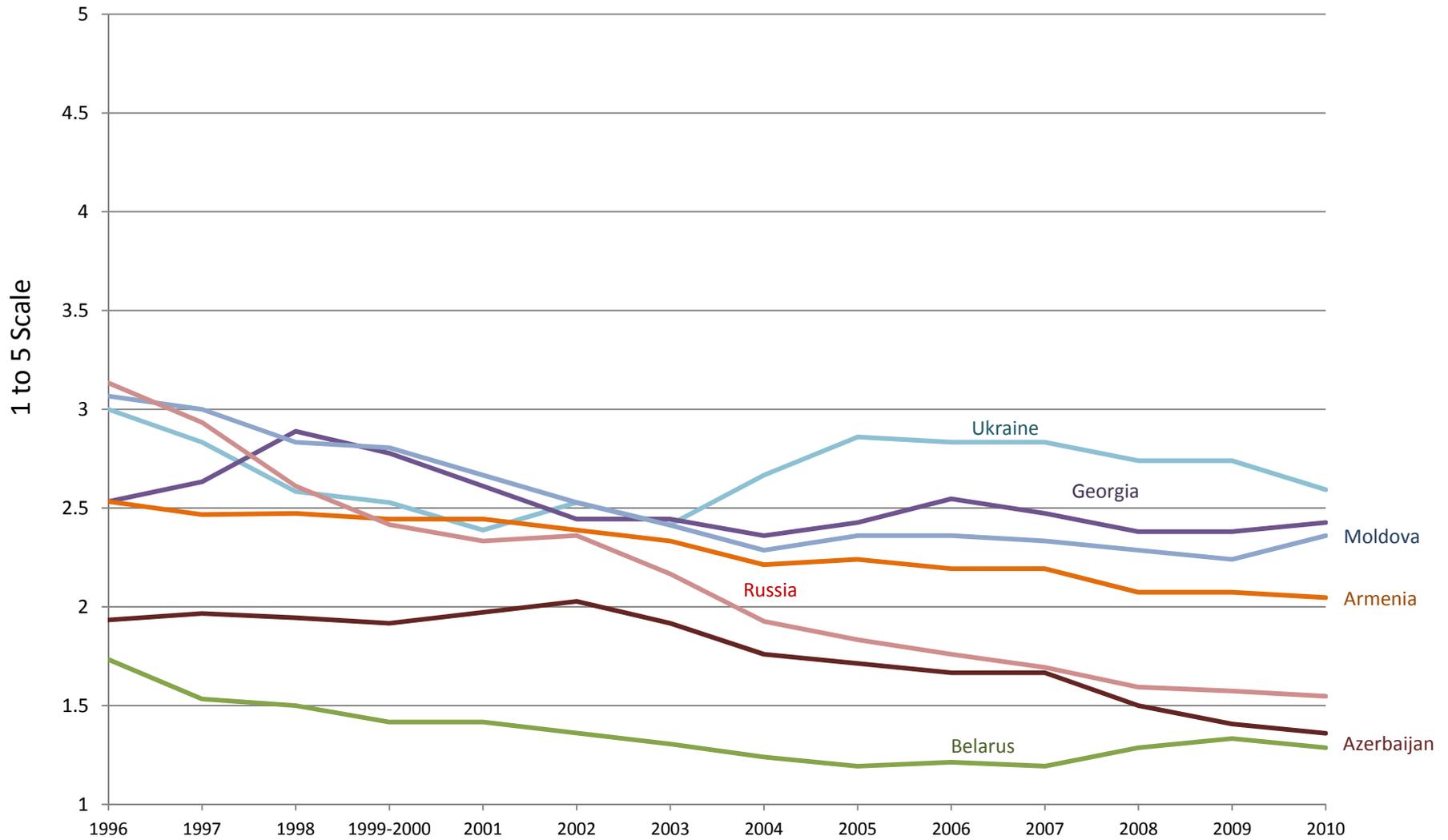


Figure 14

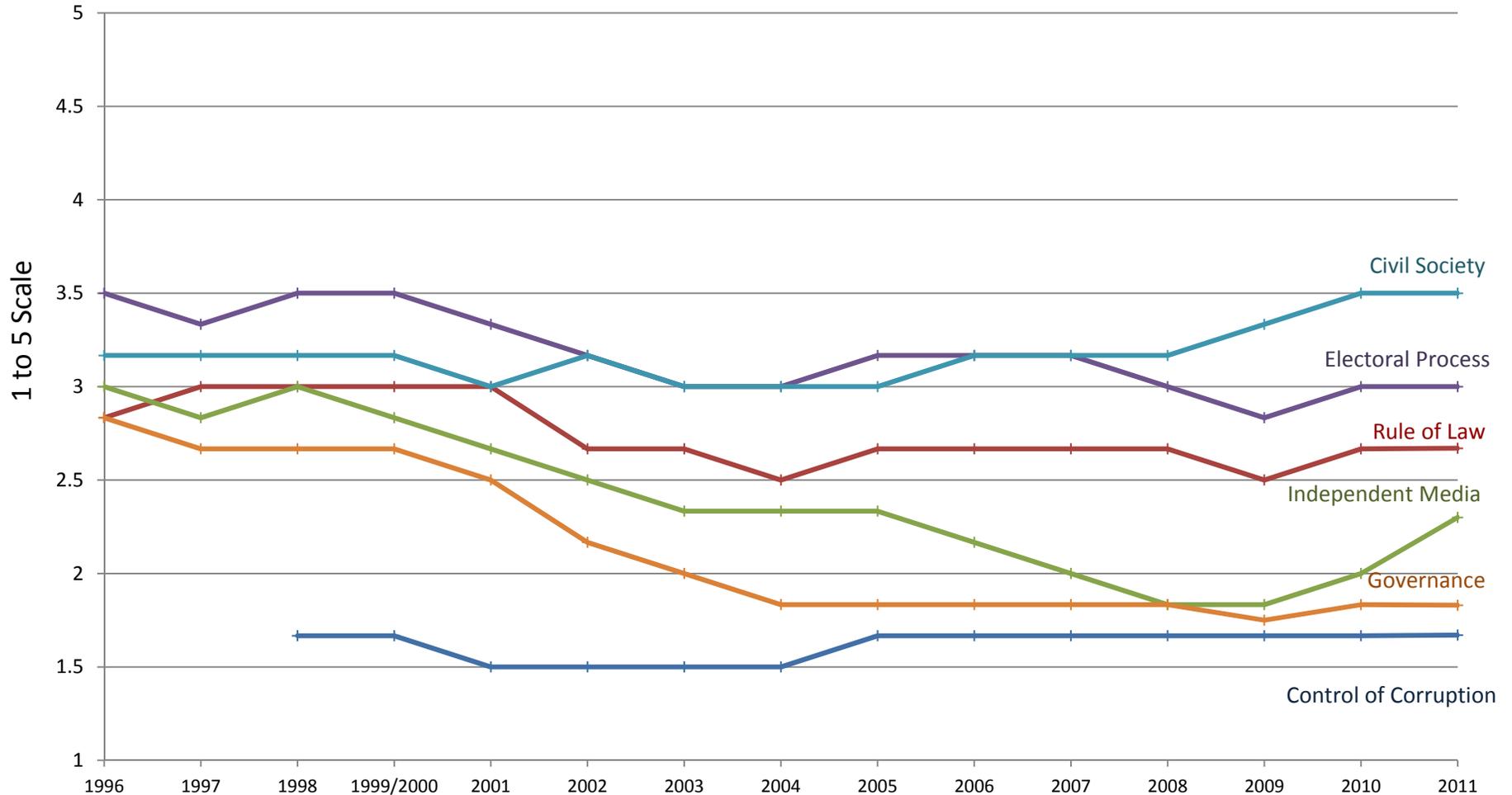
Democracy and Governance in E&E Eurasia, 1996-2010



Scores calibrated on MCP 1 to 5 scale. Drawn from Freedom House, *Nations in Transit*.

Figure 15

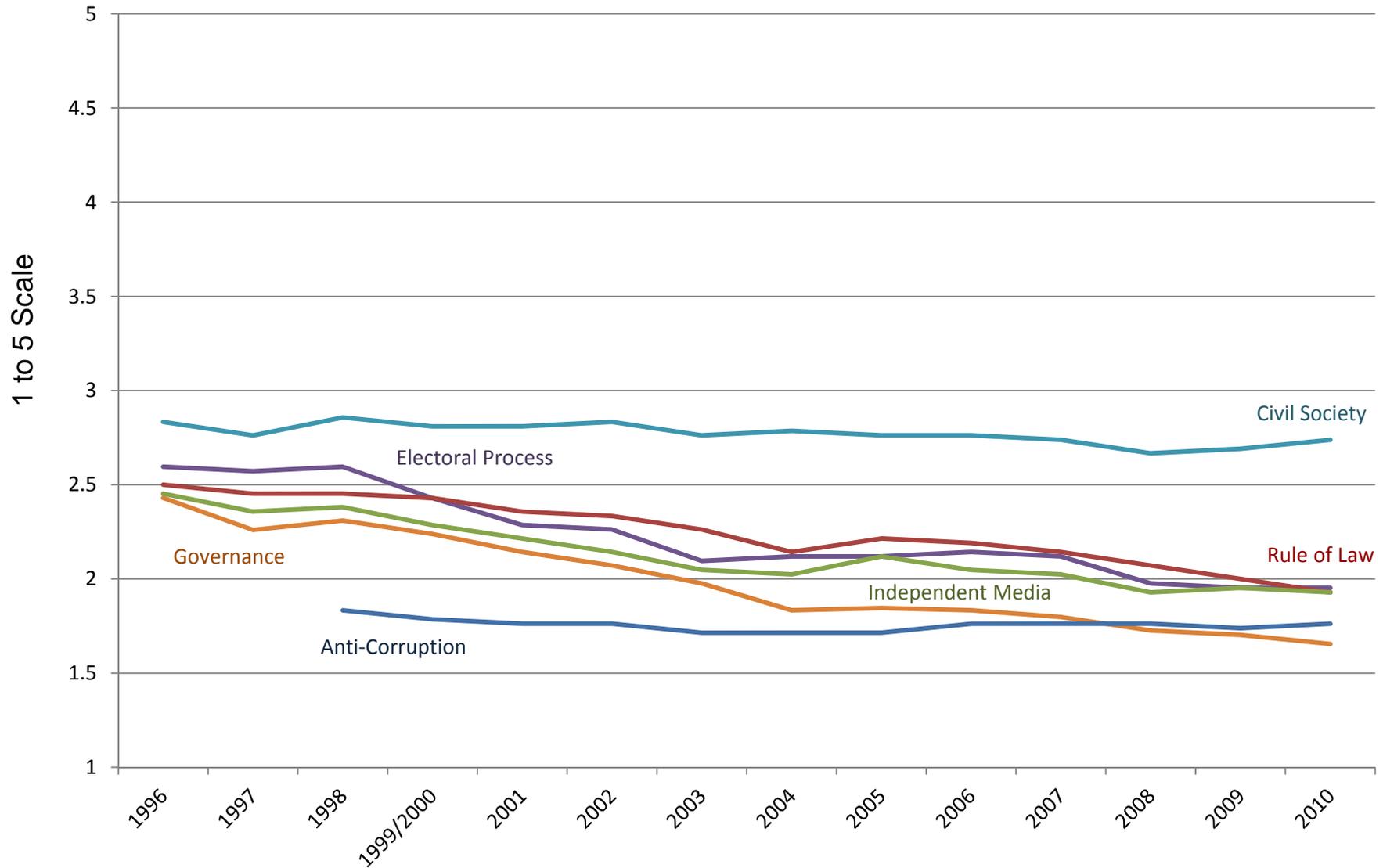
Democratic Reforms in Moldova, 1996-2011



Scores calibrated on MCP 1 to 5 scale. Source: Freedom House, *Nations in Transit*.

Figure 16

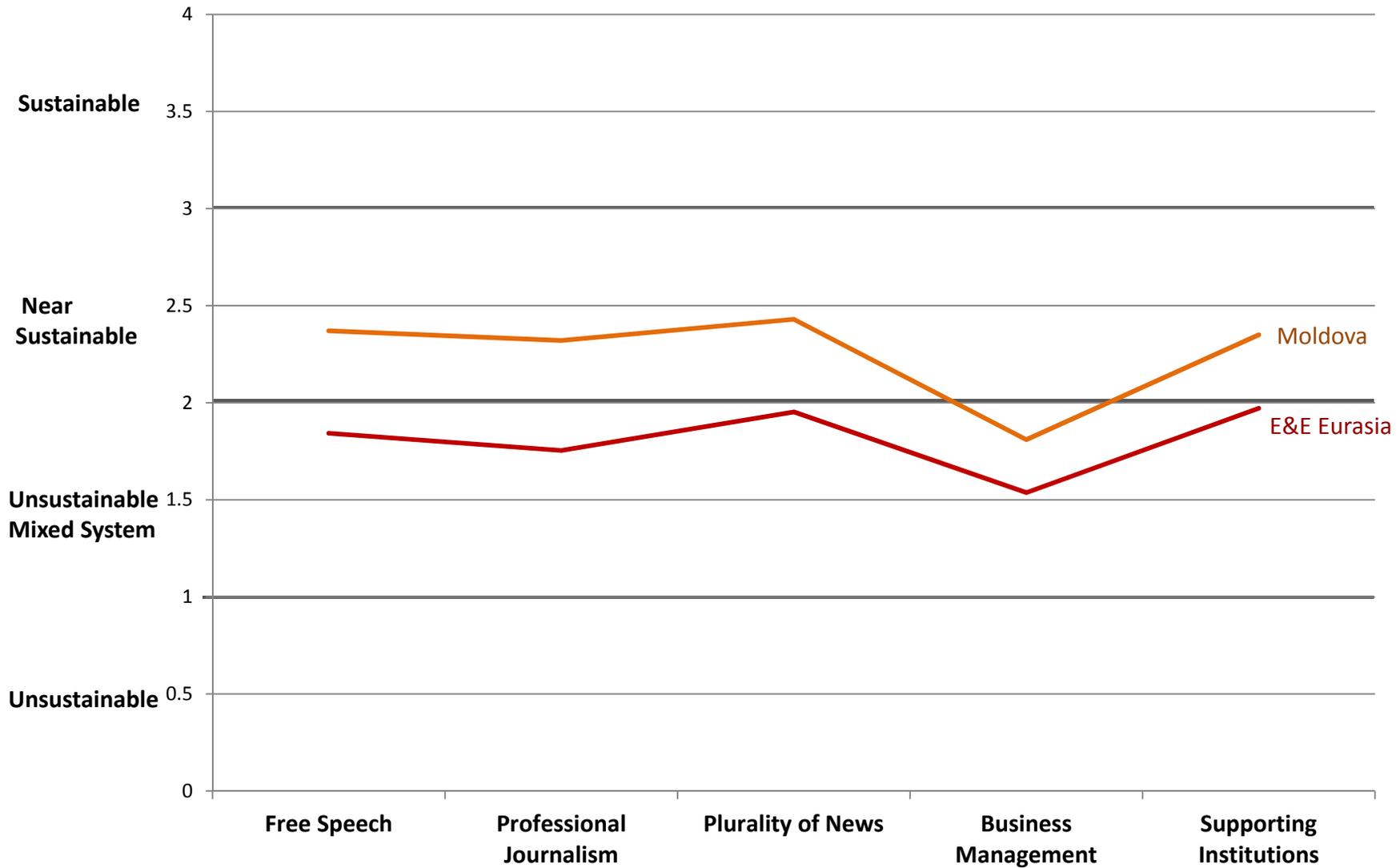
Democratic Reforms in E&E Eurasia, 1996-2010



Scores for control of corruption begin in 1998. Scores calibrated on MCP 1 to 5 scale. Source: Freedom House, *Nations in Transit*.

Figure 17

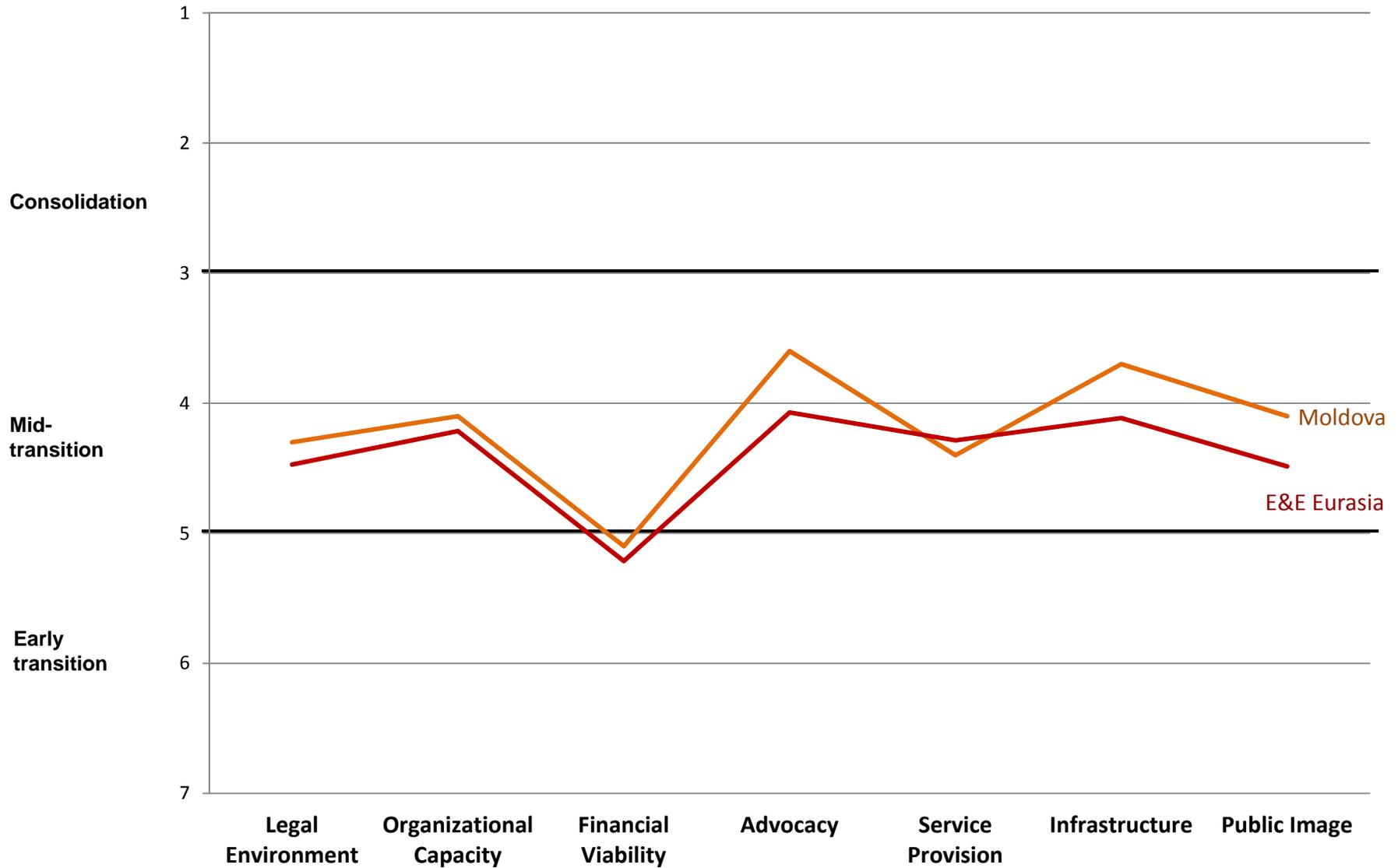
Media Sustainability in 2011, Moldova vs. E&E Eurasia



IREX, *Media Sustainability Index 2012*. Scale of 0 to 4 where 4 is the most advanced.

Figure 18

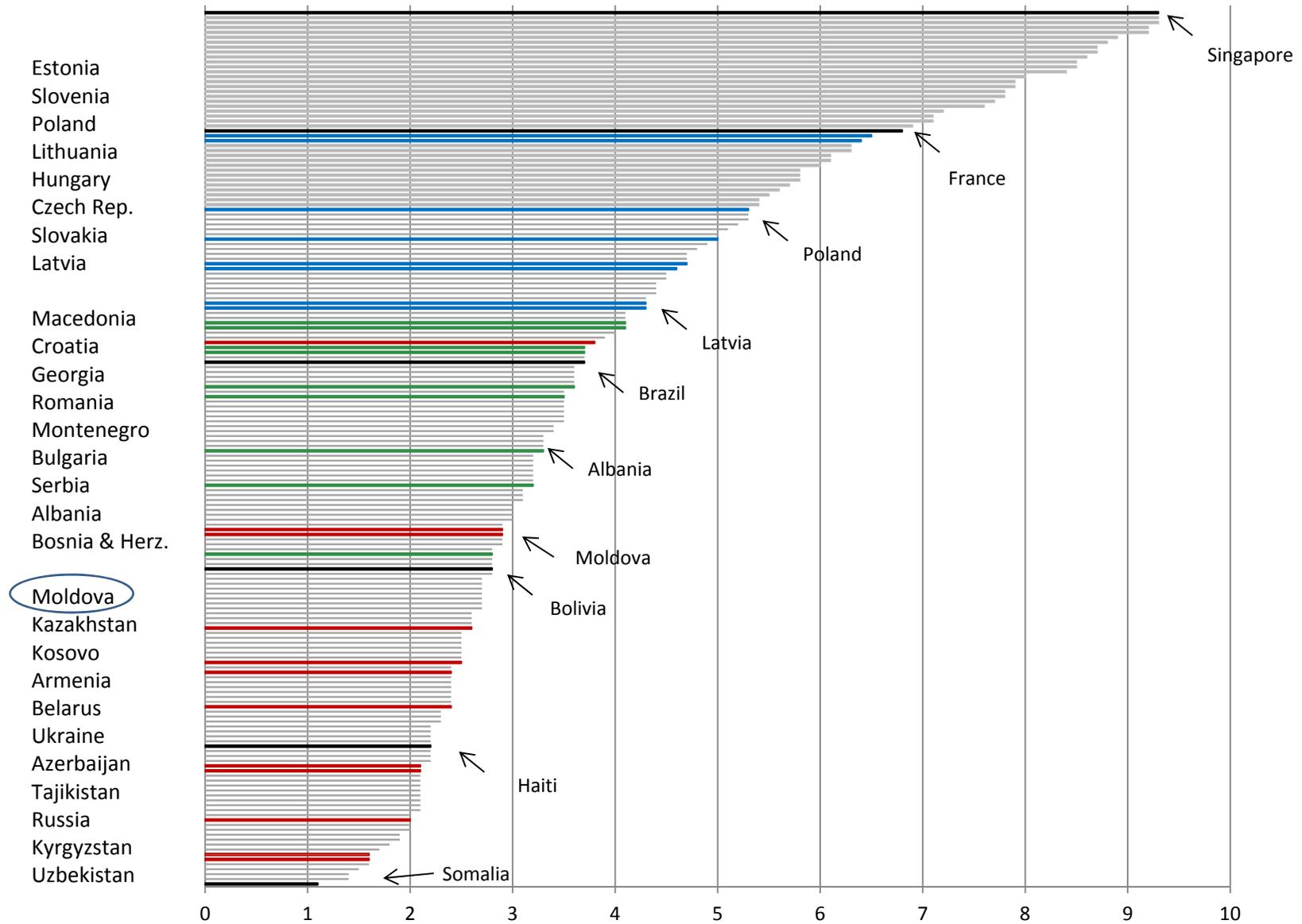
NGO Sustainability in 2010 in Moldova vs. E&E Eurasia



USAID, 2010 NGO Sustainability Index for Central and Eastern Europe and Eurasia, 14th Edition (2011). Scale of 1 to 7, with 1 representing the most advanced.

Figure 19

Corruption Perceptions Index



Transparency International, *Corruption Perceptions Index*, 2010. Scores are based from 0 (highly corrupt) to 10 (very clean).

Figure 20

Economic Growth and Contraction in Moldova, E&E Eurasia, and the World, 2004-2012

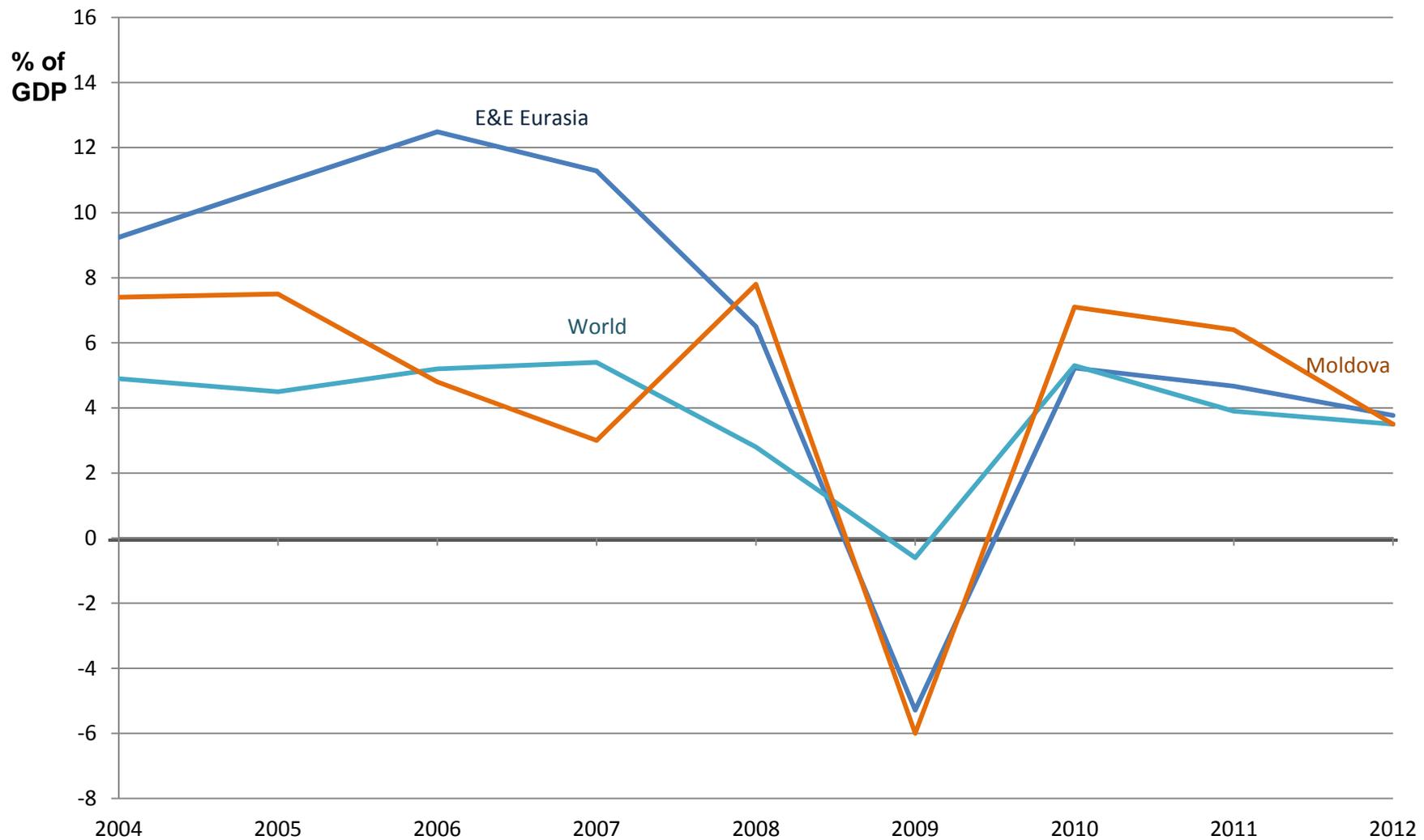


Figure 21

Economic Performance in E&E Eurasia: Real GDP as a Percentage of 1989 GDP

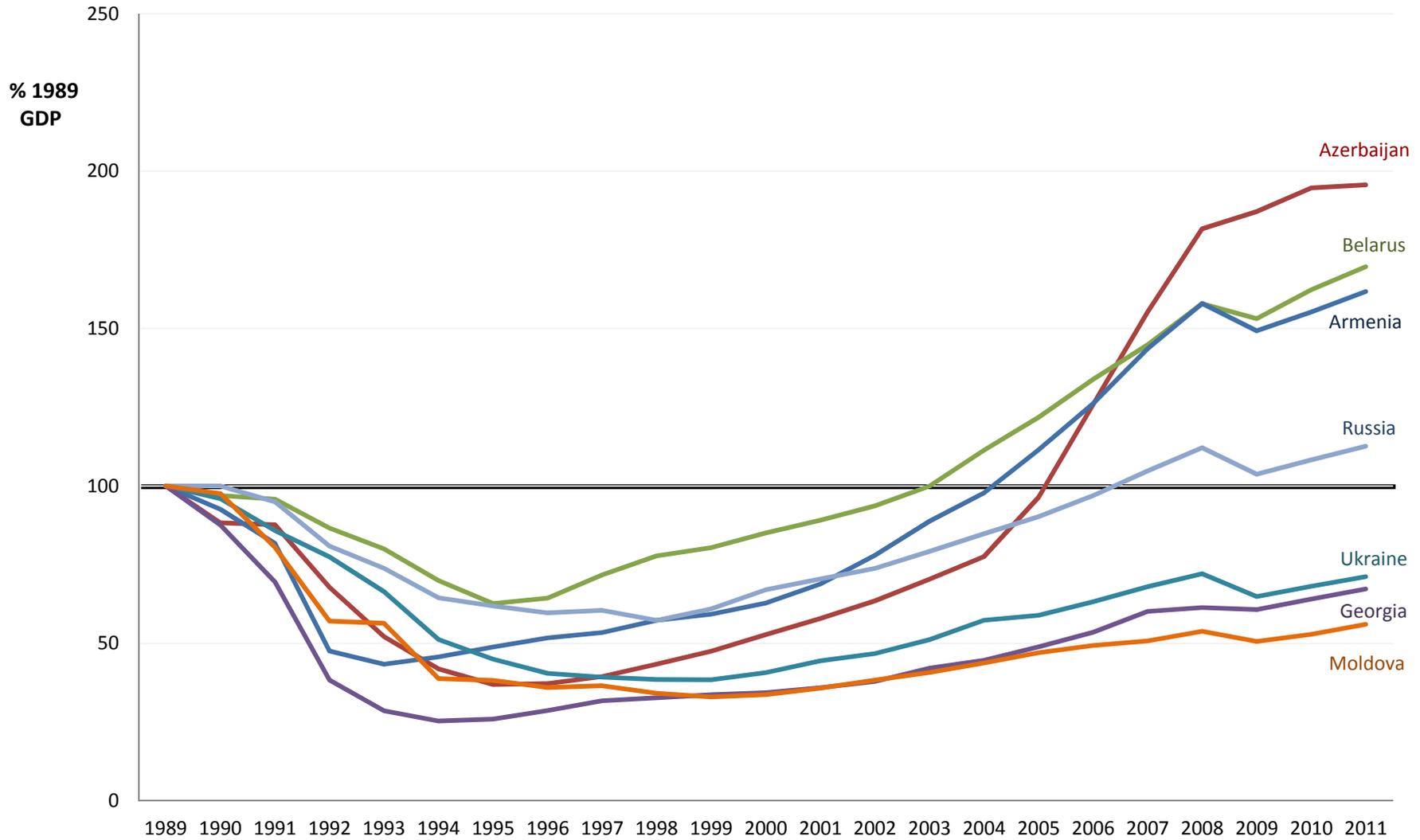
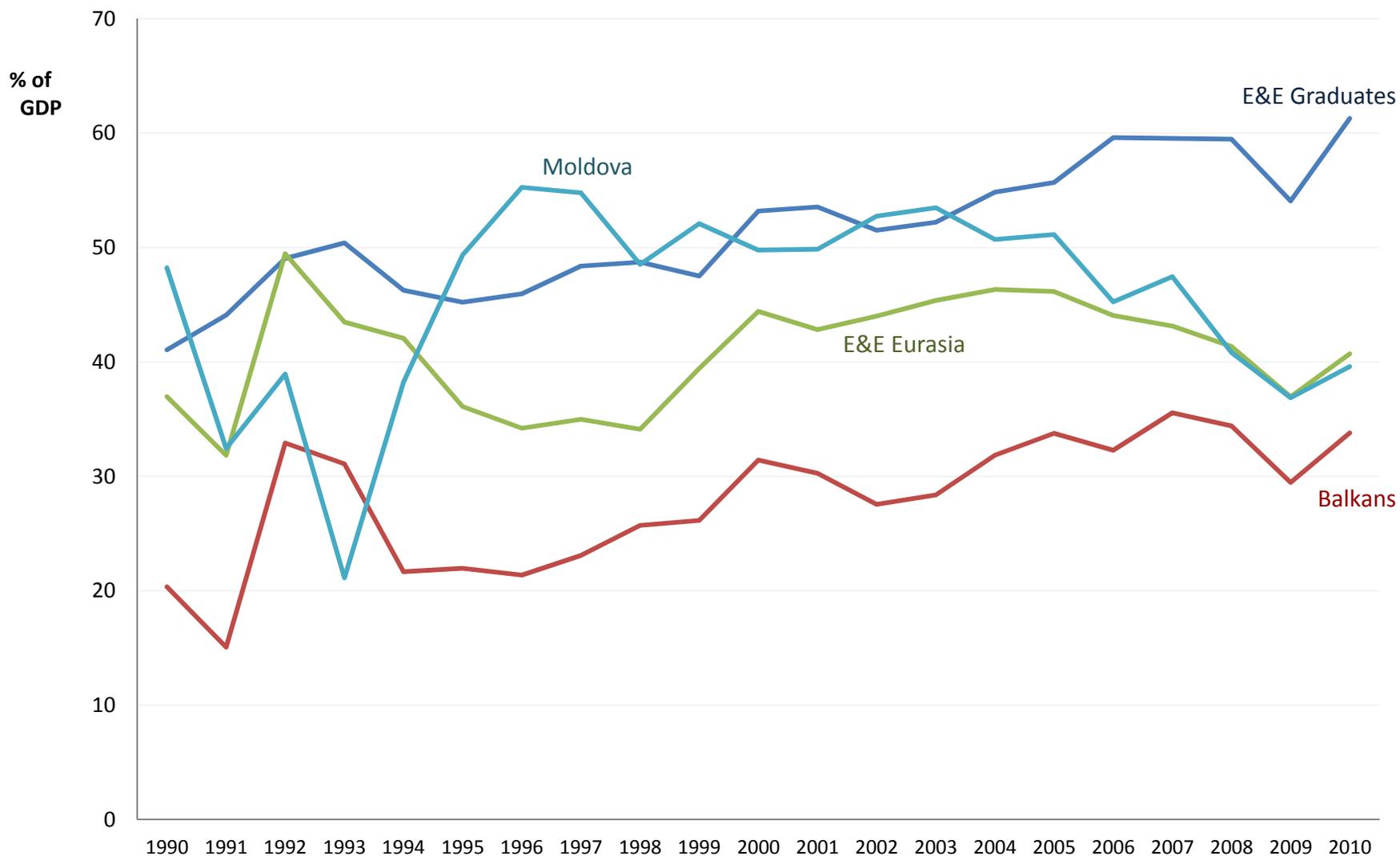


Figure 22

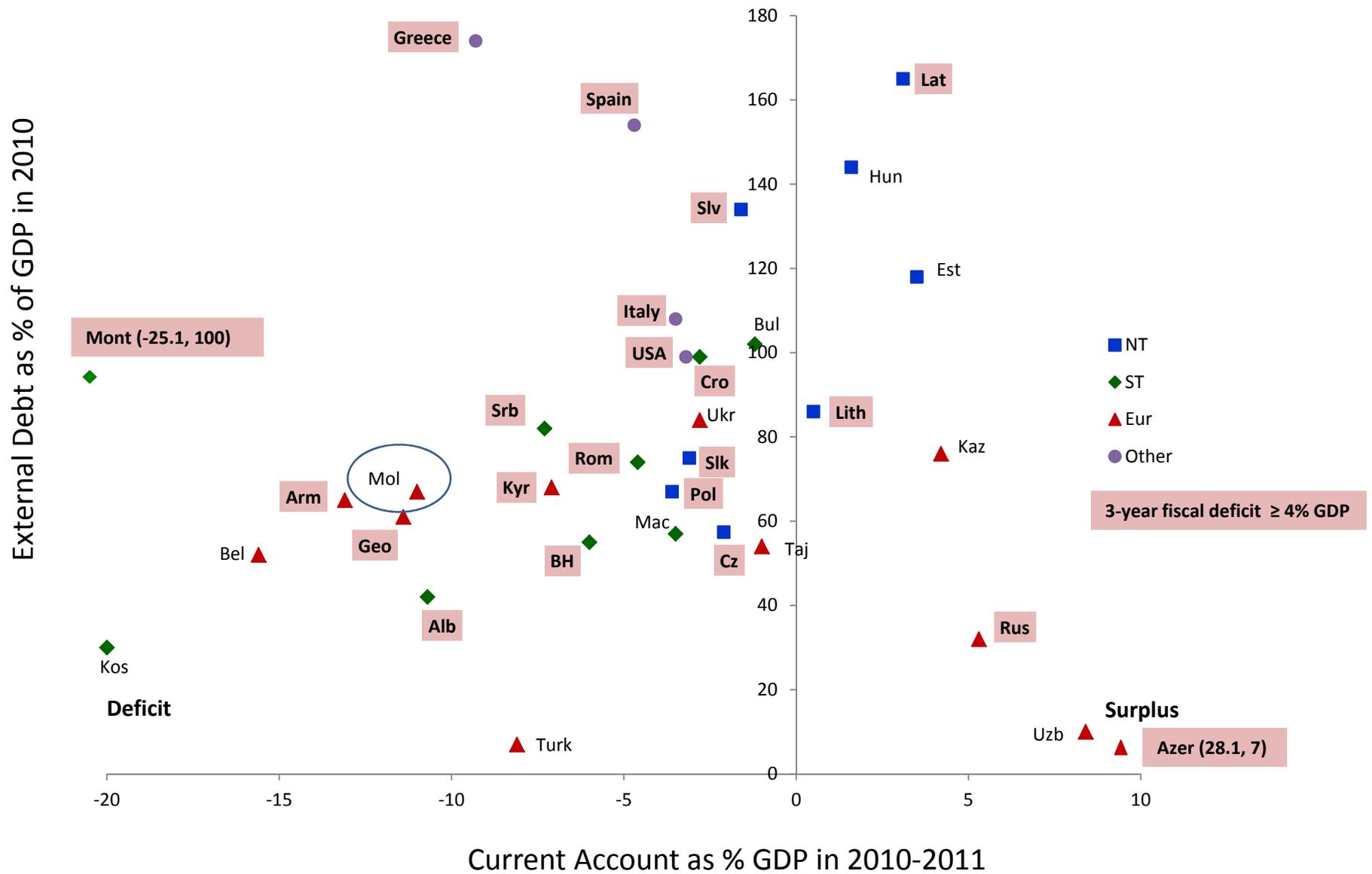
Exports as a Percentage of GDP



World Bank, *World Development Indicators* (2011); International Monetary Fund (2011).

Figure 23

Current Account Balance and External Debt in 2010-2011



EBRD, *Transition Report 2010* (November 2010) and IMF, *World Economic Outlook* (June 2011).

Figure 24

Labor productivity in E&E vs. EU-15 (constant 2005 US\$, thousands)

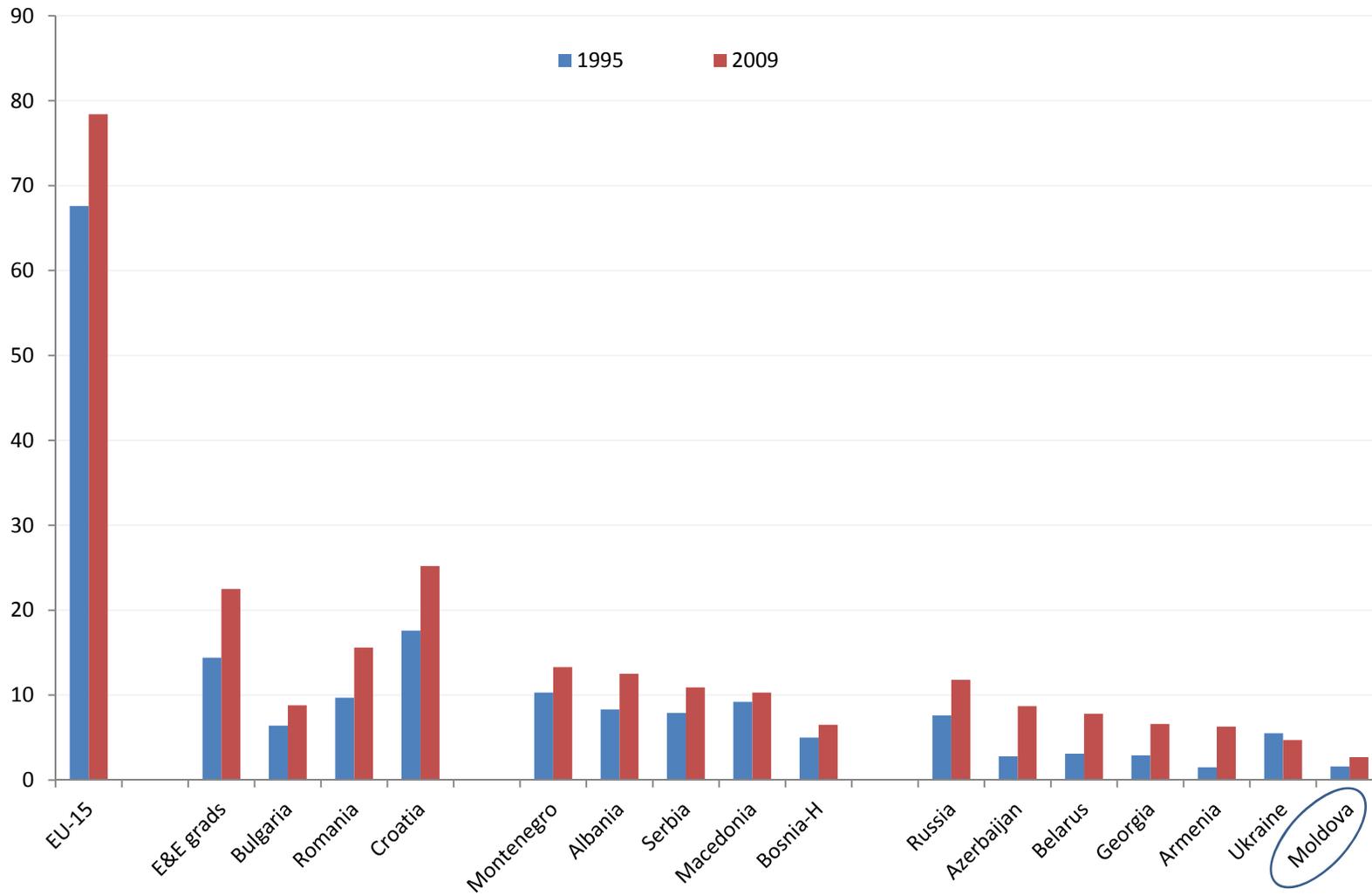
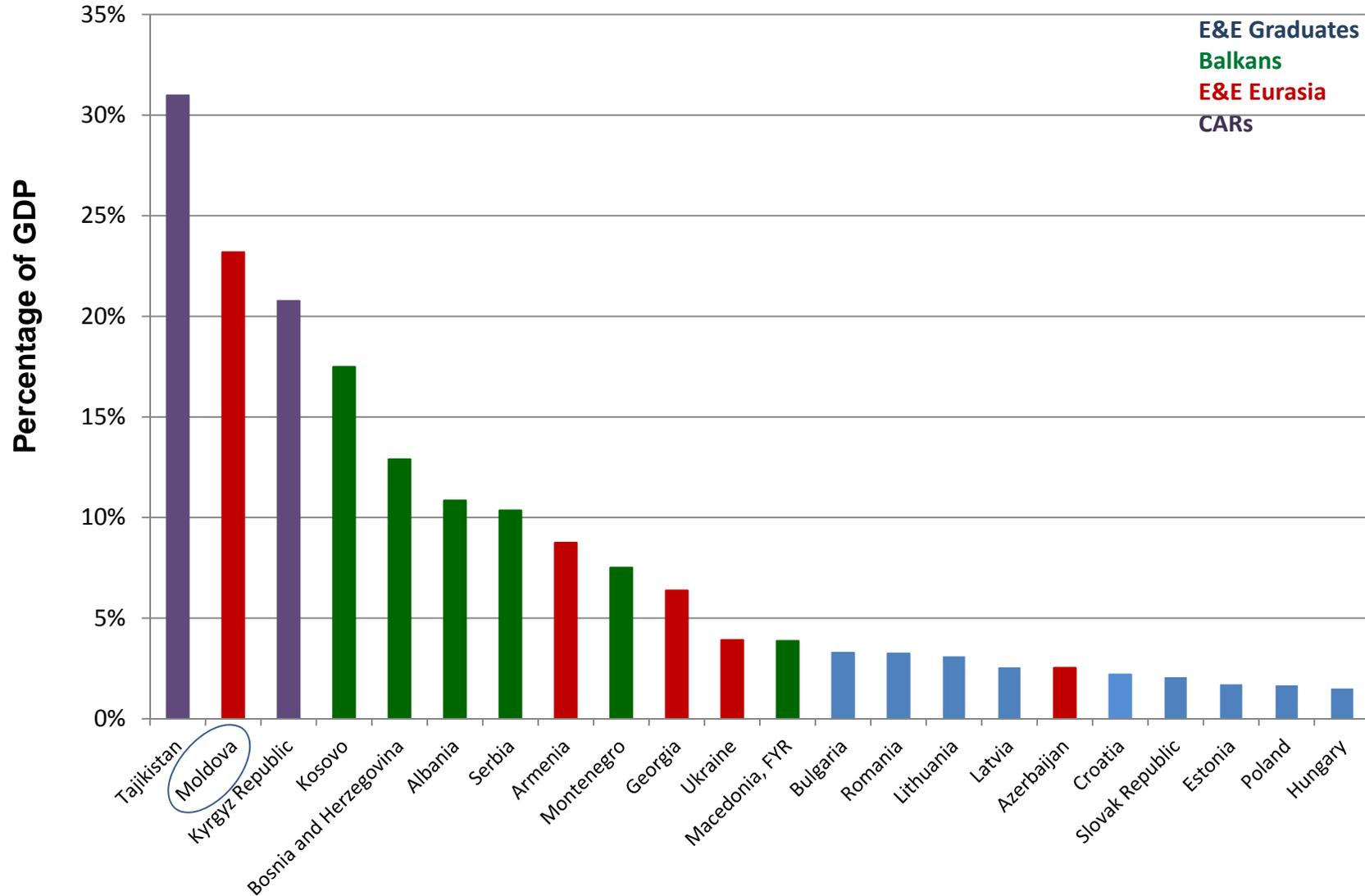


Figure 25

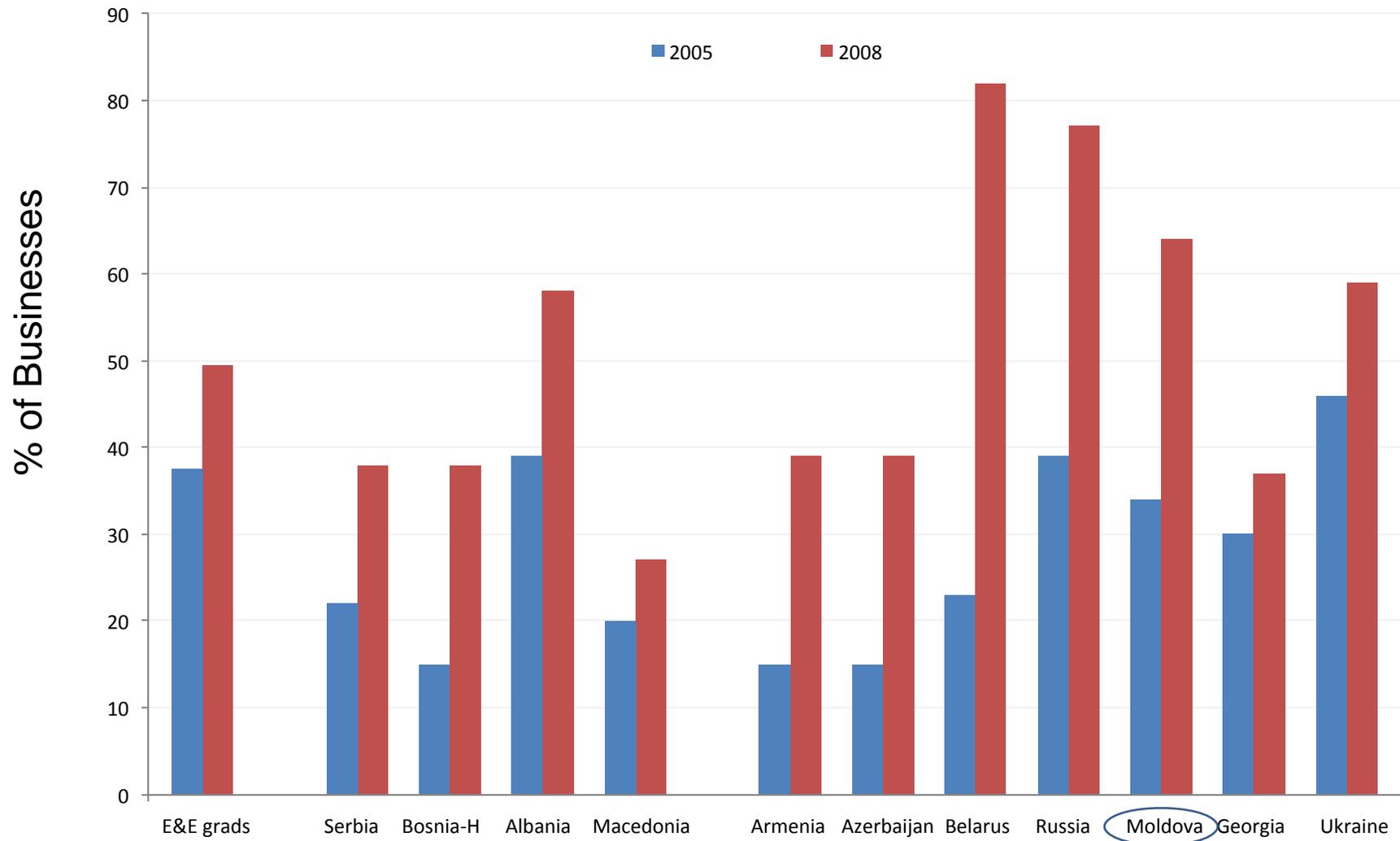
Top Remittance Receiving Countries in Eastern Europe and Eurasia, 2011



Inflow remittances for Czech Republic, Belarus, Slovenia, Russia, and Kazakhstan are all below 1%. World Bank, Annual Remittances Data, 2011.

Figure 26

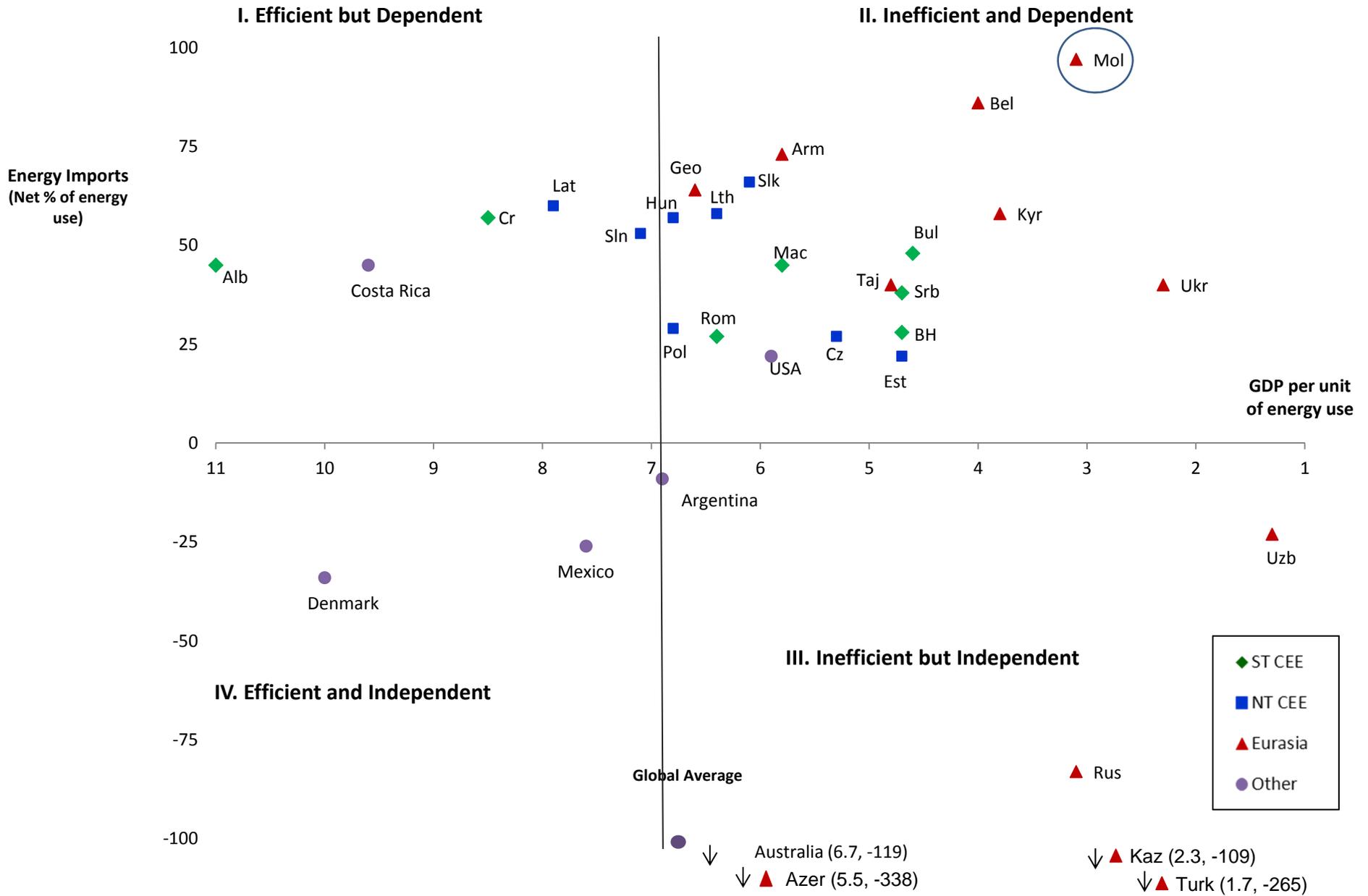
Skills and Education of the Workforce as a Business Constraint



World Bank and EBRD, *Business Environment and Enterprise Performance Survey* (2009). The percentage of businesses which perceives labor skills to be a significant business constraint.

Figure 27

Energy Security, 2010



World Bank, *World Development Indicators* (2011).

Figure 28

Environmental Sustainability

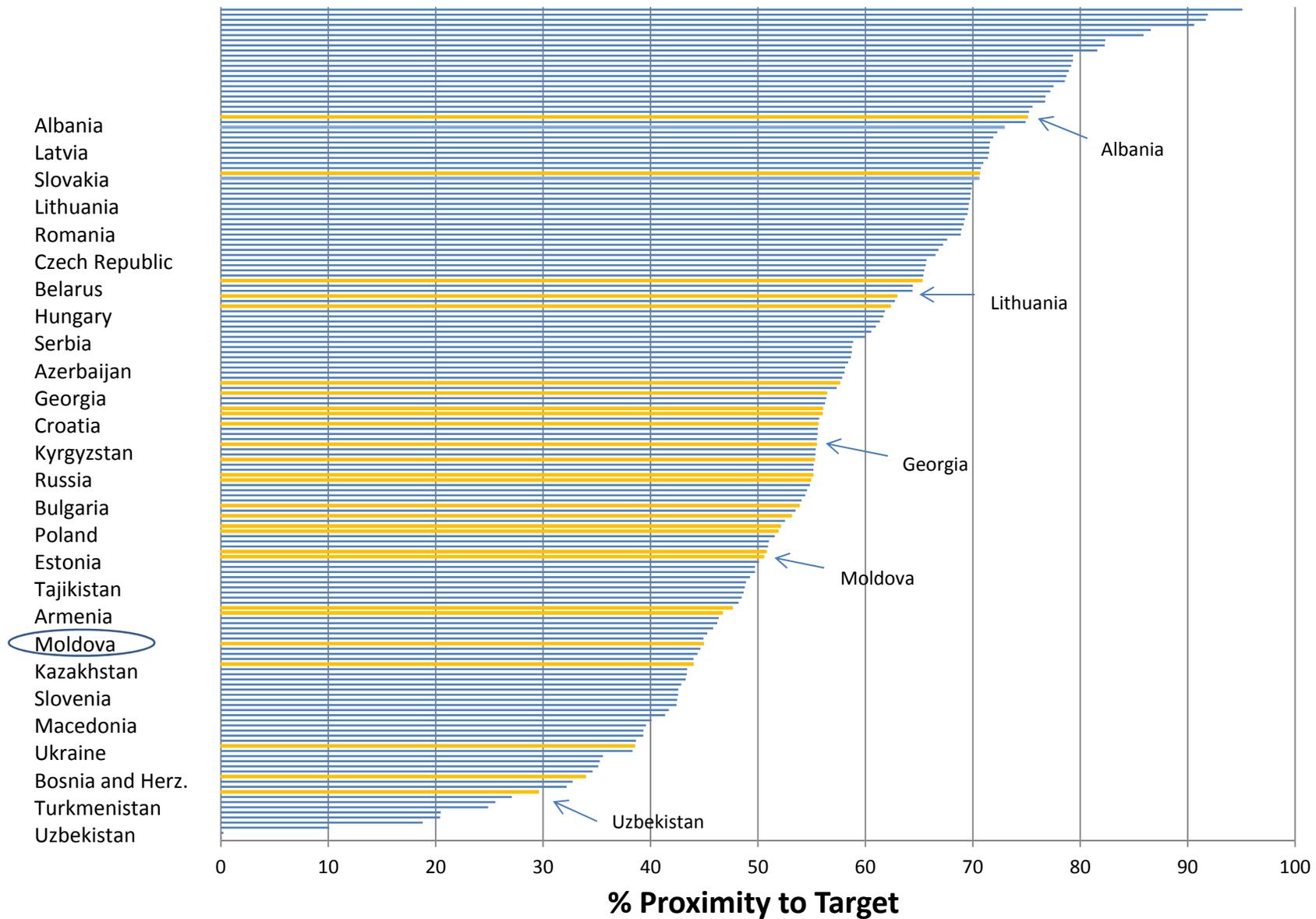


Figure 29

Domestic Credit as a Percentage of GDP

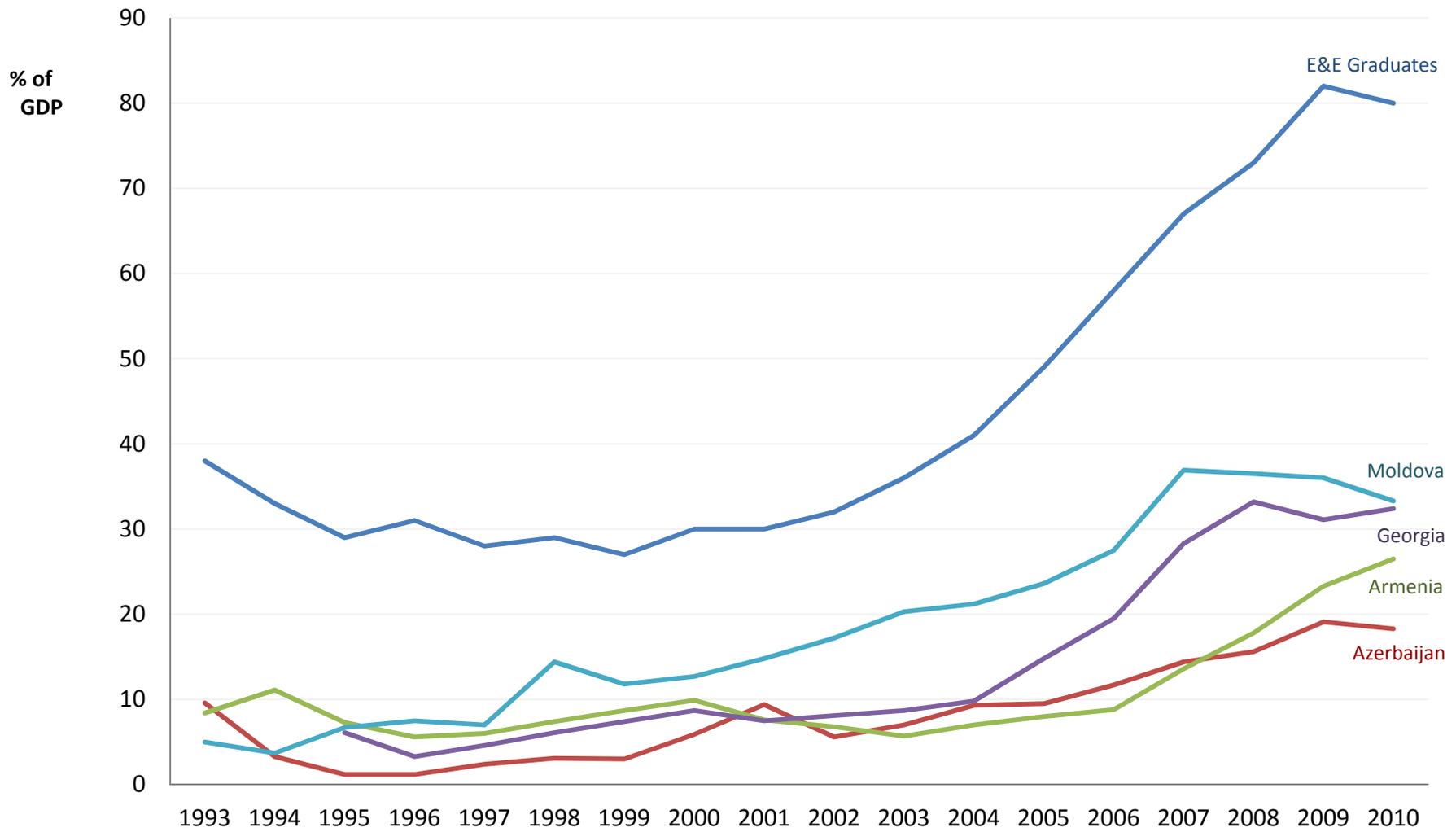
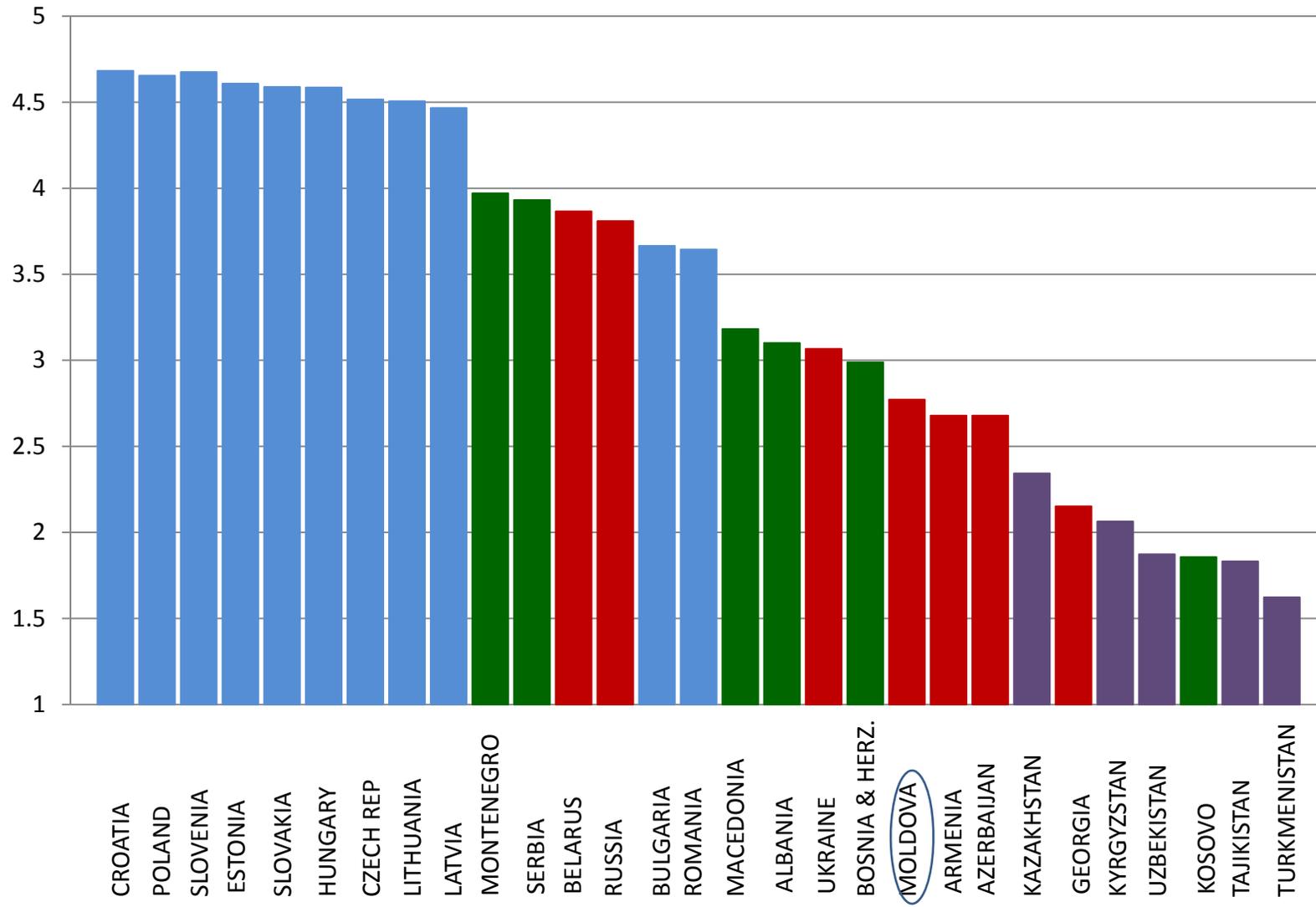


Figure 30

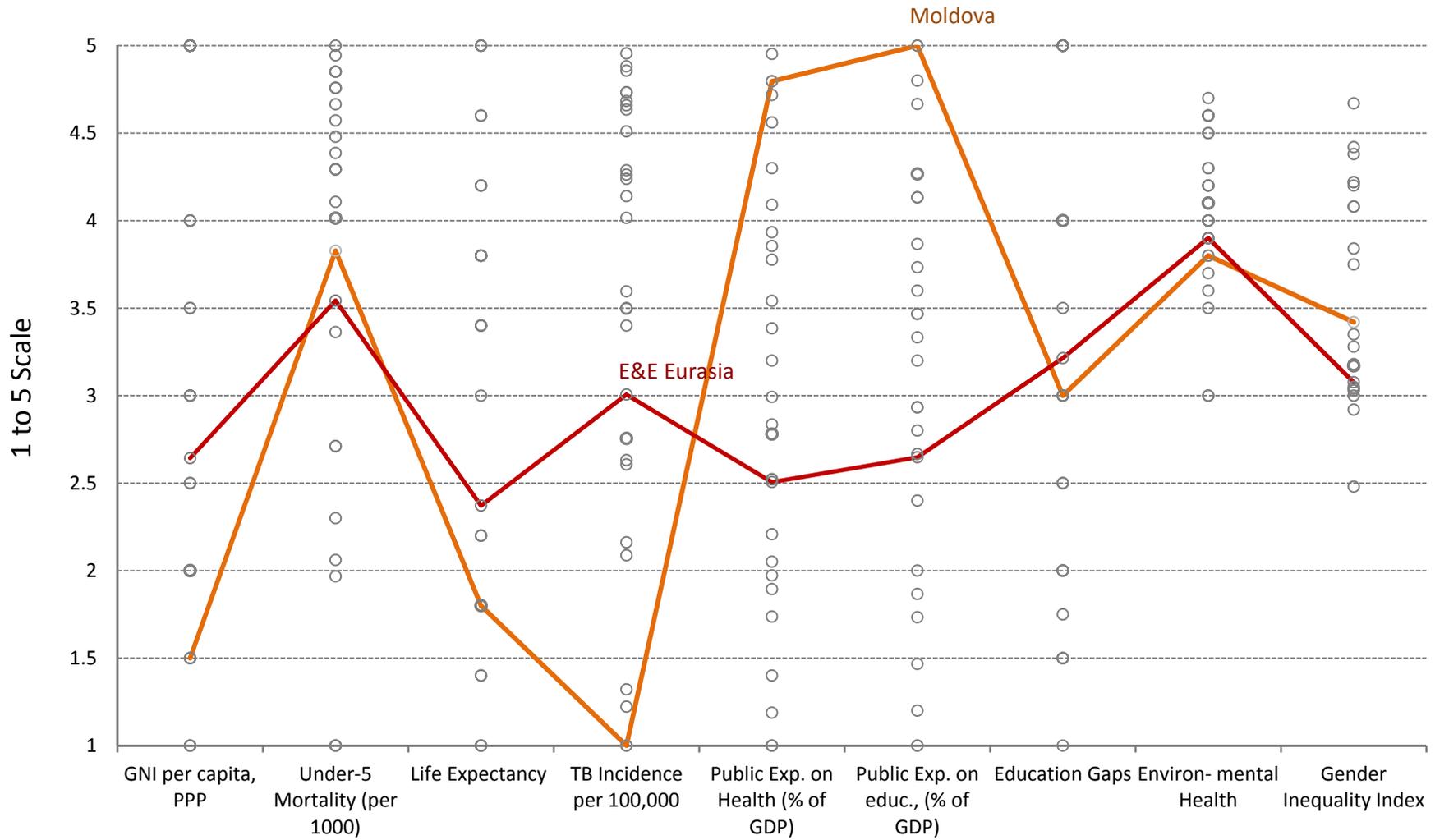
Human Capital Index



See *Appendix* for data sources and methodology. Scores calibrated on MCP 1 to 5 scale, with 5 representing the most advanced.

Figure 31

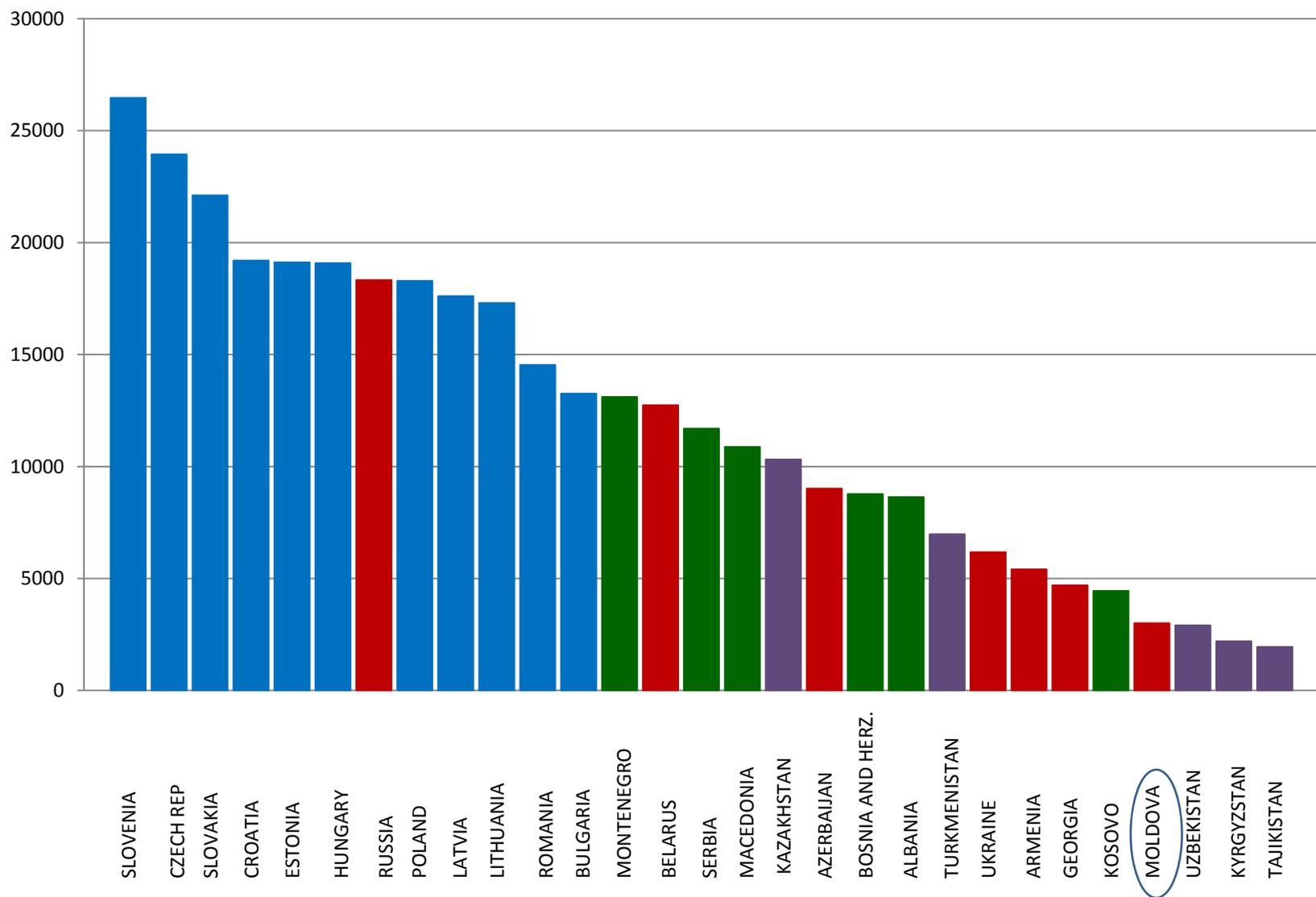
Human Capital Index



See *Appendix* for data sources and methodology. Scores calibrated on MCP 1 to 5 scale, with 5 representing the most advanced.

Figure 32

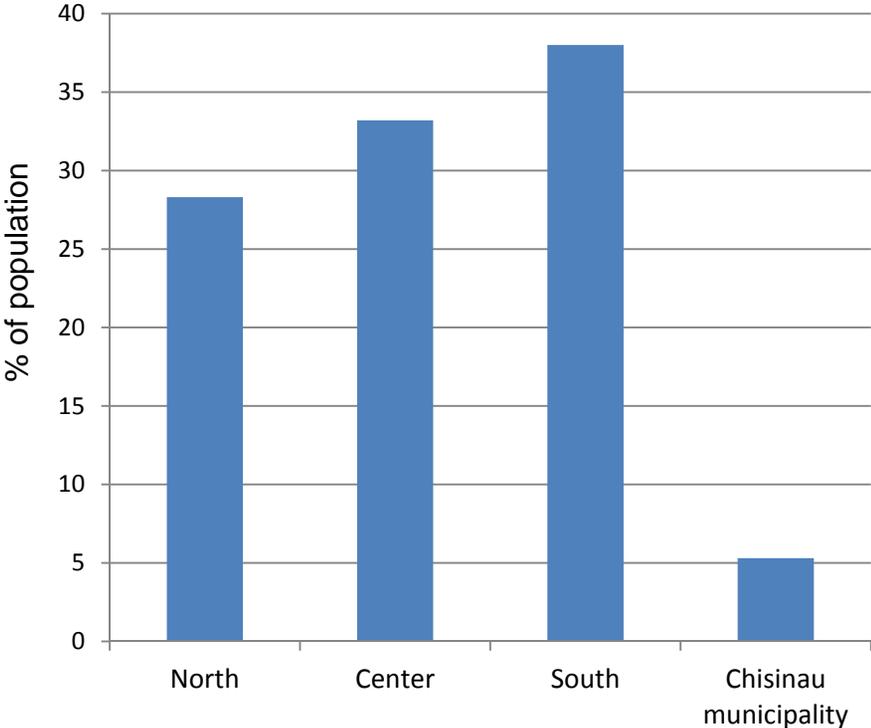
GNI per Capita, PPP



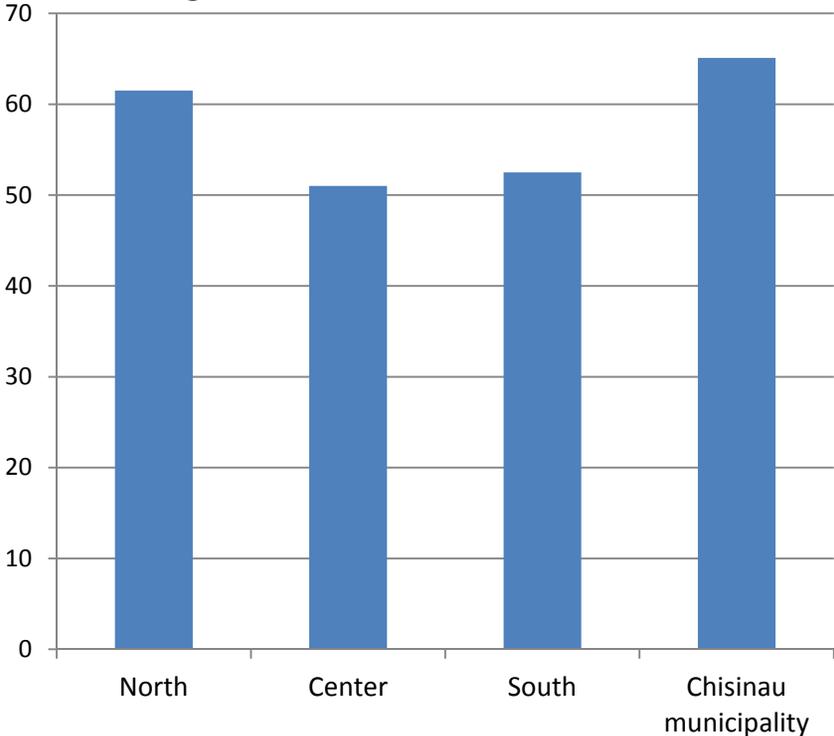
World Bank, *World Development Indicators* (2011).

Figure 33: Regional Disparities in Moldova

Absolute poverty by geographical regions, 2009



Share of households that cannot afford sufficient heat during the cold season, 2009



UNDP, *Moldova National Human Development Report, 2011.*

Figure 34

Life Expectancy at Birth

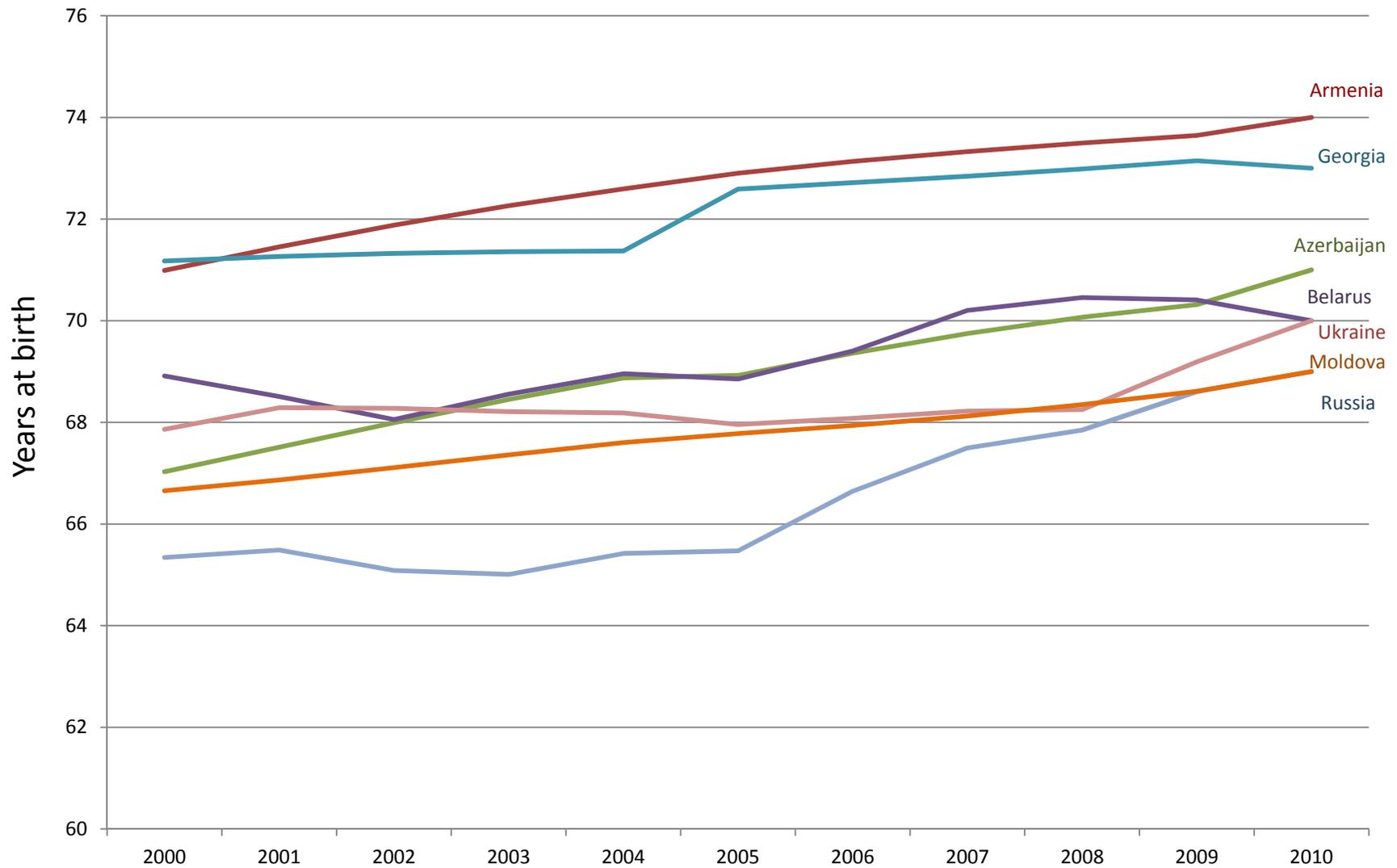
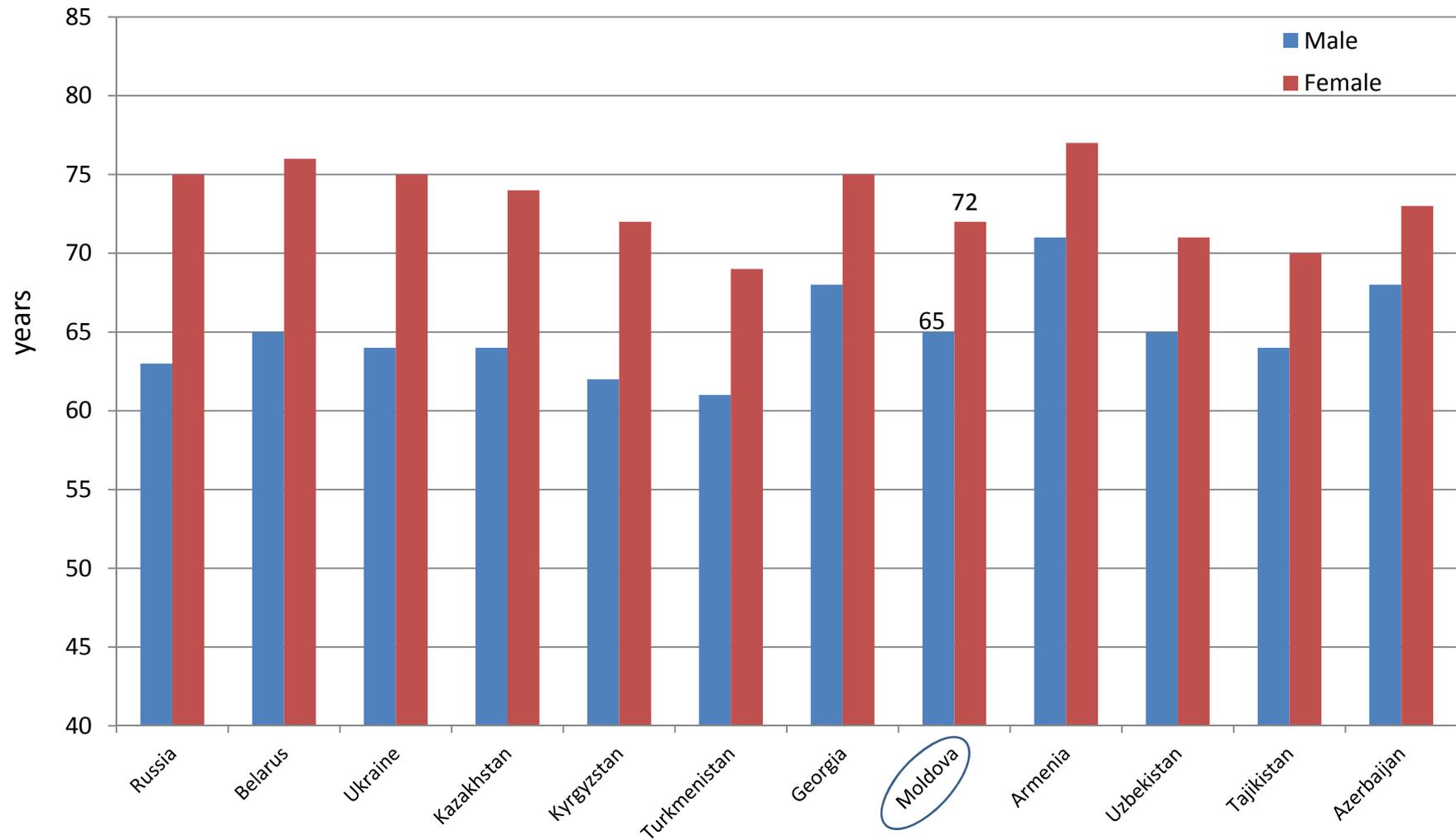


Figure 35

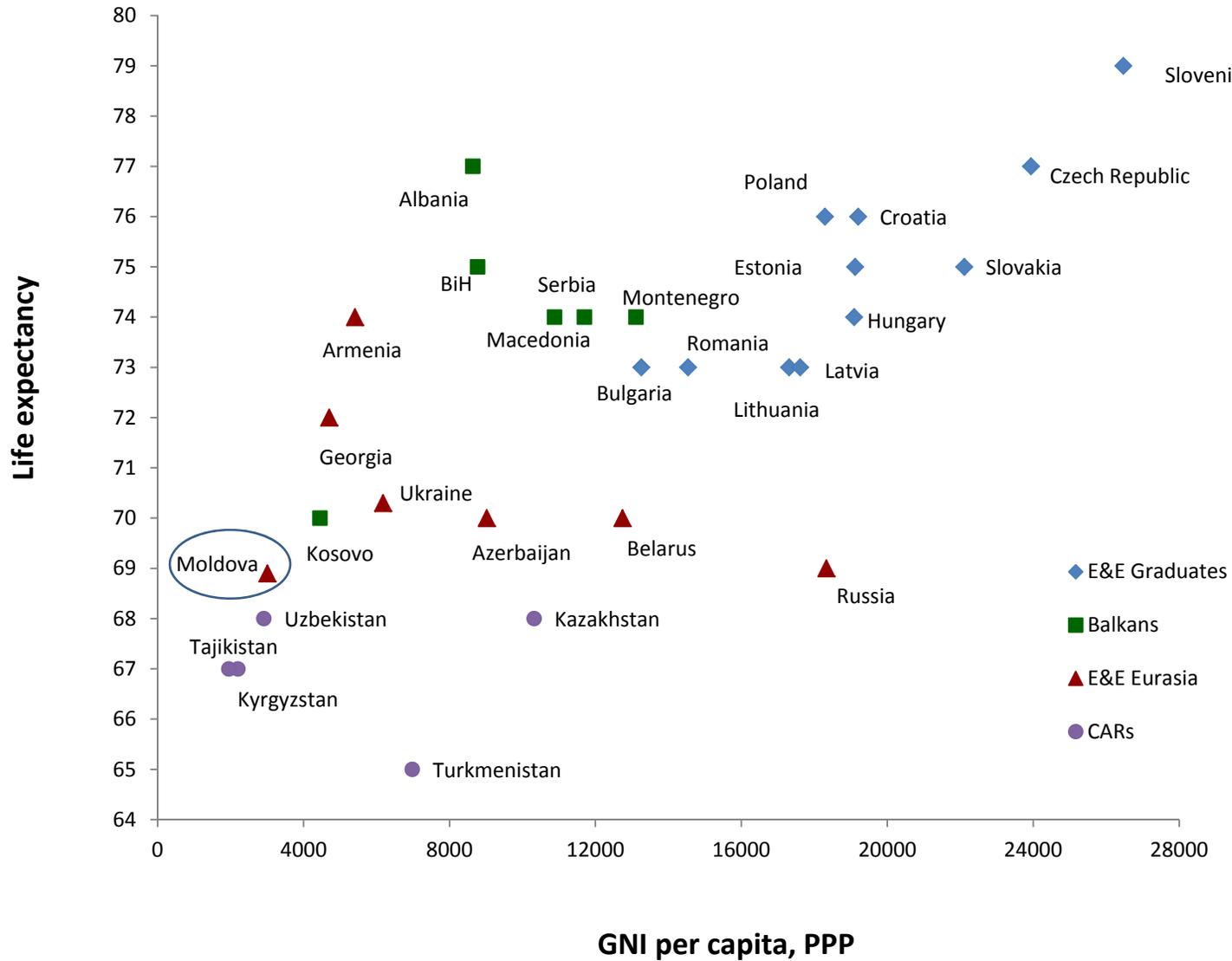
Life Expectancy Gender Gap in Descending Order In Eurasia



World Bank, *World Development Indicators* (2011).

Figure 36

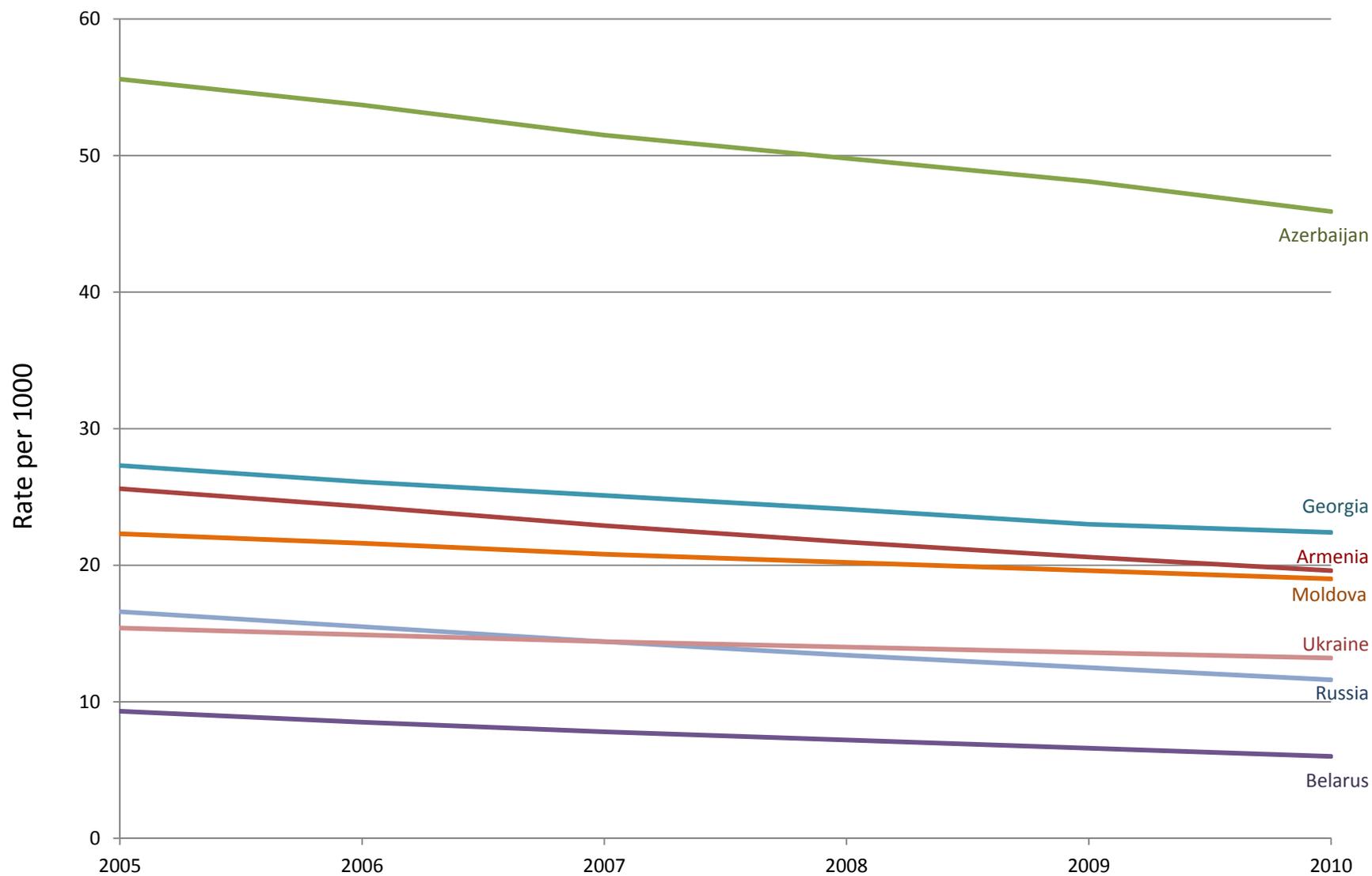
Life Expectancy and Income



World Bank, *World Development Indicators* (2011).

Figure 37

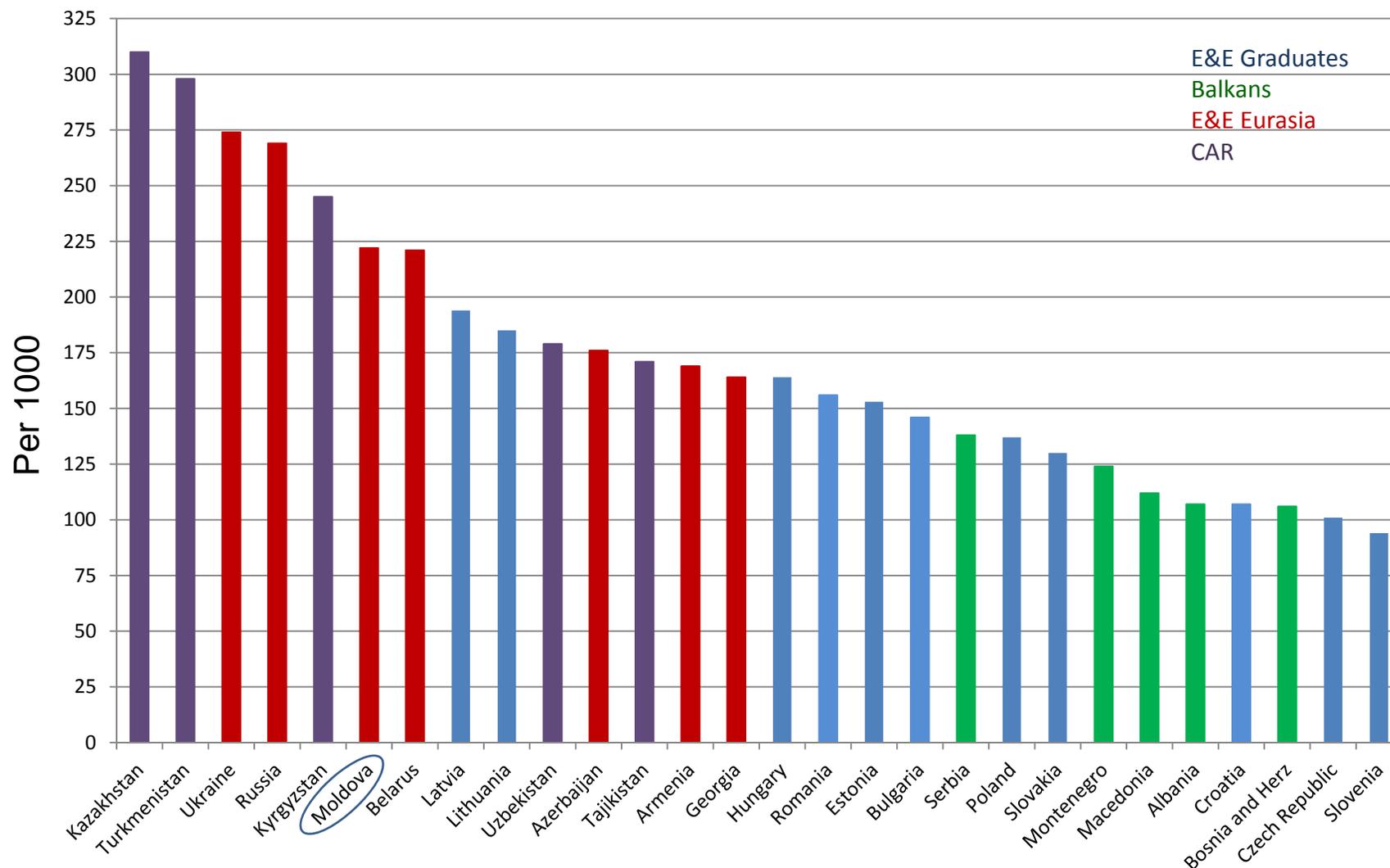
Under-5 Mortality Rate in E&E



World Bank, *World Development Indicators* (2011).

Figure 38

Adult Mortality Rate in Eastern Europe and Eurasia, 2009



World Health Organization, *World Health Statistics* (2010). AMR is the probability of dying between the ages of 15-60 per 1000 population.

Figure 39

Tuberculosis Incidence

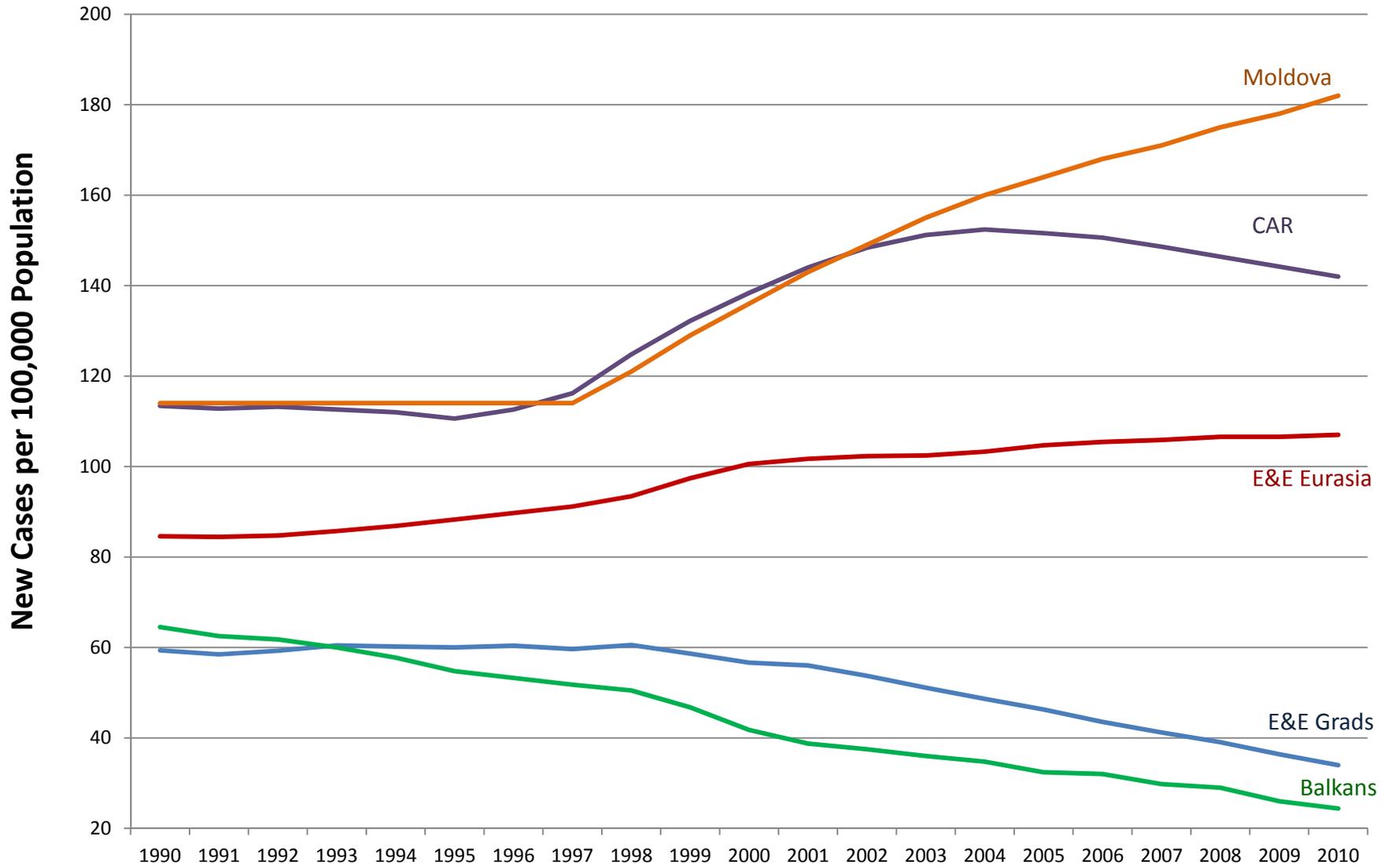
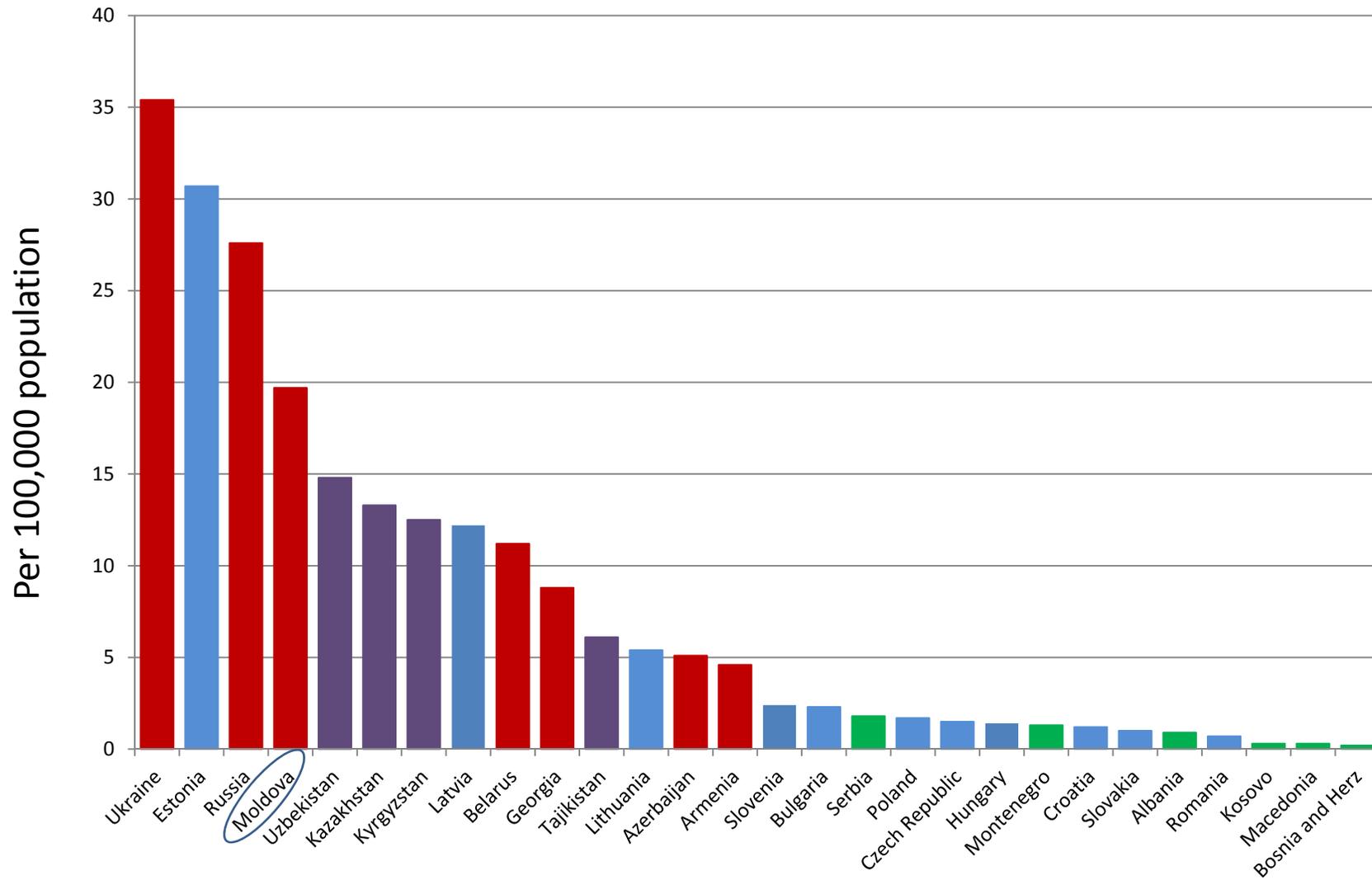


Figure 40

Adult HIV Incidence Rate, 2009



European Centre for Disease Prevention and Control (ECDC), HIV/AIDS Surveillance in Europe 2009.

Figure 41

HIV Incidence

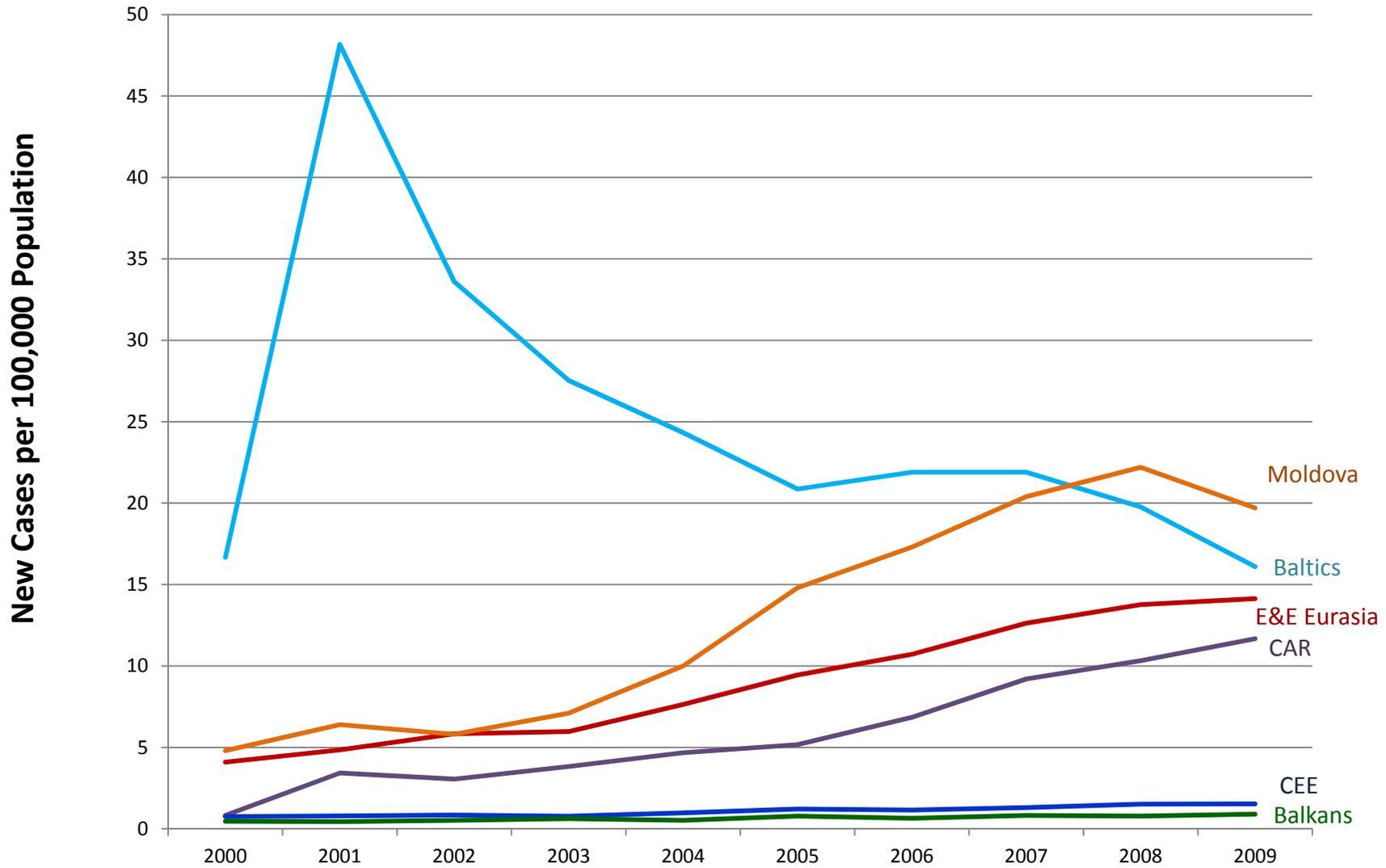


Figure 42

Environmental Health

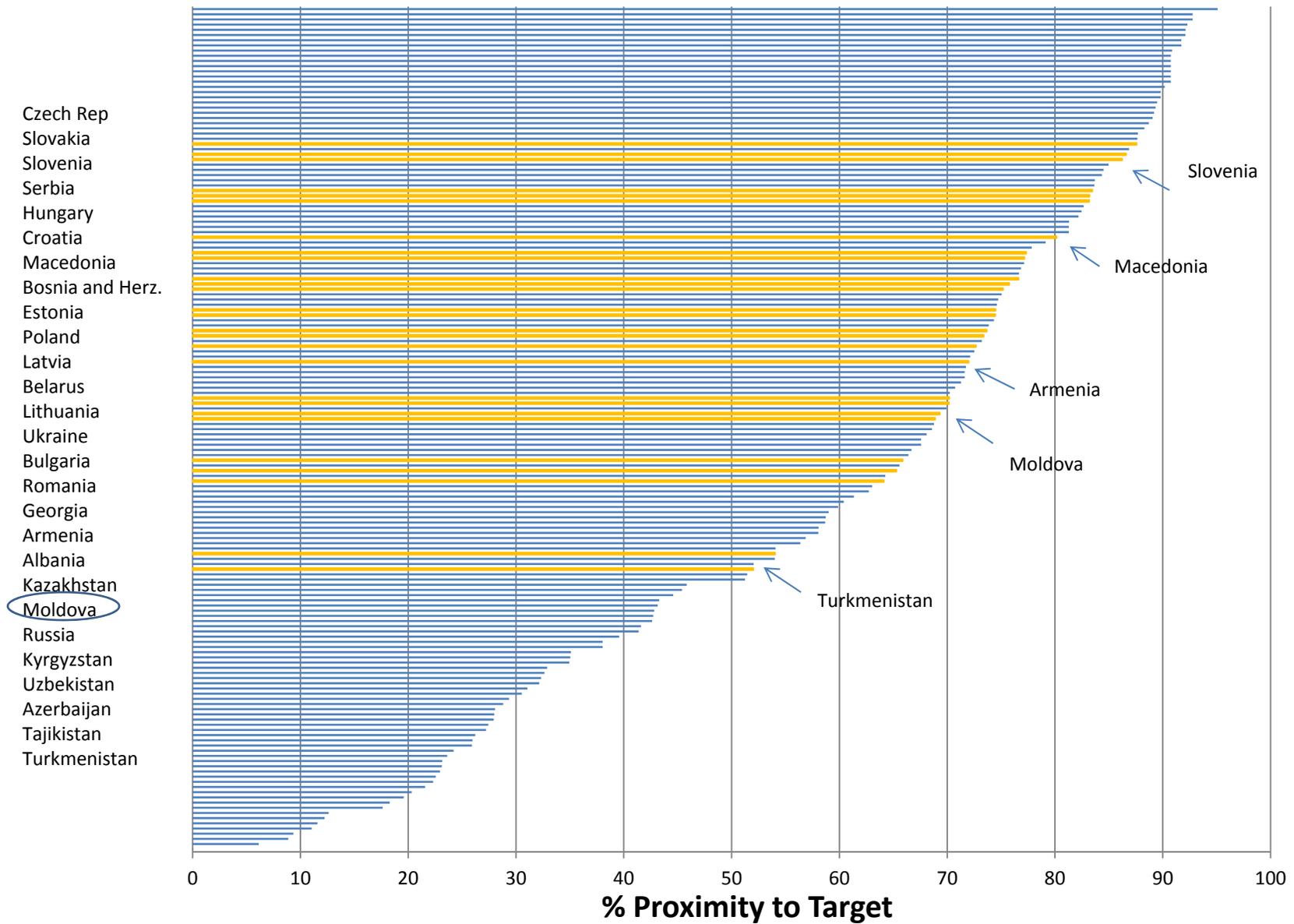
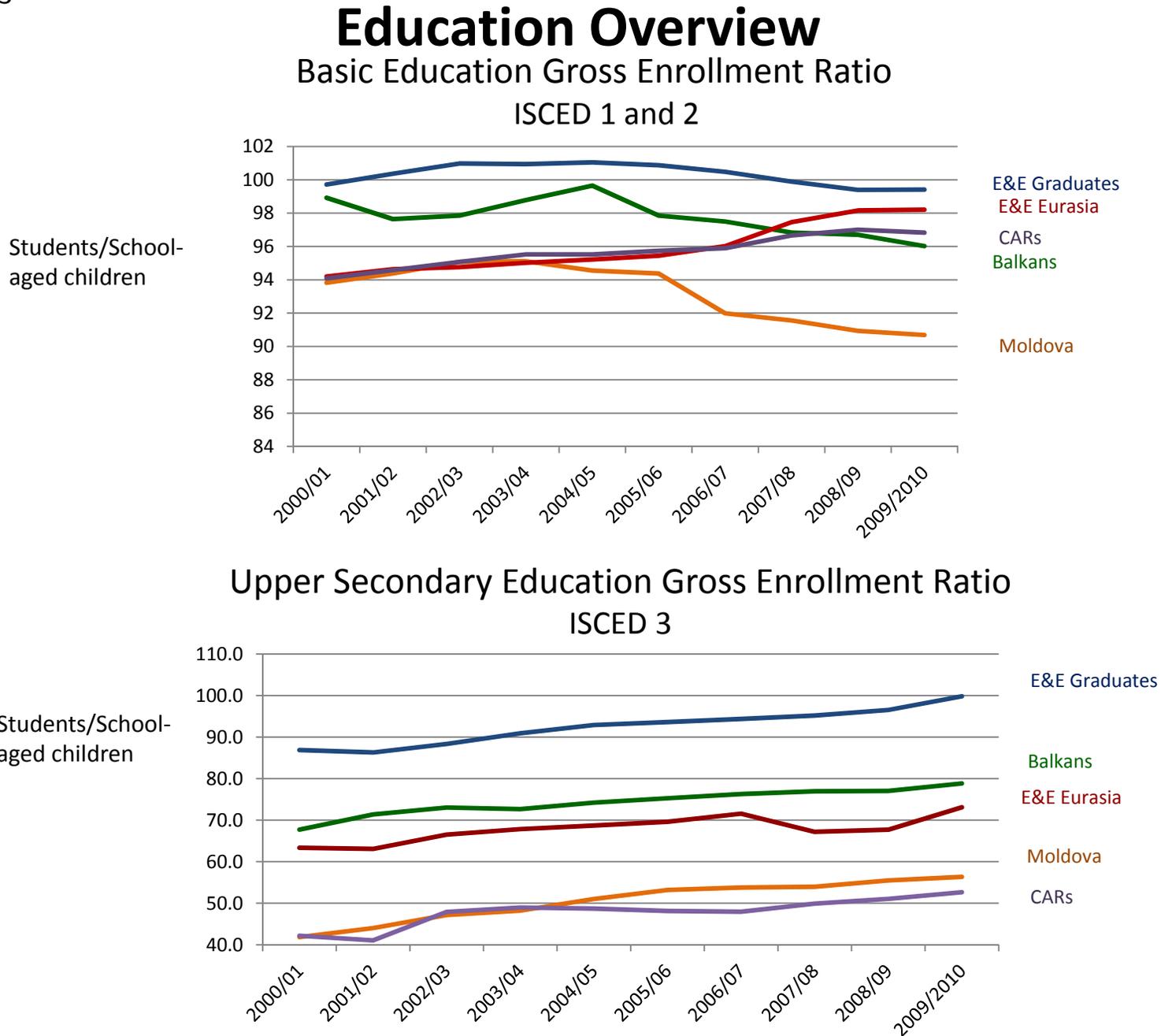


Figure 43

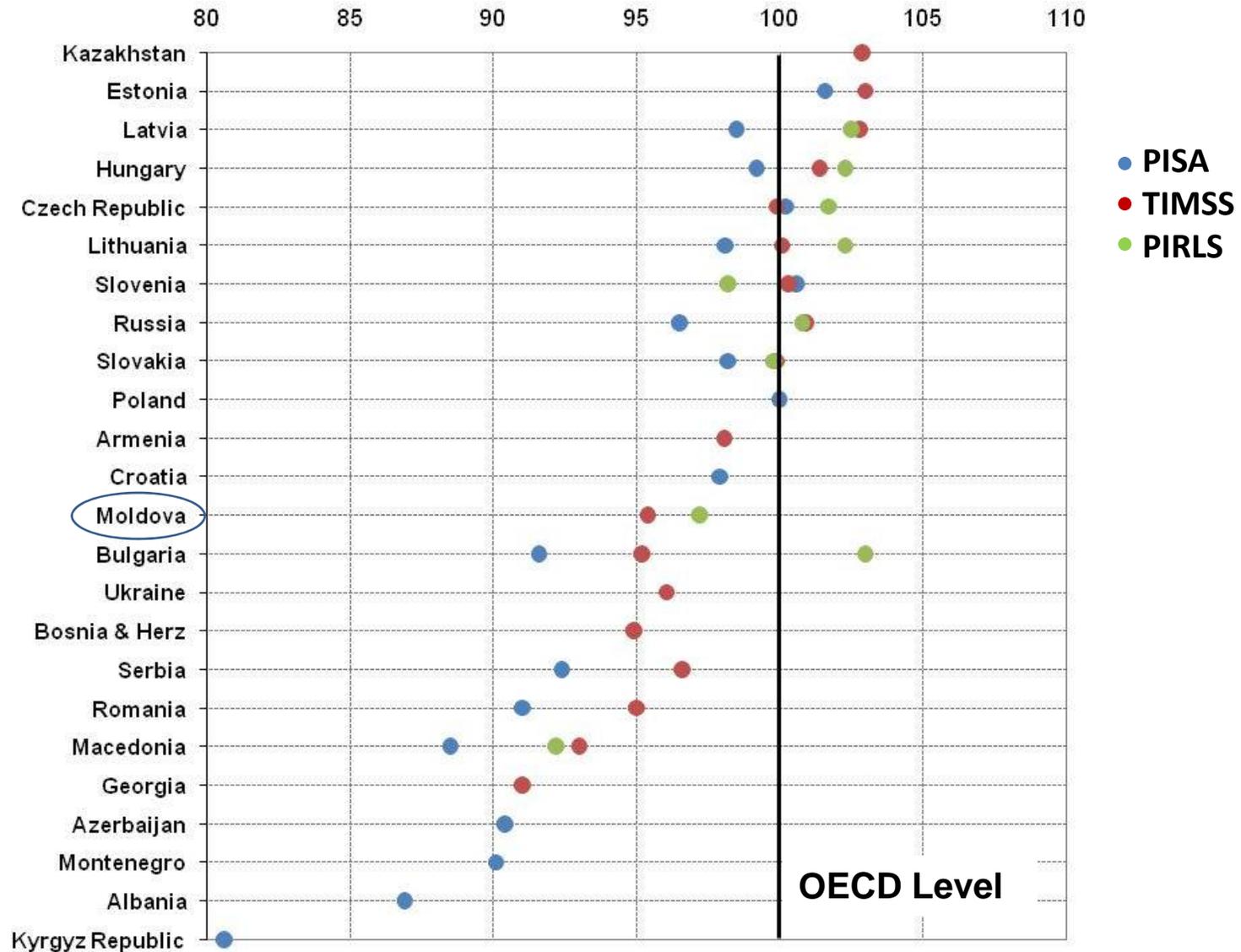


Upper secondary education is the final stage of secondary education. It begins at age 15-16 and lasts three to five years. UNICEF, *TransMONEE Database* (May 2011 and earlier editions).

Figure 44

Functional Literacy

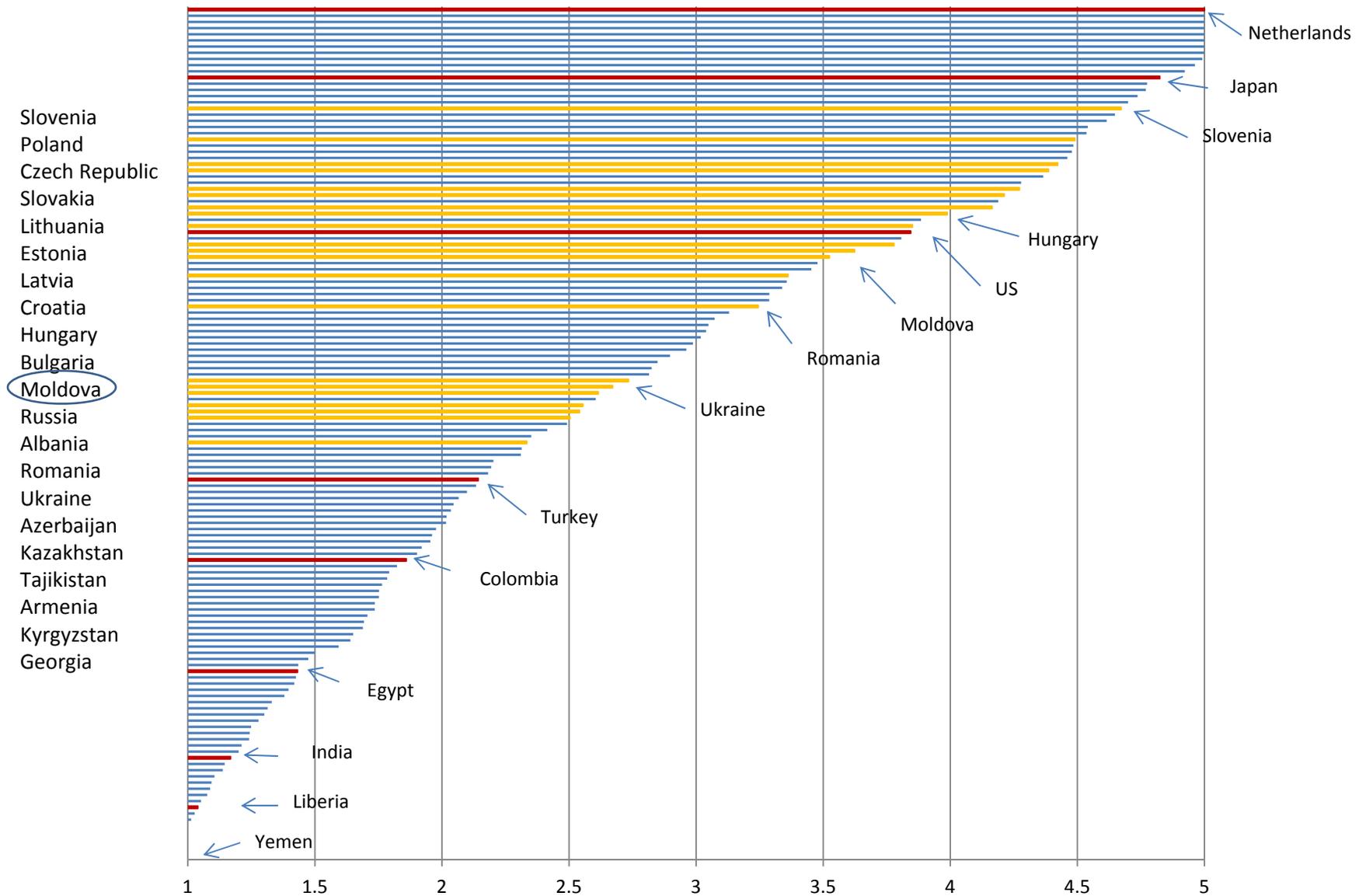
PISA vs. TIMSS vs. PIRLS



International Association for the Evaluation of Educational Achievement (IEA), *TIMSS International Mathematics Report (2008)*, *TIMSS International Science Report (2008)* and *PIRLS International Report (2008)*; and Organization for Economic Cooperation and Development (OECD), *First Results from PISA 2006 (2007)*.

Figure 45

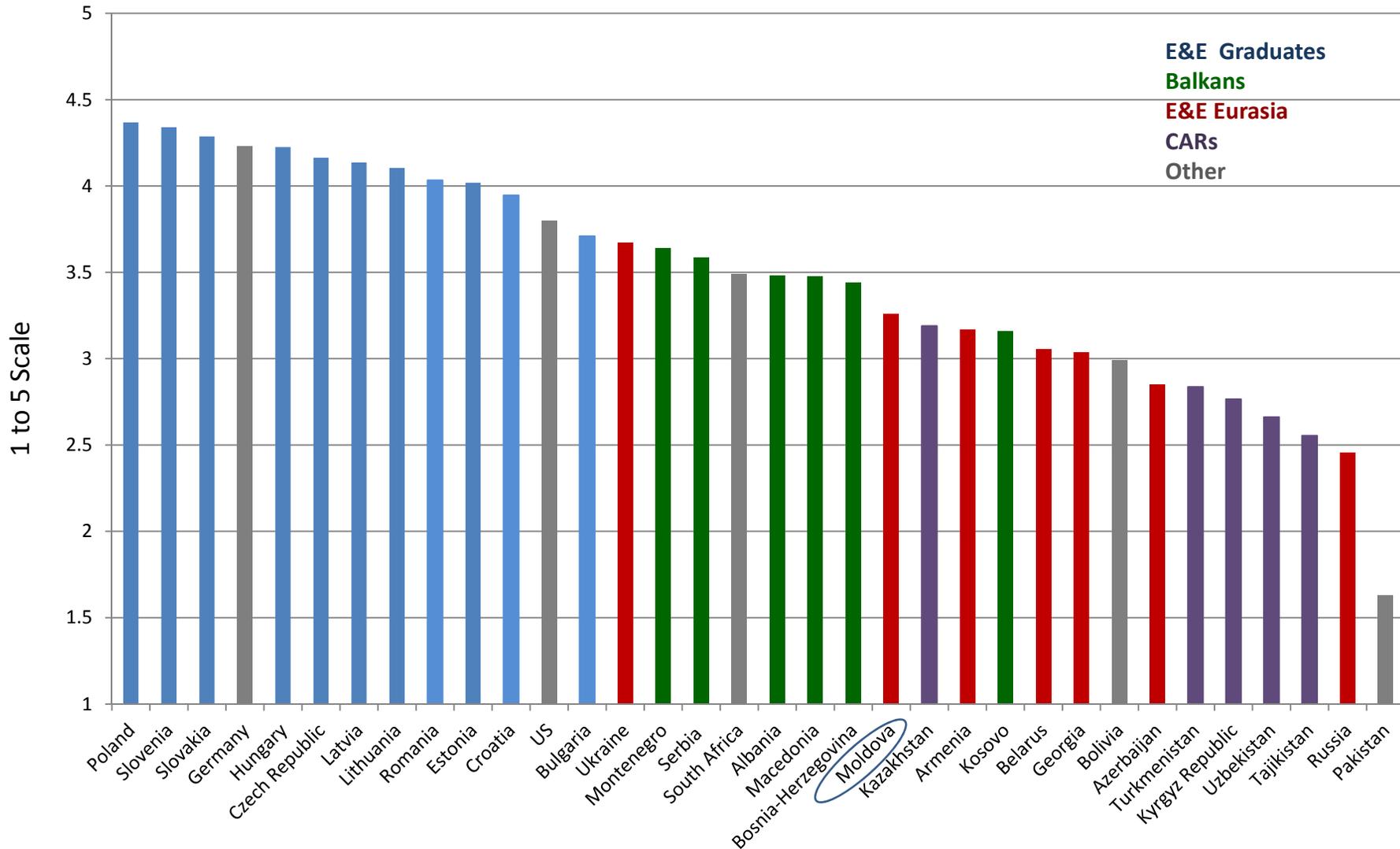
Global Gender Inequality Index



Source: UNDP, *Human Development Report*, 2010.

Figure 46

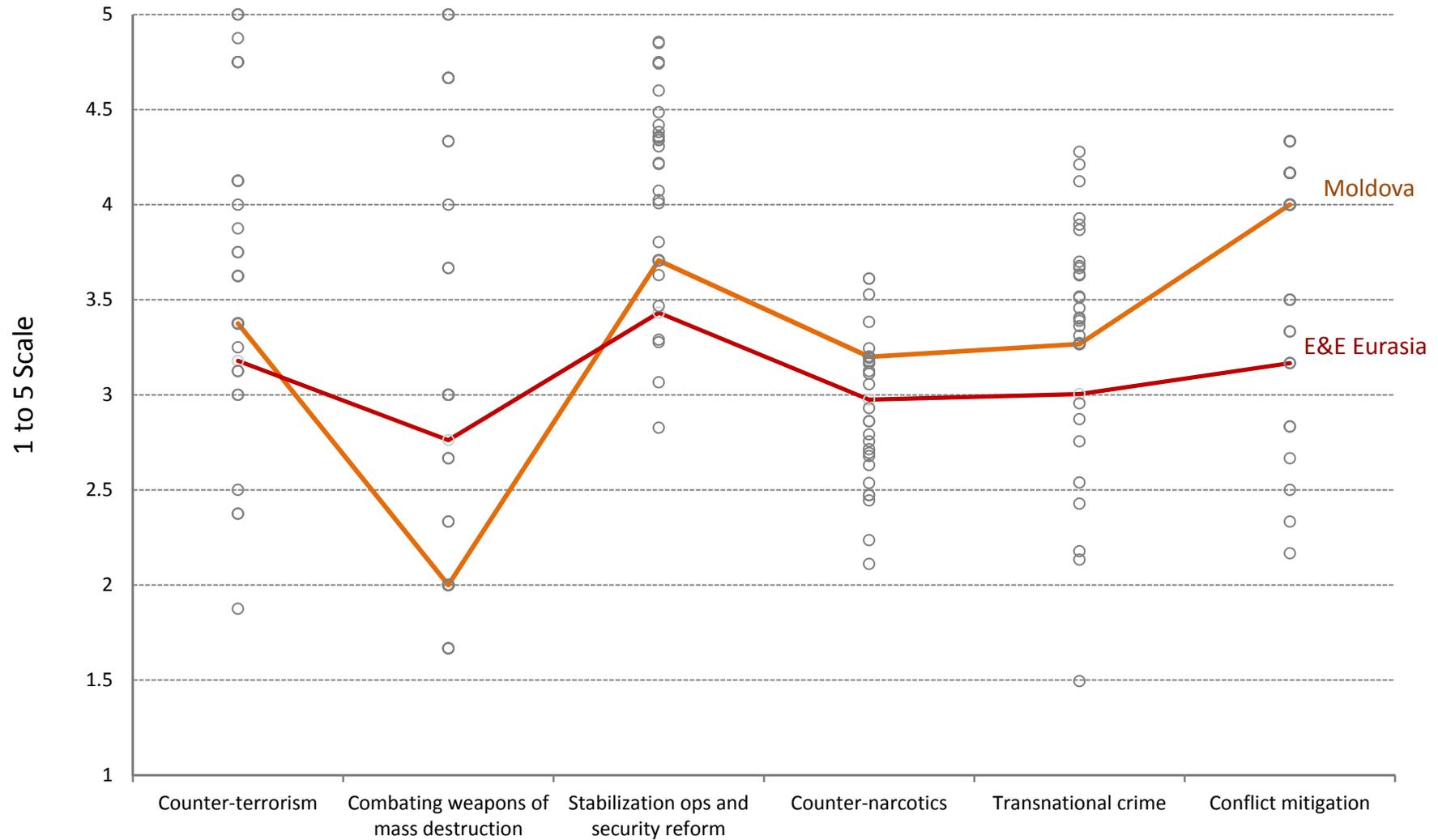
Peace and Security in Europe and Eurasia, 2010-2011



See *Appendix* for elaboration of the methodology. Scores calibrated on MCP 1 to 5 scale, with 5 representing the most advanced.

Figure 47

Peace and Security



See *Appendix* for elaboration of the methodology. Scores calibrated on MCP 1 to 5 scale, with 5 representing the most advanced.

Figure 48

Peace and Security versus Governing Justly and Democratically

