

## WHAT ARE EUROPEAN INVESTMENTS FOR THE RURAL DEVELOPMENT IN THE REPUBLIC OF MOLDOVA

Ion CERTAN<sup>1</sup>, Maria BANARI<sup>2</sup>

<sup>1</sup>Moldova State University, 60, Alexe Mateevici St., MD-2009, Chisinau, Republic of Moldova, Phone: +37322.57.78.03, Fax: +37322.24.42.48, Email: ioncertan@gmail.com

<sup>2</sup>City Hall of Chisinau Municipality, 83, Stefan cel Mare Ave., MD-2012, Chisinau, Republic of Moldova, Phone: +37322.20.17.14, Fax: +37322.20.16.39, Email: maria.banari@gmail.com

*Corresponding author:* maria.banari@gmail.com

### **Abstract**

*Since its independence Republic of Moldova takes great efforts to align with the big family of the European Union and in July 2014 it has made a huge step towards this by signing the Association Agreement and Free Trade Agreement with the EU. These impose our country to accelerate reforms and take all possible measures in order to reduce the gap of economic and socio-cultural development, adjusting it to the EU standards. One of the most sensible issues is the rural space conservation and further durable development that needs wide types of actions in almost all aspects. In the paper the authors consider what are EU investments for the rural development that will sum up with some conclusions and recommendations to be implemented in the Republic of Moldova.*

**Key words:** EU integration, EU investments, market economy, rural area, rural development

### **INTRODUCTION**

Eastern Europe has experienced dramatic economic change in the last 25 years where in the former communist countries prevail structural reasons for social exclusion. These reasons are, first of all, weak or lack of social infrastructure caused by the collapse of state owned industry and farms followed by significant social welfare cuts. The process of transition from the command to market economy of the Republic of Moldova which began in 1990 evolves with difficulty mostly in the rural areas. This paper is aimed to present the importance of European investments in the rural areas from Moldova. The social infrastructure is a necessary but not a sufficient condition for the rural development. Hence, if the social infrastructure does not assure the minimum of living conditions, then people and business are forced to leave. Under these circumstances, the authors consider the way of implemented European projects influence the development of the rural areas in the Republic of Moldova, as well as the results they are expected to bring for the inhabitants' lives.

### **MATERIALS AND METHODS**

In order to describe the implementation of the European investments in the rural areas of Moldova, the following information sources have been used: publications specific to the theme, published papers in the proceedings of national and international conferences, laws and various regulations, official documents on policies and economic mechanisms, documents regarding the requirements for the integration into the EU. The study of statistical information on water supply and sanitation of communities from the Republic of Moldova, and the rural area development after independence of the country helped us to understand and explain both the evolution of the living conditions in rural areas and improvement of social infrastructure.

In the research, there were applied various methods and techniques specific for economic investigations such as: statistical analysis of the data regarding GDP, population, migration, water resources, investments etc, documentation, critical approach and synthesis of the studied literature, logical deduction, and comparison method.

**RESULTS AND DISCUSSIONS**

In 2012 Gross Domestic Product (GDP) totalled MDL 87,847 million (EUR 5,490 million), with an increase of 7% compared to 2008 (Fig.1). Thus, in 2012 there has been a continuous recovery of the Moldovan economy, after the severe decline recorded during 2009 as a result of the global economic crisis. However, in compared prices GDP has decreased by 0.8% as against 2011. [5]

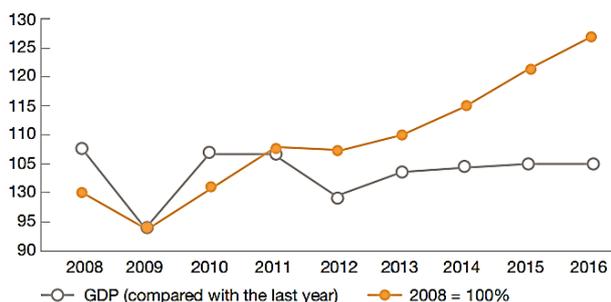


Fig. 1. Gross Domestic Product of the Republic of Moldova

Source: Investing Guide Moldova, 2013.

The evolution of the entities after 90s declined continuously due to the inefficiency of institutions and their activities that lead to social exclusion.

Social exclusion is a complex phenomenon, dynamic and multidimensional, linking various dimensions of life from which people are excluded. There is no single, agreed definition, mainly due to the difficulty in defining an ideal referenced state of inclusion. Social exclusion refers to marginalization from employment, income, social networks such as family, neighbourhood and community, decision making and from an adequate quality of life. The problems of social exclusion are often linked and mutually reinforcing. It is often difficult to disentangle the causes and consequences. The risk of social exclusion is highest for those with multiple disadvantages.

In Western Europe social exclusion is mainly linked to unemployment. Here, however, it is about social infrastructure that is the result of the shift from an industrial based economy to a service oriented and technology dominated economy. And although the welfare state is under pressure, when compared to Eastern

Europe, it continues to provide significant benefits in the form of income support, national health and retirement payments. The fight against social exclusion has been a major concern of EU policy since the early 1990s.

[1] The participation in employment and access to resources, rights, goods and services for all have become the goal of the EU. In order to increase transnational policy cooperation, all the Member States have been asked to prepare national action plans on social inclusion.

Republic of Moldova has all kinds of fresh water resources (rivers, lakes and groundwater).

Surface waters and groundwater of Nistru and Prut rivers are the most affordable, better distributed on the territory and with a high percentage on economic recovery.

The hydrographical network of the Republic of Moldova (Fig. 2) represents about 3621 rivers with a total length of about 16000 km and an average density of 0.48 km/km<sup>2</sup> in the North, up to 0.12 km/km<sup>2</sup> in the left bank of Nistru. Besides those mentioned, the hydrographical network includes 3,500 lakes.

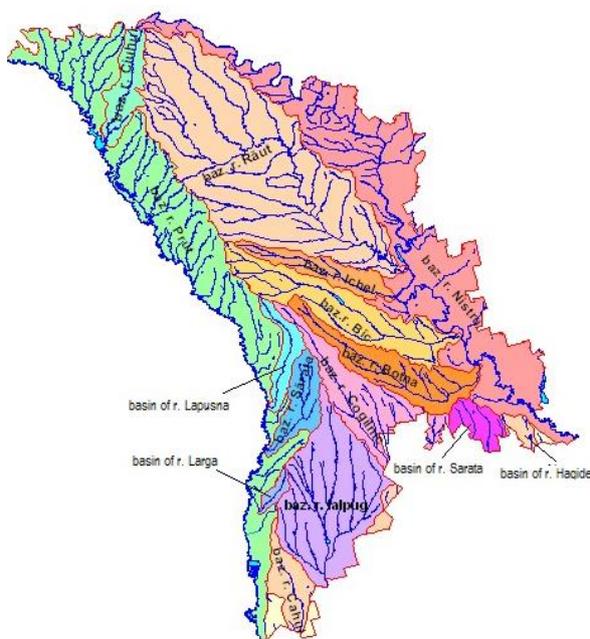


Fig. 2. The hydrographical network of the Republic of Moldova

Source: Government Decision no. 662 of 13.06.2007.

The largest Nistru River has a length of 630 km and Prut - with a length of 695 km (in Moldova), with an annual rate of 13.6 km3,

and underground sources (over 6 200 fountains). The country operates 541 water supply systems, of which only 46% meet the requirements of hygiene and 3% have authorization required for operation.

The groundwater water has always served as a traditional source of drinking water for villages in Moldova. The construction of artesian wells allowed the provision with water for an insignificant part of the population. Only 17% of rural residents are provided with piped water, others use water from wells and springs. On the territory of traditional wells, that groundwater will remain for a long time the main source for drinking water. Today, as decentralized sources of water are used about 150 thousand wells, using groundwater, the quality of which, in most cases, is unsatisfactory because of the increased content of nitrates, sulphates, chlorides, sodium, mineralization and high hardness. [2]

Currently, 67% of the existing water supply systems in rural areas do not meet hygienic requirements, being in poor condition. Only 20% of underground water sources analysed in this program in 77 villages have proper water quality regulatory requirements and can be used as sources of centralized water-drinking household. [3]

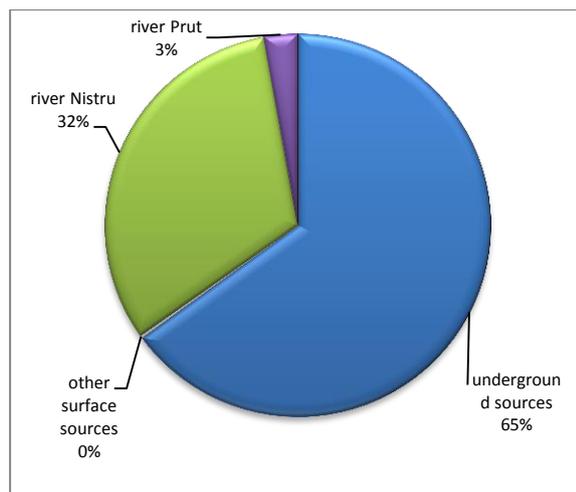


Fig. 3. Main sources of supply with drinking water  
Source: Government Decision no. 662 of 13.06.2007.

The main sources of drinking water of Moldova are underground sources, which feed 100% of the rural population and 30% of urban and 65% of the entire population. From

surface sources the most important is river Nistru, which are assigned 32%, river Prut - 2.8%, other surface sources - 0.2% (Fig. 3).

According to the National Bureau of Statistics of the Republic of Moldova, the preliminary number of Moldovan population is of 2,913,281 inhabitants (except the Eastern districts and mun. Bender) recorded in the census of 12 to 25 May 2014. There were included people who immigrated, numbering 329,108, for which answered the domestic family members. In the urban areas were reviewed 995 227 people and 1 918 054 people in rural areas (Fig. 4), so that there is preponderance in maintaining the rural population of the country, which is 65.8% compared to 34.2% in urban areas.

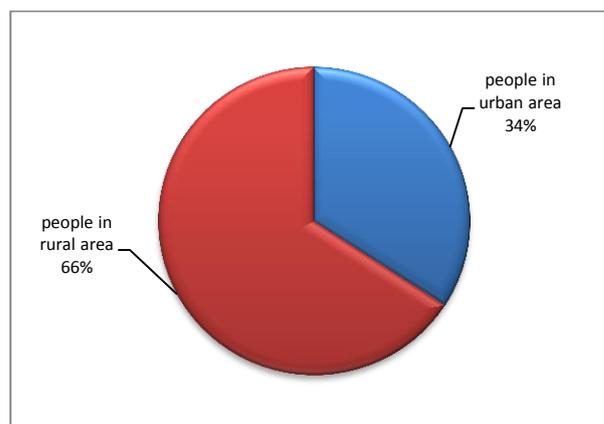


Fig. 4. Distribution of population by residence  
Source: www.statistica.md

Currently, the centralized water supply have 1032 places, including 3 cities, 52 cities (100%) and 977 villages, representing 66% of their total number.

While Moldova achieved independence in 1991 as a middle-income country, it is now one of the poorest countries in Europe, with GDP per capita significantly below the average of the Central European countries. Moldova is ranked 117<sup>th</sup> in the 2009 Human Development Report, with a Human Development Index (HDI) value of 0.72. Thus, Moldova is one of the lowest ranking countries, in terms of HDI, covered by the European Neighbourhood Policy. With a per capita income of US\$ 880 (GNI Atlas method, 2005) Moldova is the poorest country in Europe and the only one currently

classified as a low-income country by the World Bank. Many of them, recently moved out of poverty, are just above the poverty line and are vulnerable to an economic downturn. Thus massive land privatization and establishment of National Cadastre System create premises for local development.

In the Republic of Moldova, the volume of departures abroad of the population for reasons such as work or studies have taken a vast proportion during the transition period. Migration was a reason why people looked for a better life and for better living conditions.

The data of the survey conducted in October-November, 2011 by the Association Hilfswerk Austria International, in partnership with the Center for Sociological Studies and Marketing "CBS-AXA" (a sample of 1107 persons; of the total number of respondents, 417 said they had at least one family member working abroad) indicated that migration has both positive and negative effects on the socio-economic life of the country. [10]

Remittances, which are around 21% of GDP, are among the advantages of migration (Fig. 5), and namely they are primarily contributing to raising the living standards of migrants' families.

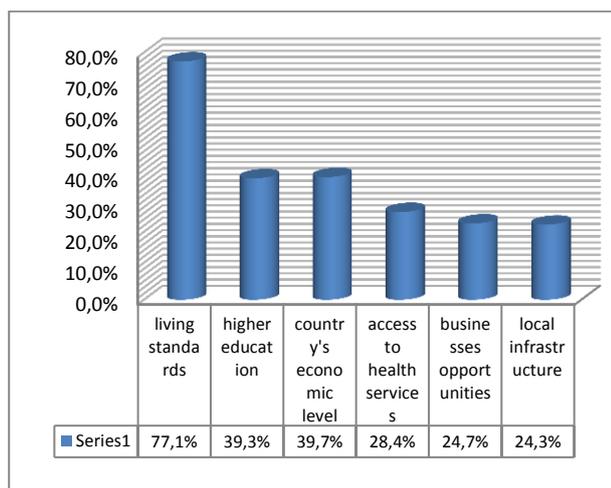


Fig. 5. The biggest advantages of migration  
Source: www.unimedia.info

In carrying out community projects are involved all people equally sustains a third of respondents, in addition they noted, however, that the more are involved families without migrants (20%) than families with migrants (12.6%).

However, the respondents mentioned that the phenomenon increases the family capacity to provide education to children educated.

Remittances sent from abroad are mostly used for current consumption, investment in real estate, education, health, debt repayment. Investments in production, donations or grants certain community projects remain insignificant. Thus, sociologists believe that migration has a more positive effect on households rather than the community as a whole (Fig. 6).

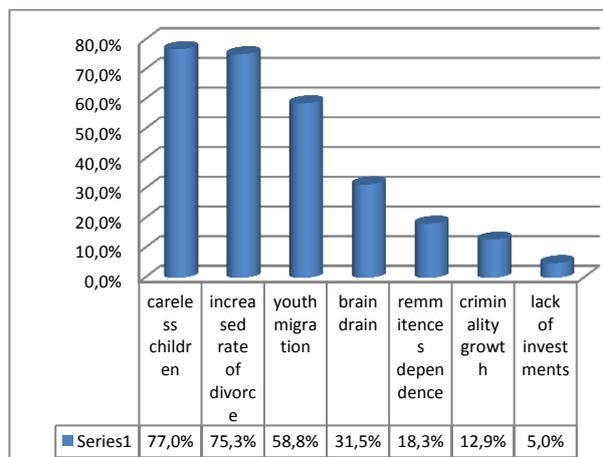


Fig. 6. The biggest disadvantages of migration  
Source: www.unimedia.info

Over the last five years the situation in rural areas remained the same, or almost nothing has changed.

Yet more than half of respondents believed that if no one had left the country, the situation in Moldovan communities would be worse. Only 10% of respondents claimed that the situation would have been better.

In 2012 the unemployment rate was 5.6%. The total amount of unemployed people includes: 62.3% men and 37.7% women; 64.3% urban population and 35.7% rural population.

Total FDI According to statistical data in 2012, the inflow of the net direct foreign investments into the economy of Moldova amounted to USD 159 million, decreased by 43.3% from the level in 2011. [5]

Two thirds of the foreign capital existent in the Republic of Moldova is invested in joint venture companies, while the rest belongs to companies in foreign ownership. From the perspective of the total capital value and also

from the numerical perspective, companies with foreign capital are concentrated in the category of companies with a large share of foreign capital (75 - 100%), indicating that foreign investors prefer to control the management of companies as much as possible, or even integrally. Net flow of foreign direct investment in the national economy in 2011 increased considerably, amounting to USD 274 million (Fig. 7). Net foreign direct investment flow is differentiated by sector. Thus, in the banking sector capital investments in 2011 were the smallest in the last 5 years (i.e. USD 7.64 million), while in other sectors, net direct investment flows were much higher and amounted to USD 247.75 million, with an increase by 31.8% compared to 2010.

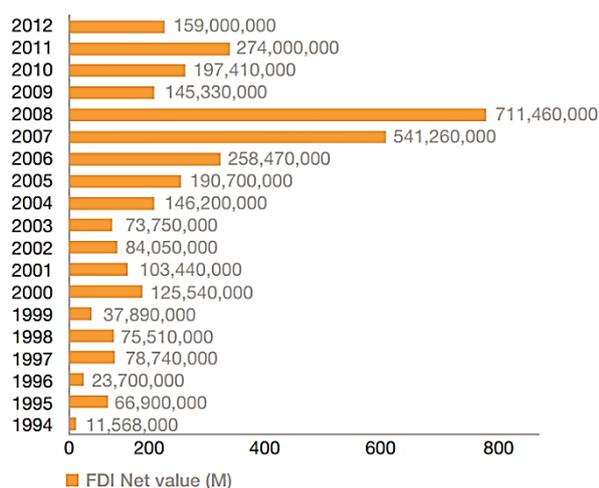


Fig. 7. Net flow of foreign direct investment in the national economy  
 Source: Investing Guide Moldova, 2013.

Openness to Foreign Investment Moldova continues to take steps towards developing a stronger economy, reforming a cumbersome regulatory framework, combating corruption and adopting reforms aimed at improving the business climate. Poor physical infrastructure, cumbersome licensing procedures, excessive permit requirements and proliferation of fee-for-services to public authorities and commercial organisations all contribute to a business environment that remains among the most challenging in the region.

Foreign Direct Investment Companies with foreign capital are larger than the local ones and promote a more active investment policy

in comparison to companies with domestic capital. Large-scale production, better economic performances and greater access to external financial sources has made it possible for companies with foreign capital to register essentially bigger inflows of tangible and intangible assets during recent years. During that period it has also been demonstrated that, with some exceptions, companies oriented towards satisfying internal demand promote a more active investment policy.

Recent years have seen an increase in foreign direct investment (FDI) as investors have taken advantage of the eastward expansion of the European Union, which has bordered Moldova since the accession of Romania on 1 January 2007. The Government of Moldova has made efforts to tackle some obstacles to investment, such as corruption and red tape. Furthermore, Moldova has declared European integration a strategic objective. The country had an Action Plan with the EU that set out a roadmap for democratic and economic reforms and the harmonisation of Moldovan laws and regulations with European standards. The EU cooperates with Moldova in the framework of the European Neighbourhood Policy and its eastern regional dimension, the Eastern Partnership. The key goal is to bring Moldova closer to the EU.

The European Neighbourhood Instrument is the EU financial instrument dedicated to the Neighbourhood for the period 2014-2020. It replaces the European Neighbourhood and Partnership Instrument (ENPI) of 2007-2013. Other funding sources are the thematic programmes, focused on human rights and civil society. EU assistance to Moldova takes mainly the form of country Action Programmes funded every year under the ENI. Moldova benefits also from regional and multi-country Action Programmes funded under the ENI. [8]

Nowadays, there is only this project that is applied in solving the issue of rural infrastructure development and expected results are as follow:

- Over the next three years, Moldova will access over 53 million for strategic modernization of agriculture;
- In 2014, the Agency for Payments and

Intervention for Agriculture capitalized approximately 110.7 million lei allocated through ENPARD funds;

- until now were supported 525 farms and agricultural enterprises, which led to the creation of over 1,200 jobs.

If to extend this project in village Brinzenii Vechi, district Telenesti than the social infrastructure issue of this rural area will be solved. In the last years the population has decreased, largely owing to the emigration of residents seeking economic opportunities elsewhere. Moreover, a sharp decline in the standard of living and in the quality and availability of public health, medical facilities, and water and sewerage systems in the last decade lowered life expectancy, development of agro-food business and maintenance and improvement of local enterprises.

In 2012 from the National Environmental Fund was funded the project for renovation of a spring in the village, for this being allocated 30 00 lei. However, this is just a small part of the other wells that need renovation. According to a study performed by the National Centre for Public Health (3<sup>rd</sup> trimester, 2014) in the field of water usage and protection for the sanitary-chemical and microbiological indicators out of 20 wells from the village, just one was according to sanitary norms.

Systems for water supply in the country are of 1998 complexes with varying arrangement grades of settlements from the communal sector. Of this number in a satisfactory condition are 1015 complexes, 870 are requiring reconstruction, 26 systems cannot be restored, as for 54 systems; there is a lack of information on their technical condition.

Distribution networks have a length of 8994 km, of which 3725 are in an unsatisfactory condition, and therefore the degree of hazard statements reached 4.9/km, a fact which shows major pipes' wear. From 271 pumping stations 226 are in unsatisfactory condition.

Estimating the situation on zones, we notice that in 2014 the share of localities connected to centralized sewerage networks is represented by only 4 administrative units in a rate of 80 – 100% (eg: mun. Chisinau -

91.3%, districts Comrat - 92.3% Floresti - 91.1%, Orhei - 100%) and in 21 other administrative units, this index is less than 20 per cent.

Of the approx. 35893 mil inhabitants, from the public water benefit 1994 mil people (50.6%), including 1136 mil - in urban areas (which represents 58% of the total population supplied with water and 76% of urban population) and 858 thousand - in rural areas (which represents 43.0% of the total population supplied with water and 40.7% of rural population).

The localities where the percentage of water non corresponding to the sanitary-chemical standards in schools did not exceed the 20% are: Chisinau - 4.2%, Balti - 3.6%, Drochia - 5%, Ialoveni - 14.3 % Comrat - 8%, Vulcanesti - 4.3%. The most disadvantaged administrative units where the share of non-compliance of water in schools was greater than 80% are: Ceadar-Lunga - 88.9%, Cimislia - 100% Causeni - 91.2%, Telenesti - 94.6% Taraclia - 94.4%, Basarabasca - 100%, Anenii Noi - 93.3% and Glodeni - 84.6%. [4]

From the total of rural areas, access to centralized water supply and sewerage systems have 251 localities (17%), only to centralized water supply - 511 localities (34.5%). The remaining villages and communes have no communal water pipes and the population uses groundwater from wells. In Orhei only 5 populated centers have communal systems of water supply and sewerage, 47 localities use groundwater from wells. In Soroca district 31 of the 68 rural populated centers do not have central water supply, all of them except Soroca city have no sewerage. There is a lack of centralized water supply systems in 30 localities in Riscani district and in 37 localities in Leova. [3]

The problem of social infrastructure became an actual one for the government. Due to the lack of money, it addressed the foreign IFIs.

Analysing the main ways of attracting funds for financing investments in water supply systems and sanitation, we ascertain the following:

(a) Acquisition and use of grants; There are several notable achievements towards

attracting and use of grants, of which:

- Funds obtained from the European Union in the Food Security Program in the amount of 2 mil Euro, which is already implementing specific projects for water supply and sewerage in 16 localities (cities Anenii Noi, Criuleni, Drochia, Riscani, localities Bucovat, Bascalia, Brinza, Costuleni, Cosnita, Gura Cainarului, Ghetlova, Petresti, Pelivan, Tanatari, Varatic);

-Funds obtained from Sweden and Switzerland, which will be implemented in 30 localities;

- Turkey grant allocated for the construction of water treatment plant in the city Ceadar-Lunga.

(b)Financing through loans repayable investments; The most significant achievements in this area are the credit granted by the State of Kuwait in 2006 to 6 priority localities Straseni, Taraclia and Hincesti, Carbalia, Sarata Veche and Risipeni and the credit granted by Turkey to supply water to four towns in southern regions.

Although during the last 10 years the water supply and sewerage faced financial hardships, the value of public service infrastructure investments in water supply and sanitation has increased since 2001, both through attracting external funding various programs as well as the efforts of operators financing from own sources and from state and local budgets.

“The pluvial sewerage. Promoting and implementing innovative action to climate change” is a project funded by the European Union within the “Non-state actors and local authorities in development Programme” and implemented by the Chisinau City Hall in partnership with Odessa City Council. [7]

The project implementation period was 30 months, from December 2009 to June 2012, and the total project budget was 900.000 Euro, out of which 737.147 Euro was due to the Chisinau City Hall. The project was aimed to promote and implement innovative logistics operations and constructive adaptation to climate change in Chisinau and Odessa, by involving social actors in promoting these principles. Also, its goal was to reduce the effects of heavy rain and flooding by

improving the pluvial water collection and evacuation systems and their orientation into natural water tanks, as well as to optimize urban traffic by improving problematic areas created after the floods.

ENPARD project was launched by the European Commission under the Sector Policy Support Programme (SPSP) "Economic Stimulation in Rural Areas that comes to sustain the development of the infrastructure– a new policy initiative, which is part of the EU's commitment to inclusive growth and stability in its neighbourhood, and recognizes the potential importance of agriculture in terms of food security, sustainable production and employment in rural areas. [9]

ENPARD was created by two Joint Communications of the European Commission and the European External Action Service in March and May 2011.

EU offers all partner countries the opportunity to participate in a dialogue on ENPARD topic and is ready to assist in implementing policies and reforms related ENPARD all those committed to transforming agriculture rural development a priority sector for cooperation with the EU.

This will include assistance in the preparation of agricultural and rural development strategies in the long term together with all relevant stakeholders, and to create the necessary institutional capacity at national and local level. ENPARD will be based on the experience of EU reform process in agriculture and rural areas in pre-accession countries and will take into account the diversity of experiences and efforts in partner countries. ENPARD also adopts a strategic and holistic approach, with emphasis on the participation of civil society and stakeholders in the sector.

National sectorial strategy that defines the challenges and objectives sectors forms the basis of a political dialogue between the EU and its partners. For ENPARD dialogue should lead to joint multiannual work program prepared by partner countries and agreed with the EU, in which countries to define their policy objectives in agriculture and rural development. This dialogue will

facilitate regional trade and help to identify pilot actions where necessary.

## CONCLUSIONS

During the last years huge changes occurred, a fact that comes to support the thesis of the unicity of EU investments for the rural development, enabling major changes and the vitality of the rural areas through time.

Certainly a lot of qualities such as adjustability, compatibility, uniformity, unity, etc. are characteristic for "set of rules" of this sector, being at the same time integrated and incorporated in the sustainable development of a country. From our point of view this is one of the most relevant examples of two major ways of system export with a lot of pros and contras.

In conclusion we have to state that the durable development of rural space in our country may be assured by a various number of factors:

-Mobilization and thought-through use of human, natural and material capital;

-Promoting and support of economic activities in the rural space;

-Improvement of business climate and provision of support to the small agricultural producers;

-Assurance of a favourable investment climate for the development of business environment;

-Vocational education of human resources in the rural space.

All above mentioned factors might remain only in theory without a well-developed and efficient used social infrastructure.

The development process cannot be a general scheme accepted and approved by all the communities. Each community depending on the economic conditions and the specific of the region, adopts its own development strategy, taking into account certain principles and laws.

Generally, the role of the local public administration is to assure conditions for a better living environment, to form and attract new funds, to create and maintain dynamic partnerships with different sectors in terms of local development process, to adapt the local comparative advantages to native economic

activities, which might lead to a level of economic prosperity to the expectations of the population.

Some recommendations could be underlined:

-Specific measures might be focused on disadvantaged territories and ensure access for all residents to improved drinking water and adequate sanitary conditions;

- Infrastructure projects could be realized only by international partners' support;

-Project implementation must rely on appropriate techniques.

It is necessary that the local authorities to constantly promote the concept of sustainable development, to preserve and improve the existing infrastructure in villages, which will raise the living standards of citizens and will strengthen the support to local business.

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