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THE FEATURES OF FOREIGN AID TO THE REPUBLIC OF MOLDOVA IN CONDITIONS OF GLOBAL INSTABILITY

TRĂSĂTURILE ASISTENȚEI EXTERNE ACORDATE REPUBLICII MOLDOVA ÎN CONDIȚII DE INSTABILITATE GLOBALĂ

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Abstract: Asistența externă rămâne un subiect crucial în contextul actual, fiind vitală pentru susținerea dezvoltării în țările în curs de dezvoltare și subdezvoltate. Ea contribuie la rezolvarea problemelor globale precum schimbările climatice și pandemiile, promovează pacea și securitatea internațională și facilitează cooperarea globală. Această lucrare are ca scop să identifice modul în care ajutoarele externe au efectat economia locală și activitățile economice ale Republicii Moldova în promovarea diversificării economice și susținerea creșterii unor sectoare precum agricultura, producția și serviciile. Trăsăturile și aspectele distinctive ale sprijinului extern în Republica Moldova evidențiate pe parcursul cercetării au permis identificarea principalelor rezultate și stabilirea utilizării mai eficiente a acestora în vederea promovării unei creșteri economice durabile și echitabile a țării.

Cuvinte cheie: asistența externă, instrumente de finanțare, parteneri de dezvoltare, instabilitate globală

JEL CLASSIFICATION: F35, F36, P45

INTRODUCTION

In an era, marked by unprecedented global instability, the features of foreign aid to the Republic of Moldova are poised to undergo significant transformations. Moldova, situated amidst regional tensions and economic challenges, relies heavily on foreign assistance to address pressing development needs and bolster resilience against multifaceted threats. However, the confluence of events such as the COVID-19 pandemic, the energy crisis, and the ongoing conflict in Ukraine has magnified the complexities of global instability, shaping the landscape of foreign aid to Moldova in profound ways. In this context, this research explores the evolving dynamics and potential strategies for foreign aid to the Republic of Moldova amidst global instability.

Sustaining and increasing foreign aid to Moldova during such time is not only in the interest of the country but also aligns with broader international goals of promoting stability, prosperity, and cooperation. Overall, the objective of research on the features of foreign aid to the Republic of Moldova in conditions of global instability is to generate evidence-based insights, and in the same time to observe if the contribution of foreign aid interventions is effective in supporting the sustainable development and resilience of Moldova in the midst of uncertain global dynamic.

Given the varying opinions among modern scientists regarding the beneficial effect of foreign assistance on the development of recipient countries, the study of this topic is relevant today. Thus, Riddell Roger describes foreign aid as "a broad range of financial flows, technical assistance, and other forms of support provided by governments, international organizations, and NGOs to promote economic development and address humanitarian needs in recipient countries." [4] While Moyo Dambisa based on his research characterizes foreign aid as "an ineffective and harmful tool for development that perpetuates dependency and stifles economic growth in recipient countries." [5]

PROPOSED RESEARCH METHODS

Presented in this article investigation was implemented based on such research methods as: general- scientific methods of cognition, logical analysis, documentary method, analogy and grouping data method, graphical method, method of synthesis.

The methods used to collect data are based on reports, legislations of the Republic of Moldova in particular Government Decision no. 337 of 25.04.2018 on the regulation of the institutional framework and mechanism for coordination and management of external assistance Published 27.04.2018 in the Official Monitor No. 133-141 art. 149. Both quantitative and qualitative data was used in the process of carrying out this thesis, to identify how foreign aids has affected the local economy and the economic activities of Republic of Moldova in promoting economic diversification and supporting the growth of sectors as agriculture, manufacturing and services. Also, analyzing the quantitative data using statistical methods, such as annual reports on external assistance granted by the Ministry of Finance the relationship between foreign aid and various development indicators has been identified.

THE RESULTS OF RESEARCH

External assistance may require expert advice and training, or the transfer for goods or financial resources. Official Development Assistance (ODA) is the most common form of development assistance. It helps promote sustainable prosperity, create or strengthen political systems, and address a variety of global issue.

Considering the foreign aid in Republic of Moldova the institution responsible for conclusion of agreements and monitoring is the Ministry of Finance in special external assistance department. The Ministry of Finance is responsible for the coordination and management mechanism of external assistance and acts as the single point of contact/control in relation to external development partners and public authorities related to proposals for external assistance projects/programmes. In order to monitor the external assistance allocated to the Republic of Moldova, a platform was created which is also monitored by the Ministry of Finance. Aid Management Platform (AMP) collect, track and record data on external assistance projects, generate reports on external assistance, publish basic data on external assistance for general public, and also facilitates preparation of annual assistance report.

The Ministry of Finance plays a critical role in link between a country's foreign assistance and its overall economy well-being. By effectively managing and allocating financial resources, the Ministry of Finance facilitates the utilization of foreign assistance in a manner that supports a nation's development objectives and fosters economy. Foreign assistance, in the form of grants, loans or technical expertise, often serves as a vital source of funding for countries, particularly those facing economic challenges or pursuing ambitious development goals. One of the primary functions of the Ministry of Finance is to assess a country's financial needs and negotiate foreign assistance agreement with international organizations, donor, countries, or multilateral institutions.

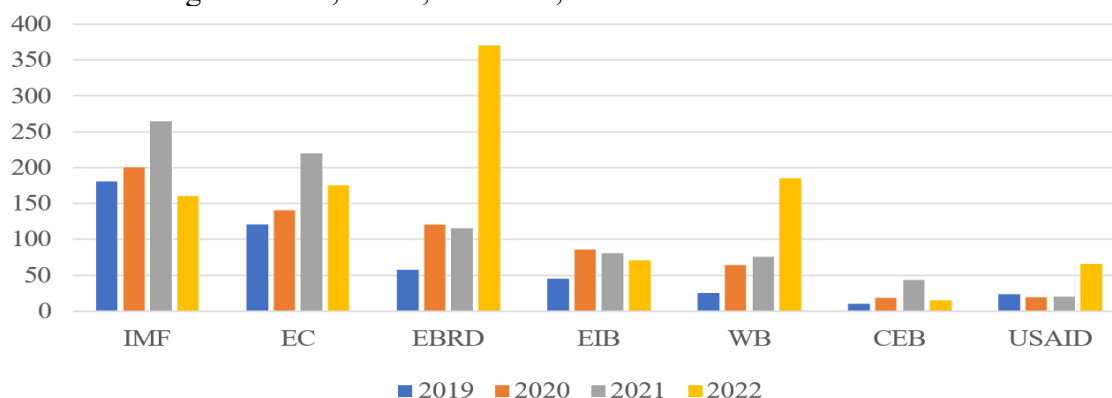


Figure 1. Top development partners according to disbursements in 2019-2022 (EUR million)

Source: Created by the author based on Reports on External Assistance to Moldova 2019-2022 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] 11 p. Available: <https://mf.gov.md/ro/content/rapoarte-0>

Analyzing data above can observe that are mentioned the 5 top partners according to disbursement for 2020 in Figure 1 besides the rest stipulated country and organizations. During 2021, the main external multilateral development partners of the Republic of Moldova, according to the value disbursements, the following stood out: IMF (EUR 263.1 million), followed by EC (EUR 218.6 million), EBRD (EUR 111.9 million). The high value of the disbursements in 2022 is due largely to assistance provided exceptionally in the context of the energy crisis, the crisis of the war in Ukraine and related consequences, resources that did not follow the classical programming cycle. From the volume of external assistance disbursed, EUR 278 million was allocated to mitigate the energy crisis. According to Figure 2 during 2021, the volume commitments reflected in the AMP is in increase of approx. EUR 445.7 million in comparison with the previous year. Among the main one's external partners stand out: IMF – 553 million EUR. During 2022, the volume of commitments reflected in the AMP is increasing by approximately EUR 51.2 million compared to the previous year.

Among the main external partners, the following stand out: EU - EUR 214.3 million

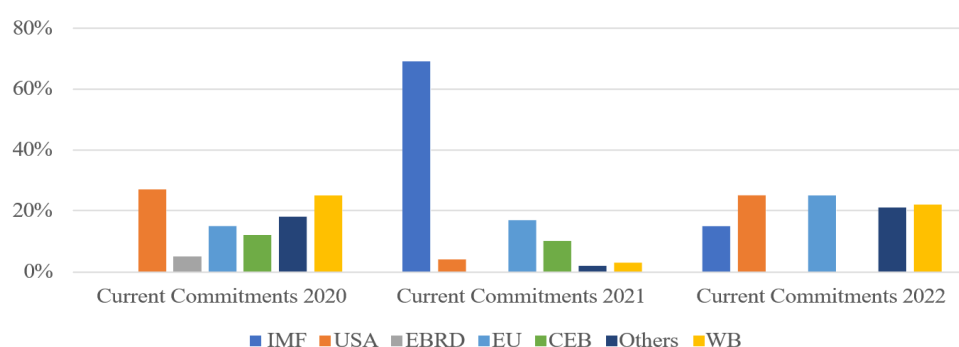


Figure 2. Structure of current commitments per donors/creditors

Source: Created by the author based on Reports on External Assistance to Moldova 2019-2022 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

At the same time, during 2021, the disbursements reflected in AMP have decreased, comparatively with the year 2020, with EUR 52.6 million, reaching the value of EUR 526.9 million. The biggest external partners stand out: EC - 184 mil. EUR. Also, can be observed that disbursement for 2021 are only EUR 10 million in comparison with the commitments that are EUR 24 million and its more than a half than disbursement for grants. In this case can be conclude that amount of money guaranteed for some projects have not been disbursed although the implementation period is already underway. During 2022, the cumulative disbursements reflected in AMP increased, compared to 2021, by EUR 110.1 million. The most major external partners stand out: World Bank – EUR 211.1 million or 33%.

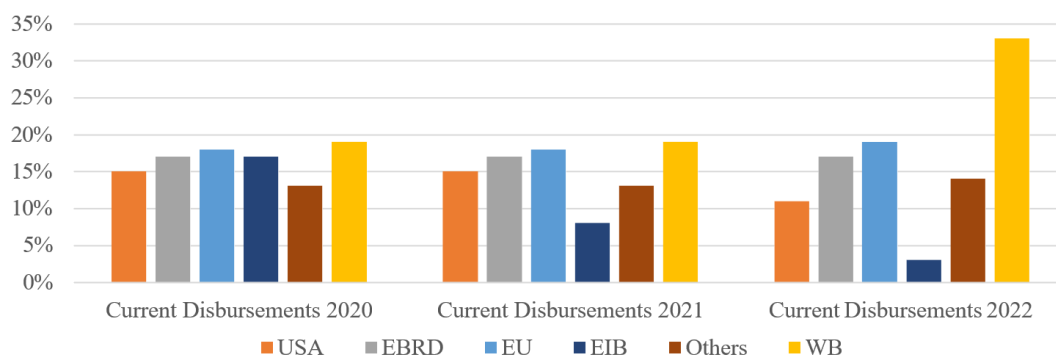


Figure 3. Structure of current disbursements per donors/creditors

Source: Created by the author based on Reports on External Assistance to Moldova 2019-2022 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

Analyzing the Figure 4, in 2020 the public sector represented the main distribution channel of assistance external, with a share of 81.8% of the total external resources invested by donors and creditors. Comparatively high value of disbursements with the volume of commitments is largely due to the assistance given exceptionally in the context of COVID-19, resources that did not follow the classic programming cycle.

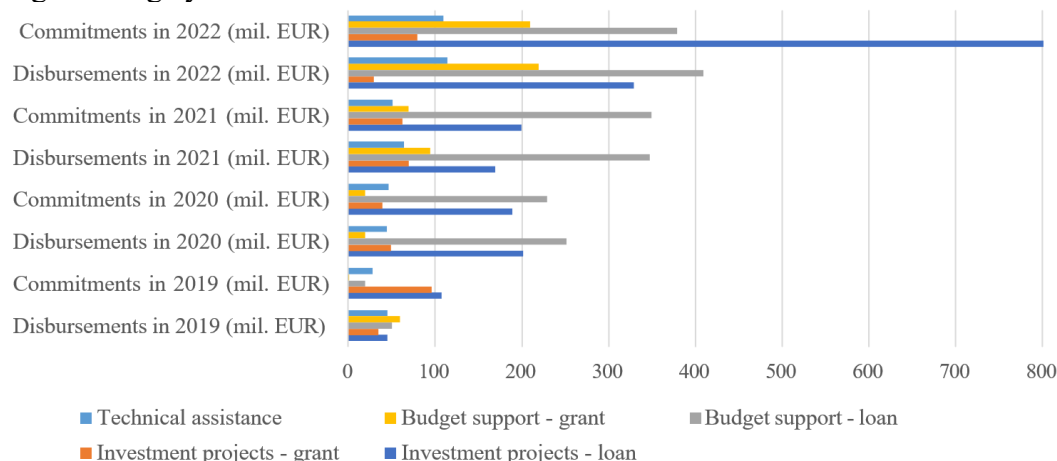


Figure 4. Structure of external assistance by financing instruments (channeled through the public sector)

Source: Created by the author based on Reports on External Assistance to Moldova 2019-2022 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

The public sector, in 2022, as in 2021, represented the main distribution channel of external assistance, maintaining its weight practically at the same level (84.3 %) a significant weight of the assistance was disbursed to alleviate the crises faced by the Republic of Moldova, especially the energy crisis, the crisis of the war in Ukraine and of related consequences. The effectiveness of external assistance through public sector heavily depends on the governance structures and institutional capacity of the recipient country.

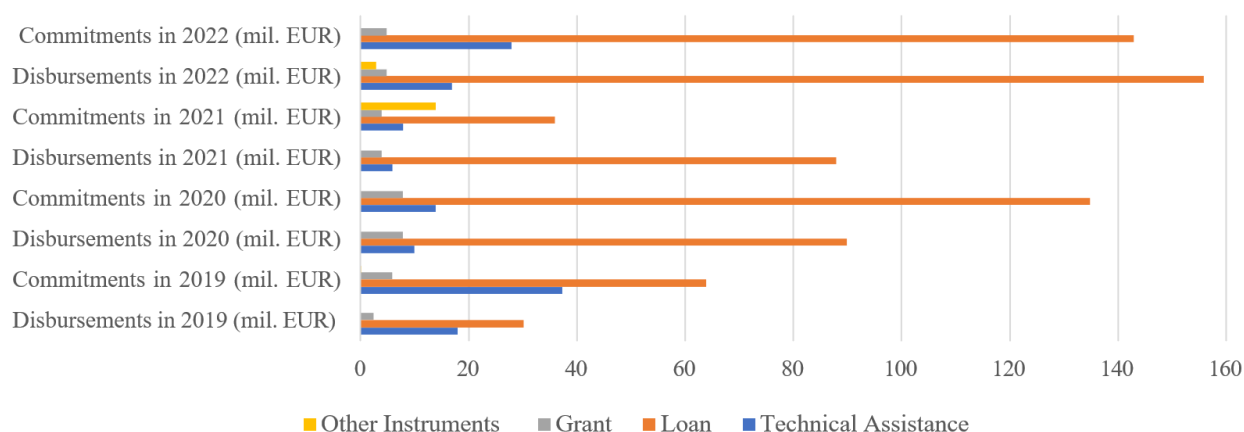


Figure 5. Structure of external assistance by financing instruments (channeled through the private sector)

Source: Created by the author based on Reports on External Assistance to Moldova 2019-2022 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

Among the biggest actors present in the sector private in 2019 are USAID, EBRD, EIB. They finance both the training of entrepreneurs in the sectors as energy, climate resilience, increasing competitiveness, as well as infrastructure modernization and technological process improvement. The

private sector, in benefited in 2020 from about 15% of all external resources invested by donors and creditors 2022, according to the data presented by external development partners, is the second distribution channel of external assistance in the Republic of Moldova.

According to Figure 6 donor reporting exercise a showed that the financing of the non-governmental sector in 2019 by donors was granted individual organizations Only around 25 million EUR from outside partners went to the non-governmental sector in 2020, which is less than half of the amount reported for 2019 and donors to the public sector in the context of dealing with COVID- 19's effects. The non-governmental sector a received in 2021 approx. EUR 25.3 million from the part of external partners, achieving value disbursed similar to 2020. The non-governmental sector received, in 2022, approx. EUR 40.5 million from external partners, increasing compared to the year 2021

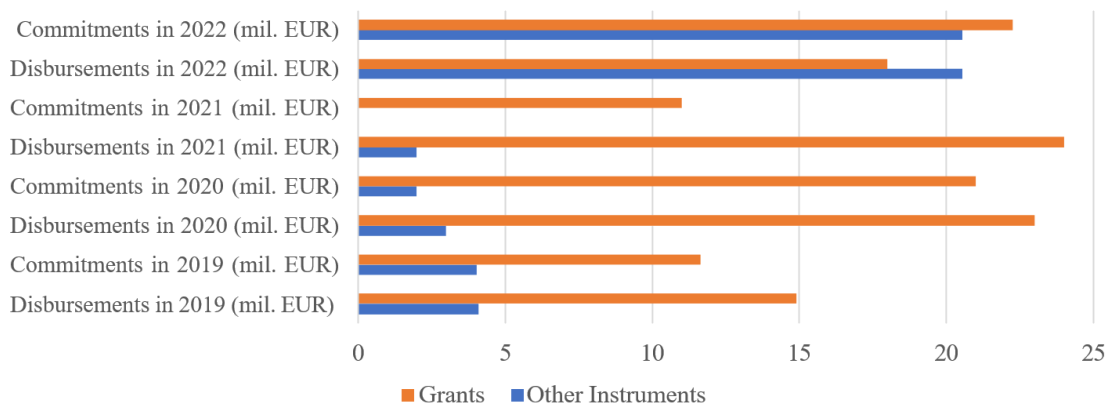


Figure 6. Structure of external assistance by financing instruments (channeled through the non- governmental sector)

Source: Created by the author based on Reports on External Assistance to Moldova 2019-2022 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

According to data from external donors in 2019, the main sectors where assistance is channeled external for our country are: social infrastructure and other services -53.9%, of which a third dedicated to education, health, water and sewage, production sectors (7 % –of which agriculture, environment) and economic infrastructure and services, with 35.

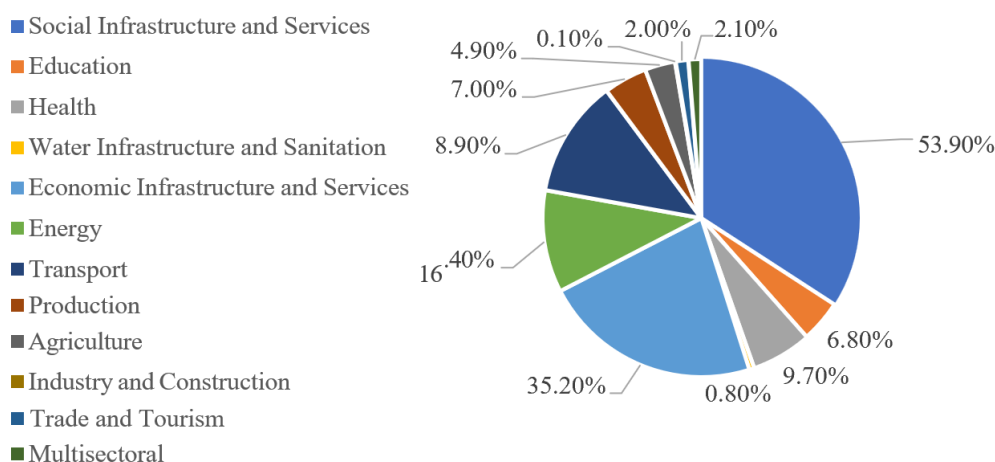


Figure 7. Structure of external assistance inputs according to sectors of intervention in 2019

Source: Based on Report on External Assistance to Moldova 2019 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

In order to achieve the symbiosis between the strategic priorities derived from the policy documents and the actions taken to achieve them by the central specialized bodies of the public administration, in collaboration with the donor/creditor community, in accordance with approximately 644 in 2020 projects for external assistance targeting sectors of the national economy, such as: infrastructure 31.90%, good governance 12.70% education 1.80%, health 6.30%, agriculture 7.90%, among other things.

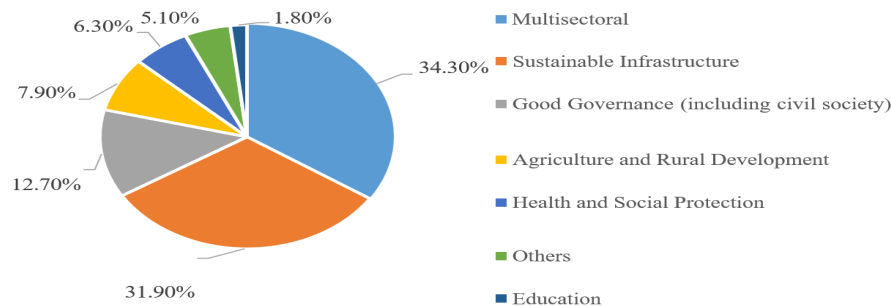


Figure 8. Structure of external assistance inputs according to sectors of intervention in 2020

Source: Based on Report on External Assistance to Moldova 2020 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

In the context of the reality of 2021, the relaunch economic support from the community the external partners of the Republic of Moldova to ensure a development process economically viable, 2021 a targeting of financial means in the following sectors of the economy national, such as: road infrastructure 27%, health 25% (as a result of the pandemic situation Covid-19 and related consequences), agriculture 15%, public policy 10% general economic services 8%.

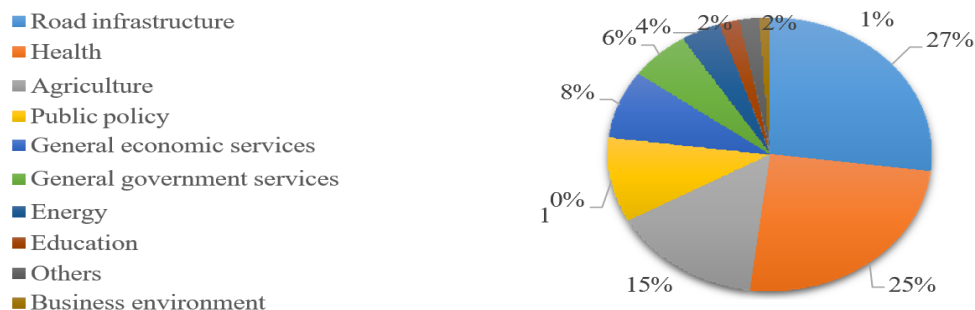


Figure 9. Structure of external assistance inputs according to sectors of intervention in 2021

Source: Based on Report on External Assistance to Moldova 2021 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

In the context of the reality of 2022, according to Figure 10 the results differ from the previous years.

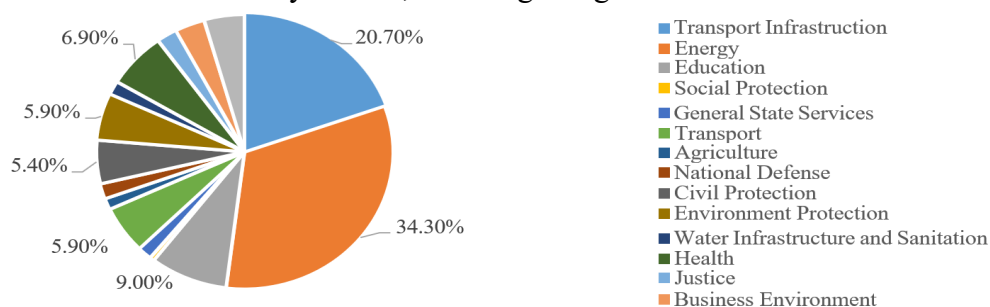


Figure 10. Structure of external assistance inputs according to sectors of intervention in 2022

Source: Based on Report on External Assistance to Moldova 2022 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

Taking into account the coherence and complementarity of the instruments offered by the community of donors/creditors, the direction of financial means was placed in different fields. The most important sectors of the national economy, were: energy 34.30% (following the energy crisis), road infrastructure 20.70%, education 9.0%, health 6.90% (following the crisis of the war in Ukraine and related consequences), agriculture 1.40%, civil protection 5.40%, business environment 3.40%.

According to the state treasury system of the Republic of Moldova in 2021 total grants and loans were registered at the National Public Budget (NPB) 13 240.7 million MDL in 2021 and 10 397.7 million MDL in 2020 the amounts are so diverse because the answer is simple not all external assistance goes through the state treasury system so it is not easy to monitor and creates some loss of information. At the same time, the foreign assistance inflows reflected in the NPB, in 2022, constituted 6.5% of the value of the registered Gross Domestic Product, increasing compared to 2021, largely due to emergency credits intended for budgetary support.

Table 1. Structure of National Public Budget Inflows in 2019-2022 (MDL million)

Indicator	Executed 2019	Executed 2020	Executed 2021	Executed 2022	Executed this year	
					deviations (+,-)	in %
Grants received	1 602,6	649,7	2 447,4	4 539,4	(+2 092,0)	185,5
Grants received from other governments		8,5	35,9	1014,1	(+978,2)	2 824,8
Grants received from international organisations		647,2	2 417,6	3525,3	(+1 113,8)	146,2
Grants received, % NPB	2.4	0,9	3,3	5,05	(+1,75)	-
Grants received, % ST	3.7	1,7	4,8	7,12	(+2,32)	-
Grants received, % GDP	0.8	0,3	1,0	1,7	(+0,7)	-
External loans (inflows)	2 623,6	9 748,0	10 793,3	13 159,5		121,9
Loans, % NPB	4	14,8	14,7	14,7	0,0	-
Loans,% ST	6.1	25,3	21,4	20,6	(-0,8)	-
Loans,% GDP	1.3	4,7	4,5	4,8	(+0,3)	-
Total receipts from grants and external loans to the BPN	4 226,2	10 397,7	13 240,7	17 698,9	(+4 458,2)	-

Source: Created by the author based on Reports on External Assistance to Moldova 2019-2022 [online] Web site Ministry of Finance, compartment External Assistance Reports, [viewed 20 March] Available: <https://mf.gov.md/ro/content/rapoarte-0>

Features of foreign aid in condition of instability

The future of foreign aid to the Republic of Moldova unfolds against the backdrop of a world marked by unprecedented instability. Moldova, a nation grappling with internal challenges compounded by regional tensions and global uncertainties, finds itself at a pivotal juncture where foreign assistance plays a critical role in shaping its trajectory. As we look ahead, it becomes imperative to assess how foreign aid to Moldova will evolve in response to the ever-changing dynamics of global instability. This slide delves into potential future scenarios, challenges, and opportunities for foreign aid to Moldova, considering the multifaceted aspects of geopolitics, economics, and socio-development.

- *Regional Cooperation for Sustainable Development* Collaborative efforts with neighboring countries and regional organizations may focus on addressing common challenges such as cross-border trade barriers, transnational crime, and infrastructure development. By fostering regional synergies, Moldova can unlock opportunities for shared prosperity and stability in the broader geopolitical context.
- *Humanitarian Assistance and Crisis Response* Given the devastating impact of the COVID- 19 pandemic, foreign aid to Moldova sees a surge in humanitarian assistance and healthcare support. Donors prioritize providing medical supplies, vaccines, and healthcare infrastructure to bolster Moldova's pandemic response and healthcare resilience.
- *Energy Security Initiatives* In response to the energy crisis of 2023, foreign aid to Moldova increasingly targets energy security initiatives. Donors support projects aimed at diversifying Moldova's energy sources, improving energy efficiency, and enhancing resilience against energy disruptions, thereby reducing the country's vulnerability to future crises.

- *Regional Cooperation for Stability* The conflict in Ukraine underscores the importance of regional stability and cooperation. Foreign aid to Moldova includes efforts to strengthen regional cooperation mechanisms, promote dialogue between neighboring countries, and address underlying tensions to mitigate the spillover effects of regional conflicts.

CONCLUSIONS

In the context of global instability, foreign aid to the Republic of Moldova demonstrates several distinct features. Firstly, the public sector serves as the primary channel for distributing external assistance, comprising a significant share of the total resources invested by donors and creditors, with a consistent weight maintained over the years. This reliance on the public sector underscores the importance of governance structures and institutional capacity in determining the effectiveness of external aid. Notably, the disbursement of assistance in response to crises such as the energy crisis and the repercussions of the war in Ukraine highlights the flexibility and adaptability of aid allocation strategies. Secondly, while the public sector remains dominant, the private sector is emerging as a notable player in the distribution of foreign aid. Major actors such as USAID, EBRD, and EIB are actively involved in financing various initiatives, including entrepreneur training, infrastructure modernization, and technological improvements. The private sector's share of external resources has increased steadily, indicating a growing role in complementing efforts aimed at bolstering economic development and resilience. Thirdly, the non-governmental sector receives a comparatively smaller portion of external assistance, particularly in recent years. Despite fluctuations in funding levels, non-governmental organizations play a crucial role in addressing various social and developmental challenges. The decrease in funding in 2020, attributed partly to the redirection of resources towards addressing the COVID-19 pandemic's immediate effects, underscores the sector's vulnerability to shifting aid priorities. However, the subsequent increase in funding in 2022 indicates a renewed recognition of the sector's importance in driving inclusive and sustainable development.

Optimizing foreign aid in the Republic of Moldova requires a comprehensive and coordinated approach. By enhancing aid coordination, strengthening governance, promoting private sector development, and investing in human capital, foreign aid can effectively contribute to the sustainable development of the country.

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