

POSSIBLE EFFECTS OF REFUSAL OF FOREIGN AID FOR THE REPUBLIC OF MOLDOVA

EFECTELE POSIBILE ALE REFUZULUI DE LA AJUTOR STAIN PENTRU REPUBLICA MOLDOVA

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ABSTRACT

Today, a large number of low-income and middle-income countries recourse to foreign financial aid in order to develop economically and socially, but not all of them comply with the requirements for being eligible to receive this financial aid. In such direction, aid conditionality as one of the elements and mechanisms of the lending process raised many questions about its concept and especially its effects (more positive or more negative). However, it is still considered to be one of the best monitoring instruments used by the international financial bodies to enhance the economic and social development of the recipient countries, despite the fact that this influence has many negative impacts.

The research outlines the next points like: historical background, premises and conditions of foreign aid appearance, breaking down what does foreign aid represents nowadays, its types and purposes, noble effects and criticism.

In the same time, there are revealed the benefits and constrains under the both sides of investing parties and the Republic of Moldova (recipient country) under the concrete deals, facts and examples of effects of aid from USA government and European Union support programs.

Further, we make evident some main possible effects in case of refusal of foreign aid through the eyes of the Republic of Moldova.

Finally, we draw some conclusions after having done given research. All the conclusions are linked to the ideas that (1) external grants and loans account for 18% in the structure of national public budget of Moldova; (2) the image of the country may be affected dramatically; and (3) political and Economic aspects of the dilemma.

Key words: foreign aid, conditionality, official development assistance, developing countries, poverty reduction, low-income countries, Republic of Moldova, International Monetary Fund, OECD, World Bank, USA.

JEL Codes: E61, E66, F02, F35, F53, F62, H11, H63, O23, P35.

INTRODUCTION

To begin with, it is necessary to outline the next points like: historical background, premises and conditions of foreign aid appearance, breaking down what does foreign aid represents nowadays, its types and purposes, noble effects and criticism.

Let us first of all understand Foreign Aid appearance in international economic and political stage. The earliest form of foreign aid was military assistance designed to help warring parties that were in some way considered strategically important. Its use in the modern era began in the 18th century, when Prussia subsidized some of its allies. European powers in the 19th and 20th centuries provided large amounts of money to their colonies, typically to improve infrastructure with the ultimate goal of increasing the colony's economic output.

The *structure and scope* of foreign aid today can be traced to two major developments following World War II:

- The implementation of the Marshall Plan, a U.S.-sponsored package to rehabilitate the economies of 17 western and southern European countries;
- The founding of significant international organizations, including the United Nations, IMF, and World Bank.

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These international organizations have played a major role in allocating international funds, determining the qualifications for the receipt of aid, and assessing the impact of foreign aid.

Contemporary foreign aid is distinguished not only because it is sometimes humanitarian (with little or no self-interest by the donor country) but also by its size, amounting to trillions of dollars since the end of World War II, by the large number of governments providing it, and by the transparent nature of the transfers.

The level of foreign aid expenditures following World War II dwarfed prewar assistance. The postwar programs of the United Kingdom, France, and other European former colonial powers grew out of the assistance they had provided to their colonial possessions. More importantly, however, the United States and Soviet Union and their allies during the Cold War used foreign aid as a diplomatic tool to foster political alliances and strategic advantages; it was withheld to punish states that seemed too close to the other side. In addition to the *Marshall Plan*, in 1947 the United States provided assistance to Greece and Turkey to help those countries resist the spread of communism, and, following the death of Soviet leader Joseph Stalin in 1953, communist-bloc countries donated increasing amounts of foreign aid to less-developed countries and to close allies as a means of gaining influence as well as promoting economic development.

Several non-European governments also implemented their own aid programs after World War II. For example, Japan developed an extensive foreign aid program – an outgrowth of its reparations payments made following the war – that provided assistance primarily to Asian countries. Much of Japan's aid came through procurement from Japanese companies, which helped fuel economic development in Japan. By the late 20th century, Japan had become one of the world's two leading donor countries, and its aid programs had extended to non-Asian countries, though much of the country's assistance was still directed toward Asia.

The vast majority of official development assistance (**ODA**) comes from the countries of the *Organization for Economic Co-operation and Development (OECD)*, specifically the nearly two dozen countries that make up the *OECD's Development Assistance Committee (DAC)*. The DAC includes western European countries, the United States, Canada, Japan, Australia, and New Zealand. Other providers of significant assistance include Brazil, China, Iceland, India, Kuwait, Poland, Qatar, Saudi Arabia, South Korea, Taiwan, Turkey, and the United Arab Emirates. In the 1970s the international community, through the United Nations, set 0,7% of a country's gross national income (**GNI**) as the benchmark for foreign aid. However, only a small number of countries (Denmark, Luxembourg, the Netherlands, Norway, and Sweden) reached that mark. Although the United States and Japan have been the world's two largest donors, their levels of foreign aid have fallen significantly short of the UN's goal.

Foreign assistance is still used to promote economic development. Although significant development occurred in much of Asia and Latin America during the second half of the 20th century, many countries in Africa remained severely underdeveloped despite receiving relatively large amounts of foreign aid for long periods. Beginning in the late 20th century, humanitarian assistance to African countries was provided in increasing amounts to alleviate suffering from natural disasters, the HIV/AIDS epidemic, and destructive civil wars. Major initiatives to combat HIV/AIDS focused on the hardest-hit countries, most of which are in sub-Saharan Africa.

Foreign aid has been used, particularly in poorer countries, to fund or to monitor elections, to facilitate judicial reforms, and to assist the activities of human rights organizations and labor groups. In the post-Cold War era, when funding anticommunist governments became less important criteria for the United States and its allies, promoting democracy was elevated as

a criterion in foreign aid programs. Aid was provided to some countries as an incentive for initiating democratic reforms and was withheld from others as a punishment for resisting such reforms.

Foreign aid is also used to address transnational problems such as the production and export of illegal drugs and the battle against HIV/AIDS. For example, the International Narcotics Control program allocates U.S. funds to countries to battle drug production, and the Anti-Drug Abuse Acts of 1986 and 1988 make foreign aid and access to U.S. markets conditional upon recipient countries' actively combatting drug production and trafficking.

Since the 1990s many foreign aid sources, notably the IMF, have made aid conditional on market-oriented economic reforms, such as lowering trade barriers and privatization. Thus, foreign aid has been used as a tool by some institutions and countries to encourage the spread of capitalism.

In the last decade of the 20th century, private capital flows and remittances from migrant workers became the two largest sources of "aid" from wealthy countries to poor ones, surpassing the amount of ODA provided by those countries. However, this form of aid is heavily stratified; most direct foreign investment has gone to developing countries pursuing policies of trade and economic liberalization and those with large markets (e.g., Brazil, China, and India).

Secondly, for *deeper understanding* what actually is meant by talking regarding Foreign aid, is absolutely necessary to clear up this notion? Foreign Aid is defined as the voluntary transfer of resources from one country to another country. This transfer includes any flow of capital to developing countries. A developing country usually does not have a robust industrial base and is characterized by a low Human Development Index (HDI).

Taking the role of the international transfer of capital, goods, or services from a country or international organization for the benefit of the recipient country or its population, foreign aid can be in the form of a loan or a grant. It may be in either a soft or hard loan. This distinction means that if repayment of the aid requires foreign currency, then it is a hard loan. If it is in the home currency, then it's a soft loan. The World Bank lends in hard loans, while the loans of its affiliates are soft loans. Foreign aid is one of the most significant sources of foreign exchange. There are five different types of foreign aid programs.

Foreign aid can involve a transfer of financial resources or commodities (e.g., food or military equipment) or technical advice and training. The resources can take the form of grants or concessional credits (e.g., export credits). The most common type of foreign aid is official development assistance (ODA), which is assistance given to promote development and to combat poverty. The primary source of ODA – which for some countries represents only a small portion of their assistance – is bilateral grants from one country to another, though some of the aid is in the form of loans, and sometimes the aid is channeled through international organizations and nongovernmental organizations (NGOs). For example, the International Monetary Fund (IMF), the World Bank, and the United Nations Children's Fund (UNICEF) have provided significant amounts of aid to countries and to NGOs involved in assistance activities. [1]

Main Types of Foreign Aid are presented as follows [2]:

- a. *Bilateral Aid*. Assistance given by a government directly to the government of another country. Occurs when the capital flows from a developed nation to a developing country. These are to assist in long-term projects to promote democracy, economic growth, stability, and development.
- b. *Multilateral Aid*. Assistance provided by many governments who pool funds to international organizations like the World Bank, United Nations, and International Monetary Fund that are then used to reduce poverty in developing nations.

- c. *Tied Aid*. Must be spent in the country providing the support (the donor country) or in a group of selected countries. A developed country will provide a bilateral loan or grant to a developing country, but mandate that the government spends the money on goods or services produced in the selected country.
- d. *Project Aid*. Funds are used to finance a particular project, such as a school or a hospital, it is considered to be Project Aid.
- e. *Military Aid*. Is never charitable. Usually requires said nation to either buy arms or defense contracts directly from the USA or in other cases just simplifies the process by having the federal government only purchase the arms itself and ship them over on military transport.
- f. *Voluntary Aid*. Usually in the form of charity. For example, Médecins Sans Frontières (Doctors Without Borders) "is an international humanitarian non-governmental organization best known for its projects in war-torn regions and developing countries affected by endemic diseases".

In order to assimilate the importance of foreign aid it is proposed to follow up its **strong points and main advantages** as:

- ✓ Humanitarian aspects
- ✓ Improvement of the country's international image through further development
- ✓ Continuous building of positive working relationships with other governments
- ✓ Promotion of the conditions for peace and stability. Because many governments genuinely believe we'll be safer and happier when everyone else is safe and happy.

Concerning the **criticism** toward foreign aid the following arguments are presented:

✓ Significant criticisms have been leveled at both the donors and the recipients of foreign aid. Some groups in recipient countries have viewed foreign aid suspiciously as nothing more than a tool of influence of donor countries. For example, critics of the IMF allege that the required structural adjustments are too politically difficult and too rigorous and that the debts incurred through IMF loans help to create poverty, as capital that could have been invested instead was channeled into debt repayment. The World Bank, which critics claimed in the 1970s and '80s was insensitive to local needs and often approved projects that did more harm than good, altered many of its policies and has generally endured less criticism. In general, opponents of the way that foreign aid programs have operated charge that foreign aid has been dominated by corporate interests, has created an unreasonable debt burden on developing countries, and has forced countries to avoid using strategies that might protect their economies from the open market. In addition, many critics of U.S. aid illustrate the continued importance of political considerations over developmental ones, citing for example the increase in aid to countries allied with the United States in the fight against terrorism following the September 11 attacks in 2001, regardless of their commitment to democracy and human rights.

✓ Meanwhile, some groups in donor countries have criticized foreign aid as ineffective and wasteful. In the United States, for example, public opinion polls consistently show that most Americans believe that foreign aid consumes 20 percent of the country's budget – the actual figure is less than 1 percent – and that most recipients of foreign aid do not deserve it or do not use it wisely. Such criticisms have been bolstered by the generally disappointing results of foreign aid programs in sub-Saharan Africa, where many countries remain mired in poverty, corruption, and civil war despite the disbursement of significant foreign aid. With efforts to rebuild Iraq

and Afghanistan, curtail drug production and trafficking, and battle HIV/AIDS, ODA – which had declined throughout the 1990s – increased in the early 21st century. [2]

I. FOREIGN AID IN MOLDOVA UNDER THE EXAMPLE OF USA AND EU PROGRAMS

The following chapter will reveal the benefits and constrains under the both sides of investing parties and the Republic of Moldova (recipient country) under the concrete deals, facts and examples of effects of aid from USA government and European Union support programs.

The USA government has invested over 1 billion dollars in Moldova since 1992 through various foreign aid assistance programs. In times where many Americans think that the government should concentrate on domestic aid, it is important that they should be informed about how the U.S. benefits from foreign aid to Moldova. So, how is the aid America invests in Moldova promoting American interest?

Foreign aid is often characterized as an investment because it typically brings a return for the American people. This is especially true in the case of American businesses. In Moldova, the poorest country in Europe, the logic of foreign aid applies perfectly.

The stated goal of U.S. foreign aid to Moldova is to “target assistance at the country’s most promising economic sectors; which will help create economic opportunities that will raise incomes, promote job growth, and improve living standards.” By improving the economy and living standards, the foreign aid investments will then create a new market for American goods, demonstrating the mutual benefit for Moldova and the United States.

When the U.S. government provides aid for an impoverished country, the country’s economy improves, and typically so do the lives of its people. With this improved quality of life, citizens of the country are transformed from targets of charity to consumers with purchasing power. Instead of barely surviving, they become productive members of society, which results in new markets for USA companies. Not only does this create more potential customers for USA companies, but the increased demand for American made goods can create jobs in the USA to create these goods.

USAID, America’s primary foreign aid agency, plays an important role in connecting American businesses directly with these new consumers in developing markets. USAID accomplishes this by encouraging American companies to partner with local people to help educate and support them on projects in local areas.

The result is the creation of a mutually beneficial relationship, whereby the target of the aid becomes self-reliant and also aligned with USA companies. In this way, the USA benefits from foreign aid to Moldova as well as Moldova itself.

Furthermore, the USA Embassy in Moldova implements programs such as The Cultural/English-Language Small Grants Program, to use education and cultural exchange to help foster mutual understanding between the United States and Moldova. It is the hope that this mutual understanding will lay the foundation for further economic, cultural, and political cooperation between the two countries.

Another common argument in favor of foreign aid is that this assistance helps stabilize vulnerable countries. This lowers the probability of future conflict and, as a result, keeps Americans safe. Syria is the most evident example of what can happen when a country becomes unstable. After the country experienced a drought in 2007, the resulting destabilization and actions by a repressive regime created the terrible crisis we see today.

This is the very reason that the USA foreign aid to Moldova targets economic growth in Moldova’s unstable agricultural industry as well as the consolidation of democratic institutions. If there were a slowdown in Moldova’s agricultural industry, which accounts for approximately 17

percent of its GDP, or a crackdown on democracy, the resulting destabilization could be problematic, especially given Moldova's proximity to Russia.

Therefore, the USA benefits from foreign aid to Moldova by helping to minimize the risk of breakdowns in the critical areas of Moldovan society, which helps ensure stability, economic opportunity and pro-American sentiment in an otherwise vulnerable country. [3]

As an eloquent example of the level of inflows from USA to the Republic of Moldova let us consider the below table and graph which mission is to denote the numeric information regarding actual value of money flows.

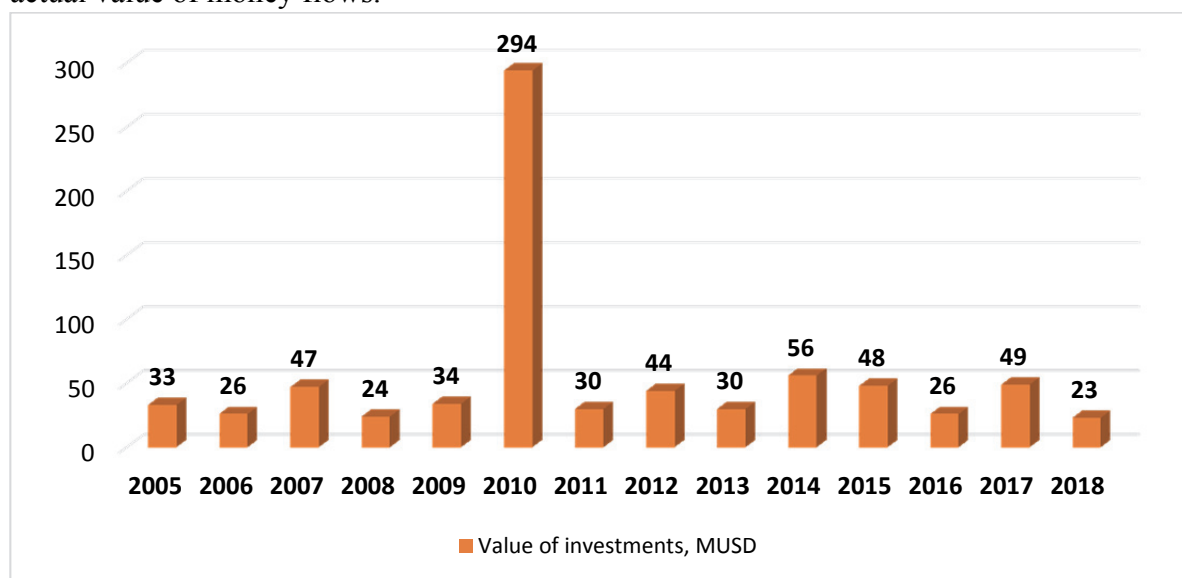


Figure 1. Value of investments, MUSD

Source: developed by author based on the information available at [18].

Note: Value of investments includes the investments all USA Agencies such as: USA Agency for international development, Department of Agriculture, Federal Trade Commission, Department of State, Departments of Energy, Department of Transportation, Department of Commerce, Overseas Private Investments Cooperation, United States Institute of Peace, Peace Corps, Trade and Development Agencies, Environmental Protection Agency, etc.

With regard of presented above statistical figures, throughout 2005-2018 the Republic of Moldova has benefited of 764 MUSD, the distribution between the years is irregular but shows clear tendency of continues stability with the exception of 2010 year. Before the adoption of PRSP (2003-2004) the Government had difficulties in negotiating polices with international monetary organizations (IMF and WB) which resulted in decrease of volume of assistance. The cooperation programs between IMF and WB were suspended due to insufficient progress in reforms and only the volume of technical assistance has been maintained at the same level as in the previous years.

In light of deeper analysis of USA aid to the Republic of Moldova it is worth to be mentioned **main sectors, partners and activities**, which fall through the investment flows [18]:

I. Top Sectors

- Government and Civil Society - 1.9 MUSD
- Business and Other Services - 1.8 MUSD
- Energy - 647 KUSD
- Operating Expences - 376 KUSD
- Basic Education - 346 KUSD
- Basic Health - 212 KUSD

II. Top Partners

- Chemonics International, Inc. - 1.5 MUSD
- InterNews - 1.4 MUSD
- Enterprise - United States Other - 647 KUSD
- USA Governments - Peace Corps - 558 KUSD
- Promolex - 383 KUSD
- USA Government - USA Agency for International Development-363 KUSD
- Association for Information Technology and Communication in Romania - 342 KUSD

III. Top Activities

- High Value Agriculture Activity - 1.5 MUSD
- Media Enabling Democracy, Inclusion and Accountability - 1.4 MUSD
- Democratic Transparency and Accountability Program - 400 KUSD
- Modern Energy Services - 350 KUSD
- IT Center of Excellence - 342 KUSD
- Administrative Costs - 315 KUSD
- Expanded Acces to Modern Energy Services - 297 KUSD
- USA Peace Corps Overseas Support - 168 KUSD

Building upon a successful 20-year partnership with Moldovans, USAID provides assistance to strengthen Moldova's democratic governance and economic growth. Since 1992, the American people have invested more than *\$1 billion* in Moldova through the U.S. Government assistance programs.

As the poorest country in Europe (based on per capita Gross National Income), Moldova faces many challenges, such as endemic corruption, excessive migration, a remittance-reliant economy, energy dependency and inefficiency, and deteriorating infrastructure. USAID works closely with international donors as well as with other U.S. Government agencies, such as the Millennium Challenge Corporation, to help Moldova implement lasting democratic and economic reforms that will improve living standards for all Moldovans.

The United States is assisting Moldova to consolidate democratic institutions, rebuild a struggling economy, improve the business environment, strengthen the rule of law, and address the frozen conflict in Transnistria. USAID partners with Moldova to improve government effectiveness and accountability, and promote decentralization of the government and strengthen linkages between local governments and citizens to increase citizen engagement in the governance process. USAID is also helping Moldova address regulatory and policy-level challenges to sustain and accelerate economic growth. To increase Moldova's ability to compete regionally, USAID targets assistance at the country's most promising economic sectors; which will help create economic opportunities that will raise incomes, promote job growth, and improve living standards. [4]

The next sight to be analyzed is the **European Union** contribution and interest in Moldova's economy development and prosperity. As a general rule and quite logical theory, it is considered that a country or a region (in particular - European Union) will always plead and wish to have well developed, decent and prosperous neighbors rather than poor one, and this could be proposed as one, if not the main, cause why European Union countries are so engaged in the Republic of Moldova growth. Let us further consider some concrete examples of the projects and programs proposed to Moldova.

- ***Rehabilitation of the water supply system in the Municipality of Nisporeni.***

Project will provide sufficient and safe drinking water, create an institution capable to sustainably operate, manage and maintain the water supply infrastructure as well as establishing

balanced local water governance. The involved sector: water supply and sanitation - large systems. EU Contribution: € 5,000,000.00 (100% of total). Implementing organization: Austrian Development Agency GmbH. Duration: from 11/2010 to 07/2016. Brief description: project will provide sufficient and safe drinking water, create an institution capable to sustainably operate, manage and maintain the water supply infrastructure as well as establishing balanced local water governance. Exact location: Nisporeni, Varzaresti and Grozesti, Republic of Moldova. [5]

- ***Moldovan Residential Energy Efficiency Financing Facility***

MoREEFF aims to achieve environmental and social improvements. The engaged sector: housing policy and administrative management. EU Contribution: € 5,200,000.00 (100% of total). Implementing organization: European Bank for Reconstruction and Development. Duration: from 12/2011 to 12/2018. Description: MoREEFF aims to achieve environmental and social improvements. Eligible projects are required to use high energy performing equipment and materials compliant with local, EU and internationally accepted standards. Location: Moldova. [6]

- ***Technical assistance for the implementation of the legal and regulatory framework in the aviation sector***

The overall objective of the project is to improve air transport safety and security by assisting civil aviation authorities of the Republic of Moldova in adoption and implementation of the legal and regulatory framework for the aviation sector according to the terms agreed in the EU–Moldova Common Aviation Area Agreement. Sector: Air transport. EU Contribution: € 1,849,400.00 (100% of total). Implementing organization: Ntu International Aps. Duration: from 01/2013 to 07/2017. Description: The overall objective of the project is to improve air transport safety and security by assisting civil aviation authorities of the Republic of Moldova in adoption and implementation of the legal and regulatory framework for the aviation sector according to the terms agreed in the EU–Moldova Common Aviation Area Agreement. The purpose of this contract is to assist Moldovan civil aviation authorities in drafting of national legal and regulatory documents in accordance with the EU aviation. Location: Republic of Moldova. [7]

- ***Support to coordination of the Justice Sector reform in Moldova***

The project aims at supporting the coordination mechanisms of the reform of the Justice Sector in Moldova. Sector: Legal and judicial development. EU Contribution: € 2,231,800.00 (100% of total). Implementing organization: Altair Asesores SI. Duration: from 04/2013 to 04/2016. Brief description: The project aims at supporting the coordination mechanisms of the reform of the Justice Sector in Moldova. Location: Moldova

A special example of European Aid could be underlined treated **Poland** help. The next few words and succinct description of Poland assistance will help us understand and appreciate its attitude.

A total of **13 projects** amounting to **PLN 4,617,075 (eq. 2,577,900 MDL)** were implemented, including four projects carried out by regional or local authorities/non-governmental organizations, four government administration projects and five projects realized as part of the small grants system by the Polish Embassy in Chișinău.

Development cooperation for Moldova (projects by non-governmental organizations, regional and local authorities and government administration bodies) was realized based on the following priorities:

- ***Good governance (4 projects – PLN 1,123,272, eq. 5,249,692 MDL)***

The Ministry of Investment and Economic Development implemented the first module of a three-year project (2017-2019), supporting Moldovan administration in its implementation of the “2016-2020 National Regional Development Strategy of Moldova in the area of urban policy and urban development.” The aim of the project was to create, test and pilot new support instruments for

urban revival and regeneration based on, among others, a methodology developed by Polish experts. The project was implemented by both Moldovan partners from the national and local municipal administration, as well as social organizations and local citizens. The main beneficiary of the project was the Ministry of Agriculture, Regional Development and the Environment of Moldova and 14 Moldovan cities participating in the project: Bălți, Briceni, Cahul, Căușeni, Ceadâr-Lunga, Cimișlia, Comrat, Edineț, Ialoveni, Ocnița, Orhei, Soroca, Strășeni, and Ungheni.

The Main Statistical Office carried out a project to enhance the potential of Moldova's national statistical system by the transfer of know-how and practical skills in statistical research in the area of agriculture and forestry, which brought the Moldovan statistical system closer to EU standards and other international standards and produced a set of recommendations in this area for the National Statistical Office of Moldova.

As a result of aid activities implemented by Polish Border Guard under the first module of a two-year project (2017-2018), training courses were organized to improve the competencies of Moldova's Border Police officers and staff in preventing cross-border crime and to ensure security and public order. In addition rooms where first aid training courses are organized were modernized based on didactic premises of a training center in Ungheni.

In turn, the Ministry of National Education implemented the second stage of a two-year project "Good governance as a basis for good education" (2016-2017), whose main aim was to improve leadership skills of education managers and to prepare them for a systemic implementation of educational reforms, specifically in the area of professional development of teachers and in strengthening partnerships between teachers, students and their parents, and institutional and social partners.

• ***Agriculture and rural development (4 projects – PLN 2,974,694, eq. 13,902,232 MDL)***

This priority was aimed at supporting the development of non-agricultural and agricultural services in rural regions such as metal and woodworking services, bakeries, furniture-making and the establishment of model animal and plant breeding, i.e. feed mixers and granulators at rabbit or goat farms, mechanization of fruit harvest in orchards, modern honey and bee products production facilities. Support in building and equipping innovative fruit and vegetable drying rooms and fruit and vegetable cold stores was also continued. Entrepreneurship in rural areas was developed using solar energy and energy-saving technologies.

The MFA transferred funds via the Solidarity Fund PL amounting to continue activities carried out by the ***Information Centre for Local Authorities*** in Moldova. The Centre carried out consulting and training activities that strengthened local leaders, local and central authorities in the area of democratization, local government and regional development and ensured financing of projects carried out by Moldovan local authorities in cooperation with NGOs and civic initiative groups. The Centre also engaged in supporting the implementation of project by the Ministry of Investment and Economic Development that concerned a system of urban regeneration. The Centre's participation in the project consisted in: substantive support and coordination of cooperation between the Ministry of Agriculture, Regional Development and the Environment of the Republic of Moldova with local partners; organizational support of activities carried out in Moldova (training courses, expert missions, conferences); coordinating the work of the local group for the implementation of regeneration in selected Moldovan cities and co-financing pilot regeneration projects.

As part the ongoing ***Eastern Partnership Public Administration Academy program*** five representatives of the Moldovan administration took part in training courses on the implementation of Deep and Comprehensive Free Trade Agreements (DCFTA) in the area of agriculture and trade in agro-food products, and three persons participated in civil service internships. [8]

II. MAIN POSSIBLE EFFECTS IN CASE OF REFUSAL OF FOREIGN AID THROUGH THE EYES OF THE REPUBLIC OF MOLDOVA

Today, a large number of low-income and middle-income countries recourse to foreign financial aid in order to develop economically and socially, but not all of them comply with the requirements for being eligible to receive this financial aid. In such direction, aid conditionality as one of the elements and mechanisms of the lending process raised many questions about its concept and especially its effects (more positive or more negative). However, it is still considered to be one of the best monitoring instruments used by the international financial bodies to enhance the economic and social development of the recipient countries, despite the fact that this influence has many negative impacts.

Generally speaking, the Republic of Moldova should improve, consolidate and strengthen the efficiency and equity of its public spending, in particular through better management of public capital investments, which are crucially important for higher growth. Administrative and judicial reforms remain a challenge for improving public sector governance, which is a precondition for European integration and economic modernization.

The government of the Republic of Moldova has to forget the word "*stability*" in foreign aid inflow, until it will achieve positive changes in the level of economic and social development of the country. Stability for Moldova in the present situation equates with persistence of high outflow of work force/loss of citizens, corruption, human trafficking, weak economy, political uncertainty and impoverished population. Most suitable term that will outline Moldova's future development and rise is linked to the *changes*, managed in all fields of the socio-economic life, and first of all in the role which government plays in national economy that should become an active, interventionist one.

The conditionality assistance as the foundation of the aid agreements must be strongly revised and reformed, in accordance with the existing countries' experiences in order to be treated as a benefic mechanism both by the donor and the recipient countries. As being a quite new mechanism and proceeding from the fact that the national governments started to be more disciplined, we think it is possible to optimize this instrument and to continue the main purpose of it: to grow the international level of population's welfare. [9]

The majority of donor monitoring and evaluation instruments use a project-by-project or program-by-program approach. Nevertheless, there is still no comprehensive toolbox for assessing development aid effectiveness in the medium- and long-term. It is important to multiply positive effects and concentrate on areas with lower levels of aid effectiveness. This would entail strategic planning and a full review of policy approaches at the country level. As the evidence indicates, the dichotomy between aid commitments and projects on the one hand and aid disbursements on the other, reveal the urgent need to review the strategic approach toward development aid, particularly when it comes to methods and channels of aid disbursement. The EU is one of the main central government donors in Moldova. Bilateral donors focused on local development aid have produced better results. Academic literature and international aid policy experience show that direct developmental support and aid decentralization toward the regional, local, and community levels tend to generate higher levels of socio-economic development. But this approach has to be combined with new monitoring tools, thereby ensuring a rise in the quality and quantity of local civic organizations. Furthermore, aid projects should be seen as *capacity-enhancing mechanisms* that involve the local bureaucracy in the development process and produce socio-economic outcomes in line with the economic strategy and social welfare needs of the population of the respective districts.

Policy recommendations would include therefore the following points:

▪ *Thorough review of aid distribution channels and monitoring instruments.* A significant share of development aid flows should arrive at the local level. The monitoring of aid distribution at the local level should involve civil society institutions.

▪ *Decentralization of monitoring and management structures* of EU aid projects at the local level. This would reduce the rent-seeking incentives of central bureaucrats, minimize the expected payoff from corrupt practices, and utilize existing bureaucratic structures for purposes of capacity building. Joint EU-Moldovan bodies would then monitor the stages of project implementation by EU-Moldovan consortia, whose financial accounts would be located in European banks.

▪ *The Europeanization* of the lower and middle levels of the Moldovan civil service, particularly in the Southern districts of the country, which – with the exception of Gagauzia – are consistent underperformers both in the attraction of EU funds and general indicators of economic growth and human development. EU development aid should expand rather than undermine state capacity, and this can be possible only with the strengthening of Moldova's economic bureaucracy at the local level.

▪ *Empowering Moldovan civil society and giving it a competitive edge.* The active involvement of Moldovan civil society is key; it raises informational asymmetries for European business and civil society partners, giving local actors a leg up, and allows for the emergence of win-win policy scenarios and, eventually, situations where the long-run economic development of the country is backed up by a competitive "fringe" of EU-oriented civic organizations that do not interfere with but rather complement state functions. That way politics stays out of the immediate EU-Moldovan negotiations, and everybody becomes better off.

▪ *Flexible and efficient donor oversight* of aid project implementation, which necessitates a higher degree of institutional involvement in the recipient economy. It requires EU institutions to be actively involved in Moldovan universities and the promotion of start-up entrepreneurship, as well as in partnerships and financing instruments that link EU small and medium entrepreneurs with possible Moldovan partners. The creation of synergetic structures between economy and society would only enhance the long-run impact of EU development aid projects. [10]

To continue the idea about the effects of foreign aid for the Republic of Moldova, let us emphasize our attention on the following thought: it might be strange at a glance to admit the fact that foreign aid, assistance, inflows of capital and technological knowledge may bring more harm than good, and this is the opposite side of the coin which is proposed to be developed further.

Aid fungibility occurs when the recipient uses the aid for purposes other than what the donor intended or when donor aid substitutes for government funding. Fungibility occurs when the recipient government decreases its contribution to a project or program as a result of external funding. If a donor allocates foreign aid to build a hospital, the recipient government can redirect the funds it had intended to use to build that hospital to other projects. Foreign aid, then, frees up government revenue for spending in other sectors, such as the military, nonproductive government consumption for prestige projects, or tax reductions for the wealthy. Collier and Hoeffler in 2007 reported that around 40% of African military spending is financed by OECD aid because of aid fungibility. This does not include outright military aid or aid that is provided to the government for general budget funds. Donors that are concerned about the recipient using the aid for purposes it was not provided for can choose to fund project aid (that is, specific investment loans for funding sanitation infrastructure or building a clinic, for example) [13] over programmatic aid (budgetary support funds). Morrison in 2012 notes that "there is little doubt that project-based aid is meant to reduce the discretion of recipient countries in terms of how to spend the money". In corrupt, poorly governed, or fragile states, donors will bypass recipient state institutions and disperse their aid

through nonstate development partners, reducing the ability of central governments to divert funds. However, Briggs in 2014 suggests that donors may use the fungibility of aid to accomplish foreign policy objectives; for example, if the donor's citizens would not approve of their government's support of an authoritarian regime, the donor could "turn a blind eye to fungibility if they wished to support a recipient leader". Indeed, Licht shows that donors were more likely to allocate aid to incumbent leaders if they faced an elevated risk of losing power. [11]

For example, the United States' bilateral economic assistance includes the category of Economic Support Funds (ESF). ESF funding, although officially listed as economic aid, is generally recognized as military assistance since it is used to financially support those countries considered politically and strategically important to the United States' security interests. The US executive branch favors ESF since, as economic aid, it avoids the public debate and congressional challenges associated with the granting of military aid to authoritarian countries or those that abuse human rights. The ESF program is financial assistance for budget support that allows recipient countries to use their own resources to build up their defense infrastructures. It also includes the sale or grant of U.S. military arms and equipment. According to Tarnoff and Lawson, 56% of ESF funding went to Egypt, the West Bank, Jordan, Afghanistan, and Pakistan in 2015.

In spite of the trillions of dollars provided by foreign aid donors over the last years, global economic inequality persists and countries remain underdeveloped, both economically and politically. Yet though the level of aid transfers varies from year to year, depending on budgetary crises and global need, foreign aid is not going away. Funding foreign aid with conditionality's can be used to enhance national security, further economic and political interests, and ultimately empower the citizenry of Moldova. However, with the growth of nontraditional donors and their resistance to imposing the conditionality's of democracy and human rights on their lending, foreign aid may be further reduced to the crass, self-interested motivations of commercial or political interests. Given the differences over the motivations for providing foreign aid, it is hardly surprising that questions of whether aid has a future need to be asked and answered. [12]

By another perspective, foreign aid and investments still remains *a politically linked issue*. Vladimir Golovatyuk, MP from the Party of Socialists, said that while the European Union refused to provide financial assistance at the end of June, the IMF and various structures of the World Bank highly assessed implementation of reforms in our country and decided to allocate the next tranches of loans and grants. At the end of June, 22.5 million dollars were received and in July 40.4 million dollars. "What does it mean; one part of the West refuses to provide assistance, the other gives! It's simple: the EU and the United States play, so to speak, a bad and a good policeman. Secondly, we should not forget that this year is a pre-election one, and the government does and will do everything to somehow attract the voters, that is raising salaries, allowances, repair roads, schools, etc., and this requires money. Let me remind you that in the approved state budget for 2018, about 30% external loans and grants are. Even after a budget change, their volume is excessive. Absence of money is fraught with non-execution of the budget, on spending on the social sphere, and this, on the eve of elections, is so dangerous! Therefore, the West supported and will support the Moldovan authorities!" - The expert is sure. Golovatyuk noted that in general for 7 months of 2018, the government and the National Bank received \$120 million of external loans and grants, against \$102 million a year ago. It is characteristic that 80% of the currency resources received in 2018 came in June and July. Moreover, in the first two months of the summer in 2018, a total of \$96 million was received, which is eight times more than a year ago.

"Money, for the most part, goes to current consumption, the country does not develop. Credits and grants come, debts grow, but there is no development. There are so many problems - economic,

socio-demographic, and territorial - and they are so deep that it is not enough to solve by all foreign earnings, including from labor migrants, without a serious economic breakthrough. And they have no time to seriously deal with the economy, and the goals of this power are different! Therefore, the authorities are engaged in cosmetic repairs, to put it mildly, but in essence "buy" the voter, and the West helps and will help in this. Otherwise, there will be a radical change of power. And it is good, if to replace Plahotniuc by Sandu with Nastase. And if Dodon with the Socialists win?! It's like a terrible dream. This will mean that nine years and billions of injections into Moldova were in vain. They will not agree!" – the expert noted.

In light of *economic sight*, strengthening businesses, developing digital economies and building relations between entrepreneurs from the European Union and its Eastern partner countries are at the heart of the discussions at the 4th Eastern Partnership (EaP) Business Forum in Estonia on 26-27 October 2017.

The event brings together more than 450 business leaders, politicians and government officials from Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova, Ukraine and the EU Member States. It is one of the key side events being held in preparation for the 5th *EaP Summit* that took place in Brussels on 24 November 2017.

In the Republic of Moldova, the EU assists companies with (1) funding, (2) training, and (3) export support to new markets through the EU4Business initiative. Since 2009, 3.9 billion MDL (€190.5 million) has been provided in total for 5,000 Moldovan companies. [13]

What kind of *EU support is available for Moldovan businesses?*

I. Access to finance:

- Supporting loans in local currency
- Finance for export-related investments
- Finance for buying or upgrading equipment
- Loans to the wine industry
- Micro credits for setting up or developing a small business

II. Stronger business skills:

- Tailored advisory services and technical support to companies – human resources, IT, management structures, business models, etc.
- Training programs to improve skills of entrepreneurs in key areas
- Tailored training and mentoring for women entrepreneurs

III. Better access to new markets:

- Business advice and training for export-oriented companies
- Help for companies to adapt and trade with the EU
- Support to agricultural and food industries to take advantage of EU markets. [14]

Possible Effects for the Republic of Moldova

In this order of ideas, possible effects and consequences in case if Moldova will refuse foreign aid is underlined firstly encourage of *'rent seeking' behavior or government corruption*. *Bribes, taxes, cuts, appropriations*, all of these would impose a negative impact on resources distribution, which is essential in promoting Moldova's comparative advantage, a decisive factor in formulating trade policies. The World Bank reported that the chances for malfeasances have been greatly increased due to the rapid growth of foreign currencies, which were mainly through concessional flows.

Next common effect of the refuse of foreign aid that may undermine trade is *'Dutch Disease'*, which originally means the negative effects come along with the increasing exports of natural resources,

such as fertile soil speaking about Moldova. Broadly speaking, this terminology also refers to other forms of obtains similar to the discovery of natural resources, such as remittance or foreign aid. Basically, no matter what kind of aid it is, more foreign aid means more foreign currency inflows. This would make the domestic products more expensive, suggesting higher real exchange rate and overall decrease of export sector. In other words, the 'terms of trade' of this country get deteriorated. Another symptom of 'Dutch Disease' is that the industries which get assisted would attract more labor or capital from other industries. This would directly increase other industries' production cost and squeeze their profits, making the whole country's trade environment get worse.

The third side effect of aid on trade is that it may be utilized as a channel for the donor countries to get a better control of the recipient countries' markets, which would weaken the recipient countries' independence on trade. One typical type aid of this is '*tied aid*', including aid tied with source and aid tied with project. The source tied aid requires that the loans or grants received can only be used to purchase the goods or services from the donor country. One consequence is that this would make the purchase prices even higher as the money is requested to be used in a specific way

Another aid's effect that might hurt trade is '*expenditure switching*', which basically means that the resources would flow out from the productive activities to the aid-based activities. Firstly, for the government, as it would put the money on the areas which are more easily to get donor countries' aid, or which are more comply with the donor countries' benefits. By doing this, the rare and valuable resources, like capital, materials, labor would be invested in those less critical projects. Also, the private businesses would adjust their development strategies following the governments' policy changes and the international economic outlook. [15]

Finally, for valuable labors-talents, highly-skilled workers, entrepreneurs would highly likely to change their career plans, flowing into those lucrative areas. All in all, every layer of the society might just tend to chase the short-term profits coming along with aid, sacrificing opportunities in enhancing their trade leverage in long run.

CONCLUSIONS

To draw conclusions, it is significantly important to remember and highlight again the following ideas:

- *External grants and loans account for 18% in the structure of national public budget of Moldova*
- *The image of the country may be affected dramatically*
- *Political and Economic aspects of the dilemma.*

Let us first focus our attention to the EU assistance to Moldova supports the objectives of the EU-Moldova Association Agreement and the 20 Deliverables for 2020. It is linked to the country's reform commitments under the Association Agreement. It aims at improving the quality of life of ordinary Moldovans in a tangible and visible manner, strengthening the rule of law, as well as improving the business climate, with a view to reaping the benefits from the DCFTA (Deep and comprehensive free trade area), and supporting greater connectivity between Moldova and the EU in the areas of energy and transport. The European Neighborhood Instrument (ENI) is the EU financial instrument dedicated to the Neighborhood for the period 2014-2020. It replaces the European Neighborhood and Partnership Instrument (ENPI) of 2007-2013. Other possible funding sources are the thematic programs, focused on human rights and civil society and the macro-financial assistance.

EU assistance to Moldova takes mainly the form of country Action Programs funded every year under the ENI. Moldova benefits also from regional and multi-country Action Programs funded under the ENI.

The European Union adopted the new EU multiannual programming document for the period 2017-2020 (Single Support Framework). It is based on the Eastern Partnership priorities to achieve a: 1) stronger economy, 2) stronger governance, 3) stronger connectivity and 4) stronger society. In addition, it includes horizontal support to civil society, strategic communication, and capacity development/institution building. [16]

EU assistance is based on strict conditionality, and is linked to the satisfactory progress in reforms and the respect of the rule of law, effective democratic mechanisms and human rights. A number of worrying developments in 2018 have pointed to a deterioration of the rule of law and democracy in Moldova.

In light of this deterioration, and in line with the principle of strict conditionality, the European Commission has taken the decision to recalibrate its financial assistance and redirect support to projects that have a direct, positive impact on Moldovan citizens. Payments under the EU budget support program have also been put on hold, pending tangible progress on the respect of the rule of law and democratic principles.

Therefore, under the annual action program for 2017, a total of €56 million has been allocated to projects in the following areas:

- support to citizens' empowerment to engage in local decision making and participatory budgeting,
- support to increase access to finance in local currency for SMEs and start-ups,
- support to strategic communication and independent media,
- infrastructure project to build the electricity interconnection between Romania and Moldova,
- assistance to the Moldova-Ukraine border mission (EUBAM) with a special focus on Transnistrian conflict settlement.

Under the annual action program for 2018, a total of € 50.75 million has been allocated to the following areas:

- the inclusive socio-economic development of two focal regions (districts of Cahul and Ungheni),
- the peaceful settlement of the Transnistrian conflict through the support of confidence building measures between the two banks of the Nistru river,
- strengthening the rule of law and anti-corruption mechanisms such as the systems of asset declaration and asset recovery,
- support to the gender mainstreaming in local policies and the fight against gender-based violence,
- support to the international exchanges of Moldovan students through the Erasmus + programme and to mobility opportunities for European researchers.

Moldova also benefits from regional programs for the Eastern Partnership region, supporting SMEs, energy, transport, environment, access to finance, growth as well as the overall business environment. Moldova also participates in Cross Border Cooperation (CBC) programs such as the Black Sea Program, the Romania-Ukraine-Moldova ENPI Land-Border Program, and the Danube Transnational Programme. [17]

In addition to the ENI, Moldova is eligible for funding under the EU thematic programs: the European Instrument for Democracy and Human Rights, Instrument contributing to Stability and Peace, Civil Society Organizations and Local Authorities, Human Development and Migration & Asylum.

As a general overview and main point, the Republic of Moldova might decrease the international aid flows gradually, in order to not cause harm and unpredictable consequences. Still, until it takes considerable share in counties GDP, it might be problematic, but this measures will bring fructuous and consistent result in long term perspective, as Moldova will reanimate the chance to improve its international reputation. Although, it is premature to speak about its full rehabilitation within other major players, the country may opt for another important and effective way – investments. International companies will look with reliability and respect towards the country, which has reached independently better living conditions, higher per capita income, greater economic indicators, business development, government transparency and high standards, so they might look with a very positive opinion under the increase of investments which will just improve the situation without any unfavorable or restrictive conditions.

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