Facilitating mobility and linkages between innovation stakeholders is important for sustainable, long-term growth in the Republic of Moldova, according to new UNECE study.

The Republic of Moldova, like the other five countries in Eastern Europe and the South Caucasus (EESC) - Armenia, Azerbaijan, Belarus, Georgia, and Ukraine - has grown rapidly following a rocky and difficult transition from a centrally planned to a market economy over the past decades. This momentum, however, is slowing across the sub-region as current growth drivers wane and countries must sustain and ramp up governance and market reforms. Overreliance on remittances, a narrow range of commodity exports, and private and public debt, rising sharply in response to the economic and social effects of the COVID-19 pandemic, leave the region exposed to external shocks. The pandemic alone may trigger a decline in Gross Domestic product (GDP) of up to 4.5 per cent in the Republic of Moldova in 2020, according to a recent estimate by the International Monetary Fund.

The new *Innovation Policy Outlook (IPO)* of the United Nations Economic Commission for Europe (UNECE) reviews and compares innovation performance and governance across the EESC sub-region. Complementing quantitative composite indices, the IPO compares innovation ecosystems in six countries with similar economic, structural, legacy and institutional features, challenges, and opportunities. It is an essential part of UNECE support for trade and economic cooperation among its member States.

Macroeconomic instability due to heavy reliance on volatile flows of remittances for growth, low productivity in the private sector, including among Small and Medium-sized Enterprises (SMEs), compounded by a mounting fiscal deficit and deindustrialization, undermine the long-term prospects for the Moldovan economy.

Trying out new ideas, or innovation, systematically will be vital to forge a solid, diversified and well-integrated foundation for long-term sustainable development in the Republic of Moldova. With its ready access to markets in the European Union and the Commonwealth of Independent States, the country has started to reap benefits from economic integration, with several competitive sectors emerging, including automotive supplies. As the IPO shows, innovation potential lies in the country's human capital. The Republic of Moldova maintains several islands of research excellence in physics, chemistry and nanotechnology and the scope of international research cooperation is extensive. It also has strong historical linkages with countries that have long scientific and technological traditions and it maintains cooperative efforts with countries in the Commonwealth of Independent States on a number of joint research projects. For example, Moldovan and foreign scientists do research together at the Joint Institute for Nuclear Research in Dubna.

Recognizing this potential for innovation, the Republic of Moldova has taken several important steps to reform innovation governance over the past years. These include:

- **The Government shows strong commitment to reforming the national science and innovation system.** The recently adopted National Programme for Research and Innovation for 2020-2023 unifies previously fragmented policy areas and has an action plan that defines subsequent steps for achieving innovation policy objectives. The programme aligns with other overarching policy objectives anchored in strategic documents on education, SMEs and industrial development.
- **Various mechanisms to promote knowledge transfer and innovation are available.** The Organization for Small and Medium-sized Entrepreneurship (ODIMM), a dedicated SMEs development agency supports businesses through programmes and services aimed at strengthening entrepreneurship and competitiveness. A wide range of business plan and start-up competitions supports the growing start-up movement and fosters innovative entrepreneurship. Fiscal incentives applied in the Information Technology sector create a favourable business environment and stimulate demand for new technologies and sectoral growth.
- **Legal frameworks for public-private dialogue and inter-ministerial consultation on draft policies are in place.** Through advocacy and lobbying strategies, business associations also have a growing voice in policy design.

Enabling and promoting innovation also involves tackling a range of systemic constraints in the economy. To transform the human capital into a knowledge-based economy, the country must address the low demand for innovation and increase funding for research and development activities. A mismatch between educational outputs and job-relevant skills and low engagement of the private sector in Research and Development (R&D) obstruct commercialization efforts of innovative results.

The IPO points to three important areas to address:

- **Legal and institutional frameworks related to research and innovation lack important elements.** Legislative gaps persist as laws on Foreign Direct Investment, venture capital investment and spin-offs are missing, and regional innovation strategies are not available.
- **Mechanisms to enable and catalyse linkages between science and business are underdeveloped.** Limited synergies between business and science impede research commercialization and business-academia collaboration is not sufficiently supported through joint projects or structured interactions and sustainable partnerships. These weak linkages are compounded by emigration, resulting in the decreasing number of researchers, thus reducing the pool of entrepreneurial talent in the country.
- **Monitoring and evaluation of policies and instruments are underdeveloped and do not have a meaningful, systematic role in the policymaking cycle.** The lack of systematic application of monitoring mechanisms hampers the quality and effectiveness of interventions. The rare monitoring and evaluation practices in the Government that do exist are focused on output indicators, rather than outcome and impact.

In this spirit, recommendations of the IPO for the Republic of Moldova include:

- **Fill legislative gaps by strengthening innovation laws and regulations.** Adopt regulation on FDI, venture capital investment and spin-offs to support innovations in the business sector. Integrate a science and innovation policy dimension into the design of regional policies and ensure regional authorities obtain all necessary competences to successfully steer science and innovation policy initiatives.
- **Strengthen the collaboration between academia and the private sector.** Expand the mix of policies supporting industry-science linkages to include matching services and adopt policy measures to stimulate industry-science mobility in line with set commitments, such as sabbatical leaves for professors or joint training programmes. Incentivise higher education enrolments in the fields of Sciences, Technology, Engineering and Mathematics (STEM) and related disciplines and expand career funding instruments, such as excellence and mobility grants or professional fellowships.
- **Adopt more systemic linkage of monitoring and evaluation practices to policy design, including in government bodies responsible for innovation policy.** Streamline and implement impact assessment mechanisms systematically to enhance the quality of the flow and stock of laws and policies. Guarantee that at least every large programme or initiative is supported by a scientific formative evaluation or ex-ante as an impact assessment.

UNECE is currently developing the Innovation for Sustainable Development Review for the Republic of Moldova, which will complement the findings and recommendations of the IPO and strengthen capacity building activities for innovation in the country.