BTI 2020 Country Report

Moldova

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on 1-10 scale out of 137
This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2020. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at https://www.bti-project.org.


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Executive Summary

In 2016, Vlad Plahotniuc, an oligarch and the richest man in Moldova, leader of the ruling, nominally pro-European Democratic Party, became the most powerful player in Moldovan politics and business. However, despite his broad influence, he remains unpopular. Therefore, he has been forced to work with Igor Dodon, nominally a member of the opposition and Moldova’s pro-Russian president, who enjoys a high level of public trust, as well as with the socialist party (PSRM), which stands behind Dodon. Both politicians have created a particular system of government that resembles a political cartel. The parties, which comprise the government, are conducting a largely superficial ideological-political struggle, which stirs up public emotions, and consolidates electoral support around the pro-Western and the pro-Russian camps. The dominant role in the tandem is played by Plahotniuc, as he controls the government and the parliamentary majority, and is also the main beneficiary of the current system.

The consolidation of the oligarchic model of power has had a negative impact on the state of Moldovan democracy. The current ruling elite is determined to retain power and therefore does not hesitate to violate democratic principles, such as elections. One of the most recent examples (though not the only one) was the overturning of the snap election results for the mayor of Chișinău (won by an opposition leader) in June 2018. Due to the increasingly undemocratic nature of the Moldovan government, relations with Western partners (especially the European Union) have deteriorated dramatically over the past two years. Shortly after the elections in Chișinău were annulled, the European Union froze its €100 million macro-financial assistance to Moldova. Therefore, due to political and financial reasons, in recent months the authorities in Chișinău have sought closer relations with authoritarian states such as Turkey.

In 2017, the Moldovan economy stabilized after a serious crisis in 2014 to 2015. In 2017, GDP grew by 4.5% to $8.13 billion. The upward trend continued in 2018. The stabilization of the economic situation and the DCFTA agreement contributed to a marked increase in exports, particularly to EU member states. In 2017, EU member states received 66% of Moldova’s exports.
At the end of 2017, exports to Russia rose for the first time since 2012. The inflow of remittances, which fell from a little over $1.6 billion in 2014 to only $1.079 billion in 2016, started to rise again in 2017. At the same time, the net inflow of foreign direct investment remains rather low. The social situation in the country remains bad as demonstrated by the high emigration rate. As many as 15% to 25% of Moldovans currently work abroad, which represents up to 40% of the working-age population.

History and Characteristics of Transformation

As with many Commonwealth of Independent States member states, questions of nationhood and statehood were strongly disputed at the beginning of the transition period. During the late perestroika period, the pro-Romanian faction supported reunification with Moldova’s western neighbor and gained dominance in Moldovan politics. This led to the formation of an opposition supported by Russia in the eastern (Transnistria) and southern (Gagauzia) parts of the country that culminated in secession movements. The secession of the two regions in 1990 and especially of highly industrialized Transnistria, located on strategic trade and transport routes, led to conflict in 1992. The armed conflict was between Moldovan government forces and Transnistrian volunteers supported by Russian troops stationed in the region. After five months of fighting Chisinau’s forces were defeated, and Moldova de facto lost control over Transnistria and signed a cease-fire agreement with Russia, which also showed who the belligerent sides were. While the conflict with the Gagauz minority was resolved in 1994 by an internationally praised autonomy arrangement, the Transnistrian issue remains unresolved.

The secession of the highly industrialized Transnistria region, which had accounted for 40% of Moldavian SSR’s GDP, delivered a severe blow to the Moldovan economy. The economy had already been weakened by the disintegration of the Soviet Union. The absence of natural resources, and competitive agricultural and industrial products further worsened the situation. Between 1990 and 1992, the GDP of the newly independent state shrank by as much as 35% and the downward trend continued for the next few years. Economic growth was restored only after the government of Prime Minister Ion Sturza took office in 1999 and initiated necessary reforms.

However, the communists, who won power in Moldova in 2001, were not at all interested in large-scale economic liberalization. The situation started to change in 2009 when the group of pro-European parties formed a government and initiated a broad program of pro-European reforms. The coalition government signed an association agreement with the European Union and introduced Moldova into the Deep and Comprehensive Free Trade Area (DCFTA) in 2014. As it turned out, however, many reforms existed only on paper.

Ideological debates concerning nationhood and statehood, and geopolitical affiliation remain a central point of Moldovan politics. These debates have polarized the population and led to the postponement of economic reforms. The dominance of such issues in the public debate facilitated the emergence of a populist political elite that lacks the necessary managerial skills to conduct
much-needed reforms and is instead focused on personal enrichment. In November 2014, it was revealed that around $1 billion had been fraudulently siphoned off from the country’s banking system. The country’s leading politicians knew about the situation and some of them had been involved in the embezzlement.

Meanwhile, the rivalry for control of the state apparatus between Vlad Filat and Vlad Plahotniuc, the two most powerful oligarchs in Moldova and leaders of the main pro-European coalition parties, entered a decisive phase. The conflict ended abruptly on October 15, 2015, when Filat was arrested on charges of corruption and involvement in the banking scandal. Since then Plahotniuc, leader of the ruling, nominally pro-European Democratic Party, has been the key decision-maker in Moldovan politics and business.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Moldovan authorities exercise control over the vast majority of the country’s constitutional territory. However, areas situated on the left bank of the Dniester river (including the cities of Tiraspol and Ribnița) and certain territories lying on the right bank (including the city of Bender) remain an exception. This area, known as Transnistrian Moldavian Republic (PMR) or Transnistria was established in 1990 after a brief war between the Moldovan constitutional authorities and Russian forces. Although it has not been internationally recognized, Transnistria is a de facto independent state with its own police, armed forces and secret service. Those formations, together with the Russian military stationing about 1,500 troops in the region, allow local authorities to maintain a complete monopoly on the use of force over the territory of PMR. Despite the almost complete subordination of territories on the left bank of the Dniester river to the separatists, the government of Moldova still exercises control (contested by Transnistria) over several smaller villages in the Dubasari region.

Since the establishment of Transnistria, its existence made it impossible for Moldova to exercise control over the 400-kilometer-long section of its eastern border with Ukraine. However, in July 2017, authorities in Chisinau and Kiev launched the first joint control checkpoint on the Transnistrian section of the common border (exclusively on the Ukrainian side). Joint control, which allows Moldovan customs officers to control freight traffic, is carried out on the Kuchurgan-Pervomaysk border crossing, which is the most important checkpoint between Odessa, Tiraspol and Chisinau. About 70% of Transnistrian foreign trade passes through it. Additionally, in December 2017, Moldovan and Ukrainian border guards began joint patrols of the Transnistrian section of the common border. In April 2018, Chisinau and Tiraspol signed an agreement, according to which it became possible to issue so-called neutral license plates for motor vehicles from Transnistria allowing them to participate in
international road traffic. Thanks to this agreement Moldova gained access to information on a significant proportion of vehicles registered in the separatist region.

Moldova’s society lacks consensus regarding a civic and ethnic-based definition of the Moldovan nation-state. Certain parts of the population (including Russian-speaking minorities) and political parties (left and center-left) support the so-called Moldovenism, which firmly highlights the separateness of Moldovans and Romanians. Proponents of this approach (including President Igor Dodon) advocate a multiethnic civic state in which a special role for Russian, as a language of interethic communication, would be secured. On the other hand, a considerable proportion of Moldovans (mostly ethnic Moldovans and Moldovan Romanians) as well as right and center-right parties support a more ethnic-based view, according to which Moldovan statehood should be based on the titular nation, with a dominant role for the Romanian language and culture. Although these groups differ in their views, they are mostly consistent as to the issue of preserving the Moldovan statehood.

Marginal political parties and organizations in Moldova advocate the unification of Moldova and Romania. For a long time, the number of supporters of unification remained stable at between 10% and 15% of the population. In 2015 and 2016, however, this idea started to gain popularity. In 2018, 24% of Moldovans declared that they would support unification. At the same time, about 32% of Moldovans declared support for the incorporation of the country into Russia. Both trends (which imply dismantling Moldovan statehood) are to a large extent the result of growing disillusionment with the political class and of the bad economic situation.

Between 1991 and 2013, the number of Moldovans holding Romanian passports increased to between 400,000 and 500,000. Applying for Romanian citizenship is perceived by most Moldovans as a pragmatic (rather than an ideological) step that allows them to travel and work freely within the European Union.

According to its constitution, Moldova is a secular state that provides full freedom of religious practice. Churches and religious associations do not play an official role in the national political system or lawmaking process. In reality, however, because of the traditional conservatism of the Moldovan population (95% of which associate with the Orthodox Church), Moldovan politicians often highlight their religiosity and seek the support of the clergy. This applies, among others, to pro-Russian, conservative political forces (Orthodoxy is seen as a mainstay of Russian influence in the region) and in particular to President Igor Dodon, who positions himself as a defender of traditional Christian values.

Pro-Russian politician Dodon is also the main supporter of the Metropolitanate of Chisinau and all Moldova (MOC), who is a subordinated to the Moscow Patriarchate. Yet, the MOC competes with the Metropolitanate of Bessarabia, who is subordinated to the Bucharest Patriarchate, for influence in the republic. In October 2018,
following the decision of the Ecumenical Patriarchate in Constantinople to grant the Ukrainian church autocephaly, Dodon openly stated that Moldova “will remain the canonical territory of the Moscow Patriarchate.” In turn, Orthodox dignitaries traditionally engage in election campaigns. For example, in 2016, MOC publicly supported the candidacy of Dodon for president, emphasizing his religious devotion to Christian values. At the same time, some Orthodox notables officially criticized the main opponent of Dodon, Maia Sandu, inter alia for her alleged anti-Orthodox activity. During the campaign, Marchel, Bishop of Bălți and Făleşti, stated that “Christians do not have the moral right to vote for Sandu.” Sandu filed a lawsuit against Marchel for defamation but it was rejected by the courts several times. MOC plays a dominant role in the country as it includes about 80% of Moldovans, while a minority (about 20%) identify with the Metropolitanate of Bessarabia.

Moldovan state administration structures are firmly established across the country with the exception of Transnistria. The Moldovan administration is split into three levels: central (national), regional (so-called rayons) and local. Unfortunately, in many fields its efficiency (especially in the rural areas) remains limited due to the lack of funding and quality staff, and high levels of corruption and impunity. According to the National Bureau of Statistics, in 2017 about 54.2% of the total population of the country was connected to the water supply network and only 23.1% of the population (just 2.3% in rural areas) was connected to a sewage system. However, many of the existing systems are obsolete and require immediate renovation. The situation is improving and serious renovations are taking place with the support of external partners. An important role in providing support for the development of local infrastructure is provided by the Social Investment Fund.

The Moldovan authorities have initiated a number of reforms that aim to improve local administration. Among others, in 2015, new regulations on local public finances entered into force (local authorities retain now 75% of the personal income tax collected at the local level) and a National Council on Public Administration chaired by the prime minister was established. Unfortunately, the effectiveness of these steps has been limited due to the lack of sufficient funding and political will, and corruption. Local administration remains highly dependent on Chisinau, both politically and financially. This is caused, among others, by the very small size of administrative units. Authorities are not interested in changing the situation as the current model gives them an opportunity to install their cronies “in the field,” who can work as both agitators and facilitators in elections at the local level.
2 | Political Participation

According to the constitution, elections to the Moldovan parliament and local authorities are universal, conducted with a secret ballot, and they are held regularly. Citizens can choose from a range of political parties and candidates, and political posts are filled according to the voting results. In practice, however, a number of issues raise serious concerns. Access to the media for opposition groups is limited, as the better part of the media is dominated by ruling groups. Moreover, in recent years, the authorities have shown an increasing readiness to influence or change election results if they are unfavorable for the ruling elite.

For example, on June 19, 2018, the Chișinău District Court declared the snap elections for the position of mayor of the Moldovan capital, which was won by Andrei Nastase, the candidate of the anti-system opposition, invalid. The court stated that Nastase had violated the electoral silence when he called on citizens to vote on election day. It seems highly likely that the verdict was issued at the request of the ruling majority controlled by the oligarch Vlad Plahotniuc. Earlier, on July 20, 2017, the Moldovan parliament approved a highly controversial transition from a proportional to a mixed electoral system, implemented to favor the governing party of Vlad Plahotniuc and the socialists in the upcoming parliamentary elections (February 2019).

Democratically elected political representatives have limited power to govern due to the increasing influence of informal forms of governance. Political and business interest groups play a crucial role in legislative and government decision-making processes. Political representatives (on local and central levels) tend to abuse their political offices in order to protect their business interests. On the other hand, there are groups that are de facto shaping the policy of the country but have little or no legitimacy to rule. For example, the leader and sponsor of the ruling Democratic Party, oligarch Vlad Plahotniuc (even though he does not hold any official state position) is reportedly directly controlling Prime Minister Pavel Filip. Thanks to defections from other parties (likely motivated by corruption or pressure), until the February 2019 elections, the Democrats formed the largest faction in parliament (42 members out of 101), despite the fact that they had gained only 15.8% of the votes in the 2014 elections and originally had 19 mandates. Furthermore, Plahotniuc managed to subordinate a number of other deputies, which gave him a parliamentary majority.

Additionally, thanks to a Constitutional Court decision in October 2017, the government assumed the right to suspend the legally elected president if he refuses to appoint ministerial candidates approved by the parliament or he twice refuses to sign laws that have been adopted by the parliament. In such situations, until the contested acts have been signed, the role of the president will be assumed by the
prime minister or the speaker of parliament (both allegedly trusted subordinates of Plahotniuc). This solution has already been applied a few times since October 2017.

It also appears as if some Moldovan politicians (e.g., the pro-Russian president, Igor Dodon) seem to be under the influence of external actors.

Freedom of association and assembly are guaranteed by several legal acts and government decisions including the constitution of the Republic of Moldova (Article 40). As a rule, this freedom is respected, as has been proven by a series of public demonstrations that have taken place in Moldova over recent years.

Yet, some negative trends can be observed since 2016 to 2017. People willing to participate in public demonstrations have been intimidated, especially people employed in the public sector (e.g., teachers or clerks). There have also been attempts to restrict the participation of people from outside the capital. For example, on some protest days, bus and train connections with Chișinău were either suspended or their number was limited. Also, during the protest in Chișinău on September 17, 2017, the Moldovan police arrested (on dubious charges) the driver of a minivan who transported sound equipment for the demonstrators. In the run-up to the parliamentary elections of February 2019, cases of obstruction from state and non-state actors have intensified and become more systemic.

The Moldovan LGBT community also enjoys a formal right to assembly, but their parades and demonstrations always face aggressive counter-demonstrations organized by representatives of the Orthodox Church and conservative political parties, although police usually separate the two opposing groups. In May 2016 and again in April 2017, the Socialist Party introduced a new law aimed at “banning gay propaganda,” predicated on the Russian example. In both cases, the parliament refused to adopt the amendments, however.

Freedom of expression in Moldova is guaranteed by the constitution and legislation. Unfortunately, Moldova’s media remain heavily monopolized by the country’s major political and business groups. Around 70% to 80% of the media are under the control of Vlad Plahotniuc. The regulations introduced in 2015 forced him to formally cede two (out of five) of his TV channels to his trusted councilor, Oleg Cristal, but they obviously remained under his direct influence. Plahotniuc also directly or indirectly controls a number of radio stations, newspapers and news portals. The second, much smaller but still influential media group remains concentrated in the hands of Igor Dodon and the Socialist Party. Moreover, 70% of the advertising market is concentrated in the hands of the two groups mentioned above, which limits the development of independent media (which are largely depend on advertising revenue).

Several important negative developments in the field of media freedom have been observed in Moldova lately. Since March 2017, all TV and radio stations have been
obliged to broadcast at least eight hours of local content (produced by Moldovan companies) per day. This curbs opportunities for smaller broadcasters, which lack the financial resources to produce domestic content in such quantities. In 2018, a new Audiovisual Code was adopted which slightly amended the above-mentioned regulations (eight hours of domestic content broadcast obligation was preserved for private nationwide TV stations, but this requirement was reduced to four hours for regional broadcasters).

Independent journalists regularly report cases of persecution, stalking or direct threats from unknown offenders, presumably linked to government circles. Also, the Moldovan authorities have been trying to limit journalistic access to official sources. Media requests for access to sensitive public information are sometimes denied. Independent or openly anti-Plahotniuc media outlets (e.g., Ziarul de Garda or Jurnal TV) frequently face pressure and intimidation (e.g., threats of lawsuits) from state institutions.

3 | Rule of Law

Formally, since 2000, Moldova has been a parliamentary republic, where parliament and government are considerably stronger than the powers of the president. In reality, however, the political system in Moldova depends on the position and influence of key political actors. Between 2001 and 2009, President Vladimir Voronin (chairman of the ruling Party of Communists), was a key decision-maker with full control over the parliamentary majority and the government. After the election of Nicolae Timofti as president in 2012, the role of head of state became marginal, and power was returned to the government and parliament. In January 2016, Pavel Filip (Vlad Plahotniuc’s proxy) was appointed prime minister.

The judiciary in Moldova is prone to corruption and servility toward business and political groups. In recent years, a number of decisions taken by the Constitutional Court have proven to be politically motivated. Some of them have changed key elements of the Moldovan political system by omitting the classic legislative route and seriously disrupting the separation of powers. This body is widely perceived as being under the direct control of Vlad Plahotniuc. In 2018, Artur Reșetnicov (a member of parliament from Plahotniuc’s party) and Corneliu Gurin (a former prosecutor general responsible for the arrest of Plahotniuc’s main political opponent, Vlad Filat) were appointed as judges of the Constitutional Court, while Mihai Poalelungi (a judge widely considered to be loyal to Plahotniuc) became its president.

Since the election of Igor Dodon as president in November 2016, the ruling majority (controlled by Plahotniuc) has increasingly limited his legal powers (e.g., his veto right).
The judiciary remains one of the least reformed sectors in Moldova. It’s highly corrupt and servile toward the ruling political and business groups. Key justice institutions are to a large extent subordinated to one oligarch, Vlad Plahotniuc. The main positions in the justice system are filled in a nontransparent way with people loyal to the oligarch. The politicization of the judiciary is an instrument often used against Plahotniuc’s opponents. Investigations are initiated on a regular basis against not only politicians and businessmen, but also civil society activists and even human rights advocates.

The government has enforced the obedience of the judiciary using corruption, business and clan ties, and intimidation. For example, in April 2016, an unfounded investigation was initiated against Judge Dominica Manole after she ruled in favor of the anti-Plahotniuc opposition with regard to the Central Electoral Commission’s refusal to organize a constitutional referendum. As a result, Manole was dismissed on June 4, 2017 and on February 6, 2018, the Superior Council of Magistrates rejected her request for reinstatement.

Due to the lack of reform progress, the European Union, in October 2017, announced that it would not transfer any further funds to the Moldovan state budget to support reforms in the justice sector and froze a macro-financial assistance worth €100 million. By the end of 2017, the level of distrust toward the justice system among Moldovans reached 80%, and only 14% of the population considered judges and prosecutors to be independent.

Abuse of power by state officials remains one of the key problems in Moldova. Many public servants (regardless of rank) are either corrupted by influential business and political actors, or use their power to protect their own interests and enrich themselves. Despite the scale and intensity of this phenomenon, persecution and convictions of politicians and other officials (especially high-ranking public servants) are uncommon. Even where prosecutions occur, they are rarely motivated by the efficiency of justice but by political competition.

In May 2017, Dorin Chirtoaca, mayor of Chisinau (and vice-president of the Liberal Party), was arrested on suspicion of abuse of power related to the introduction of paid parking in the capital. Although these accusations seem to be justified, it is highly likely that his detention was an act of political punishment. At the same time, the investigation of a $1 billion bank fraud has been ineffective. The main people involved in the embezzlement scheme have so far escaped punishment. Ilan Shor, the businessman considered to be the main architect of the banking fraud scheme, was sentenced to 7.5 years in prison in June 2017. Yet, as of January 2019, he not only remains free (awaiting the Court of Appeal’s final ruling) but also politically active. It is alleged that this is the result of a deal between Shor and Plahotniuc (Filat was arrested and convicted because of Shor’s testimonies).
In October 2018, the controversial capital amnesty law entered into force. It allows any citizen of Moldova to legalize hidden assets by paying a fee of 3% of the declared value of the asset and avoid prosecution for tax evasion. It is widely believed that the new regulations enable the legalization of capital acquired through the abuse of power.

On the official level, Moldova is committed to respecting civil rights (which are codified by law). Yet in spite of positive developments in this regard over the recent years, fundamental freedoms are unfortunately still very often violated. This concerns the lack of fair trials, hate speech, the right to social protection and health care. Another problem concerns the conditions in Moldovan prisons and detention centers, which are poor. The authorities are not effectively ensuring access to qualified medical specialists for detainees with serious health problems. The right to a fair trial is also challenged, among other things, by the partiality of judges and corruption in the judiciary.

On September 6, 2018, the Moldovan Secret Services (SIS) detained and deported to Turkey seven teachers (Turkish citizens) working in the “Orizont” school network in Moldova. This Moldovan-Turkish network is related to Fethullah Gülen. The deportation happened despite the fact that the teachers had asked for asylum in Moldova in April 2018 (pointing to the risk of an unfair trial and torture in Turkey). Undoubtedly, the arrests took place at the request of Ankara, which considers Gülen and his movement a terrorist group. The deportations appear to have been a welcome present, ahead of Erdogan’s visit to Moldova.

Despite the fact that Moldovan legislation prohibits torture, there have been repeated reports of violations of the right to life and physical integrity, including cases involving the deaths of prisoners and detainees. On August 26, 2017, Andrei Braguta (reportedly suffering from chronic schizophrenia) died after having been beaten by other inmates in penitentiary, while the guards – knowing that he was being assaulted – did not react.

The rights of sexual minorities are still not fully enforced, but are protected by law. Hate speech against the LGBT community is common in Moldova, not only from religious leaders but also from influential politicians. Hate crimes remain generally unreported and poorly (if at all) investigated.
4 | Stability of Democratic Institutions

After 2015, with the growing concentration of power in the hands of the oligarch Vlad Plahotniuc, previous internal coalition frictions practically disappeared. Plahotniuc managed to take control of the government (he plays a decisive role in appointing the cabinet) and parliamentary majority. He also subordinated the judiciary and public administration. While compromising their democratic nature, this eased tensions between those institutions. Traditional tensions between Chișinău and the administration of Gagauz Autonomy (while continuing to exist) have also clearly diminished in recent years.

The only visible conflict exists currently between President Igor Dodon, and the executive and parliamentary majority. The Pro-Russian president has strongly criticized the current, formally pro-European, government. Meanwhile, the ruling majority is gradually limiting (although marginally) the competences of the president, which contributes to the rising frictions. Given the limited competences of the president in the Moldovan political system, this conflict has not significantly influenced the effectiveness of the democratic institutions in the country. Additionally, it is highly likely that this conflict is to a large extent stimulated in order to polarize society geopolitically, mobilize support among the electorate and marginalize the real opposition.

On the declaratory level, all mainstream parties and civil society movements approve democratic norms and values. Even factions that advocate authoritarian and undemocratic state models (e.g., the pro-Russian Party of Socialists or the “Our Home” party of Renato Usatîi, who points to Belarus as example) rhetorically do not reject democratic procedures. In reality, political forces (mostly the ruling elite), however, have an instrumental approach toward democratic mechanisms. They do not hesitate to break them for their own benefit. In June 2018, snap elections for the mayor of Chisinau (won by Andrei Nastase, opposing the ruling elite) were declared void under a very dubious pretext. In October 2017, the politicized Constitutional Court issued a decision that allows presidential competences to be suspended in certain situations, which limits the power of the current democratically elected president and favors the ruling parliamentary majority.

The army plays a marginal role in the country and is not engaged in Moldovan politics. Although the Orthodox Church openly comments on political decisions, it has never denied the legitimacy of democratically elected authorities.
5 | Political and Social Integration

The Moldovan party system comprises a number of groupings, which – at least nominally – represent a range of political programs. Unfortunately, the party system in Moldova is being instrumentalized, only moderately stable and does not enjoy the trust of the citizens. The vast majority of Moldovan parties are chieftain-style groupings, organized around charismatic leaders and managed without regard to democratic procedures. Such parties naturally turn into instruments serving the political and business interests of their leaders and sponsors. At the same time, the parties are relatively unstable, since the departure of the leader most often causes the disintegration or marginalization of the party. Political parties in Moldova in general are dependent on financial support from business tycoons rather than public funding or membership fees. Attempts to build bottom-up parties based on broad self-governing structures have been undertaken only recently.

Political parties in Moldova appeal to geopolitically (also historically and culturally) defined notions of “left-wing” (pro-Russian) and “right-wing” (pro-Western). Such divisions are very convenient for the political elite because they make it possible to easily gain popularity among particular sections of the electorate. The persistence of these divisions prevents a meaningful political debate. The geopolitical polarization of the electorate is very strong and it is rather uncommon for pro-European or pro-Russian supporters to change alignments.

The level of social self-organization in Moldova remains low. Most of the population does not feel represented by either NGOs or trade unions. NGOs and trade unions are considered trustworthy by only 19% and 13% of Moldovans respectively (Public Opinion Barometer, BOP, November 2018). The vast majority of civil society organizations in Moldova (including NGOs and think tanks) are located in the capital city and usually limit their activities to the area of the city. To a much lesser extent, such organizations can be found in Bălți (northern Moldova) and in Comrat (the capital city of the Gagauz Autonomy). Trade unions have limited impact, as they are unable to influence employers or legislation, which in turn means that they are not sufficiently capable to defend workers’ rights.

It’s also rather uncommon in Moldova to be an active member of a community organization or association. At the same time, Moldovan society attaches great significance to family ties. In Moldova, families are traditionally understood to include not only actual relatives, but also wedding best men. As a result, there is a variant of the phenomenon of clan relations (similar to the clan structures that exist in Central Asia). Being in a family involves very close relations and generates commitments that are considered much more important than obligations toward the state or public institutions.
The Moldovan public is deeply disappointed about the performance of democratic institutions, with 71% of Moldovans unsatisfied with the way democracy is developing in their country (International Republican Institute, IRI, November 2018). Only 9.1% of respondents declare that Moldova is governed by the “will of the people,” and only 14.6% consider that elections in the republic are free and conducted in a proper way (BOP, November 2018). In addition, 86% of Moldovans (IRI) consider the country to be governed in the interest of some groups, rather than the majority of the population.

At the same time, it should be noted that the level of trust toward key democratic institutions has increased since 2016. Unfortunately, this is less the effect of an improvement in democratic mechanisms, but the result of the relative stabilization of the political and economic situation related among others to the monopolization and consolidation of power in the hands of Vlad Plahotniuc (25.8% of respondents claim that government of his proxy, Pavel Filip, is better than previous cabinets).

In 2018, 12.7% of respondents declared substantial or modest trust in the parliament. The government was trusted by 18.5% and political parties by 11.6%. The Central Electoral Committee is considered trustworthy by less than 16%. At the same time, the Office of the President enjoys almost 35% trust.

In general, Moldovans are rather reluctant to engage in collective action. This is inherited from the Soviet period when social cooperation was discredited by an extremely high level of institutionalization and politicization. Additionally, Moldovans do not necessarily trust their compatriots. According to the latest available survey (conducted by IMAS in August 2016) only 23% of Moldovans consider their fellow citizens trustworthy. However, although the economic component plays a key role in fostering social distrust, the ethnic factor should not be neglected. According to the same survey, 30% to 40% of the population claim that Moldovans and three key minorities in the country (Ukrainians, Russian and Gagauz) live either in conflict or ignore each other. As a result, social solidarity in Moldova is rather low.

Traditionally, family ties play a very important role in Moldova and it is expected that family members will help one another when in need. The vast inflow of remittances for Moldovan families from relatives working abroad demonstrates how important family ties are, especially given the dire economic situation in the country.

As the self-help networks in Moldova are based on personal trust and family ties, the level of social participation in NGOs or volunteering remains low. In small towns and villages, self-organization of the society is marginal or de facto nonexistent.

Additionally, self-organized groups that protest against various illegal actions (e.g., illegal construction) are intimidated and discouraged by the authorities.
II. Economic Transformation

6 | Level of Socioeconomic Development

Social exclusion in Moldova is associated with poverty and place of residence (urban vs rural areas), and (to a lesser extent) by gender, ethnicity and religion. Since the beginning of the 21st century, Moldova has made enormous progress in reducing the poverty rate, which decreased from 68% in 2000 to 27% in 2004 to 11.4% in 2014. Also, the number of “working poor” (i.e., people who live on less than $3.10 PPP a day) decreased from 52% of the employed population in 2000 to only 0.9% in 2017. The reduction in poverty was primarily driven by a return to economic growth at the turn of the century, a gradual increase in pension payments and the rapid growth in remittances, which are especially important for rural populations. The average disposable income of the population doubled between 2010 and 2018. However, the downside of reducing poverty has been the high labor migration at a rate of 20% of Moldovans aged between 25 and 34.

Despite the general success in reducing poverty, the gap between urban and rural incomes has increased in recent years. Between 2010 and 2015, the income gap doubled from 23.6% to almost 42%. While 23.8% of the urban population declares that their earnings are insufficient to cover basic needs, the same opinion is expressed by as much as 37% of residents in rural areas (BOP, November 2018). Additionally, access of residents in non-urban areas to public services (e.g., health care, sanitation and quality education) is limited.

The situation of the most vulnerable groups (women, and young, disabled and elderly people) is even more complicated. Only 13.5% of people aged over 60 declare that their income allows them to live decent lives (BOP). Moldova’s Gini Index score of 26.3 is very good but does not reflect the gap between urban and rural populations. Moldova’s UNDP Human Development rating is improving, but very slowly. The country scored 0.652 in 1990, 0.693 in 2015 and 0.7 in 2017, which in practice means that the standard of living in Moldova has not improved in any significant way.

The gender gap remains an important issue. Women’s wages and pensions are significantly lower than for men, and women are also underrepresented in public offices. Ethnic and language minorities (for 25% of the population, Romanian is not the native language) face problems accessing public services. At the same time, in regions where non-Romanian groups dominate, such as Gagauzia, the quality of Romanian-language teaching remains low. The inability to speak and write properly in the official language creates a substantial barrier for minorities.
<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>$ M</td>
<td>7745.2</td>
<td>8071.5</td>
<td>9669.8</td>
</tr>
<tr>
<td>GDP growth</td>
<td>%</td>
<td>-0.3</td>
<td>4.4</td>
<td>4.7</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>%</td>
<td>9.7</td>
<td>6.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Unemployment</td>
<td>%</td>
<td>3.7</td>
<td>4.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>% of GDP</td>
<td>2.8</td>
<td>1.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Export growth</td>
<td>%</td>
<td>2.6</td>
<td>9.8</td>
<td>10.9</td>
</tr>
<tr>
<td>Import growth</td>
<td>%</td>
<td>-5.8</td>
<td>2.8</td>
<td>11.0</td>
</tr>
<tr>
<td>Current account balance</td>
<td>$ M</td>
<td>-462.8</td>
<td>-284.7</td>
<td>-562.1</td>
</tr>
<tr>
<td>Public debt</td>
<td>% of GDP</td>
<td>37.8</td>
<td>35.6</td>
<td>31.8</td>
</tr>
<tr>
<td>External debt</td>
<td>$ M</td>
<td>6106.5</td>
<td>6235.2</td>
<td>6988.0</td>
</tr>
<tr>
<td>Total debt service</td>
<td>$ M</td>
<td>420.5</td>
<td>426.3</td>
<td>427.3</td>
</tr>
<tr>
<td>Net lending/borrowing</td>
<td>% of GDP</td>
<td>-1.6</td>
<td>-2.0</td>
<td>-0.7</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>% of GDP</td>
<td>16.4</td>
<td>16.2</td>
<td>17.4</td>
</tr>
<tr>
<td>Government consumption</td>
<td>% of GDP</td>
<td>14.5</td>
<td>14.9</td>
<td>15.0</td>
</tr>
<tr>
<td>Public education spending</td>
<td>% of GDP</td>
<td>-</td>
<td>6.7</td>
<td>6.7</td>
</tr>
<tr>
<td>Public health spending</td>
<td>% of GDP</td>
<td>4.6</td>
<td>4.4</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure</td>
<td>% of GDP</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.
The institutional and legal framework for market-based competition in Moldova is strong due largely to reforms related to the implementation of the association agreement, and Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union. Prices are generally liberalized and the government regulates only the prices of a few, socially important products. This also applies to energy and fuel. The Moldovan currency, the leu, is fully convertible and enterprises do not face problems with currency exchange.

In recent years, Moldova has achieved enormous progress eliminating market-entry barriers. In the World Bank’s Doing Business 2019, Moldova gained 95.5 points (out of 100) in the category “starting a business,” and ranked 14 out of 190 countries. Starting a business takes four days and three procedures with a cost of 5.0% of GNI per capita. In comparison, in 2013, Moldova ranked only 92 out of 185 countries. On the other hand, market exit remains underdeveloped. Moldova ranked 68th for resolving insolvencies (DBR 2019), which is worse than in 2016 and 2017 when the country ranked 60th.

The informal sector remains a key problem for the economy. In the second quarter of 2017, about 7.4% of employees received an income “under the table” (NBS). This practice is most common in the agricultural sector where up to 40% of employees are paid informally. According to estimates by the National Confederation of Trade Unions, the public budget loses MDL 5.6 billion annually (about €280 million). In 2017, the Economic Council under the prime minister of Moldova stated that the gray economy accounts for up to 82% of all economic activities in certain branches.

Furthermore, the security of investments is jeopardized by cases of so-called raider attacks (hostile takeovers of assets) when a majority of shares in a company are illegally acquired on the basis of a corrupt judicial decision. Additionally, the significant involvement of the political class in business activities still distorts free market competition.

In July 2012, after a long process of drafting and consultations, the Moldovan parliament adopted a new law on competition in accordance with EU standards. Among other things, the act prohibits any common actions or associations of undertakings that would distort market competition. Under the new law, unfair competition claims are considered by the Competition Council, a de jure independent authority that reports to the parliament of Moldova. In the course of an investigation, if the Competition Council would find out that an act of unfair competition occurred, it can impose a fine in the amount of 0.5% of its annual turnover in the previous financial year. Fines of up to 4% of the annual turnover can be imposed for serious
violations of the law (such as formation of cartels). The council’s activity and effectiveness is increasing each year.

In July 2017, the parliament adopted a national program in the field of competition and state aid. The overall goal of the program (the implementation of which is the responsibility of the council) is to make the economy more open to competition by, among others, reducing regulations on the commodity market from 2.48 points (in 2017) to 1.55 points by 2020 and decreasing the share of state aid to 1% of GDP by 2020.

Although anti-monopoly policy has been improving, members of influential political and business circles in Moldova are still widely engaged in different nontransparent economic activities. It is not uncommon for Moldovan tycoons to attempt to monopolize economic sectors or take control over the import of certain goods. Additionally, the customs office plays a major role in weakening competition, as many goods are smuggled into Moldova, especially by groups with links to the governing elite. Smuggling is also reported to take place through Transnistria.

The foreign trade regime in Moldova is fairly liberal. Since its accession to the WTO in 2001, Moldova has been strongly committed to the multilateral trading system. Its use of non-tariff barriers is very narrow. The simple average MFN applied tariff equals 5.3% (2017).

In June 2014, Moldova signed the association agreement (along with the DCFTA) with the European Union. The provisional implementation of the Agreement started on September 1, 2014. In July 2016, the agreement fully entered into force. Additionally, in December 2015, the European Union decided to extend the application of DCFTA (however on a slightly different basis) to Transnistria. As of 2018 Moldova had signed free-trade agreements with 43 countries (excluding the European Union), including CIS and CEFTA member states, and Turkey. Existing licensing requirements are limited to certain goods, such as alcoholic and tobacco products, and fertilizers.

The key challenge to free trade in the case of Moldova is Russia. Russia, despite being a party to the free trade agreement between Moldova and the CIS, regularly hinders bilateral economic exchange for political reasons. For example, in 2013 and 2014, in reaction to the deepening of Moldovan integration with EU markets, Russia imposed severe restrictions on Moldovan products such as alcoholic beverages, processed meat and fruits. Moscow also canceled its zero-rate customs duty on key products such as wine, meat and apples. The custom duties were abolished by Russia on January 1, 2019, but at the same moment, Moscow introduced new restrictions on goods imported to Russia via Ukraine, which also affected Moldovan trade.
The banking sector (which was adversely affected by a large-scale fraud scandal at the end of 2014) started to gradually stabilize in the second half of 2015. With support from the IMF and foreign partners, authorities in Chisinau and the National Bank of Moldova initiated a comprehensive reform process in the banking sector (both of the central bank and commercial banks). In the last two years, the risks in the banking system in Moldova have decreased considerably and significant progress has been made in reducing the vulnerabilities of the financial sector. Transparency of bank shareholders has increased, although the sector is still threatened by the rent-seeking of political elites, which control bank assets or attempt to increase their shares.

In October 2017, a new bank law, based on Basel III principles and drafted with the assistance of the central banks in the Netherlands and Romania, was adopted by the parliament. New regulations (which replaced most of the provisions of the Law on Financial Institutions) came into force in January 2018, which aim to transpose European best practices in banking regulation (including the CRD IV package) into national legislation. Among others, the law aims to prevent possible fraud in the banking sector by providing regulators with new instruments to license, regulate and monitor commercial banks. It also enhances the ability of banks to absorb shocks and losses through improved risk management. The transition should be completed by 2020.

Moldova’s banking sector is in a relatively good shape when it comes to asset growth and profits. Total assets amounted to MDL 81 billion in the first quarter of 2018, up about 9.5% year on year. Total profits of the 11 Moldovan banks reached MDL 1.5 billion in 2017 (up 8.6% year on year), according to the National Bank of Moldova. However, the non-performing loan ratio was rising steadily from 14.4% in 2015 to 16.4% at the end of 2016 to 18.4% in 2017, although it declined to 16.2% in the first quarter of 2018. Deposits have also been rising, increasing from MDL 50 billion in December 2015 to MDL 60.6 billion in the first quarter of 2018. Additionally, a gradual return of trust in the national currency can be observed, as local currency deposits rose from 42% of total deposits to 57.3% over the same period. The risk-weighted capital adequacy ratio recorded 33.2% in the end of the first quarter of 2018, which meant that the limit set for all banks (≥16%) was complied with.

8 | Monetary and fiscal stability

According to the National Bank of Moldova, inflation decelerated from 6% in January 2018 to only 0.9% (the lowest rate in nine years) in December 2018. This was mainly driven by regulated prices, supported by the appreciation of the currency, a downward trajectory in industrial prices and a slowing down in the growth rate of food prices compared to the previous year. In the second part of 2018, the inflation rate was below the central bank’s target range of 5% ± 1.5 percentage points. Short-
term inflationary risks remain rather low; the annual inflation rate is expected to gradually return to around the 5.0% level in the second half of 2019.

Deceleration of inflation convinced the National Bank of Moldova to reduce the base rate from as much as 19.5% in September 2015 to 9% in October 2016 to 6.5% in December 2017. The reserve requirement on Moldovan leu deposits was increased at the beginning of February 2017 from 35% to the record high level of 42.5%. The real effective exchange rate index increased from 100.9 in 2015 to 102.9 in 2016 to 113.5 in 2017.

Despite the generally high effectiveness of the National Bank of Moldova, its lack of political independence remains a key problem. Each head of the central bank is usually unofficially affiliated, related or loyal to the business and political elites. Both nominations and dismissals from this position are nontransparent.

The macroeconomic situation in Moldova, which deteriorated rapidly in 2015 (i.e., due to banking fraud, Russian trade restrictions, recession in Ukraine and Russia, and a decline in remittances), began to normalize and even improved in 2016, and this trend has been sustained. This was due to the stabilization of the political situation in the country and the resumption of external financial assistance (in the second half of 2016), notably the signing of a new credit agreement with the IMF.

Public debt started to decrease from 44.8% of GDP in 2015 to 43.6% in 2016 and 41.3% in 2017. It is, however, still far from the precrisis level of about 30% of GDP in 2009 to 2013. Meanwhile, external debt continues to rise. According to the National Bank of Moldova, external debt amounted to $6.19 billion in 2016 and $6.96 billion in 2017. On the other hand, external debt as a percentage of GDP has declined due to steady economic growth since 2016. In 2017, external debt accounted for 85% of GDP, compared to over 100% in 2015.

Foreign currency reserves have increased from about $1.75 billion in January 2016 to $3.05 billion in November 2018, which is equivalent to six and a half months of imports. In comparison, in 2013, before the outbreak of the banking crisis, currency reserves amounted to $2.82 billion. Transfer of remittances from abroad recovered in 2017 by 11.2% after a marked decrease in the previous two years. At the same time however, the current account deficit widened from about 4.2% of GDP in 2016 to approximately 7.6% of GDP in 2017. The nominal budget deficit is growing, but its value in relation to GDP has remained low and stable. The planned budget deficit for 2019 is $321 million, which represents 2.8% of GDP. The net borrowing indicator for 2017 equaled -0.89% of GDP which meant an improvement in comparison to 2016 and 2015 (-1.9% of GDP and -1.6% of GDP, respectively).

Yet, the European Union’s freezing of macro-financial assistance in July 2018 will have a negative impact on the budgetary situation of Moldova. This also applies to traditional problems, such as corruption and the lack of transparency.
9 | Private Property

The right to private property is guaranteed by the Moldovan constitution and a number of other legal acts (such as the law on property). In reality, however, the rights of owners are repeatedly challenged by hostile takeovers of assets (so-called raider attacks), often with support of corrupt judges. Raider attacks were common in the 1990s and early 2000s. However, since the 2000s, the scale of raider attacks has declined significantly, although the situation is still unsatisfactory.

According to the 2018 Index of Economic Freedom (published by the Wall Street Journal and the Heritage Foundation), Moldova scored 53.5 points in terms of property rights and ranked 81 out of 186 countries. In spite of the improvements, recent actions by the authorities call into question the security of private property. In October 2018, controversial legislation came into force, which grants an amnesty on all undeclared income and wealth (including real estates) following payment of 3% of the value of the assets. The law was heavily criticized by the opposition, the European Union and the United States. It is widely believed that the new regulations may be used by political and business elites to legalize fraudulently acquired money and property. An additional problem concerns the enforcement of intellectual property rights in Moldova and opaque acquisitions of shares that still occur in the Moldovan banking sector.

The rights of entrepreneurs in Moldova are protected by law. The business climate for private entrepreneurs in Moldova is improving, among other things, due to the implementation of the DCFTA. According to Doing Business 2019 by the World Bank, Moldova scored 73.54 points (in comparison to 72.75 in 2017) and ranked 47 out of 190 countries.

State-owned enterprises (SOE) still have an advantage over private companies, despite the general improvement in the situation of private companies. As government representatives usually sit on SOE boards, they are generally better positioned to influence decision-makers and tend to use this advantage to restrict private sector competition. Additionally, some SOEs enjoy additional protection and preferential government treatment, because they serve as illegal sources of income for the political elite. According to Moldovan legislation, the state treats SOEs and private enterprises equally. Certain activities (e.g., human and medical research, and postal services) are, nevertheless, exclusively state-owned. Also, Moldovan law does not allow foreigners to purchase agricultural and forest land. Therefore, the only option available for foreign companies is to lease land.

The position of private companies relative to SOEs is improving as the government gradually privatizes state assets. Unfortunately, this privatization does not always proceed consistent with market principles and opaque tenders remain a problematic issue. A recent example was the privatization of the AirMoldova aviation company,
which took place in the second half of 2018, with AirMoldova sold for just $71 million. Furthermore, of this amount only $3 million went to the Moldovan budget due to the company’s debt. There are suspicions that the company was deliberately indebted to lower its price. There are also concerns regarding the buyer, the Civil Aviation Group, as background information about the new owner remains unclear. It cannot be ruled out that the main beneficiaries of this privatization are people from the ruling political and business elite.

10 | Welfare Regime

The efficiency of the Moldovan social assistance system is still very limited due to the bad financial condition of the country. Additionally, there is no equal distribution of welfare. Some citizens (judges, civil servants, members of parliament) are privileged with special pension terms such as lower retirement age. Proper targeting of assistance also remains a problem. Despite rising budgetary spending, public health care remains extremely under-financed. Consequently, the mortality rate of the working-age population and private expenditure on health care remain among the highest in the European region of WHO.

In 2017, a pension reform was initiated. Since then, the retirement age has gradually been increased each year. The retirement age is intended to reach 63 years in 2019 for men and 2028 for women. Prior to the reform, men retired at the age of 62 and women at the age of 57. The increase in the retirement age was one of the IMF stand-by conditions in 2016. In the second half of 2018, average pensions increased in comparison to January 2016 by 43% and amounted to $97 per month, finally exceeding the Moldovan subsistence minimum ($91.5 per month). However, pensions for various officials (e.g., judges) increased disproportionately to people working in the private sector. The average unemployment benefit was also raised and currently matches the average pension payment.

In view of the low level of social assistance, remittances from relatives working abroad remain the only effective support for many Moldovans (especially in rural areas).

Legal improvements notwithstanding, inequality in Moldova remains relatively high. Although women represent 52% of the population, they remain underrepresented in public offices and businesses. In 2018, women accounted for only a little more than 20% of the total number of members of parliament. Only 18% of all mayors and 28% of local councilors are women. Female-owned businesses currently represent only 27% of all enterprises. There is also a gap in average earnings between men and women, which amounts to 14.5%, according to the Anti-discrimination Council. On a positive note, women account for as much as 49% of the total labor force. Additionally, after a government shake-up in late 2017, the share of women in the
top ministerial positions increased (with women accounting for 33% of all ministers and 43% of state secretaries in the Pavel Filip government).

Access to education for women and girls is generally good. The ratio of female to male enrollment equals 1.0 in primary and secondary schools. The adult literacy rate is 99.2% overall. The gross enrollment ratio is relatively low and equals 92.4% (primary education) and 86.1% (secondary).

The exercise of rights by ethnic and language minorities remains an important concern. The websites of numerous ministries and health care institutions are available only in the state language. Communication with civil servants in most public institutions in any language other than the official one is sometimes problematic, despite up to 20% of the population speaking Russian on a daily basis. The quality of education (and especially teaching of the official language) in ethnic-minority schools is another problem. To a large extent, this is due to the emigration of teachers and the shortage of new teaching staff. As a result, members of those communities cannot hope to advance in professional life or participate in public life on a par with the titular population.

People with disabilities often face discrimination in employment, education, political life and when dealing with the state. Additionally, Roma people are the ethnic group most exposed to discrimination in Moldova. Also, LGBT people, people living with HIV and tuberculosis, and people suffering from mental health illnesses are perceived as socially stigmatized, which sometimes legitimizes ill-treatment by the authorities.

11 | Economic Performance

In 2016, the Moldovan economy began to recover after the serious crisis it experienced in 2014 to 2015. While overall GDP (current U.S. dollars) dropped by 18% from almost $8 billion in 2014 to around $6.5 billion in 2015 (mostly because of the massive depreciation of Moldovan leu), it rose by 4.3% in 2016 and amounted to $8.13 billion in 2017. GDP per capita (PPP) is also steadily growing as it reached $5,698 (current U.S. dollars) in 2017 compared to $5,353 in 2016 and $5,055 in 2015. The upward trend continues, according to the National Bureau of Statistics, economic growth for the first three quarters of 2018 amounted to 3.4%.

Economic stabilization and the DCFTA agreement, which provisionally entered into force on September 1, 2014, contributed to a steep increase in exports, particularly to the European Union, which in 2017 received 66% of total exports (with only 19% exported to the CIS). In 2016, exports (which declined by 15.9% between 2014 and 2015) grew by 3.4% and by another 18.6% in 2017.
Romania strengthened its position as the principal importer of Moldovan products, with a share of total exports amounting to 25% in 2017. As a result of Russia’s partial lifting of its embargo on Moldovan goods, exports to Russia started to rise at the end of 2017. Imports in 2017 increased by 20% (with imports from the European Union increasing by 21% and those from the CIS by 17%).

Although wine and alcohol products used to play a crucial role in Moldova’s exports, the importance of those goods is gradually diminishing. In 2010, their share in Moldovan trade was 12% but in 2017, it decreased to only 8.5%. Agricultural products still represent around half of total exports. On the other hand, the IT sector has rapidly developed in recent years, contributing around 7% of GDP.

The inflow of remittances fell from a little over $1.6 billion in 2014 to only $1.079 billion in 2016, but increased to a level comparable to the beginning of the decade ($1.2 billion) in 2017. This stimulated internal consumption. The low unemployment figure (around 4%) is due to mass emigration and the country’s agricultural sector. Around 30% of the population are still employed in the agricultural sector or operate as smallholders (seen as private entrepreneurs and not taken into account in unemployment statistics).

Public debt rose rapidly in 2015 mainly due to the government decision to issue $700 million of government bonds, equivalent to around 10% of GDP, to compensate the central bank for intervening in the banking scandal. It stabilized, however, between 43% and 41% of GDP in 2016 and 2017 respectively (IMF). The net inflow of foreign direct investment remains rather low (2.57% of GDP in 2017 and only 1.34% in 2016). According to the National Bank of Moldova, inflation decelerated from 6% in January 2018 to only 0.9% (lowest in the last nine years) in December 2018.

**12 | Sustainability**

In recent years, issues related to the protection of the environment became more important to the Moldovan political agenda. The legal framework improved significantly, among other things, as a result of signing the association agreement which obligates authorities to promote energy efficiency and energy saving as well as the development and support of renewable energy sources (RES). On June 20, 2017, Moldova ratified the Paris Agreement on Climate Change. The country’s goal is to reduce greenhouse gas emissions 64% to 67% below its 1990 level by 2030. In June 2017, the Inspectorate for Environmental Protection was created. The inspectorate takes over the competences of several previously existing institutions and improves state control in the fields of environmental protection, air, forestry, fish, water, soil resources, subsoil use and natural resources.

Despite the fact that according to the National Energy Regulatory Agency of the Republic of Moldova (ANRE), between 2013 and 2017, production of energy from
RES increased almost 10-fold, RES remain marginal. Biogas (which in 2017 accounted for 71.5% of renewable energy) remains the most significant source of electricity produced from RES. Wind energy has increased fivefold between 2015 and 2017, while solar energy remains almost absent. Authorities are trying to support the development of RES through VAT and customs duty exemptions. In March 2018, a law promoting the use of renewable energy entered into force. It regulates, among other things, financial support for investors in RES. Investors wishing to produce energy from RES (up to a certain power limit) will be able to use a stable tariff for the electricity they produce for a period of 15 years. The development of (RES) is perceived by Moldovan authorities not only as a way to improve the condition of the environment but also as an element of a broader strategy aimed at diversifying Moldova’s energy consumption.

The quality of transmission and distribution networks for heat, natural gas and electricity is still one of the key problems. In general, the situation is improving but the process is very slow. Losses in transmission and distribution networks for heat decreased from 22% in 2013 to 19% in 2015, but then rose again to 21% in 2017. Electricity losses dropped from between 10.5% and 12% (depending on the distribution company) in 2013 to between 8% and 9% in 2017.

In general, neither the government nor public, as in many post-Soviet societies, attach particular importance to environmental protection. At the same time, however, environmental projects are largely funded by foreign development partners. The generally unsatisfactory approach to environmental protection is reflected in the Environmental Performance Index. In 2018, Moldova ranked 112 out of 180 countries (and 131 for air quality).

Between 2017 and 2018, a large-scale reform of the sector was announced – undoing previous efforts. Hence, the optimization of school networks initiated a few years ago by Maia Sandu – then minister of education and currently one of the leaders of the anti-government opposition – has been interrupted for purely party-political reasons. The majority of education expenditure in Moldova (currently around 6% to 6.5% of GDP) is spent on maintaining the large number of schools. “Optimization,” although unpopular, was meant to allow for the redirecting of funds to other education institutions, thus improving their efficiency. For no less political reasons, increased control over exams (which significantly limited cases of cheating), implemented by Sandu, was also subjected to severe criticism from the authorities.

According to the Global Competitive Index 2018, Moldova ranked only 93 out of 140 countries for R&D. This reflects the poor quality of Moldovan universities, which gained zero points in the category “quality of research institutions.” Moldova’s universities rarely collaborate with industry in the R&D field. More importantly, the index reveals that Moldova is one of the least innovative countries, ranked 105 out of 140 countries. This reflects the marginal level of R&D spending, which oscillates around 0.4% of GDP. Mass migration and the related brain drain only worsen the
situation. The number of researchers per one million inhabitants is significantly below the regional average. The U.N. Education Index Moldova score has remained stable over recent years, equal to 0.710 (in 2017 and 2016).

An additional problem is the very limited competition in R&D. In order to address this problem, the National Agency for Research and Development was created in 2018. Its task is to manage grants for research projects and evaluate projects put forward by researchers. As these changes are still being implemented, it is too early to assess their impact.

The Moldovan authorities are also trying to improve the situation in R&D using the support offered by the European Union. Moldovan activity within the Horizon 2020 program is gradually improving scientific cooperation. The improvement of school equipment is also noticeable.
Governance

I. Level of Difficulty

The state of the economy remains one of the key structural difficulties: Since the early 1990s, Moldova has been one of the poorest countries in Europe with a GDP of $8.1 billion in 2017 (current U.S. dollars) or $2,289 GDP per capita (current U.S. dollars), according to the World Bank. The Moldovan economy lacks competitive advantages, and it is not popular among foreign investors who are discouraged by corruption, lack of transparency, an unstable political situation and security risks (e.g., the protracted Transnistrian conflict and periodical sociopolitical tensions in the Gagauz Autonomy). Extremely underfunded transport and energy infrastructure inherited from the Soviet Union additionally hampers economic development and deters investors. As a result, Moldova has one of the lowest foreign direct investment per capita in the entire region (around $1,250 in 2017 according to UNCTAD World Investment Report 2018).

Moldova remains completely dependent on Russian gas supplies and can generate only 20% of its electricity consumption. High emigration rates (about 40% of the working age population) increase brain drain and constrain development. The Moldovan authorities have been totally unable to limit emigration or provide incentives to attract emigrants to return home. Non-professionalism among public officials (resulting from low salaries) is also a major problem.

Civil society organizations in Moldova emerged and became active in the late 1980s as part of the anti-communist, reformist movement. According to the State Register of Non-Profit Organizations, there were about 11,700 CSOs registered in Moldova at the beginning of 2018 (almost 800 more than at the beginning of 2017). However, the number of active CSOs is much smaller. For example, out of almost 500 CSOs registered in Gagauzia in 2017, only 22 were active. At the same time, more than 3,000 CSOs are registered in Transnistria, but their activity is limited, as they are not allowed to monitor human rights or democratic processes.

Sustainability remains a key problem for Moldovan CSOs. Due to the lack of internal financing, 80% to 90% of CSO activity is funded from foreign sources, with the European Union, UNDP and the United States the largest donors. The state does not sufficiently support CSOs financially, and there are no partnerships between CSOs
and businesses. Since 2017, individual taxpayers are allowed to direct 2% of their income tax-deductible to eligible organizations; but in the first year, funds obtained in this way amounted to only about $159,000 (almost half of funds went to the Organization of Veterans and Pensioners within the Ministry of Internal Affairs). On a positive note, the number of CSOs participating in this procedure is growing with each year and the use of crowdfunding platforms (which allows the Moldovan diaspora to donate more easily) increased. The scale of Moldovan involvement in philanthropy is also growing. In 2017, 24% of respondents declared that they had supported a charity organization (in comparison to 17% in 2015).

Civil society is actively engaged in identifying problems and in promoting policies. Unfortunately, recurring periods of political instability jeopardize cooperation between the government and CSOs. What is more, the government seems to perceive CSOs as opponents and is not really interested in taking their opinion into account. In recent years, representatives of official state institutions and media close to the authorities have started to openly accuse civil society of political affiliations. This has contributed to low public confidence in the third sector. 62% of Moldovans declare that the CSOs are supporting political forces and 66% state that they are being used for money laundering. Only 17.3% of Moldovans trust CSOs to a “certain” degree, with just 1.4% declare great confidence, while 59.1% do not trust them at all. Among the negative tendencies, one should also mention that the government recently started to create government-organized non-governmental organizations (GONGOs) to legitimize their mismanagement.

Despite the fact that about 25% of the Moldovan population consist of national minorities (primarily Ukrainians, Russians and Gagauz), ethnic tensions are minimal. The experience of the Transnistrian war in 1992 has not had a major influence on relations between people living on either side of the Dniester river. Both perceive themselves as separate societies (foreign to each other) and treat each other with moderate sympathy or indifference. Tensions can be observed only on the official political level.

Moderate and non-violent tensions result from differences in approach to historical issues. A small part of society (10% to 20%) considers Moldovans to be a part of the Romanian nation, and advocates for the unification of Moldova and Romania. Many (about 40%) Moldovans acknowledge the Romanian cultural identity of their nation but at the same time favor an independent Moldovan state. Both groups are, however, pro-Western. Others (including Russian-speaking minorities) claim that Moldovans are a separate nation with a distinct culture and even language (Moldovan instead of Romanian). Members of this group are usually pro-Russian in their views and feel nostalgic about the USSR. These differences are polarizing the population over the issue of Moldova’s geopolitical affiliation. Russian media (which are very popular in Moldova) and certain politicians (e.g., Igor Dodon) are utilizing these differences for
propaganda purposes which creates additional tensions in society and further increases its west-east polarization.

Different views on history, identity or geopolitical issues have not led to violence. They are however provoking demonstrations and political conflicts. The issue of language and identity is also a key factor, which regularly generates tensions between Chisinau and the pro-Russian autonomous region of Gagauzia.

II. Governance Performance

14 | Steering Capability

Since the end of 2015, political and business power has been concentrated in the hands of one oligarch, Vlad Plahotniuc. While he declares himself firmly pro-European, Plahotniuc (whose power and position depends on his control of the state apparatus and financial flows in Moldova) is not interested in the structural transformation of the country or in implementing any deep reforms, including the association agreement with the European Union. Therefore, official political priorities will remain largely rhetorical. The perspective of Plahotniuc is shared by Igor Dodon, the country’s nominal opposition and pro-Russian president, who seems to cooperate with the oligarch in order to maintain the functioning of the clan-oligarchic system. In practice, this means preventing any groups that could threaten its existence from coming to power and avoiding any real reforms. Currently, the pro-European opposition, civil society and media are too weak to be considered reform drivers or able to oppose the status quo.

The recent intensification of relations between Chisinau and authoritarian countries (e.g., Turkey) illustrates how strategic priorities change depending on short-term interests and political bargaining. The enhancement of cooperation between Chisinau and Ankara should be viewed through the prism of deteriorating relations between the government of Moldova and the European Union. Plahotniuc is signaling to Western partners that he is not politically or financially dependent on them and that further criticism of his rule may lead Moldova to drift away from the European Union. For similar reasons, in mid-September 2018, Plahotniuc announced that his party, which until then had branded itself as “pro-European,” would become a “pro-Moldovan” grouping.

Another threat to the strategic priorities is the significant polarization of Moldovan society, half of which is in favor of EU integration while the second half advocates rapprochement with Russia’s integration project, the Eurasian Economic Union. In the event of a transfer of power to pro-Russian parties, a partial reorientation of Moldovan politics and change the current priorities should be expected.
The capacity of the government to implement its policies is conditioned to a large extent by the political and business interests of the rent-seeking ruling elites. Hence, the government proved on several occasions that it is able to swiftly push through legislation, which is unpopular, but important from the perspective of the oligarch Vlad Plahotniuc and his camp. For example, in 2017, the controversial reform of the electoral system was introduced very smoothly, despite protests from Western partners and institutions (e.g., the Venice Commission). The reform was deemed necessary by the ruling group in light of its low popularity. The same applies to the controversial “fiscal amnesty” law, which was quickly adopted in 2018.

On the other hand, reforms (e.g., demanded by the association agreement between Moldova and the European Union) that seek to depoliticize state institutions or limit access to state finances are usually implemented very slowly or blocked. For example, authorities have a clear problem with the implementation of anti-corruption regulations or a reform of the judiciary (which might curtail their power).

In general, it should be stressed that internal reform drivers in Moldova are quite weak, be it civil society, media or other groups. The most powerful reform drivers are development partners, especially the European Union and to some extent the United States.

Over the recent years, policy learning has improved in Moldova. The quality of staff is improving due to the influx of young specialists, educated in the West. The competences of mid-level civil servants are also rising due to, among other things, the support of external partners (especially the European Union). In addition, there is an increase in the number of people from civil society employed in the public administration. Such civil servants are more open to external expertise (coming from both academia and civil society). This is crucial, because due to the lack of financial resources or staff, not all state institutions are producing informative analytical reports regarding their activities. However, the fact that public officials remain underpaid still hampers the motivation and effectiveness of the administration. Moreover, due to low salaries and random promotions, there is a high turnover of personnel in the civil service.

15 | Resource Efficiency

The quality and capacity of civil servants, especially mid-management, has improved visibly since 2009. Unfortunately, further increases in the capacity of public administration are hampered by low salaries for low- and mid-level officials (which do not motivate officials and incentivize corruption) and nepotism. While lower-level positions in the civil service are rather depoliticized, political affiliations and loyalty are necessary for higher office. It is typical to replace officials for political reasons. Competitive recruiting procedures exist, but they are rarely properly applied and therefore do not protect state institutions from politicization.
In June 2017, a reform of the central administration aimed at increasing the efficiency of this body started. The number of ministries was reduced from 16 to nine. The reform also replaced deputy ministers with state secretaries. As civil servants and not political nomimates, they are not meant to be relieved from their positions after a change of government.

Efficiency of local administrations (particularly in the rural areas) remains limited due to the informal, corrupt dependence on central authorities and business circles, and a lack of funding and quality staff. Almost 95% of the 898 local councils are located in rural areas in which 66% of the population live, which means that on average a council in a rural area covers only around 2,000 people. The per capita administrative costs of rural local governments are five times higher than those of the cities, which makes them cost inefficient, but also fully dependent on the central authorities.

According to the annual audits carried out by the Court of Accounts, budget resources are extensively misused.

Formally, policy coordination is conducted by different state institutions, commissions and specialized task forces. Sectoral Coordination Councils have been established under all ministries and other central authorities. Additionally, the State Chancellery plays an important role in resolving possible difficulties in the process of policy coordination (e.g., regarding the division of competences). In June 2017, after the reform of the government was initiated, the number of ministries was reduced from 16 to nine in order to increase central administration efficiency.

In practice, however, since the end of 2015, the Moldovan political scene has been dominated by the richest and most powerful oligarch, Vlad Plahotniuc, who directly controls the parliamentary majority and most important positions in the state such as the prime minister, government ministers, the speaker of parliament and the judiciary. With such vast influence, Plahotniuc is the key decision-maker in Moldovan politics. The only visible friction exists between the government and the president, but it seems that they are largely simulated. It is highly likely that the president is also controlled by Vlad Plahotniuc. At the same time, the government and the parliamentary majority regularly limit the president’s competences, which further reduces his influence.

In general, the current system of policy coordination can be described as centralized and personalized, and to a large extent based on informal networks. Despite the fact that the consolidation of power by Plahotniuc has had a negative effect on the modernization and democratization of the state, it has improved the effectiveness of policy coordination.
In the last few years, Moldova has managed to improve anti-corruption legislation. Unfortunately, implementation remains pending due to the lack of political will. The institutions designed to combat corruption remain highly politicized and are ineffective at containing high-level abuses. The independence of the Office of the Anti-corruption Prosecutor is highly doubtful, as the institution is subordinated to the prosecutor general, who allegedly remains under the direct control of Vlad Plahotniuc. The National Integrity Authority (the organization which, among others, verifies assets acquired during the exercise of public office), created in 2016, did not become fully functional until February 2018. What is more, the budget of the authority is insufficient.

Anti-corruption institutions are often used as a tool by the authorities to challenge their political and business competitors. Investigative journalists are often refused access to data concerning the property of public officials, which is justified by the Law on the Protection of Personal Data. Failure to investigate the $1 billion bank fraud that took place at the end of 2014 remains one of the most prominent examples of the ineffectiveness of the anti-corruption bodies.

Between 2015 and 2017, a number of amendments were introduced to the Law on Political Parties, the Electoral Code, and other regulations related to the functioning and financing of political parties. Among others, Moldovans were provided with the right to donate an amount equal to up to 2% of their average monthly salary to a political party (4% average monthly earnings in the case of enterprises). Financing of political parties from abroad has been banned.

Insufficient progress in the fight against corruption has been reflected in recent public opinion polls. According to an IRI survey of November 2018, Moldovans consider corruption to be the second most important problem that their country is facing (after low incomes), with 85% of the population unsatisfied or not very satisfied with what the country’s leadership is doing to fight corruption. Moreover, the fight against corruption is discredited by selective justice (e.g., Filat was imprisoned, while Shor remains free and politically active).

16 | Consensus-Building

On the declaratory level, all significant political actors in Moldova support the democratic system of government. Regardless of their ideological affiliation, they all refer regularly to democratic values. Unfortunately, as the political class in Moldova is inefficient and highly corrupt, the perception of the liberal democratic model (praised by senior politicians) in Moldovan society is deteriorating with every passing year. In October 2017, 75% of the population declared that economic prosperity is more important to them than the democratic system of governance. In comparison, in March 2016, only 57% of Moldovans supported such a statement. The majority of Moldovans still value democracy, but rising disillusionment with the political class
leads people to favor authoritarian governance, which is perceived as the only efficient way to eradicate corruption and improve the situation of ordinary citizens. Consequently, for several years, Vladimir Putin has been the most popular politician in Moldova – 54% of the population state that they trust him.

All key political parties and mainstream politicians – both left- and right-wing – accept the market economy as a foundation for the modern Moldovan state. Although left-wing parties (e.g., the socialists) and populist groupings (e.g., the Şor Party) sometimes use anti-capitalist rhetoric, they only do so for electoral purposes. At the same time, however, leading business and political circles (connected to the mainstream parties) regularly use their influence and position to protect their interests. This includes activities that jeopardize the free market, such as blocking business competition or launching hostile takeovers of competitive companies (through raider attacks). While the political elite agree on the idea of a free market, there is no consensus with regard to the proper economic model among the Moldovan population. Despite the reforms introduced over the last 25 years, the better part of the Moldovan population still lives below the standard of living known from the communist times. As a result, almost 60% of Moldovans claim that the dissolution of the USSR had a negative impact on the development of their country and 54% regret the liquidation of the Soviet state. For the same reason, about 40% of the population would support the idea of re-joining the USSR (this is 3% more than the number of EU supporters). Political slogans that promise restoration of some elements of the communist model (e.g., collective farms) enjoy a measure of popularity among the population.

The mainstream of Moldovan political life is free from anti-democratic actors, on a declaratory level. Active political parties stress their devotion to democratic norms and values. Their leaders also declare a commitment for further reforms aimed at strengthening democracy in Moldova. In practice, however, influential political and business groups (who usually stand behind the above-mentioned parties) remain the key obstacle to further democratization. Their influence on the legislature, executive and judiciary limits the efficiency of democratic institutions, undermines the balance of power, and makes the authorities to work in their interest and not in the interest of the population. As their influence on state institutions is a key element that allows these groups to protect their interests and security, it would be very hard to induce them to comply with constitutional rules. At the same time, a large proportion of the population seems to favor an authoritarian regime, which is perceived as less corrupt and more efficient than the democratic model of government.
From the early 1990s, intellectual and political elites in Moldova have not been able to put forward a coherent vision capable of uniting its society. Neither have they been able to reach a consensus on the model and direction of Moldova’s development. Moldovan society remains divided over history, identity, national symbols, values and even the name of the language. There are also different opinions as to whether the state should continue to exist or reunite with Romania. This topic causes strong emotions among Moldovans as the number of supporters for reunification is growing (up to 25%) mainly due to rising disappointment with the situation in the country. This problem contributes to ethnic divisions as the vast majority of Russian speakers in Moldova (Ukrainians, Gagauz, Russians) are strongly opposed to unification with Romania.

Additionally, the population is strongly polarized over Moldova’s geopolitical alignment (pro-Russian or pro-European). The political elite not only fails to depolarize society, but on the contrary exploits existing cleavages in order to mobilize support among the electorate. Narratives of Moldovan political parties focus mainly on geopolitical issues, not social or economic problems. This is deepening the disagreements and seriously impairs public debate by suppressing any deeper reflection about the nature of the state and necessary reforms. The absence of an attractive and inclusive model of identity makes it difficult to develop a cohesive society in Moldova, resolve the problem of Transnistrian separatism, and ease the tensions between Chisinau and Gagauzia.

In recent years, positive changes can be observed in the Moldovan legislation, which increase the ability of civil society to participate in the political process. Access to state information is increasing. The website of each ministry has a sub-page where drafts are published for consultation, which de jure ensures transparency of the decision-making process. Since 2017, private persons can donate 2% of their income tax-deductible to NGOs, which helps increase the financial independence of NGOs.

Unfortunately, despite improving the legal base, the practical influence of civil society on political decision-making remains limited. Members of NGOs regularly complain about problems in gaining access to public information. Additionally, some instruments have proven vulnerable to political crises. For example, the consultative National Participation Council did not operate for over two years, as its mandate expired in 2014 and was restored only in May 2017.

On a negative note, officials started to openly accuse civil society of having political affiliations. In the second half of 2017, the government attempted to implement regulations according to which all NGOs in Moldova that receive funding from outside the country and are involved in what the amendment defines as “political activities” are required to disclose the origin of their funding, and disclose the incomes of their staff and board members. After heavy criticism from local NGOs
and international organizations, the government abandoned the project, but the
negative campaign against the third sector driven by the authorities is still ongoing.

Lately, several cases of limiting citizen participation in political decision-making
have occurred. In December 2017, an initiative to organize a referendum on reversing
the changes to the electoral code (adopted on June 20, 2017) was created by a number
of civil society activists, but the Central Electoral Commission twice refused to
register the group, arguing that only the parliament of Moldova can decide on the
electoral system of the country. This decision effectively limited the constitutional
right of citizens to organize a referendum.

The key example of past injustice that still has not been fully addressed is related to
the country’s Soviet past. There is no consensus among the Moldovan population and
the political class regarding this issue. Certain parts of society along with right-wing
parties perceive the Soviet past as an occupation and advocate for the
commemoration of the victims of the totalitarian regime. After the pro-European
composition came to power in 2009, steps were taken in this direction. Among others, in
2013, a monument commemorating the people deported from the country during the
times of Stalin’s repression was erected in front of the Chisinau railway station. In
2012, the parliament of Moldova condemned the communist totalitarian regime.
Since 2016, a Day of Remembrance for the Victims of (Communist Regime)
Deportations has been celebrated on July 6.

Besides such steps aimed at achieving moral justice, the authorities are also gradually
increasing the amount of financial compensation for victims of the communist
political repressions (currently there are 8,500 officially recognized victims). In
September 2018, the amount of monthly financial support was increased fivefold
(from MDL 100 to MDL 500). Additionally, all victims received a one-off payment
of MDL 1,000 (MDL 300 more than in 2017). In July 2018, a package of social
services for victims of political repression in Moldova was adopted (including free
preventive medical examination and a 50% discount on sanatorium vouchers).

As historical topics are raising tensions in the divided society, the ruling coalition
government is careful not to bring them up. For example, the Great Famine (1946 –
1947), which was deliberately caused by Soviet authorities and took the lives of more
than 100,000 people in Moldova, is still widely unknown in the country (due to Soviet
propaganda) and the authorities are not doing much to promote knowledge about the
tragedy.

The Transnistrian war from the early 1990s remains a vivid experience only among
the veterans, which took direct part in the armed conflict. The majority of the
population does not feel a need for retribution toward either other population. Yet,
the pro-Russian Party of Socialists blames the pro-Romanian government, which
ruled the country at the beginning of the 1990s, for the outbreak of the Transnistrian
conflict.
Official development assistance (ODA) plays a significant role for Moldova. Between 2010 and 2014, the average annual influx of external assistance from all donors amounted to around $455 million (equivalent to about 25% of the annual budget). In recent years, however, the scale of assistance has decreased due to the growing disappointment of international partners with the policy of the Moldovan authorities. In 2015, ODA reached $312.6 million, declining to $262 million in 2016 and only $241 million in 2017. The European Union, European financial institutions and the United States are the key donors of financial and technical assistance. The European Union’s technical assistance is executed via different formats, such as TAIEX, SIGMA and Twinning. The European Union also contributes to the reforms of Moldovan institutions using the EU High Level Advice Mission, and the European Border Assistance Mission to Moldova and Ukraine.

A decision adopted by the government of Moldova in April 2018 regulates the institutional base and the mechanism of coordination and management of external assistance. According to this act, the Ministry of Finance is responsible for the coordination and management of external assistance and serves as the only point of contact with external development partners and public authorities regarding proposals for externally financed projects. At the same time, the State Chancellery is responsible for technical assistance projects (e.g., it considers proposals for such projects in terms of development needs). The Joint Partnership Council is an advisory body, co-chaired by the prime minister and representatives of development partners, which aims to ensure efficiency and effectiveness of foreign assistance.

Despite the interest of foreign donors, Moldovan authorities still experience serious problems in using external support effectively. Assistance remains highly dependent on political stability, and the will to implement reforms and restructure the system. Support is regularly misused or used inefficiently. Many assistance projects were interrupted in recent years due to reform setbacks. Apart from disappointment with the Moldovan authorities, this is another reason for reducing the amount of aid given to Moldova.

The credibility of Moldovan authorities in their relations with the international community has been steadily decreasing at least since 2014. Despite the officially expressed commitment to modernization declared by the nominally pro-European coalition government, which has governed the country since 2009, the government proved unable or unwilling to implement crucial reforms. The image of Moldova was further aggravated by the numerous corruption scandals (in which high-level politicians were involved), such as the embezzlement of $1 billion from the banking system in 2014. From the perspective of key international partners, Moldova became a “captured state” in which the political system and economy are dominated by one oligarch. The politicization and instrumentalization of state institutions (including the
judiciary), and the persistent Transnistrian conflict reinforced the image of Moldova as an unstable and unpredictable country.

The decrease in Moldova’s credibility is reflected in the significant reduction in financial assistance from various international donors to Moldova over recent years. After a disputed mayoral election in Chisinau, the European Union froze a €100 million macro-financial assistance program in July 2018, which was granted to Moldova in 2017 in order to support its economic stabilization and reform agenda. Earlier, in October 2017, the European Union announced that it would not transfer the last tranche of funds (€28 million) to support reforms in the justice sector due to the government’s lack of commitment to the reforms in 2014 and 2015.

Several highly controversial legal initiatives proposed by Moldova’s government in the last year have also contributed to a decline in confidence in Chisinau. However, the withdrawal of support from Western partners pushes Chisinau to strengthen cooperation with authoritarian states (e.g., Turkey and China), which are perceived by Moldovan authorities as an alternative source of funds.

Relations between the governments of Moldova and Romania are very good. Both countries cooperate in the political, commercial and energy fields. Despite the European Union’s declining confidence in Moldova’s authorities, Romania remains a firm supporter of the current Moldovan government and the main advocate of the interests of Moldova in the European Union. Romania is also the biggest supporter of Moldova’s integration with the European Union. At the same time, Romania is one of Moldova’s key partners when it comes to foreign aid. Between 2007 and 2018, Romania provided €475 million to Moldova in aid. Romania is also engaged in different development projects in Moldova. Romania’s main interest in Moldova derives from cultural, historical and political factors (e.g., the desire to reduce Russian influence in Moldova). One of the reasons for good bilateral cooperation is also the close relationship of oligarch Vlad Plahotniuc with Romania’s center-left political elite.

Cooperation between the governments of Moldova and Ukraine intensified significantly after the “Revolution of Dignity,” the annexation of Crimea and the Russian intervention in the east of Ukraine. Kiev began to perceive Chisinau as a partner in terms of the Transnistria issue. A common pro-European agenda of both capitals additionally strengthened their partnership. The Moldovan government remains a firm supporter of Ukraine in its conflict with Russia and advocates the territorial integrity of the country. An improvement in relations allowed the countries to make significant progress in the protracted demarcation of borders and to open (in July 2017) the first joint Moldovan-Ukrainian checkpoint on the de facto border with Transnistria. However, some issues (e.g., the construction of a hydroelectric power plant on the bank of the Dniester by Ukraine, which threatens Moldova’s supply of fresh water) remain a problem.
The only figure in Moldovan politics causing tensions both in relations with Bucharest and Kiev is the pro-Russian president, Igor Dodon. His actions, however, have no practical impact on the state of relations with neighbors, especially due to the very limited competences of the president. On the other hand, Dodon’s pro-Russian stance helps improve the poor relations between Chișinău and Moscow. Relations had been deteriorating gradually over the past ten years due to the Moldovan pro-European aspirations. Dodon’s intervention in Moscow led to the removal of some Russian sanctions imposed on Moldova for political reasons.

Moldova is a member of numerous international and regional organizations (e.g., CIS, OSCE, Council of Europe, GUAM and CEFTA). Chisinau is also actively involved in the EU Eastern Partnership format. The cooperation between the European Union and Moldova resulted (among other things) in the signing of the association agreement and DCFTA in 2014. Moldova, although it is a neutral state, also maintains limited military cooperation with several countries in the region (e.g., Romania and Ukraine).
Strategic Outlook

The widespread monopolization of power by one interest group remains a foundation for corruption and the key obstacle to reform. Moreover, this deepens the disappointment of Moldovans with the democratic system and European integration. This can be addressed only by the firm conditional support of the European Union, which would undermine the monopoly of the ruling oligarchic group by supporting political, economic and media competition. In this regard, de-politicization of the judiciary, which is regularly used by the ruling oligarchic group as an instrument to protect its political and business interests, is necessary. Transparent selection procedures are required, preferably with the participation of independent selectors and observers from extra-parliamentary and extra-governmental structures. In order to monitor the state of judicial reform, a mechanism similar to the Cooperation and Verification Mechanism used in Romania and Bulgaria should be considered. The support of civil society is also crucial in this context. Support for smaller, underfunded NGOs (especially outside Chişinău), which can represent the interests of different groups more effectively than large organizations, is needed.

Further development of trade with the European Union is important. It will not only reduce the political and economic dependence of Moldova on Russia, which tends to use trade as an instrument of political pressure, but it will bind Moldova more closely to the European Union and strengthen the power of Western conditioning. For similar reasons, efforts to increase Moldovan energy independence should be strengthened. In this regard, work on the pipeline between Ungheni and Chişinău should be accelerated, and government support for the development of renewable energy sources is required. In order to protect its energy security, Moldova should also implement the third energy package of the European Union.

Political groups in Moldova tend to manipulate the electorate by exploiting emotionally charged identity, linguistic and historical divisions (and the political preferences based on them). This in turn further polarizes an already partisan society and increases existing tensions. In this context, Western partners should discourage Moldovan authorities from deepening and using tensions with Russia for political purposes, as such actions are harming, not strengthening, regional stability. In the long run, it seems necessary for the Moldovan elites to push for a coherent national vision of Moldova’s development capable of uniting Moldovan society. The lack of such a model renders it difficult (if not impossible) to resolve the problem of Transnistrian separatism and ease the tensions between Chişinău and Gagauzia.