

# BTI 2014 | Moldova Country Report

	scale	score	rank	trend
<b>Status Index</b>	1-10	<b>6.33</b>	# 45 of 129	
Political Transformation	1-10	7.15	# 34 of 129	➔
Economic Transformation	1-10	5.50	# 67 of 129	➔
<b>Management Index</b>	1-10	<b>5.50</b>	# 47 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	3.6	HDI	0.660	GDP p.c.	\$	4181.7
Pop. growth <sup>1</sup>	% p.a.	0.0	HDI rank of 187	113	Gini Index		33.0
Life expectancy	years	68.6	UN Education Index	0.714	Poverty <sup>3</sup>	%	4.4
Urban population	%	48.4	Gender inequality <sup>2</sup>	0.303	Aid per capita	\$	77.1

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

More than three and a half years after the economically liberal and politically pragmatic Alliance for European Integration (AEI) took power from its economically protectionist and politically populist predecessor, the Communist Party, the pace of reform in Moldova remains slow. The obstacles to any managed transformation in the country remain massive: the structural weakness of the Moldovan economy and thus its absolute dependence on stronger partners, the decades lost in political debate and continuous rearrangement of political loyalties, the unresolved Transnistrian conflict, and the structural havoc wrought by mass out-migration and brain drain. Consequently, any government's scope of action is limited.

The new coalition government has merely accelerated reforms begun with European and international assistance under its communist predecessor. However, it has acted with more drive, sincerity and acumen. It has been wise in focusing on economic reform without overstating the polarized atmosphere and without re-invoking destabilizing and distracting issues such as national identity and language. The main assets of the new government are its closeness to the European Union and the influx of a younger, more competent generation of politicians and civil servants.

Although the election of independent presidential candidate Nicolae Timofti by the parliament, in April 2012 (after the post was formally vacant for two and a half years), sent signals of stability to the international community, the recent resignation of the AEI Prime Minister Vlad Filat after a vote of no-confidence showed that the political divisions in the country remain significant, and the willingness for political compromise is still low. The structural lack of public trust in political institutions and political leaders cannot be alleviated without miraculous improvements in the current economic and political crisis. Although a real improvement has come about with respect to freedom of expression, the fight against corruption and the strengthening of the rule of law remain major challenges.

## History and Characteristics of Transformation

As with many Commonwealth of Independent States members, questions of nation- and statehood were strongly disputed at the beginning of the transition period. The political elite was strongly divided into three factions. One favored unification with Romania and denied a separate Moldovan identity. Others preferred a Moldovan state and advocated a Moldovan identity. A third group upheld internationalist values and opted for a multinational state. The pro-Romanian fraction gained dominance during the late perestroika period and began to marginalize its opponents. This led to the formation of an opposition in the eastern and southern parts of the country that culminated in the secession movement in Gagauzia and Pridnestrovia. While the conflict with the Gagauz minority was resolved by an internationally praised autonomy arrangement, the Pridnestrovian issue remains unresolved.

Negotiations with the Transnistrian side have been largely unproductive so far. Various attempts by Russia, the European Union and the Organization for Security and Co-operation in Europe (OSCE) to implement a settlement of the conflict have all failed. It was only after June 2011 that negotiations resumed in the 5+2 format, having been suspended for six years. The 5+2 format brings together in the negotiation process the opposing sides, mediators, guarantors and observers, in this case the Republic of Moldova, Transnistria, the Russian Federation, Ukraine, the OSCE, the United States and the European Union. Since then, various formal and informal meetings between Moldova and the Transnistrian side have been conducted. Although confidence-building measures, such as resuming railway service between the two areas, can be counted as incremental successes, there have also been considerable setbacks and provocations. The free and fair election, in December 2011, of the young reformer and representative of the Transnistrian business elite, Evgheni Șevciuk, to the helm of the unrecognized state gave the negotiation process a new dynamic. Șevciuk's ability to remove controversial members of the conservative old guard from crucial posts in the Tiraspol government and replace them with pragmatic and professional negotiators led to a thawing between the two sides. Tangible results remain to be seen. It is also unlikely that any agreement would be reached without the explicit blessing of Russia.

Ideological debates on nation- and statehood absorbed almost all political energies in Moldova until early 1994 and, sporadically, even later. These debates have polarized the population and led to the postponement of economic reforms. The dominance of such issues in public debate facilitated the emergence of a populist political elite that lacked the proper managerial skills to conduct much-needed reforms and focused instead on their own personal enrichment. Furthermore, the territorial secession of the Transnistrian region drew political attention and managerial resources away from reforms. The massive support of the regime in Tiraspol by conservative circles in Russia increased Russia's ability to exercise pressure on Moldova and hindered the flow of foreign investment into the Moldovan economy. Due to the absence of natural resources or competitive agricultural and industrial products for Western markets, Moldova is totally dependent on Russian markets and energy resources. The general economic malaise and

ongoing distrust of the political establishment continue to strengthen the conservative and populist camp, currently united under the banner of the Communist Party. With 42% of the seats in parliament, the Communist Party is still the largest political force in the country. Despite various defections from key figures to form their own parties, a return to power of the conservative forces cannot be ruled out.

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

Question  
Score

The state's monopoly on the use of force remains firmly established on the right bank of the Dniester, with the exception of the city of Bendery and several villages controlled by the Pridnestrovian (Transnistrian) Moldovan Republic (PMR) regime. On the left bank of the Dniester, Moldova still preserves its de facto control over a strip of some small villages inhabited by Moldo-Romanian speakers around the Dubasari district. No progress has been made in restoring Chişinău's sovereignty over the rest of the left-bank territories. The PMR, established in 1990, has become a de facto unrecognized petty state with its own monopoly on the use of force on the left bank.

Monopoly on the  
use of force

7

The Moldovan state and the unrecognized Pridnestrovian Moldovan Republic have, as relatively sovereign entities, prevented civil war and anarchy from emerging. The series of armed clashes from 1991 to 1992 produced two weak entities with enclaves for criminal formations that are beyond the state's reach. Since the takeover of the Alliance for European Integration, some limited improvements have been made in combating such structures. With the exception of Transnistria, the state has not lost its control over the territory or population, even though there are some attempts on the part of the so-called Transnistrian authorities to take the control of Bendery.

Civic and ethnic-based definitions of the Moldovan nation-state are in competition with each other in Moldova, although many Moldovans are unaware of the implicit contradiction this involves. The PMR, which does not recognize the Moldovan constitution, champions its own concept of the nation that gives preference to state ideology that favors the subordination of the respective national identity under the common banner of the Russian culture and language. The strong trend in recent years among Moldovans to apply for a Romanian passport is no longer related to a rejection of the very concept of a Moldovan state, but rather has a pragmatic rationale linked to Romania's EU accession and thus the ability to travel freely with a Romanian passport. Despite this fact, Moldovan citizens who acquired Romanian citizenship

State identity

8

are becoming more interested in the Romanian state, increasing their participation in Romanian elections.

Some of the smaller parties outside the parliament (and to some extent Ghimpu's Liberals in parliament) used to reject Moldova's separateness as a nation. But they have come around to accepting the permanence of the Moldovan state, despite their insistence on the Romanian character of the Moldovan nation, embodied in the concept "two states – one nation." Both in the PMR and Moldova, a certain amount of propaganda for an ethnic-based concept of the nation (Russian patriotism and ethnic Moldovanism, respectively) demonstrates the current strained political situation.

In Moldova proper, some intellectuals and part of the political establishment are inclined to use an ethnic understanding of the Moldovan nation to garner electoral support. The (aggressive) assertion of historical legitimacy and/or civic and ethnic concepts of the nation, however, is highly erratic, and is voiced even by key politicians. The outcome of the 2009 and 2010 parliamentary elections suggests that the hardliners are losing out to pragmatists in the present coalition which focuses on socioeconomic rather than identity issues.

The state is secular, and religious dogmas play no formal role whatsoever in the legislative, executive or judicial branches. Still, many politicians prefer to associate themselves with the Orthodox Church in order to make electoral gains, and the church encourages this. The constitution provides for freedom of religion. Although Orthodoxy is not a state religion, the Metropolitanate of Chişinău and all Moldova (MOC), historically subordinated to the Moscow Patriarchate, receives favored treatment from the government. The government refrains from registering its citizens' religious beliefs. More than 95% are Orthodox. The vast majority of them identify with the MOC, while a minority identify with the Metropolitanate of Bessarabia, subordinated to the Bucharest Patriarchate.

The government of Moldova generally recognizes freedom of religion in practice and made several concrete steps in this direction in the period under review. In March 2011, the Muslim League was registered by the Ministry of Justice after six years of trying. The Orthodox Church remains influential in education curricula and actively advocates against the rights of LGBT persons and the expansion of other religions. The adoption of the Law on Equal Opportunity was delayed due to the pressure of the Orthodox Church and the vast majority of the society, but it was adopted in 2012.

The state has a differentiated administrative structure throughout the country (again with the exception of the left-bank territories, where the PMR regime has produced its own fully fledged administrative system). Institutions exist for the full range of policy fields – largely a legacy of the Soviet administrative system. The Moldovan

No interference of  
religious dogmas  
10

Basic  
administration  
8

state's actual extractive and allocative power is rather weak, as demonstrated by uncontrolled criminal economic activities, out-migration and illegal cash flows.

In the 2000s, and especially in recent years, administrative reform has strengthened the central authorities' power on the local level. The new government's program includes further administrative reforms that are both in line with its European ambitions and indicative of its awareness of existing deficits. The much-needed reduction of the large number of administration units relative to area and population is, however, resisted by the local and regional governments.

## 2 | Political Participation

Overall, general elections are held regularly at the national level with a secret ballot and universal suffrage. Election access for political parties of different orientations and constituencies is guaranteed, while the electoral threshold of 4% is in accordance with the Council of Europe Venice Commission standards.

Free and fair  
elections  
8

The three rounds of general elections in the reporting period differed greatly in democratic quality. In the wake of the April 2009 elections, opposition parties claimed that the Communist Party resorted to various forms of obstruction, fraud and violence, as noted by international observers. However, there has been no verdict from the Constitutional Court stating that the elections were illegal. The riots that followed the elections indicated that some segments of society disagreed with the results.

The early elections of July 2009 seemed to indicate fairer conditions. The November 2010 elections were applauded by international observers as well-managed, free and partially fair: The communist opposition had much more access to the state media than the opposition in the 2009 elections. The Central Electoral Commission served as an impartial body dealing with some provocative claims of fraud claimed by the communists. The elections of the mayor of Chişinău in 2011, and of the parliament of Gagauzia in 2012, were viewed as free and fair.

An important issue remains party financing, which is still nontransparent; sources have come under question. Despite the fact that few initiatives to fix the issue of party financing were proposed by the different stakeholders, the drafts are under the examination of the Venice Commission of the Council of Europe.

Democratically elected political representatives have considerable power to govern. The state may lack the resources to implement a full set of policies, but its basic power to govern is well-established. The 2009 – 2010 change of government and the new government's pro-European orientation had some impact on the deeply

Effective power to  
govern  
7

ingrained problem of politico-economic players with vested interests abusing political office.

But the basic problem of state capture and political corruption is not likely to disappear shortly. The shift from one-party rule to a more transparent multiparty coalition did weaken the link between national politics and (criminal) business interests to some extent. The European Union provides incentives to prioritize solving these problems. Moldovan leaders continue to reiterate their commitment to fighting corruption (especially in the context of visa liberalization with the European Union). Although some progress has been observed in combating corruption in recent years, criminal organizations still have a strong influence in politics.

As a rule, no prohibitions exist regarding the founding or functioning of political and civil society organizations. Most NGOs function as either civil society advisers to the government or as substitutes for deficiencies in state responsibilities concerning social work, education, security or poverty reduction.

Association /  
assembly rights

7

Conversely, NGOs acting as watchdogs and/or mobilizing the populace against government policies are few and far between. While the challenging of the communist government at the April 2009 elections resulted in more serious and frequent reports of intimidation, violent repression and obstruction of civil protest movements and demonstrations, the situation has improved markedly since the change of government. Although the current government has a generally more open and constructive attitude towards civil society, it remains biased against some civil society organizations.

At the same time, fears of clashes between the LGBT community and far-right or religious conservatives meant that some protests organized by the LGBT community were not allowed to take place in the locations organizers had requested or planned.

In the April 2009 election crisis, authorities used their own and the state's official media to control the flow of information on the protests and to propagate their own views, while simultaneously threatening and harassing independent journalists and obstructing their access to information. Since then, the situation has improved.

Freedom of  
expression

7

Moldovan journalists are better organized and have created their own monitoring system to enhance professionalism. The improvement of Moldova's ranking in the Worldwide Press Freedom Index, from 75 in 2010 to 55 in 2013, shows the progress the country has made. At the same time, the Audiovisual Coordination Council's withdrawal of the broadcasting license of the pro-communist NIT television channel, and the opaque judicial process in this case, sent negative signals regarding the independence of the Audiovisual Coordination Council, the judiciary and the freedom of expression as a whole.



Another ongoing trend is the “oligarchization” of the media, in which politicians and tycoons hold their own media resources that distort information and practice self-censorship.

### 3 | Rule of Law

Being a parliamentary system, Moldova has a stronger legislative than executive branch. During the period of the political stalemate, and until the election of the Moldovan president in April 2012, the Moldovan parliament remained weak, even if the speaker assumed the role of interim president. The election of president Timofti ended the political stalemate and strengthened the executive. Despite some recent improvements, the independence of the judiciary is bound to be a longer process. The overall separation of powers remains unbalanced, with shifts generated by the political support of the incumbent.

Separation of  
powers

7

Moldova has maintained the elaborate, institutionally and functionally differentiated judiciary that was present during the Soviet period. Moldova’s 2005 judicial reform generally rates as a substantial improvement to the system’s functioning and architecture, although certain deficits, such as corruption, politicization and an enormous backlog of cases, have continued to hamper it. These deficiencies undermine public trust in the courts.

Independent  
judiciary

6

In view of the general state of checks and balances in Moldova, political penetration of the judiciary is a given, although in some cases the courts, and especially the Constitutional Court, have demonstrated a remarkable degree of independence and professionalism. In early 2009, the communist government implemented judicial reform with key aspects that were rated negatively by the Council of Europe, or that disregarded its recommendations, especially concerning the Public Prosecution Service and the Superior Council of Magistrates. The new government has made judicial reform a key priority and set out to redo the amendments to the Law on the Supreme Council of Magistrates. The scope of the reforms as a whole (e.g., the elimination of special military and economic courts), and the fact that it requires constitutional amendments, make it a protracted process. Though first steps and good intentions are observed, noticeable positive results remain to be seen.

During the April 2009 unrest, the communist authorities clearly abused the judiciary for political purposes. The new government’s understanding of democracy emphatically involved the separation of these powers. However, influence on the judiciary is still strong. Cases are frequent in which judges are bribed by criminal organizations to rule in their favor. The “raider attacks” on two of Moldova’s largest banks, in 2011 and 2012, are prominent examples.

The new government has intensified cooperation with international anticorruption organizations, such as the European Union, the Council of Europe's Group of States against Corruption (GRECO), Transparency International (TI) and other organizations. Addressing economic crime and money laundering is a key priority of the anticorruption agencies at present, mainly due to the process of visa liberalization with the European Union.

Prosecution of  
office abuse

6

The current ruling government adopts a firmer stance against the communist-era entanglement of political and economic power. Nevertheless, petty corruption remains deeply rooted in Moldova. The entanglement of political office and vested economic interests was at the core of the communist regime, which resulted in state capture and political leaders' involvement in shadowy economic businesses. This legacy persists in the current government. It is merely the plurality of actors that prevents one group from monopolizing economic interests. There were some scandals involving prominent figures, but, in most of the cases, few officials were prosecuted and even fewer were penalized.

Civil rights are not violated systematically but rather partially and incidentally by individual state authorities. Nevertheless, the Moldovan state regularly lost human rights cases in the European Court of Human Rights (ECHR), largely because of biased judges. More often than not, the ECHR's judgments were not enforced. The new government has undertaken a number of initiatives to clamp down on violations and enhance respect for human rights and rule of law standards (e.g., a zero-tolerance policy towards ill-treatment during detainment). Monitoring by civil society and state agencies has improved. Evidently, the background of many new political leaders in civil society opposition has heightened their awareness of civil rights and freedoms. Again, as the violations concerned were endemic rather than systemic, the reform process is bound to require endurance on the part of the authorities.

Civil rights

7

#### 4 | Stability of Democratic Institutions

The performance of Moldova's democratic and administrative institutions was limited not so much by instability, but rather by lack of resources, state capture by vested interests, and lack of political will to tackle society's key problems. The short track record of the new government is mixed in this respect. Since mid-2009, political readiness to name and address key challenges has increased significantly. Differences of opinion in the new coalition government occasionally hamper political decision-making and sometimes lead to ineffective compromise solutions. Conflicts among coalition leaders were often carried out at the level of state institutions headed by individuals from different parties.

Performance of  
democratic  
institutions

7

Under the previous government, state capture rather than veto powers constituted a characteristic element of Moldovan politics. The beginning of the new government was characterized by a political stalemate and constitutional deadlock that paralyzed political decision making. Yet, no veto player stepped in. There are no indications that this may change. The risk of a reversal of institutional democratization seems remote in Moldova. This is in itself a major achievement, considering the adverse domestic and regional framework conditions, which include a contested national identity, the Transnistrian conflict, an ongoing socioeconomic crisis, and frequent government crises. Significant extremist leanings are absent from Moldova's political parties and its community of civil society organizations. The army can be excluded as a veto player. Powerful business groupings tend to associate with politics and there is no grouping that could emerge as a single veto player. The complicated and unproductive double electoral process of the past one and a half years may be interpreted negatively as the abuse of institutionalized checks and balances for egoistic political ends and obstruction, or positively, as acceptance of institutionalized procedures despite unwelcome outcomes.

Commitment to  
democratic  
institutions  
8

## 5 | Political and Social Integration

Moldovan parties tend to be constructed around their leaders rather than around specific party programs. Defections from existing parties and the establishing of new parties and alliances are common. The transition from leader-based parties to parties representing stable social groups is far from complete. All the political parties have a democratic deficit in their own decision-making processes. For example, the list of candidates for MPs is composed by the leader of the party.

Party system  
7

Nevertheless, a general tendency can be discerned in the Moldovan party landscape that reflects the divisions of society. On one side, there are the Western economic liberals who define themselves as culturally Romanian. About 5% to 10% of the population prefer a merger with Romania, while around 30% to 40% accept a separate Moldovan state but with a Romanian cultural character. These two groups are the typical voters of the parties currently forming the AEI. On the other end of the spectrum are those conservative and mainly elderly parts of society for whom the transformation process has brought nothing but losses. They see themselves culturally and politically as Moldovans. Although their stance toward the Soviet Union is ambivalent, many feel strong nostalgia for the late years of the Brezhnev period. They are critical of an unconditional Westernization of Moldovan society and have a generally favorable attitude toward Russia. These voters constitute around 50% to 60% of the population and form the base of the Communist Party.

In the second half of the 2000s, the Communist Party consistently lost voters in each election. Recently, defections by prominent members of the party have further weakened it. Nevertheless, the Communists remain the strongest united political

force in the country and maintain a large base. Thus, the party system in Moldova is created on a classic polarization between the parties advocating integration into the European Union (Romania) and parties advocating closer ties with Russia or integration into the Russian-led Customs Union.

Social, nonpolitical self-organization and self-help are mainly concentrated in communal and family structures of economic subsistence. A small elite, based almost exclusively in the capital of Chişinău, has produced social capital by teaming up with relevant international organizations. Typical for a Soviet successor state, attitudes and concepts concerning social organization are focused on the state, irrespective of the ability and willingness of the state to live up to expectations of state protectionism and problem solving. NGO activity is gradually spreading from the capital to other parts of the country and to other societal groups. Alongside this geographical diffusion, there has been greater coverage of new issues, like energy efficiency and the environment. NGOs continue to rely heavily on international support, a fact sometimes used by the communist regime to discredit them. NGOs advocating vital interests of social groups generally depend on funding from their international partners and rely on the international community to influence policymaking rather than on a mobilized constituency. Broader, bottom-up civil society initiatives that function as an additional check on government policies and as a lobby for group interests are rare. Only NGOs that provide much-needed expertise and a small circle of major business interests have access to decision makers. At the same time, trade unions remain mostly ineffective due the fact that most of them are beholden to the ruling elite.

The political parties and movements that reject representative democracy as a matter of principle (on ethnic or ideological grounds) were marginalized in Moldova at least a decade ago. All relevant political parties claim to respect democratic institutions, procedures and electoral outcomes. However, as a consequence of the presidential and constitutional deadlock that lasted for two and a half years, public trust in democratic institutions remains low. In a survey conducted by the Institute for Public Policy in November 2012, only 23% of respondents said they trusted the government; only 20% trusted the president and 19% the parliament. The political parties received the lowest trust ranking with 14%. Local governments received the highest approval rating, 46%. Fully 71% of Moldovans think that the will of the people does not rule in Moldova, and 61% think that elections are neither free nor fair. On the other hand, 58% would prefer one-party rule. Remarkably, only 20% assess the government of Vlad Filat as bad, 22% as good, and 46% as neither good nor bad; 72% think that the country is going in the wrong direction. It is noteworthy that 90% would prefer direct election of the president over the current parliamentary system.

While some survey questions seem to indicate a certain increase in political participation and awareness, they also reflect a disenchantment with politics. Only 23% of the respondents take an active interest in politics. The turnout in

Interest groups  
6

Approval of  
democracy  
6

parliamentary and municipal elections has remained stable at around 50% to 65% in the last 10 years, albeit with a retrogressive tendency. The turnout was dramatically low at the constitutional referendum (30%). A straightforward interpretation of these figures is impossible given the number of Moldovans living abroad and the political boycotts in force. While there is adherence to democracy in principle, trust in individual institutions is consistently low, and so is reliance on the performance of democratic leaders and institutions. Respondents' judgment of the new government continues to depend on ideological predisposition rather than a sober assessment of achievements and failures.

Political and ethnic polarization has not resulted in major cleavages or societal conflicts. Rural Moldova, in particular, has maintained moderate traditions of communal self-help, which is a key asset in combating the hardships of transition and subsistence, as demonstrated by the mass influx of cash remittances from Moldovans working abroad. The widening gap between rural and urban Moldova, the resulting migration flows to the cities, and, most of all, the out-migration of up to one-third of the working-age population have together seriously damaged the social fabric and voluntary self-help associations in the villages. As a result, self-help networks are based on personal trust, rather than institutionalized norms and procedures. Therefore, the degree of voluntary and autonomous organization remains low. With the diversification of political parties, and the influx of foreign assistance to create NGOs, a number of expert and advocacy NGOs are consolidating their positions. Following the incomplete but obvious modernization of domestic education and the number of Moldovans with international education or professional experience, a shift from informal self-help networks towards formal NGO activities is expected. Social capital, the basis of civil society, is widening in the medium term.

Social capital  
6

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Due to the size of the shadow economy and the quantity of remittance-based income, especially in the countryside, household incomes are often underreported. Therefore, statistical data is to be used with caution. The poverty rate as calculated by the World Bank improved from 29% in 2003 to 22% in 2010. Nevertheless, economic hardship still leads to systematic social exclusion of poorer segments of Moldovan society. The relative advantages of the egalitarian Soviet system, such as access to education and healthcare, were almost entirely dismantled after the collapse of the Soviet Union. Uncontrolled urbanization and out-migration produce a widening gap between urban and rural populations dependent on subsistence farming and

Question  
Score

Socioeconomic  
barriers  
3

remittances. Social exclusion, therefore, is largely driven by poverty and a sharp increase in economic inequality. Social exclusion based on ethnicity is very rare.

With a Human Development Index of 0.660 in 2012, Moldova ranks 113 out of 186 countries and is the only European country classified under the category Medium Human Development. If inequality of wealth distribution is taken into consideration, the HDI indicator would fall even lower, to 0.584. The Gender Equality Index for Moldova in 2012 was 0.303, which puts Moldova at rank 49 out of 148 surveyed countries. This is mainly due to the high maternal mortality ratio of 49 per 1,000 live births and the lower participation rate of women in the labor market (38.4% compared to 45.1% for men). Compared to other European states, Moldova's Gini coefficient of 33% in 2011 was higher than average and comparable to that of neighboring Romania. The coefficient, however, fails to reflect the strong rural-urban disparities in the country.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	5439.4	5811.6	7015.2	<b>7254.1</b>
GDP growth	%	-6.0	9.4	18.6	<b>6.4</b>
Inflation (CPI)	%	-0.1	7.4	7.7	<b>4.7</b>
Unemployment	%	6.4	7.4	6.7	-
Foreign direct investment	% of GDP	2.5	3.5	4.2	<b>2.3</b>
Export growth	%	0.0	12.2	41.8	-
Import growth	%	-12.7	12.7	33.2	-
Current account balance	\$ M	-446.7	-449.0	-790.4	<b>-510.9</b>
Public debt	% of GDP	26.7	26.5	23.1	<b>23.8</b>
External debt	\$ M	3766.5	4818.2	5452.0	-
Total debt service	\$ M	389.8	396.4	468.5	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	-5.9	-2.6	-1.8	-
Tax revenue	% of GDP	17.7	18.2	18.3	-
Government consumption	% of GDP	23.8	22.2	20.1	<b>20.6</b>
Public expnd. on edu.	% of GDP	9.5	9.1	8.6	-
Public expnd. on health	% of GDP	6.1	5.3	5.2	-
R&D expenditure	% of GDP	0.53	-	-	-
Military expenditure	% of GDP	0.5	0.3	0.3	<b>0.3</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Since late 2009, the Moldovan government has been continuously strengthening the institutional framework for market-based competition. In relation to the dialogue of the Moldovan government with the European Union over a deep and comprehensive free trade area, a new law on competition and a law on state aid, both in line with EU standards, were adopted. The national currency, the Moldovan Leu has been fully convertible since 1995, and there are no significant entry and exit barriers for products and factor markets. Moldova has amended a number of laws and taken initiatives to create a business-friendly environment. The country also improved conditions for starting a business in recent years. In the World Bank's Doing Business Report 2012, Moldova advanced by 18 positions to rank 81 on ease of doing business and came second in the top reformers list. In 2013, its ranking went slightly down by two notches to 83 (out of 185 countries). The government is pursuing privatization of medium companies and expanding the privatization list to include several large companies.

Market-based  
competition  
6

The entanglement between business and politics, reflected in privileged access to political decision-makers by members of the business elite, still hampers the state in applying the rule of law consistently. Substantial grey zones and illegal activities exist beyond state regulation. Although investments are formally well protected by law, there have been various cases of raider attacks, supported by corrupt judges, that impeded the free operation of markets.

No oligarchic monopolists like those in Russia or Ukraine have emerged in Moldova because of its small market and the plurality of political actors in the country. Despite the strengthening of competition policy by the AEI government, the state still regulates the formation of monopolies inconsistently because of the entanglements

Anti-monopoly  
policy  
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between politics and big business and because of the country's large informal economy. Partly for political reasons and partly to demonstrate its European orientation, at its very first session, in September 2009, the new Filat government announced measures to break up monopoly schemes. In 2012, Moldova began applying the new law on competition that was approved by the parliament in late 2011. This law, which intends to emulate EU best practices and strengthen procedures for identifying, investigating and eliminating anticompetitive practices, was developed with the help of the European Union. A council on competition will be established as a legal successor to the National Agency for Protection of Competition. It is expected that, under the influence of EU competition law, the relatively basic rules on competition and antimonopoly regulations in Moldova are likely to improve further and to be enforced more stringently. A concrete example of exposing a cartel agreement on insulin took place in 2012 when the National Agency for Protection of Competition won a case in the Supreme Court of Justice.

Since becoming a WTO member in 2001, Moldova has reoriented its economy toward exports. Exports of goods and services now comprise about 45% of GDP. The state's monopoly on trade was quickly abolished after the fall of the Soviet Union and most prices were also liberalized early on. Moldova is very open for imports of both foreign goods and services and has a fairly liberal trade regime. According to the World Bank's Tariff Trade Restrictiveness Index (TTRI) of 2009, the Republic of Moldova ranks 11 out of 125 countries; this means that, in general, its import tariff is one of the lowest in the world. The main exportable agro-industrial products originate from sub-sectors dominated by state-owned companies. Negotiations for a future deep and comprehensive free trade area (DCFTA) between the European Union and Moldova will push for further improvements in this field. Those negotiations, among the government's high priorities, will be achieved through the improvement of the customs service and trade legislation, for example.

Liberalization of  
foreign trade

7

The Moldovan banking sector consists currently of 14 banks, of which the first five account for 68% and foreign banks 75% of its assets. The lack of transparency of ownership and inadequate corporate governance are the Achilles heel of the Moldovan banking system. In 2012, a series of laws were amended to address this issue, but results have been meager so far. With a quota of around 65% of banking assets in relation to the country's GNP, the Moldovan banking sector is small. There is strong potential for the sector not only to increase its volume, but also to deepen the range of financial products it currently offers. Around 45% of all loans are in foreign currency, which poses a risk for banks in case of currency devaluation. Nonperforming loans not covered by reserves are, as of March 2013, at 13% and reflect the 2012 economic slowdown and the financial crisis. Nevertheless, the sector is still profitable, with a return on equity of 11%. With a capital adequacy ratio of 25%, Moldovan banks are way above the local regulatory requirements of 16%. This high ratio reflects the risk-averse policies of many banks that result from lack of

Banking system

7



proper technologies to assess credit risks. Many banks that suffered from nonperforming loans chose to simply stop issuing credit instead of updating their risk-assessment capabilities. Due to its low connectedness with international financial markets, Moldovan banks do not rely on external borrowing. Thus, the Moldovan banking system did not suffer from low liquidity due to the recent crisis.

The legal framework for banking supervision and for the National Bank of Moldova (NBM) has partly been revised and improved. The NBM is accountable to the parliament only. The same applies to the National Commission for Financial Markets (NCFM), which the government created in mid-2007 to supervise the non-bank financial sector, and which became the unified licensing authority in the autumn of 2009. Both the NBM and the NCFM are considered competent and professional. The banks implemented Basel I principles and are preparing for the implementation of Basel II principles.

## 8 | Currency and Price Stability

The NBM has been successful in keeping inflation in the single digits in the last four years. With a rate of 4.6% at the end of 2012, inflation remained within the NBM target of between 3.5% and 6.5%. Low inflation was triggered by the fall in commodity prices and the slowdown of the country's economic growth, which in turn led to a downturn in domestic demand. As a result of the financial crisis, which resulted in pressure on the national currency, the Moldovan leu (MDL) devaluated significantly in 2009. The exchange rate reached its peak with 17.69 per euro in January 2010. After that, the MDL began to appreciate and is currently (May 2013) traded at 15.78, which is almost the same exchange rate it had at the beginning of 2006. By CIS standards, the Moldovan leu is relatively stable. This is not only caused by the monetary policy of the NBM but also by the absence of any significant players that would initiate speculation against the currency. Furthermore, the NBM has enough currency reserves (close to 6 months of imports) to intervene in the markets and stabilize the exchange rate.

Anti-inflation /  
forex policy

9

Moldova retained macroeconomic stability in 2012 thanks to prudent fiscal and monetary policies, despite negative shocks (weaker export demand, severe drought) that brought economic growth to a standstill. The current account balance improved, from -\$790 million in 2011 to an estimate of -\$550 million in 2012. Over the same period, exports remained stable with \$2.277 billion in 2011 compared to an estimate of \$2.228 billion in 2012. It is the inflow of remittances that amounted in 2011 to around \$1.516 billion and estimated \$1.605 billion in 2012 that render the current account deficit manageable.

Macrostability

7

Moldova traditionally has always had a budget deficit. In the last three years, it was between 2% and 2.5%. The budget deficit continues to be financed mainly from

external sources (mostly international financial institutions and donors), given the lack of long-term domestic resources or the ability of Moldova to tap the international financial markets. Although Moldova's gross debt has increased from \$3.655 billion in 2008 to \$5.700 billion in 2012, it remains manageable, as expressed in the low debt-service ratio of around 9% and the low public debt in relation to GDP of 18%. Moldova's international reserves have been steadily increasing and cover around six months of imports and around 39% of the current debt.

The IMF's 2012 disbursement of installments of Moldova's extended credit facility (ECF)/extended fund facility (EFF) was a signal of confidence in the government's reforms and policy approaches. The delay of the IMF loan under the sixth review did not affect macroeconomic stability, since the fund assessed Moldova's efforts generally positively.

## 9 | Private Property

Moldovan law formally safeguards private property. State intervention is no longer a major concern. While the protection of property rights is structurally assured, the picture is qualified by concerns about the impartiality and independence of Moldova's judiciary. The protection of intellectual property is also a matter of ongoing (international) concern. With international assistance and guidance, however, the new government has set out to improve legal standards and their implementation. So far, limited progress has been observed, while the so-called "raider attacks" pose a threat to private property, no matter which form this takes.

Property rights  
6

Private companies constitute the backbone of the market economy, although some non-profitable state-owned companies continue to be protected from market forces by the delay of their privatization and/or preferential fiscal treatment. The present government at least prioritizes the improvement of business conditions, especially for SMEs and in rural areas. Compared to other CIS countries, the problem of state-owned monopolies is a minor economic concern in Moldova.

Private enterprise  
7

## 10 | Welfare Regime

The renewed increase in the share of the population living in poverty due to the economic crisis indicates that social safety nets are incomplete and not at all robust.

Social safety nets  
4

The key challenge for the present government is shedding legacies of social benefits (not necessarily for the weakest in society) from the communist era, and facing the constraints of a sustainable state budget while providing the necessary minimum nets against poverty for all. Moldova offers social assistance and welfare programs, but they are too weak financially and too ineffective in terms of compensation for social risks. Rural poverty is especially widespread, despite the 2004 IMF and World Bank-

initiated Economic Growth and Poverty Reduction Strategy and the country's substantial and consistent economic growth since 2000.

The 2008 Law on Social Assistance has established more targeted social aid on the basis of the revenues and needs of a given household. Poverty is predominantly a rural phenomenon, indicating that social security is deficient in villages. Social safety nets in rural areas are mainly informal and consist of family members and friends. The volatility of remittances and of budgetary constraints has revealed the gaps in the social nets. The restructuring of the social security system is a protracted process: The new cash-benefits social assistance system is one of the initiatives leading towards a unified system of pensions and other benefits. The unification of the pension system is a key objective, but has by no means been achieved.

Moldova places no formal hindrances to accessing education, social assistance and healthcare for women and ethnic or religious minorities. Increasingly, however, social status and economic resources are becoming a factor in access to (private) education and jobs. Because financial resources are lacking, the state's role in providing public services is diminishing. Although women are more inclined to use educational opportunities (144% female/male enrollment ratio in tertiary education), male income is on average substantially higher. Half of the institutions of higher education are state institutions, which account for about 80% of all students. Free tuition or scholarships are available for a small percentage of students, adding to income-based inequality; 71.3% of students have to pay tuition fees.

Equal opportunity

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The Law of Equal Opportunity (an anti-discrimination law) adopted in 2012 is meant to ensure that all individuals have equal access to participation in society, including employment, regardless of their sex, religion, sexual orientation, etc. However, secondary legislation is not yet fully adopted.

## 11 | Economic Performance

With a per capita GDP (at PPP) of around \$3,000, and an overall size of around \$7 billion, the Moldovan economy is one of the weakest in Europe. In the last 10 years, however, the country witnessed sustainable growth rates of around 5% to 6%, with a decline, only in 2009, of 6% as a direct result of the economic crisis. In 2012, as a result of a severe drought that adversely affected the agriculture sector, growth stalled at 0.8%. Although agriculture accounts for only 15% of GDP, it accounts for between 40% and 50% of employment. Moldova exports few goods, most of them agricultural products (35%), of which wine accounts for 18% of all exports. Another 16% are textile products and 13% are metal products and appliances, produced in the Rîbnița steelworks of Transnistria. Exports to Russia, the main importer of Moldovan products, accounted for 30% in 2012 and were almost in line with last year's level of 28%. Due to the country's weak industrial base, the Moldovan economy is

Output strength

5

consumptive rather than productive. Therefore, it is highly dependent on remittances and thus vulnerable to external shocks. Remittances, however, remained stable in 2012. Net inflows from foreign direct investment (FDI) continue to be low, as foreign investors are still reluctant to invest in Moldova. After the record year of 2008, when the country was able to attract around \$700 million, only \$300 million and \$150 million were attracted in 2011 and 2012, respectively.

## 12 | Sustainability

Moldova is highly dependent on energy imports, mainly from Russia; 95% of total energy supplies and 70% of electricity are imported, with less than 5% of primary energy supply from domestic sources. Since 2007, a Renewable Energy Law has been enforced. Its objective was to establish a legal and functional framework for the production and commercialization of renewable energy and fuels, incorporating the provision of EU Directives 2001/77/EC and 2003/30/EC. Nevertheless, the share of renewable energy remains negligible. Major legacies of industrial and agricultural pollution remain unaccounted for and unresolved in Moldova. These legacies have serious consequences for public health. Intensified negotiations and harmonization with the European Union have led to new initiatives in this field. The Republic of Moldova ratified the Kyoto Protocol in 2003 as a Non-Annex I country. Currently the government is in the process of discussing a development strategy to reduce emissions in Moldova through 2020. According to the 2012 Environmental Performance Index (EPI), Moldova ranks 108th out of 132 surveyed countries. If reform trends are taken into consideration (Pilot Trend EPI Rank), Moldova occupies 67th place. Despite the mentioned reform efforts, there is still much room for improvement in overall environmental policy.

Environmental  
policy  
5

Public spending on education in Moldova doubled in the last 10 years and is currently ranging between 8% and 9% of GDP. The mushrooming of unaccredited institutions of (higher) education seems to have ended, but brain drain to EU countries and Romania has been detrimental to the Moldovan educational system.

Education policy /  
R&D  
5

Average education remains high, as shown in the literacy rate of 98.5%. So far, enrollment rates are close to 100% in primary and secondary education, irrespective of gender, with rates of tertiary enrollment significantly higher for women than men. At 39%, school enrollment in tertiary education is the second-lowest in Europe and is a result of the massive legal and illegal out-migration of the younger generation to earn income, often as unqualified manual labors under difficult conditions. Faculty in tertiary education is under-qualified (only 50% have a PhD) and structurally overburdened with lecturing. As part of EU harmonization, Moldova adhered in 2009 to the Bologna Process. Some education laws initiated by the communist government were canceled or revoked by its successor. Standards in higher education are

increasing, but quality guarantees remain an issue. Corruption is common and diplomas are often simply bought.

Despite having relatively large resources for education, Moldova is poorly positioned to invest in research and development. The Academy of Sciences and its subordinate institutes are the sole beneficiaries of the funds allocated for R&D. Moreover, there is a very weak connection between R&D and the real economy. The lack of involvement of the private sector or alternative academic research centers in the process of innovation results in low applicability of Moldovan inventions and regression in competitiveness. In 2009, only around 0.53% of GDP was spent on R&D. While exact data after 2009 is not available, R&D institutions complained that the new government reduced their funding. The AEI's plan to shift responsibility for R&D towards the private sector proved impracticable, due to the lack of private sector institutions to invest in R&D. The failure of this policy is reflected directly in the constant decline of patents by residents since the AEI takeover. In 2011, only 97 patents were registered, down from an average of around 300 in the prior 10 years. In 2011, the European Union and Moldova signed the FP7 agreement, which allows Moldova to participate in research projects together with R&D centers from EU countries.

# Transformation Management

## I. Level of Difficulty

Moldova lost a decade in its 1990s transition period, and although the transformation achievements of the communist 2000s are not entirely negative, they were hampered by massive side effects. Thus the current structural constraints on the government are massive. Moldova's management faces a number of serious structural constraints with root causes that reach far beyond the current government.

Structural  
constraints  
8

Three key constraints are directly or indirectly linked to the end of the Soviet Union. First, the loss of the traditional Soviet markets for Moldovan exports has made it difficult for the country to reorient its export economy. Moldova is totally dependent on Russia as a market for Moldovan products, as well as on oil and gas imports to cover its energy needs. The lack of critical support from the European Union and the West in the past also contributed to Moldova's weakness. EU markets remain blocked for Moldovan products, due to the strict regulations and quality standards Moldova can hardly fulfill. Both Russia and the European Union are able to use this pressure on Moldova for their political purposes, thus endangering planning reliability for Moldovan producers. Second, the intractable conflict with the Transnistrian region has deterred investors from long-term commitments in the country. The Transnistrian conflict is consuming political resources needed elsewhere and is used by Russia to exert pressure on the government in Chişinău, thus limiting its strategic options.

Third, as part of the above chain reaction, most of the best-educated members of younger generations have left the country in unknown numbers, thus depriving the state of crucial human capital for governance and reform. In the 2000s, the massive out-migration of the Moldovan labor force (partly seasonal, partly illegal, partly human trafficking) to both EU countries and the CIS became increasingly detrimental to the social fabric in rural areas. The influx of cash remittances, which largely bypass state control and taxation, oriented the economy towards consumption rather than production and created an illusion of stability and sustainability not warranted by macroeconomic figures, risks and dependencies. The second and third issues absorb enormous political energy, undermine the legitimacy and strength of state authorities, and can easily be used as an excuse not to tackle key reform issues.

As in most post-communist societies, Moldova has weak civil society traditions. Instead, people place high expectations on and a low level of trust in the state. Out of some 8,000 NGOs, the number of effective organizations is small, and most of them are dependent on international support and funding. Trust in political institutions is low. Moldova's government has only recently made the reform of essential state structures, such as civil service reform and decentralization, a priority. Since independence, a substantial portion of civil mobilization has been directed toward exclusivist ethnic issues, which did little to increase trust in institutions or generate moderation in society. According to November 2012 opinion poll, civil society organizations enjoy the trust of almost 25% of the population, which is more than the trust in the government, parliament, presidency, judiciary or trade unions.

Civil society traditions

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Any government faces the dilemma of mobilizing national solidarity and identification for the sake of transformation without inciting cleavages along ethnic or language lines. Overall, NGOs in Moldova are not of a grass-roots nature; the international community more often than not serves as both NGO sponsor and main client. Most of the current politically relevant NGOs are highly dependent on international funding. In addition, Moldova's political and societal elite is minute in size, which makes it extremely difficult, but not impossible, to develop a civil society independent of party politics. One positive example is the civil society pressure maintained during the April 2009 elections to ensure free and fair polling, signifying a promising trend in civil society's organization and self-confidence. Whether this positive trend has survived the ensuing stalemate remains to be seen. At least the present rulers are more willing and able to involve civil society in the decision-making process. One particular example is the creation of the National Participation Council, which includes many influential NGOs from different areas and is meant to provide expertise and alternative opinion on the decisions to be taken by the government.

Moldovan society is characterized by cleavages that are somewhat reflected in the political party system. A minority of 5% to 10% still favors unification with Romania and denies the existence of a separate Moldovan cultural and political identity, while the majority prefers a Moldovan state, either with a Romanian or a Moldovan cultural identity. All these groups adhere to a nation-state concept and reject the idea of a multinational nation. Despite their conciliatory tone towards minorities in recent years, the non-titulars are seen only as part of the state and not the nation. Widespread systematic discrimination patterns, comparable to those in the Baltic republics against Russian speakers, are not practiced in Moldova, although pressure exists on those not in command of the state language. At the same time, polarization on the question of Moldova's strategic movement is becoming more evident. The number of people who support the integration of Moldova in the European Union is pretty much the same as the number of people who support integration in the Russian-led Customs Union.

Conflict intensity

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The conflict with the unrecognized Transnistrian republic, which stems from earlier cleavages that no longer exist, is mainly fueled by the political elites in the Transnistrian region. Unlike the other frozen conflicts of the post-Soviet world, there are no hostilities between the two sides on a societal level. Despite some minor restrictions, people are able to move freely between both parts of the country. Since the ceasefire in the early 1990s, there has been no outbreak of serious violence between the two sides. After the regime change in the PMR and in Moldova proper, talks were resumed between both sides after having been suspended for six years. A renewed outbreak of violence is highly unlikely, as the conflict currently does not mobilize any significant segments of the population. It is, however, equally unlikely that the two sides will reunite into one country in the near future, due to their different structural and historical legacies. Despite the glaring socioeconomic disparities and the political polarization between communists and liberals – now ruling parties – and with the exception of the clashes in April 2009, these tensions have not translated into violence or a polarization of society along class or ethnic lines. Remittances and increased chances for social mobility for the younger generation seem to hold the social fabric together.

## II. Management Performance

### 14 | Steering Capability

The reform efforts of the communist regime (2000 – 2009) have often been ridiculed. Constraints of economic malaise, geopolitical situation and political pressure notwithstanding, some political and economic reforms were nevertheless initiated, all the more so after the government began to claim a pro-European orientation in 2004 – 2005. The Voronin regime cooperated with various international and EU agencies in the drafting of reforms, even though it dragged its feet in their implementation. The constraints for the new coalition government are largely the same, even compounded by the global economic crisis. Consequently, the new coalition's room for maneuver is limited, but in many respects it pursues existing reform orientations with much more commitment, drive and sincerity, for instance concerning visa liberalization, European market integration, and standards in labor relations, education and many other policy fields. All this represents priority given the incentives offered by the European Union. The European Union is the donor most influential on the policymaking agenda in Moldova.

Reviewing the track record of the past years and considering the domestic political conflict and the economic crisis, the coalition has achieved more and held together better than most analysts expected. As the coalition was primarily united in its

Question  
Score

Prioritization  
5



opposition to the communist regime, but differed on many issues of political principle and strategy, more populist measures, discord in the coalition and office-seeking were expected. Evidently, as political culture cannot be changed overnight, and as negative phenomena such as state capture, corruption and rent seeking, and nepotism are not limited to the communist regime, scandals and conflicts are bound to weaken the coalition's resolve in the medium term. In the present situation, moreover, even if the policy managers were to take all the right measures given their limited resources, they could hardly improve the situation to a degree that would substantially increase their legitimacy.

For example, when the National Development Strategy (2008 – 2011) adopted by the previous government was implemented by the current government, it demonstrated continuity between governments. The framework document that represents the vision of Moldova and the new National Development Strategy, called Moldova 2020, was designed in consultation with civil society, donors and authorities relying on evidence-based analysis with capacity-building support.

The government has improved its agenda and commitment, but bureaucratic inefficiencies and lack of resources are not the only reasons for deficiencies in the reform process. In both democratic and market economic areas of reform, the elite tend to undermine the process by pursuing their own interests. The new government coalition still has to prove its resilience and unity in implementing its policies and strategic agenda. The overall impression is that compliance and cooperation with the international community in general and the European Union in particular serve as a key orientation for coalition unity (e.g., in budgetary discipline or in reform of the judiciary or the customs services). Interagency rivalries, rent-seeking and bipartisan obstruction in politics and the civil service are bound to create serious obstacles to efficient reform implementation in the medium term, all the more so as the present coalition contains potentially competing leaders.

Due to the immense constraints posed by structural problems and the economic crisis, policy learning is difficult to achieve. In its latest report, dated March 2013, the European Commission praised the progress that has been made by Moldova in addressing most of the key recommendations contained in last year's European Neighbourhood Policy (ENP) Action Plan progress report. The present government is open to advice and policy recommendations from international organizations, even if they do not conform with its need to broaden its base in society by pursuing necessary but sometimes unpopular strategies (e.g., by reforming the pension system and by cutting down on ineffective state subsidies). On the other hand, in some cases, donors themselves are failing to align their assistance with the main strategic priorities of the country as requested by the Paris Declaration principles (National Development Strategy), as, for example, in the case of 2009 – 2010, when support for the economic sector was very poor.

Implementation  
6

Policy learning  
6

The present government, moreover, seems focused on defining policies for their effective outcome rather than on repudiating the policies of its communist predecessors (e.g., reform of the judiciary). Without any doubt, wheeling and dealing will take place within the cabinet and among political institutions, but, on the outside, the coalition seems geared towards using whatever leeway is left based on current assessments and empirical data rather than ideological dogma. On the other hand, the main issues on the agenda today (economic restructuring, social policy and fiscal/monetary policy) are global issues rather than matters of national debate.

## 15 | Resource Efficiency

Moldova's key assets relating to the problems it faces are twofold, despite all limitations: First, the government is able to increase its resources substantially by complying with EU and IFI standards and recommendations. So far, it has been successful in doing so. Second, with the change of government, a trend that had begun some years earlier has intensified, and Chişinău's main asset may be the younger, partly Western-trained generation of politicians and civil servants, committed to the reform agenda of the new coalition. Although political loyalty remains an important criterion for selection of public servants, this is mainly true for the higher managerial levels, while at the middle-management level a class of well-trained state bureaucrats has begun to emerge. Moldova is still lagging behind on decentralization, and no significant progress has made in this field. Government expenditures as a proportion of GDP have gone down in the last three years, but were still at a high 33% for 2011. The cash deficit as a proportion of GDP was at its highest in 2009, at 5.9%, a direct result of the financial crisis. The government is trying to stick to its ambitious fiscal target but had to raise its planned deficit of 0.9% to 1.3% of GDP in 2012, due to the weaker economy. The Court of Accounts carried out audits of many institutions and found extensive misuse of resources. Leaders and institutions, however, still enjoy a high degree of impunity thanks to political connections.

Efficient use of assets

6

Key dilemmas of policy prioritization and resource allocation remain unresolved. These include balancing economic liberalization and social cohesion for the rural and urban poor as well as matching policy initiatives with the required human and financial resources. In this respect, the drive of the new government for decentralization of power and resources seems a positive trend.

Policy coordination

6

In order to give strategic thinking and policy coordination a more central role in defining more effective public policies, the Division for Strategic Planning, Policies and Aid Coordination (DSPAC) was formed by consolidating competencies within the State Chancellery. The DSPAC is responsible for coordinating ministries as it monitors the implementation of the National Development Strategy, sectoral strategies and other institutional development programs. The DSPAC also prepares, drafts and revises all public policy documents. Together with the Ministry of Finance,

it ensures policies are aligned with the Medium Term Expenditures Framework (MTEF). In order to ensure the involvement of relevant actors in policymaking, the DSPAC works closely with the National Participation Council (established by the government in 2009). The council provides a forum by which civil society actors can monitor policy implementation as they consult with and influence the government on different policy initiatives. Nonetheless, given the murky political situation and frequent elections, there are some difficulties in ensuring across-the-board transparency and better coordination among the ministries (which are divided with regard to the Alliance for European Integration).

The new government has initiated several new laws to curb corruption, including new laws on conflict of interest and public procurement. As a symbolic act contrary to previous governments, ministers of the Filat government have made financial disclosures for 2009 in a statement available online. Nevertheless, the success in combating corruption has been meager. The Group of States Against Corruption (GRECO) has reported on Moldova's readiness to following GRECO's recommendations on the fight against corruption. Many regulations and laws concerning public finances, procurement and auditing that were signed earlier are now in the process of being implemented more thoroughly.

Anti-corruption  
policy

4

According to the latest GRECO report of March 2013, Moldova has so far only implemented or dealt with six of the 17 recommendations in a satisfactory manner. The rest remain partly implemented. It is noteworthy that out of the 11 recommendations that have been partly addressed, nine of them concern the transparency of party funding. The problem is related to the fact that most of the parties, including all parties represented in the parliament, are not willing to enforce a transparent and efficient mechanism of party financing.

Though access to information is given, many times the information provided by the authorities is very general and does not match the questions; most institutions still provide information only in order to comply with the letter of the law.

In terms of spending figures and other public data, Moldova's e-Governance Center is implementing the Open Data program, which gives access to data of most of the ministries, but also enables people to access public services via Internet or specific technology and avoid contact with civil servants, which minimizes the opportunity for petty corruption.

The process of implementing anticorruption policy has been significantly boosted, although with limited results, by the implementation of the visa liberalization plan with the European Union. Within the same process, the National Integrity Commission (NIC) was established for checking declarations of officials' assets, incomes and interests. The NIC is already investigating the cases of several judges, though no results have yet materialized.

## 16 | Consensus-Building

The political consensus on a market economy as a long-term objective has improved in recent years with the gradual sidelining of the orthodox communist faction in the Communist Party. All political players in Moldova accept the goal of democracy and a market economy. Even in the Transnistrian region there is a consensus on the necessity of following a market economy path. Although the regime change in Transnistria shows that democracy is ascendant, post-Soviet authoritarianism still looms as a potential threat, and substantial changes remain to be implemented. The dilemma of balancing economic liberalization and transformation costs on the one hand, and social sustainability for the populace on the other, continues even following the 2009 regime change. In terms of orienting transformation-related legislation around European norms and procedures, the degree of consensus among the major political parties is relatively high, even across the divide between the communist opposition and ruling coalition. No ideological debate persists on the long-term objectives of Moldova, with the exception of the geopolitical direction: European Union vs. Russian-led Customs Union.

Consensus on goals  
8

Moldova has no antireform or principally antidemocratic veto players. Even the anticapitalist pockets in the Communist Party have dropped their resistance to market economic principles. The absence of visible and outspoken veto powers may be understood pessimistically as an indication that shadowy forms of economic activity continue largely unhampered by state regulation and control. The only antidemocratic actor is the Transnistrian regime, based in the eastern regions of Moldova.

Anti-democratic actors  
7

The new political leadership has demonstrated a high degree of consensus building on two accounts. First, it sidelined efforts to put former president Voronin on trial, thereby risking an escalation of conflict beyond the normal channels of political confrontation. As the new regime has not been too adamant about revoking or reversing reform efforts and legislative initiatives begun by its communist predecessors, the escalation of political polarization has been less than expected. The new coalition has opted for a low-profile strategy on controversial issues of history and identity rather than aggressively tackling these risky and protracted issues. However, as shown by the early 2010 parliamentary elections, the degree of polarization remains high, especially in terms of identity issues.

Cleavage / conflict management  
7

If the change of government in mid-2009 marked a real watershed in one particular aspect, it was the active involvement of civil society organizations in providing both expertise for policy initiatives and, more importantly, in providing a societal base for necessary reforms. Dialogue with civil society has noticeably improved, and access to information and transparency of the public decision-making process have increased. In December 2009, the National Participation Council was established to

Civil society participation  
8

facilitate and structure the participation of civil society in the public decision-making process. Politicians demonstrate greater openness to input and criticism from society and the public, probably as it is one of the few venues where they can consolidate legitimacy and build trust. However, Moldovan civil society is still weak in policy formulation as a result of limited access to state information. Many state institutions still perceive civil society as an actor that should not be involved in the decision-making process; that is why the communication between the institutions and civil society is deficient. Overall, civil society has a small influence on decision-making, even while its agenda-setting and monitoring capacity is increasing. Also, the ability of civil society to fulfill its objectives depends to a great extent on its financial viability.

Moldova has not seen any serious public confrontation with respect to injustice associated with its dictatorial (fascist and communist) past. Public discourse (e.g., in history textbooks) concerning collectivization, deportations and purges is scant and largely euphemistic. Communists tended to abuse the topic of the existence of World War II fascist concentration camps in Romanian-German-occupied Moldova for political purposes against the pro-Romanian movements. These movements conversely staged protests against Moldovan language and history, with pro-Romanian textbooks expanding on communist injustices for political purposes. In 2012, the parliament of Moldova officially condemned the communist totalitarian regime under the Soviet Union for crimes against humanity.

Reconciliation

4

Moldovan law formally recognizes the rights of people exiled or politically repressed by the fascist and communist regimes to their former property, but no general statute on restitution exists. A hazardous process of de-collectivization and an incomplete restitution process wrought with uncertainties have produced a highly fragmented rural economy rather than historical justice. Restitution and historical justice, however, are not significant public issues in Moldova today. The present coalition seems largely united in its resolve not to open up contentious historical issues related to former dictatorships and occupations or to national and state identity. Even the marginalized Christian-Democratic People's Party seems to have moderated its stance on reunification with Romania and the mobilization of ethnic issues.

## 17 | International Cooperation

The absorption of external assistance is made according to the country's main medium-term strategic planning document – the National Development Strategy Moldova 2020. This paper, adopted in July 2012, determines the country's development objectives, identifies measures and actions to achieve these objectives (the Consolidated Action Plan – CAP) and serves as a unique tool for integrating the strategic framework and the connection with budget planning (the Medium Term Budgetary Framework – MTBF). The document creates a platform for a results-

Effective use of support

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oriented, comprehensive, partnership-based approach for ensuring qualitative economic development and, implicitly, poverty reduction. Moldovan authorities at different levels receive experience and know-how from the European Union via several tools. The most important of these are the TAIEX and Twinning projects, the High Level EU Advisers (EUHLPAM) to different central institutions, the EUBAM for border issues and customs, as well as other projects.

Donor activities are well coordinated by the Department for Policy Coordination, Foreign Assistance and Central Public Administration Reform within the State Chancellery. Most donors have already begun to coordinate their activities at the request of the government. They expressed their willingness to formulate development partnership principles (DPP) for coordinating and harmonizing the 2006 framework Government and Partner Practices for Enhanced Effectiveness of Foreign Assistance to the Republic of Moldova. These were endorsed by the majority of donors already in March 2010. The Partnership Principles Implementation Plan (PIIP) was adopted in November 2010. This plan sets out in specific terms how development partners and the government will work together to ensure that resources are aligned behind government priorities.

Despite the progress made by the political actors of Moldova in the effective use of support, implementation often lags behind expectations. This is especially true in the case of reforms that target the reduction of rent-seeking economic and political actors.

So far, the new government has acted as a mostly credible and mostly reliable (but also highly dependent) partner to the international community. The corruption and inefficacy of state institutions remain problematic. The entanglement between politics and shadowy economic interests is still significant, and the prediction of political actors' behavior is still unreliable. This reduces the credibility of the current government in the eyes of the international donor community.

Credibility

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Moldova is currently a member of a number of regional organizations (South-East European Cooperation Process, or SEEC; Black Sea Economic Cooperation, or BSEC; Central European Initiative, or CEI) and seeks affiliation with southeast Europe rather than the CIS region. Relations with Ukraine have been stable even if there were some tensions because of the issue of state border demarcation in the Palanca, Dnestrovsk and Giurgulesti regions and the unresolved situation of Moldovan properties in Ukraine. Relations with Russia improved, and a trade agreement signed between the two countries in August 2011 lifted trade restrictions, especially on Moldovan wine. The recent Russian initiatives to mediate between Tiraspol and Chişinău are a positive development. Relations with Romania improved considerably. The country became one of Moldova's most important trade partners, providing constant political support and most recently becoming one of the most important bilateral donors, with financial assistance (€100 million for four years) to support the reforms in Moldova. Since the change of government, Moldova has

Regional cooperation

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expressed its interest in good relations with Kiev and Moscow, but its policy attention is focused on the European Union and its assistance and initiatives for both the European Neighbourhood Policy (ENP) and southeast Europe. Chişinău has intensified its efforts to make the most of ENP Plus, while at the same time continuing its long-term endeavor to be considered part of southeast Europe, with corresponding advantages in integration with Europe. As a small country in between EU regions, Moldova is intent on pushing the European Union for more privileges, while acting as a constructive and moderate partner for contentious issues, such as the Pridnestrovian conflict.

## Strategic Outlook

Due to massive constraints, the options for alternative policy strategies are strictly limited for the present government. Three key issues will determine Moldova's transformation management in the medium term:

1) Geopolitical orientation: Moldova will have to continuously and cautiously maneuver between its EU orientation and its orientation towards Moscow. Relations with the European Union have proved beneficial to the country in attracting multinational donors, pursuing needed market reforms and strengthening democratization and civil society. Good relations with Moscow, on the other hand, provide access to markets (goods and labor) and energy resources and would ensure a quick settlement of the Transnistrian conflict.

2) National identity discourses: The new government has been wise and relatively unified in not reopening contentious, unproductive and divisive issues of national identity and language, including reunification with Romania and historical legacies. Keeping these issues low-key and prioritizing future-oriented reform programs would be a step forward for the political parties and the intellectual elite. The same applies to the Pridnestrovian conflict. Pragmatically, the only option for normalization between both sides is a gradual process of democratization in the unrecognized PMR, the intensification of trust-building measures between both sides, and the implicit blessing of Russia.

3) Ability of the political elite to prove its credibility and to compromise: Despite improvements, the political elite of Moldova must increase its professionalism. Although populist ideologues are increasingly giving way to practical technocrats, the former are often still able to strike a chord in the population. Corruption and mismanagement are still widespread, and trust in politicians is low. The return of a populist government – be it left- or right-leaning – looms as a potential challenge, while fighting corruption remains one of the main important tasks.