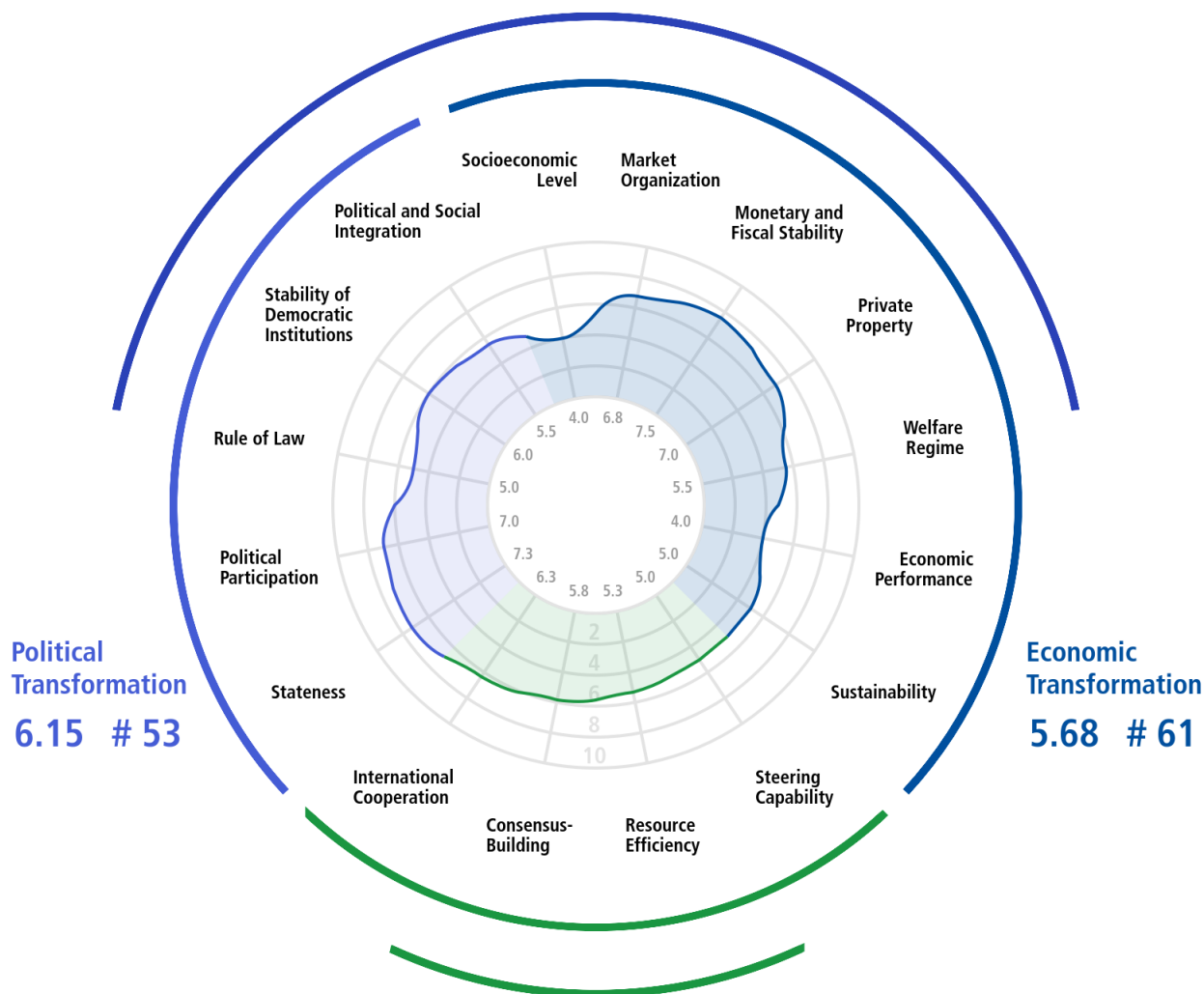


# Moldova

## Status Index

**5.91 # 56**

on 1-10 scale out of 137



**Political Transformation**  
**6.15 # 53**

**Economic Transformation**  
**5.68 # 61**

## Governance Index

**4.99 # 60**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2022 Country Report – Moldova. Gütersloh: Bertelsmann Stiftung, 2022.

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## **Contact**

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### **Sabine Donner**

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### **Hauke Hartmann**

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### **Claudia Härterich**

Phone +49 5241 81 81263  
[claudia.haerterich@bertelsmann-stiftung.de](mailto:claudia.haerterich@bertelsmann-stiftung.de)

### **Sabine Steinkamp**

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>2.6</b>	HDI	<b>0.750</b>	GDP p.c., PPP \$	<b>13002</b>
Pop. growth <sup>1</sup>	% p.a.	<b>-1.7</b>	HDI rank of 189	<b>90</b>	Gini Index	<b>25.7</b>
Life expectancy	years	<b>71.9</b>	UN Education Index	<b>0.711</b>	Poverty <sup>3</sup>	% <b>0.9</b>
Urban population	%	<b>42.8</b>	Gender inequality <sup>2</sup>	<b>0.204</b>	Aid per capita \$	<b>128.7</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

In June 2019, the pro-Russian Party of Socialists (PSRM) and the pro-European opposition from the ACUM bloc (persuaded by major foreign actors including the United States, European Union and Russia) decided to form a joint government and remove the oligarch Vlad Plahotniuc, the leader of the ruling Democratic Party (PDM) and the richest man in Moldova, from power. After a week of political crisis, during which the government representing the oligarch refused to hand over power, this goal was achieved. Plahotniuc fled the country and a new government was established, which was headed by Maia Sandu, leader of the pro-reformist Action and Solidarity (PAS) party (a member of the ACUM bloc). However, the ambitious reform program, especially the de-politicization of the judiciary, met with resistance from the Socialists. In November 2019, the Socialists passed a vote of no confidence and, with the support of the PDM, formed their own government, led by Ion Chicu. With the Socialists taking power, the ambitious reform agenda slowed down, and relations between Chişinău and its main partners (except for Russia) deteriorated. In November 2020, Maia Sandu managed to win the presidential election. Although the prerogatives of the head of state in Moldova are very limited, this was a major victory for the pro-European opposition, boosting the opposition ahead of the next parliamentary elections, which are expected to be held earlier than scheduled in 2021.

A relatively poor country, with an underfunded and understaffed health care system, Moldova was particularly vulnerable to the COVID-19 pandemic. In January 2021, the number of people infected with the coronavirus per one million inhabitants in Moldova reached almost 45,000, comparable to France and Austria. In order to limit the scale of the pandemic, the Moldovan authorities decided to introduce a state of emergency in March 2020, which was then replaced in mid-May by a state of emergency in the public health service. The lockdown and other restrictions introduced due to the pandemic did not seriously disturb the democratic mechanisms. Parliament (with a short break) met regularly and the presidential election in November 2020 was organized without major obstacles.

Economic growth in the second and in the third quarter of 2020 decreased by 14% and 10%, respectively (compared to the same period the year before). The Moldovan authorities tried to help entrepreneurs whose activities were limited by the lockdown, but the scale of this aid was very small. In January 2021, the World Bank estimated that in 2020 the economy had contracted by 7.2%. In the first 11 months of 2020, exports decreased by 11.5% and imports by 8.6% (compared to the same period in 2019). On a positive note, despite the pandemic, the inflow of remittances has increased. In the third quarter of 2020, remittances had increased by almost 35% over the same period in 2019. The official unemployment rate remains low (around 3–4%). As the pandemic has led to a decline in inflationary pressures, the annual inflation rate has decreased from 5.9% in March 2020 to 0.39% in December 2020.

## History and Characteristics of Transformation

As with many CIS 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 Russia-sponsored secession movements. The secession of the two regions in 1990 and especially of highly industrialized Transnistria led in 1992 to armed conflict between Moldovan government forces and Transnistrian volunteers supported by Russian troops stationed in the region. After five months of fighting Chişinău's forces were defeated, and Moldova de facto lost control over Transnistria and signed a cease-fire agreement with Russia. 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 Transnistrian region, which had accounted for 40% of Moldavian SSR's GDP (now 15%), 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, GDP of the newly independent state shrank by as much as 35% and the downward trend continued until 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, slowed down large-scale economic liberalization. The situation started to change in 2009 when the group of (self-declared) 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 which included the creation of a Deep and Comprehensive Free Trade Area (DCFTA) in 2014. As it turned out, however, many reforms existed only on paper.

Ideological debates on nationhood, 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 involving high-ranking politicians.

By 2015, the oligarch Vlad Plahotniuc had assumed almost full control of the state apparatus (including the government, parliamentary majority and judiciary), turning Moldova into a classic example of a so-called captured state in which state institutions serve only as a source of income and protection for the ruling political and business classes. He maintained his power by informally cooperating with the officially anti-oligarchic, pro-Russian Socialist Party (PSRM) and its de facto leader, Igor Dodon. Both politicians were interested in maintaining this system and preventing the opposition from taking power. This system collapsed after the parliamentary elections in 2019. The tactical alliance between the Socialists and the pro-European opposition (aimed at ousting Plahotniuc) led to the formation of Maia Sandu's government, which lasted only five months. The Sandu government was itself ousted because the Socialists obstructed reforms that could threaten their position. Sandu's victory in the presidential election at the end of 2020 has led to a clear strengthening of the role of the pro-European opposition, however.

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

The authorities in Chişinău control the vast majority of the country’s constitutional territory. The exception, however, is the separatist region known as Transnistria or Transnistrian Moldavian Republic (PMR). This strip of land situated mainly on the left bank of the Dniester river (including the “capital city” of Tiraspol) and on certain territories on the right bank (including the city of Bender) has not been under the control of Chişinău since 1990, when the territory declared its independence from the Moldovan state, a situation not recognized internationally to date. Despite this situation, the government of Moldova also exercises control (contested by Transnistria) over several smaller villages in the Dubasari region.

Since 1992, Transnistria has been a quasi-state, with its own effective government, administration, police, armed forces and secret service. Those formations, together with the Russian military’s 1,500 troops stationed in the region, allow local authorities to maintain a complete monopoly on the use of force over the territory of the PMR. In 2017, the Moldovan Constitutional Court recognized Transnistria as an occupied territory. Pro-Western Moldovan politicians regularly demand that Russia withdraw its armed forces.

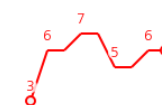
Between 1990 and 2017, Transnistria made it impossible for Moldova to exercise any control over the 400-kilometer-long section of its eastern border with Ukraine. Moreover, Moldovan farmers were deprived of access to their farmland, located de facto on the territory of PMR. The situation changed somewhat in 2017, when the authorities in Chişinău and Kiev launched the first joint control checkpoint on the Kuchurgan-Pervomaysk border-crossing located on the Transnistrian section of the common border. Additionally, in December 2017, Moldovan and Ukrainian border guards began joint patrols of the Transnistrian perimeter of the common border. Thanks to the agreement concluded with Tiraspol in the same year, Moldovan farmers were provided with free access to most of their land located on the territory controlled by Transnistria. The parties also managed to agree on the creation of new, “neutral”

Question  
Score

Monopoly on the  
use of force

6

'06 '22 10



1

license plates (without state markings) for cars registered in Transnistria, which enabled Transnistrian drivers to travel abroad, and provided Moldovan authorities with 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. The inability of Moldovan elites to propose an attractive identity model to which all citizens can subscribe continues to affect the cohesion of Moldova's ethnically diverse society in which Moldovans/Romanians account for around 78% of the population of right-bank Moldova (i.e., excluding Transnistria), while Ukrainians make up 9%, Russians 6% and Gagauz 4%. The titular majority also remains fragmented and uncertain of its identity, and the entire society (including the minorities) is deeply divided over attitudes toward history, national symbols, certain values or even the name of the official language.

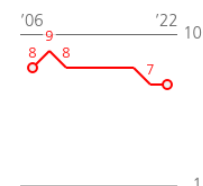
Parts of the population (namely Russian-speaking minorities) and political parties (left and center-left) support the so-called Moldovenism, which highlights the separateness of Moldovans and Romanians. Proponents of this approach advocate a multiethnic civic state in which Russian plays a special role as a language of interethnic communication. 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 Moldovan statehood.

Although there are political parties that advocate for Moldova to unify with Romania, support for them is marginal. On the other hand, the number of people in favor of unification with the Moldova's western neighbor has doubled over the last five years: In the second half of 2020, about 30% of Moldovans supported this idea. This trend is primarily a consequence of growing disillusionment with the political class and of the poor economic situation. Currently around 800,000 Moldovans (25% of the population) have Romanian passports. 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.

The identity problem has directly affected the political scene and the party system, and has seriously impaired Moldova's ability to foster a sense of loyalty toward the state and a spirit of modern patriotism.

#### State identity

7



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 political system. In reality, however, because of the traditional conservatism of the Moldovan population (95% of which associate with the Orthodox Church), 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).

Pro-Russian political forces (e.g., the Party of Socialists of the Republic of Moldova, PSRM, and their leader, former President Igor Dodon) are the main supporters of the Metropolitanate of Chişinău and all Moldova (MOC), which is subordinate to the Moscow Patriarchate. The MOC plays a dominant role in the country as it includes about 80% of Moldovans. While in office, Igor Dodon repeatedly emphasized the importance of the Orthodox Church as one of the pillars of Moldova's statehood. In turn, MOC dignitaries traditionally engage in election campaigns during which they often support candidates with pro-Russian views. In regions of the country dominated by the Russian-speaking population, the support of the clergy for pro-Russian politicians is particularly high (e.g., Bishop Marchel of Bălţi and Făleşti).

It should be noted, however, that in 2020, to limit the spread of COVID-19, the ruling socialists did not hesitate to make decisions that were criticized by the Orthodox Church. When in April 2020 the head of the MOC, Vladimir, attacked the government for banning worship services, this was rebutted by the government and by the faithful Igor Dodon, who emphasized the separation of the church and state. In addition, both Igor Dodon and Prime Minister Ion Chicu refused to provide financial support to the church from the state budget. They also criticized calls from senior MOC officials for followers to reject COVID-19 vaccines (the church synod published a letter warning that vaccines contain microchips).

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, quality staff and high levels of corruption.

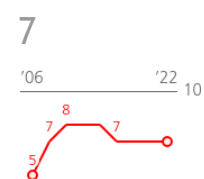
Although the authorities are consistently expanding the water and sewerage infrastructure (often renovations are undertaken with the support of external donors), Moldova still suffers from serious shortcomings in this area. According to the National Bureau of Statistics, in 2019, 53 cities and 724 villages had access to the public water supply system, which represents 50.7% of the country's localities. In 2017, (latest available data), only about 23.1% of the total population had access to the centralized sewerage system (50.6% of the country's urban population and just 2.3% in rural areas). Yet, in terms of head count, according to WHO data, 89% of the population have access to basic drinking water services and more than three-quarters of the population have access to basic sanitation services. On another positive note, basic infrastructure services have not been limited or seriously disrupted due to COVID-19 pandemic.

No interference of religious dogmas



1

Basic administration



1



## 2 | Political Participation

According to the constitution, elections to the Moldovan parliament, president 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.

Funding of the political parties and elections remains nontransparent. In the hidden camera footage released by Plahotniuc-controlled media in 2019, Dodon appears to admit that he received between \$600,000 and \$1 million per month from Russia to fund his party. Despite the publication of the recording, the Prosecutor's Office did not prosecute Dodon. Access to the media for opposition groups is limited, as the greater part of the media is dominated by ruling groups.

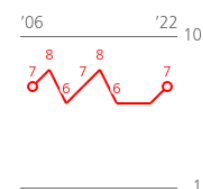
Often, the authorities act (sometimes in legally questionable ways) to improve the chances of the ruling candidates. Before the presidential elections in 2020, the authorities sought, *inter alia*, to open as many polling stations as possible in Russia (where the electorate has traditionally supported the socialists). Socialist representatives likely tried to transport Moldovan citizens living in Transnistria in order to enable them to participate in the elections. Despite this, the degree to which elections are free and fair has clearly increased with the dismantling of the oligarchic system and the increase in political pluralism.

In 2019, important positive amendments to electoral legislation were passed in order to undo the controversial reforms previously introduced to provide the then ruling Democratic Party (PDM) with more seats in parliament (after elections organized in February 2019). Among others, in August 2019, the ACUM-PSRM coalition scrapped the "mixed" voting system (for parliamentary elections) adopted in 2017 and restored the proportional system. Furthermore, in February 2020, the Moldovan Constitutional Court declared unconstitutional the so-called quantitative and territorial requirements for establishing political parties, which in practice prevented the creation of regional parties representing minority groups that live in a specific region (European Implementation Assessment 2020, pp. 44–5).

The pandemic did not have any significant impact on the election process in Moldova. In two villages, by-elections have been postponed by several months, while turnout during the supplementary vote in Hâncești decreased to only 23% due to the pandemic.

Free and fair elections

7



With the collapse of the political system created by Vlad Plahotniuc, democratically elected political representatives have regained considerable power to govern. Yet, certain interest groups continue to play an important role in legislative and government decision-making processes. Political representatives (on local and central levels) tend to abuse their offices in order to protect their business interests.

Additionally, some parties (including those in power) seem to be very strongly influenced (both politically and financially) by external actors who may have a decisive influence on their political decisions. This notably applies to Russia, which reportedly financed the Socialist Party to the tune of up to \$1 million monthly, with Russian media support for the Socialists undoubtedly indicating Kremlin influence.

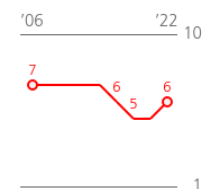
It is not uncommon for the competences of democratically elected officials to be limited in the interests of business and political groups that have close ties to the authorities. For example, in December 2020, the Socialists together with the Şor Party and some former members of the Democratic Party stripped President-elect Sandu of certain control over the intelligence service, which is an important instrument in fighting corruption. The Constitutional Court has been depoliticized to a large extent and is no longer an instrument that enables the circumvention of the legislative process in the interests of specific political or business circles.

Freedom of assembly in Moldova is guaranteed by the constitution and legislation. As a rule, the authorities do not oppose the organization of public demonstrations and manifestations (including anti-government protests). However, public sector employees (e.g., teachers or clerks) who want to participate in anti-government demonstrations are subject to pressure and sometimes even intimidated, and are sometimes forced to attend rallies organized by the ruling party. The Moldovan LGBTQ+ community also enjoys a formal right to assembly, but their parades and demonstrations always face aggressive counterdemonstrations. However, the police do stand up for participants in such marches and try to ensure their safety.

Due to the COVID-19 pandemic, on March 17, 2020, Moldova introduced a state of emergency, which, among other things, limited freedom of assembly (groups of more than three people were banned from gathering in public places). In addition, people over the age of 63 were forbidden from leaving their homes, except for urgent needs. The state of emergency ended on May 15, but it was replaced with a nationwide state of emergency in the area of health care, which lasted until September 30 (afterwards the restrictions remained in force only in “red zones”). Restrictions on assembly and the movement of elderly people remained in place during that time. Due to the worsening epidemiological situation, on November 27, a nationwide state of emergency in the area of health care was once again established (until January 15, 2021). However, the authorities enforced the restrictions on public assemblies to a very limited extent. This was evidenced by the broad anti-government demonstrations in Chişinău in December 2020, during which the police did not intervene.

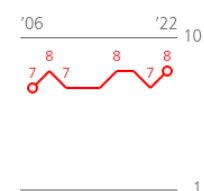
Effective power to govern

6



Association / assembly rights

8



Freedom of expression in Moldova is guaranteed by the constitution and media legislation has clearly improved in recent years. In January 2019, the new Audiovisual Code entered into force. Among other things, the new code has relaxed the regulations introduced in March 2017, which obliged TV and radio stations to broadcast daily no less than eight hours of domestic content produced by local companies. This limited media freedom in Moldova, as smaller broadcasters lacked the financial resources to produce domestic content in the quantities required by the law.

Despite legal improvements, the media situation in Moldova is still not good. Local media remain largely monopolized and subordinated to a few influential political and business groups. Occasionally, journalists are still threatened by politicians or civil servants. Cases of stalking, intimidation and persecution are not uncommon. For example, Moldovan authorities conducted a mass eavesdropping of journalists between 2017 and 2019. Politicians also put political pressure on independent media by suing media outlets that investigated allegations of corruption. Additionally, Russian media (primarily Russian television which plays an important role in Moldova's media space) and local pro-Russian broadcasters often promote disinformation and fake news.

In connection with the pandemic, the authorities attempted to limit freedom of speech. On March 24, the Audiovisual Council of Moldova published a regulation which obliged local media to report exclusively the official position regarding the COVID-19 pandemic. These regulations were introduced after medical workers publicly criticized the conditions in which they had to operate (lack of protective equipment, disinfectant or even proper payment). New provisions were quickly canceled, however, after tough criticism from civil society.

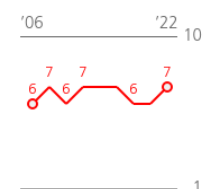
### 3 | Rule of Law

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. From November 2019 to December 2020, President Igor Dodon (who was also the de facto leader of the then ruling Socialists) was the main political decision-maker in the country. When in December 2020 the leader of the pro-European opposition, Maia Sandu, became the head of state in Moldova, relations between the President's Office, and the government and its parliamentary majority became strained. Furthermore, the parliamentary majority in Moldova tends to marginalize the opposition and push through controversial bills without consulting other parties or the public.

Recently, due to the collapse of the former oligarchic order, political pressure on judges has eased somewhat, although the judiciary remains prone to corruption and

Freedom of expression

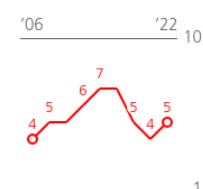
7



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Separation of powers

5



1

servility. However, the Constitutional Court regained political independence, which before 2019 had been used for extra-parliamentary lawmaking (through specific interpretations or annulments of laws).

A state of emergency was declared on March 16, 2020, which was replaced by a state of health emergency on May 16. The National Extraordinary Public Health Commission, chaired by the prime minister, prolonged the state of health emergency several times. During these periods, the executive and legislative bodies continued their work without major breaks. The only exception was the two-week quarantine of the Moldovan parliament announced on May 22 following the COVID-19 infection of one member of parliament.

With the collapse of the oligarchic system led by Vlad Plahotniuc, the situation in the Moldovan judiciary (previously subordinated to the oligarch) showed some improvement. However, this process is slow, and is being sabotaged by certain political and business circles. The Socialists, who took power in November 2019 and used to be Plahotniuc's junior partner, seem interested in taking over, not dismantling, the system of oligarchic control over the judiciary. The politicization of Moldova's judiciary continues. Among other things, ongoing investigations and court proceedings against high-ranking politicians and businessmen are protracted. For example, the case against Ilan Șor has remained pending since 2015, with court hearings having been moved or canceled several dozen times prior to 2021. The inability to prosecute the foreign funding of the Socialist Party is another example of the Moldovan judiciary's political servility.

According to the latest (October 2020) opinion polls by Moldova's Public Opinion Barometer (BOP), at present only about 19% of Moldovan citizens have trust in the judiciary and the Prosecutor's Office.

Despite these doubts, some positive changes to the Moldovan justice system have been made in recent months. One is the ongoing revision of politically motivated investigations and judgments delivered before mid-2019. Criminal proceedings against Vlad Plahotniuc, which started in September 2019, are another example. A successful conviction against the former oligarch seems very unlikely as he is currently believed to be in Turkey (some sources claim he has Turkish citizenship). It seems that a proportion of the influential political forces in Moldova (including the PSRM) are not interested in bringing Plahotniuc back to the country.

Very positive changes have been made to the Constitutional Court, which remained a political instrument of the ruling elite until June 2019. Currently, the Constitutional Court seems to be independent as proven by its recent judgments against the interests of both authorities and opposition.

Independent  
judiciary

5

'06 \_\_\_\_\_ '22 10



1

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 or political actors, or use their power to protect their own interests and enrich themselves. Even when prosecutions are pursued, they are rarely motivated by the efficiency of justice but by political competition.

With the changeover in power in mid-2019, investigations began into cases of corruption and abuse of power involving people who previously were beyond the reach of law enforcement agencies. Progress has been made in the investigation related to the theft of \$1 billion from Moldovan banks in 2014. One of the key investigations, which started in September 2019, concerns former oligarch Vlad Plahotniuc. Among other crimes, Plahotniuc is accused of large-scale money-laundering and abuse of power, committed in the interest of an organized criminal group. In October 2019, the parliamentary committee investigating the case of the “stolen billion” published a report which concluded that the theft had been organized by Plahotniuc, Ilan Șor (the leader of the Șor Party), former Prime Minister Vlad Filat and businessman Veaceslav Platon (European Implementation Assessment 2020, pp. 63–4).

Previously, in July 2019, Moldovan law enforcement authorities issued a national arrest warrant for Ilan Șor, who was sentenced to 7.5 years in prison in June 2017 but remained free until he fled the country (probably to Israel) in June 2019. Although he is hiding abroad, Șor remains an active member of the Moldovan parliament and a leader of one of the parliamentary parties.

Officially, Moldova is committed to respecting civil rights (which are codified by law) and there have been positive developments in this regard in recent years. Yet, fundamental freedoms are still violated. This concerns 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. For instance, access to qualified medical specialists for detainees with serious health problems is limited. The right to a fair trial is also challenged, among other things, by the partiality of judges and corruption in the judiciary.

Torture and physical abuse in prisons (which is legally prohibited) are sometimes used as a method of pressuring imprisoned or detained political opponents. In the first half of 2019, the anti-torture division of the Prosecutor General’s Office received over 450 allegations of torture and mistreatment (significantly more than in the same period of 2018), but only 45 criminal cases were initiated. Moldova also struggles with the challenge of detaining people with disabilities in psychiatric hospitals without their consent. Hate speech against the LGBT community is common in Moldova, not only from religious leaders but also from influential politicians. Hate crimes generally go unreported and are poorly (if at all) investigated.

#### Prosecution of office abuse

4

'06 \_\_\_\_\_ '22 10



\_\_\_\_\_ 1

#### Civil rights

6

'06 \_\_\_\_\_ '22 10



\_\_\_\_\_ 1

In general, both during the state of emergency declared after the outbreak of the COVID-19 pandemic and during the subsequent public health emergency, fundamental rights were protected as before. However, many medics had to work without appropriate protective equipment, which put their health and life in danger. Consideration of non-urgent civil and criminal cases was postponed until May 15. Assembly rights remained limited during both states of emergency. However, this prohibition was not really respected, as evidenced by the anti-government rallies that took place while it was in force.

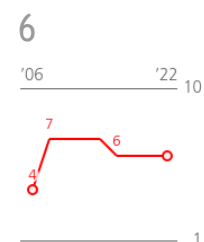
#### 4 | Stability of Democratic Institutions

Along with the collapse of the oligarchic system in 2019, tensions and friction between individual institutions, organizations and public authorities clearly increased. Currently, a key conflict is taking place between the parliament and the government dominated by the PSRM (supported by the Șor party and former members of the Democratic Party, the PDM) on the one hand, and President Sandu supported by part of the opposition on the other. These tensions are both ideological (pro-Western Sandu vs pro-Russian Socialists) and systemic (Sandu and her allies are advocates of reform and democratization, while the Socialists and their associates are in favor of preserving the current system). In 2020, a struggle over the Constitutional Court's dependence on the government also flared up, which eventually led to the Constitutional Court becoming more independent.

Recently, due to the political turmoil, deputies and members of local authorities (mayors, councilors) often change party colors. Political affiliation is mainly changed by members of the Democratic Party, which weakened significantly following Plahotniuc's escape. Occasionally, deputies and local authority officials are encouraged to make such decisions by intimidation or bribery.

On the declaratory level, all mainstream parties and civil society movements approve democratic norms and values. Even parties willing to copy authoritarian government models (particularly from Russia), such as the Party of Socialists, Șor Party or the "Our Party" of Renato Usatii, rhetorically do not reject democratic procedures. In reality, however, a significant proportion of the political elite has adopted an instrumental approach toward democratic mechanisms. This is due to the country's Soviet past and the lack of an effective, well-established democratic state, as well as the fact that most interest groups in Moldova act in their own political and material interests and are willing to break democratic norms. 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. The current parliament is increasingly questioned as a democratic institution because it was elected in 2019 under an unfair system controlled by Plahotniuc.

Performance of democratic institutions



Commitment to democratic institutions



The stability of democratic institutions during the COVID-19 pandemic did not change in any particular way. The key weaknesses of Moldovan democracy are deep-rooted and the result of systemic causes.

## 5 | Political and Social Integration

The Moldovan party system comprises a number of groupings, which – at least nominally – represent political programs. Unfortunately, the party system in Moldova is instrumentalized, only moderately stable and does not enjoy the trust of the general public. In 2020, only 20% of citizens stated that they had confidence in political parties, meaning that political parties are the least trusted public institution (including the police, banks or parliament) in Moldova. Splits in political parties, with members of parliament or local politicians defecting to other parties, are very common. Several groups are led by people who fled the country after being charged with serious crimes. Most Moldovan parties are chieftain-style groupings, which tend to serve as instruments for the business interests of their leaders and sponsors. As access to funding remains unequal, these types of groupings are generally dependent on financial support from their sponsors, such as business tycoons or external actors (European Implementation Assessment 2020, p. 42). Bottom-up parties based on self-governing structures do not constitute a dominant force.

Political parties in Moldova tend to appeal to geopolitically (including historically and culturally) defined notions of “left-wing” (pro-Russian) and “right-wing” (pro-Western). The geopolitical division of the electorate is very pronounced and it is rather uncommon for pro-European or pro-Russian supporters to change alignments.

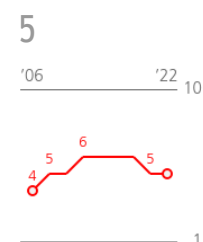
Social self-organization in Moldova is slowly improving but remains low. Most of the population does not feel represented by either NGOs or trade unions, which are trusted by only 22% and 17% of Moldovans respectively (Public Opinion Barometer, BOP, October 2020). Trust in civil society is consistently undermined by a proportion of the political elite (especially left-wing parties), which accuses its members of acting in the interests of external actors. The total number of NGOs operating in Moldova is not small, but most of them are concentrated in the capital. To a much lesser extent, such organizations can be found in Bălți (northern Moldova) and in Comrat (the capital city of Gagauz Autonomy). In smaller towns and villages, civil society activity is very limited or nonexistent. Trade unions have limited impact, as they are unable to influence employers or legislation.

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, a variant of the phenomenon of clan relations that occurs in the country. This phenomenon naturally extends to the ruling elites, with the result that nepotism and favoritism are rampant in Moldova, because it is considered natural to involve clan members in the activities of political leaders (at both the central government and local authority levels).

Party system



Interest groups



Generally, citizens approve of democratic norms and procedures, but – due to the poor performance of state institutions – the level of trust in them and democratic governance remains moderate. According to an International Republican Institute (IRI) survey from December 2019, 53% of Moldovans believe that democracy is the best possible form of government, while almost 30% claim that other forms of government could be equally good for Moldova. At the beginning of 2020, 65% of the population were unsatisfied with the way democracy is developing in the country in comparison to 71% in November 2018 (IRI). Confidence in the electoral process increased: 62% of Moldovans declared that the October 2019 local elections were “definitely” or “probably” free and fair. In comparison, prior to the February 2019 elections, only 32% of voters stated that the parliamentary elections would be fair to at least some extent. In addition, 15.2% of respondents declared that Moldova is governed by the “will of the people” (BOP, October 2020). This result, however low, is visibly higher than in November 2018 when it reached only 9.1%. Recent improvements in the public perception of democracy in Moldova were related to the political changes that took place in June 2019.

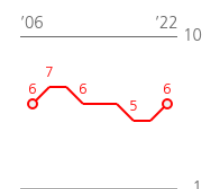
Although 45% of the population assess the actions of the authorities in combating COVID-19 to be poor (BOP, October 2020), this does not seem to have had a significant impact on public attitudes toward democratic institutions in Moldova. In October 2020, 15.5% of respondents declared substantial or modest trust in parliament. The government was trusted by 23% and the Office of the President by 28%. The Central Electoral Committee is trusted by almost 18%.

In general, Moldovans are rather reluctant to engage in collective action. This is inherited from the Soviet period when social cooperation was politicized and hence discredited. Other factors include a general lack of trust in the democratic system, rule of law or even compatriots. Social solidarity in Moldova is rather low. According to the latest available survey (conducted by the Moldovan Association of Sociologists and Demographers (ASDM) in November 2018), 68.7% of the population claims that Moldovan society is united to a limited or very limited extent, and 20% consider that it is not united at all. In 2019, Moldova scored a mere 0.3 on the Social Cohesion Index, where one indicates complete social cohesion and zero the total absence of social cohesion. National and ethnic groups living in Moldova often distrust or ignore each other. The coronavirus pandemic has not significantly changed the situation.

Family ties play a very important role in Moldova. Families are traditionally understood to include not only spouses and relatives, but also, among others, godchildren and godparents, and the groom’s best man. Belonging to a family entails very close relations and generates commitments which are considered to be much more important than obligations toward society or the state. 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.

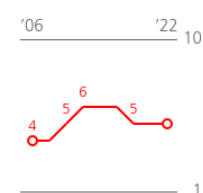
#### Approval of democracy

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#### Social capital

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The level of social participation in NGOs and volunteering rates remain low. In small towns and villages, self-organization of society is marginal or de facto nonexistent. Additionally, self-organized groups that protest against various illegal actions (e.g., illegal construction) are often 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 (e.g., urban vs rural or north vs south), and (to a lesser extent) by gender, ethnicity and religion. In 2019, as much as 25% of Moldovans lived below the national poverty line (currently just over MDL 2000 or around €100). In rural areas, this problem affects about one-third of the population, but only about 10% of the population in cities (4.5% in Chişinău). The worst situation is in the southern regions, where about 40% of inhabitants live below the poverty line. Additionally, non-urban residents have limited access to public services (e.g., health care, sanitation and quality education).

Poverty is closely related to education. More than 78% of adults who have not completed secondary education declare an extremely low income. Additionally, poverty is particularly widespread among people working in agriculture, pensioners and disabled people. Only 21.6% of people over 60 declare that their income allows them to live decent lives (BOP, October 2020). Almost 43% of Moldovans (BOP, October 2020) declare that their earnings only cover the most basic needs and another 18.4% claim that they do not have enough money even for that.

In the UNDP's Human Development Index, Moldova's ranking is improving, but very slowly. Since independence, the country has managed to increase its score by 0.1 from 0.653 in 1990 to 0.75 in 2020. Moldova's Gini Index score of 26.3 is very good but does not reflect the gap between urban and rural populations. There is no doubt that the global economic slowdown related to the COVID-19 pandemic will also affect the earnings of Moldovans. In August 2020, 13% of the surveyed population declared that their regular payments (e.g., salaries, pensions and benefits) have been delayed due to the pandemic.

Despite this, Moldova has managed to achieve enormous progress in reducing the poverty rate. The number of "working poor" (i.e., people who live on less than \$3.20 a day, 2011 PPP) decreased from 68% of the population in 2000 to 7.9% in 2008 to only 0.9% in 2018 (World Bank). The reduction in poverty was primarily driven by a return to economic growth at the turn of the century, a gradual increase in pension

Question  
Score

Socioeconomic  
barriers

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payments and the rapid growth in remittances, which are especially important for the rural population. Hence, the downside of poverty reduction has been the rise in labor migration.

The gender gap remains an important issue. Moldova's score in the Gender Inequality Index (GII) was 0.204 in 2019, with Moldova ranked 46th. The wages and pensions for women are significantly lower than for men, and women are under-represented in public offices.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	9669.8	11456.7	11968.7	<b>11914.0</b>
GDP growth	%	4.7	4.3	3.6	<b>-7.0</b>
Inflation (CPI)	%	6.6	3.0	4.8	<b>3.8</b>
Unemployment	%	4.1	4.1	5.1	<b>4.7</b>
Foreign direct investment	% of GDP	1.5	2.5	4.2	-
Export growth	%	10.9	7.2	7.3	<b>-15.5</b>
Import growth	%	11.0	9.7	6.7	<b>-8.9</b>
Current account balance	\$ M	-554.5	-1185.9	-1119.1	<b>-795.7</b>
Public debt	% of GDP	34.3	31.2	28.3	<b>34.8</b>
External debt	\$ M	6968.6	7440.4	7523.7	<b>8475.9</b>
Total debt service	\$ M	439.7	610.4	633.1	<b>713.5</b>
Net lending/borrowing	% of GDP	-0.7	-0.9	-1.3	-
Tax revenue	% of GDP	17.4	17.7	17.3	-
Government consumption	% of GDP	15.0	15.2	14.2	<b>15.5</b>
Public education spending	% of GDP	5.6	5.4	6.1	-
Public health spending	% of GDP	3.5	3.7	-	-
R&D expenditure	% of GDP	0.3	0.3	-	-
Military expenditure	% of GDP	0.3	0.3	0.4	<b>0.4</b>

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

In general, market competition in Moldova has a strong institutional and legal basis, but the rules are not uniform for all market participants due to the significant involvement of the political class in business activities. Furthermore, so-called raider attacks (hostile takeovers of assets) supported by corrupt judicial decisions continue to threaten the security of investments. The situation is improving, however, largely due to reforms related to the implementation of the Association Agreement and DCFTA with the European Union.

Price-setting has been liberalized, with the government continuing to regulate the prices of only a few, socially important products. This also applies to energy and fuel, which are regulated by an independent regulator. The Moldovan currency, the leu, is fully convertible and enterprises do not face problems with its exchange.

Over the last decade, Moldova has achieved enormous progress in eliminating barriers to market entry and continues to strengthen its position in this field. According to the World Bank's Doing Business Index, between 2018 and 2020, Moldova increased its score in the category "starting a business" from 95.5 to 95.7 points (out of 100) and ranked 13 out of 190 countries. In comparison, in 2013, Moldova ranked only 92 out of 185 countries. Starting a business takes four days and three procedures, with no minimum paid-in capital requirement. On the other hand, market exit remains underdeveloped. In 2020, Moldova ranked 67th for resolving insolvencies. The indicator for the cost of starting a business (for both men and women) is low at 4.0.

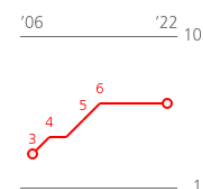
The informal sector remains a key problem for the economy. According to the National Bureau of Statistics, in 2019, about 200,000 people were employed in the shadow economy (23% of the total). This practice is most common in the agricultural sector, where about 34% of employees are paid informally.

The current law on competition was adopted in July 2012, after a long process of drafting and consultations. New regulations (prepared in accordance with EU standards) prohibit 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 parliament.

The number of competition law infringements reported to the council increased from 11 in 2017 to 31 in 2019, which shows that awareness among entrepreneurs of their rights is rising. In addition, the removal of Vlad Plahotniuc from the Moldovan political scene enabled proceedings regarding businesses related to the oligarch to be finalized. Unfortunately, the political independence of the council continues to raise some doubts, and members of influential political and business circles are still widely engaged in various opaque economic activities. The customs office plays a major role

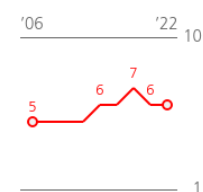
Market organization

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Competition policy

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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 value of state aid decreased significantly between 2015 and 2017. In 2015, it accounted for 4.48% of GDP and reached only 0.47% in 2017. Although the value of state aid increased to 0.53% in 2018, it is still well within the limits set by a national program in the field of competition and state aid adopted by parliament in July 2017.

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% (2019). Existing licensing requirements are limited to certain goods, such as alcoholic and tobacco products, and fertilizers.

In December 2006, Moldova joined the Central European Free Trade Agreement (CEFTA). In addition, in December 2012, the parliament in Chişinău ratified the Commonwealth of Independent States (CIS) Free Trade Zone Agreement, which replaced existing bilateral and multilateral free trade agreements between most of the post-Soviet states. In 2014, Moldova signed a free trade area (FTA) agreement with Turkey and in June that year finally signed the Association Agreement (along with the DCFTA) with the European Union. Additionally, in December 2015, the European Union decided to extend the application of the DCFTA (although on a slightly different basis) to Transnistria. In December 2020, Moldova signed an agreement with the United Kingdom enabling the maintenance of trade relations between the two countries after Brexit.

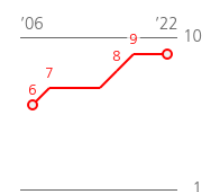
Exports from Moldova to Russia are highly dependent on political relations (Moscow is not hesitant to ban the import of Moldovan goods for political reasons) and has lost much of its importance in recent years. Despite that, Moldova did not impose embargoes in response to Russian restrictions.

After a large-scale fraud that took place at the end of 2014, the government in Chişinău and the National Bank of Moldova (NBM), with support from the IMF and foreign partners, introduced a complex and comprehensive banking sector reform program. A new bank law came into force in January of 2018, which was drafted with the assistance of the central banks in the Netherlands and Romania, and which was based on Basel III principles. New legal frameworks are adopting European best practices in banking regulation (e.g., the CRD IV package).

While the relevant institutions tasked with monitoring the sector seek to counteract rent-seeking activities, the sector still struggles with distrust and remains threatened by rent-seeking political elites. For example, the BC “Energbank” SA is supervised under an early intervention regime that was applied on January 11, 2019, after determining that a group of persons acted in concert with each other to acquire a qualified share in the bank’s capital (52.55%) and without the prior agreement of the NBM.

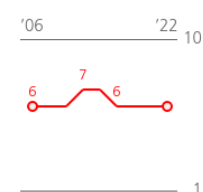
#### Liberalization of foreign trade

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#### Banking system

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Profits made during the first nine months of 2020 decreased significantly, 35% less compared with the corresponding period for 2019. This was mainly an effect of the 29.5% rise in costs (primarily those not related to interest, such as a larger depreciation of the financial assets). The share of non-performing loans (NPL) in the loans portfolio remains modest despite the economic shock caused by the pandemic. In the third quarter of 2020, the share of NPLs amounted to 8.5%, which is lower than the 10.2% recorded for the same period of 2019. The balance of deposits increased from MDL 66 billion (third quarter 2019) by 13% to MDL 74.4 billion for the third quarter of 2020. The share of deposits of customers accounted for 64.1% of total deposits, legal entities' deposits accounted for 35.6%, and bank deposits accounted for 0.3%. The bank capital-to-assets ratio in 2019 was at 12.6. Trust in the national currency remains relatively high (in comparison to the post-2014 situation), as the share of local currency deposits amounted to 57.1% at the end of 2020. According to the NBM, despite COVID-19, the level of liquidity in the sector remains high at 49.6% (limit  $\geq 20\%$ ).

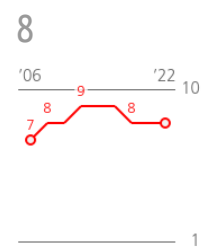
## 8 | Monetary and fiscal stability

According to the National Bank, inflation in Moldova began to decelerate sharply from 7.5% in December 2019 to 0.39% in December 2020, thus reaching the lowest level since 2009 (when it amounted to -2.3%). In August 2020, the inflation rate exceeded the lower limit of the central bank's target range of  $5\% \pm 1.5$  percentage point. This was mainly driven by lower food and fuel prices, as well as restrictions introduced due to the COVID-19 pandemic, which lowered domestic demand and created disinflationary pressures. The national currency remained relatively stable. For example, in December 2020, the exchange rate of the Moldovan leu to the U.S. dollar was equal to the rate at the beginning of the year.

The base rate in Moldova has been gradually declining since 2015. The rapid deceleration of inflation in 2020 strengthened this trend and led to a reduction of the base rate from 5.5% in December 2019 to only 2.65% in November 2020. The interest rates for overnight deposits and overnight credits also reached a record low (0.15% and 5.15%, respectively). The required reserve ratio in Moldovan leu deposits was lowered to 34% in March 2020, and then to 33% and 32% in August and September, respectively. This was done in order to increase the liquidity available to banks and strengthen the Moldovan banking sector's stability during the pandemic. The real effective exchange rate index increased from 112.12 in 2017 to 124.9 in 2019.

Despite the generally high effectiveness of the National Bank of Moldova, its lack of political independence remains a key problem. Management of the central bank is typically unofficially affiliated, related or loyal to the country's business and political elites. Furthermore, the process of nominating and dismissing senior central bank officials lacks transparency.

### Monetary stability



Despite the pandemic-related economic slowdown and decline in exports, revenues to the Moldovan budget increased. During the first 11 months of 2020, the State Fiscal Service collected MDL 35.8 billion, which is 2.2% more than in the same period of the previous year. In order to support businesses and vulnerable households during the pandemic, several measures were undertaken, such as expanding unemployment benefits, providing tax relief for sectors affected by state-imposed restrictions, delaying tax payment deadlines, and suspending tax audits and other controls. Allocations to the emergency and health funds, and to a mortgage guarantee program have been increased. Salaries for health care workers were raised by 30% in September 2020 and another 30% in January 2021. The budget for 2021 adopted in December 2020 provides for the maintenance of most of the relief measures, as well as further salary increases for medical staff. Yet, compared to other European states, the stimulus package was very weak, although it remained within the modest possibilities of the country.

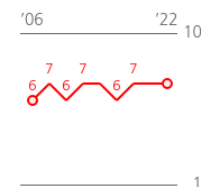
With the aim to cover Moldova's urgent balance of payment needs stemming from the COVID-19 pandemic, the IMF on April 17, 2020, approved a disbursement of \$78.4 million under the Rapid Credit Facility (RCF) and a purchase under the Rapid Financing Instrument (RFI) equivalent to about \$157 million. On April 22, the European Commission decided to grant Moldova €100 million in macro-financial assistance, which was part of the €3 billion package to fight the consequences of the pandemic in neighboring countries. The European Union also signed an agreement with Moldova to transfer €87 million to this end from grants already made. In the same month, the World Bank approved a €52.9 million loan from the International Development Association (IDA) for an Emergency COVID-19 Operation. Furthermore, in April, Chişinău received about \$14,000 from the CIS Inter-Parliamentary Assembly to mitigate the effects of the COVID-19 pandemic. Additionally, in December 2020, Moldova started negotiations with the IDA regarding an additional grant worth \$3.48 million for the same purpose. Moldova has not applied for a deferral of debt payments under the Debt Service Suspension Initiative.

In 2020, due to COVID-19, the public debt increased rapidly. The World Bank estimates a 4.5% of GDP public deficit in 2020, which may rise to a staggering 31.4% at the end of the year. According to the National Bank of Moldova, government debt increased by over 20% between the first and third quarter of 2020 to \$2.02 billion, while gross external debt rose in the same period by 7.6% and reached \$7.95 billion (66.4% of 2019 GDP).

Foreign currency reserves have increased from about \$3.05 billion in November 2018 to \$3.76 billion in January 2021, which is equivalent to about three months of imports. The transfer of remittances from abroad recovered in 2017, increasing by 11.2%, after a marked decrease over the previous two years. Despite the pandemic, the amount of transfers increased by 34% in the third quarter of 2020 compared to the same period in 2019. The net borrowing indicator for 2019 equaled 1.477% of GDP, a deterioration in comparison to 2018 (-1.18% of GDP) and 2017 (-0.86% of GDP).

## Fiscal stability

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## 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.

Despite continuing problems with the protection of private property, certain improvements can be observed in this field. According to the 2020 Index of Economic Freedom (published by the Wall Street Journal and the Heritage Foundation), Moldova scored 60.5 points in terms of property rights, which is the best result in its history and places it in the category of “moderately free” countries (previously, Moldova was classified as “repressed” or “mostly unfree”).

Another positive step was the cancellation of the Law on Capital Amnesty in August 2019. This controversial legislation (which came into force in October 2018) was heavily criticized by the opposition, the European Union and the United States. There were suspicions that these regulations were meant to legalize fraudulently acquired money and property (European Implementation Assessment 2020, pp. 65–6).

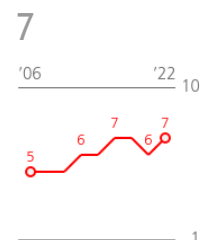
The business climate for private entrepreneurs in Moldova is improving due to the implementation of the DCFTA, among other factors. However, there are still concerns regarding the enforcement of intellectual property rights in Moldova and the opaque acquisitions of shares that still occur in the Moldovan 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 2020 by the World Bank, Moldova scored 74.4 points (in comparison to 73.54 in 2019) and ranked 48 out of 190 countries.

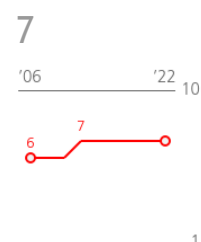
According to Moldovan legislation, the state treats state-owned enterprises (SOE) and private companies equally, but in reality SOEs are still privileged. Government representatives usually sit on SOE boards, which allows them to influence decision-makers and (among others) restrict private sector competition. Some SOEs enjoy additional protections and preferential government treatment because they often serve as illegal sources of income for the political elite. Certain activities (e.g., human and medical research, and postal services) are, nevertheless, exclusively state owned. In addition, Moldovan law only allows foreigners to lease not to purchase agricultural and forest land.

The position of private companies relative to SOEs is improving as the government gradually privatizes state assets. Unfortunately, this privatization does not always follow market principles and opaque tenders remain a problem. A flagship example

Property rights



Private enterprise



of a nontransparent privatization was the 2018 sale of the country's national airline, Air Moldova. After the changeover in power in Moldova in June 2019, law enforcement officers seized the property of Air Moldova and initiated an investigation into this transaction. The audit of the company revealed serious violations in the privatization process and suggested, among other things, that the company was deliberately indebted to lower its price. The authorities have not attempted to prevent the bankruptcy of certain companies hit by pandemic by nationalizing them.

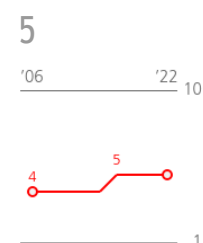
## 10 | Welfare Regime

The efficiency of the Moldovan social assistance system is still very limited due to the poor financial situation of the country. The Moldovan pension system is not only underfunded but also overburdened, mainly due to the disastrous demographic situation and mass migration. In 2020, the dependency ratio (the ratio of the working-age population to the retirement-age population) reached only 1.3. In order to improve the financial situation of the pension system and meet IMF stand-by conditions, a process of gradually increasing the retirement age was started in 2017. However, for political reasons, in December 2020 the reform was postponed and the previous retirement age was restored (62 for men, 57 for women). This means that until the amendment enters into force on January 1, 2022, the aforementioned dependency ratio will deteriorate further. Between 2015 and 2021, the average pension in Moldova nearly doubled, increasing from approximately \$70 to \$122 per month. Nevertheless, this amount is very small (oscillates around the poverty threshold) and forces one-quarter of pensioners in Moldova to look for additional work.

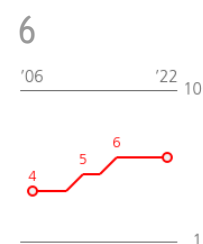
The amount of unemployment benefits depends on the salary that a given person received until unemployment. At the same time, due to the forced limitation of business activities (related to the pandemic), the Moldovan authorities decided in April 2020 to pay a monthly allowance of approximately €130 for those who had lost their jobs due to the state of emergency. Despite rising budgetary spending, public health care remains extremely under-financed. Proper targeting of assistance also remains a problem.

Although women represent 52% of the population, they remain under-represented particularly in public offices, even if the position of women in political and economic life is gradually, albeit slowly improving. The share of women in local, as well as district and municipal councils increased from 25% and 14.6% in 2007 to 36.5% and 28.7% in 2019, respectively. In addition, in the 2019 local elections, more than one in five mayoral positions was won by a woman (an increase from 18% in 2015). In 2020, for the first time in the history of independent Moldova, a woman (moreover, a childless and unmarried woman) was elected president of the country, which testifies to a gradual change in Moldovans' perception of the traditional role of women in society.

Social safety nets



Equal opportunity





Women are becoming more active in business. In 2020, about 34% of all companies in Moldova were run by women. Yet, according to the Partnership for Development Center's (CPD) 2019 Gender Equality Index, the wage gap amounted to 14.4% (in favor of men) 0150 the highest result over the last six years. It is estimated that, in 2019, women earned on average €690 less than men. The number of working women is almost equal to the number of working men (49.4% to 50.6%, respectively).

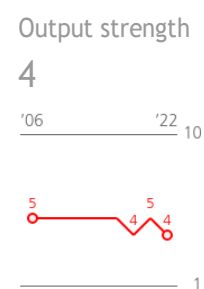
Access to education for women and girls is generally good. The ratio of female to male enrollment equals 1.0 in primary and secondary schools. The adult literacy rate is 99.4% overall. The gross enrollment ratio is relatively low and equals 89.5% for primary education and 86.4% for secondary education. Women aged 25–64 have a higher level of education than men. The largest gap is in tertiary education, with 23.4% of women reaching this level compared to 18.0% of men.

LGBT people, people living with HIV and tuberculosis, and people suffering from mental health illnesses are perceived as socially stigmatized and sometimes ill-treated by the authorities. The exercise of rights by ethnic and language minorities remains an important concern. 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.

## 11 | Economic Performance

According to the National Bureau of Statistics (NBS) between 2016 and 2019, Moldova developed steadily, reaching an average of 4% GDP growth per year (local currency), with GDP reaching \$11.97 billion in 2020. GDP per capita (PPP) also steadily grew in this period and reached \$13,574 (current U.S. dollars) in 2019 compared to \$10,610 in 2016. The upward trend, however, was interrupted by the pandemic and related restrictions on economic activity. According to the NBS, economic activity in the second and third quarters of 2020 decreased by 14% and 10%, respectively (compared to the same periods the year before). In January 2021, the World Bank forecasted that in 2020 the economic decline in Moldova will amount to 7.2%.

The DCFTA agreement with the European Union, which provisionally entered into force on September 1, 2014, contributed to the dynamic development of Moldovan trade (particularly with EU member states), which continued to rise until 2020. In 2019, total exports amounted to \$2.779 billion, of which as much as 66% went to the European Union. By comparison, in 2014, the European Union accounted for 54% of Moldova's exports. Imports from the European Union also increased, though not as much as exports. The economic crisis (both at the local and global levels) caused by



the pandemic put an end to this upward trend. According to the NBS, in the first 11 months of 2020, exports decreased by 11.5% and imports fell by 8.6% (compared to the same period in 2019).

Romania strengthened its position as the largest importer of Moldovan products (with a share of 27.5% in 2019). 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 but amounted to just 8% of total exports in 2019 and 9% during the first three trimesters of 2020. The IT sector has rapidly developed in recent years, contributing to around 7% of GDP.

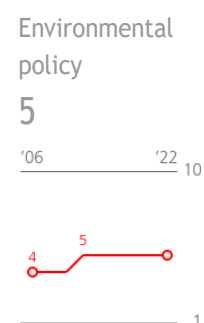
Interestingly, despite the pandemic, the amount of remittances reached a record high. According to the National Bank of Moldova, in the third quarter of 2020, the amount of transfers, recalculated in U.S. dollars, increased by 34.7%, compared to the third quarter of 2019 (\$314.51 million). This phenomenon can be explained by existing travel restrictions, which make it difficult to bring cash into the country, and forces people to transfer remittances via banks or intermediary services. The official unemployment rate remains low (around 3–4%).

Public debt, which rose rapidly in the aftermath of the 2014 banking scandal, gradually decreased following 2016 to 28.4% of GDP in 2019 (IMF). The net inflow of foreign direct investment almost doubled between 2018 and 2019 (from 2.72% of GDP to 4.95%) but remains low. According to the National Bank of Moldova, in the second quarter of 2020, the annual inflation rate decreased from 5.9% in March to 0.39% in December 2020, remaining well below the range of 5%  $\pm$  1.5 percentage points stipulated by the Monetary Policy Strategy.

## 12 | Sustainability

During the last few years, the protection of the environment has gained importance within Moldova's political agenda. This is shown by the significant improvement of the legal framework in the field of environmental and climate policy. On June 20, 2017, Moldova ratified the Paris Agreement on Climate Change. By 2030, Moldova aims to reduce greenhouse gas emissions to between 64% and 67% below its 1990 level. In February 2019, a set of normative climate-related acts were adopted, including a regulation regarding national monitoring and reporting of greenhouse gas emissions. Compared to other European countries, Moldova is one of the least forested, with forests covering almost 11% of the country's territory.

Some progress has also been made with regard to Ukraine's planned expansion of the Dniester hydroelectric power generation complex, which could cause an environmental disaster in Moldova (e.g., water scarcity, food security risks and soil degradation). At the same time, many cities (e.g., the city of Sorooca) do not have a proper wastewater treatment plan.



The Law on the Promotion of Renewable Energy, which aims to harmonize Moldovan legislation with the EU acquis and provides financial support for investors, came into force in March 2018. Investors wishing to produce energy from renewable energy sources (up to a certain power limit) are now able to use a stable tariff for the electricity they produce for a period of 15 years. In July 2018, the Law on Energy Efficiency, which consolidates the institutional framework's capacities for implementing energy efficiency policies and allows private investment in the public sector, was adopted. The improvement of the legal framework correlates with an increase in energy production from renewable sources. According to the National Energy Regulatory Agency of the Republic of Moldova (ANRE), between 2014 and 2019, the amount of electricity produced from renewable energy sources increased by a factor of 20 from 3,134,500 kWh to 67,430,000 kWh. However, Moldova still lags behind its neighbors.

Education in Moldova (at each of the three levels) is underfunded, which affects its effectiveness. Although the financing of education in absolute terms increased by 20% between 2009 and 2018, expenditure on education relative to GDP almost halved over the same period (from 9.5% in 2009 to 5.44% in 2018). Recent attempts to close some schools and shift funds to the remaining ones met with negative public reception and were eventually discontinued. In 2017, the government introduced a moratorium on the closure of schools.

While primary education generally performs well (the literacy rate is 99.4%), the state of Moldova's deeply underfunded higher education system continues to be unsatisfactory. Moldovan universities gained zero points in the category "quality of research institutions" in the Global Competitive Index 2019. In 2020, only Chişinău State University and the Technical University of Moldova were included in the QS World University Rankings, but they were not highly rated. Among universities from Emerging Europe and Central Asia, they were ranked 301–350 and 251–300, respectively (out of 400 universities). In 2020, a reform of the higher education system was announced. Some universities are to be merged, which will reduce their maintenance costs, simplify administration and, as a result, allow more funds to be allocated to education. The implementation of the reform is to be completed by 2025 and will be financially supported by the World Bank, which granted Moldova a €35.7 million loan for this purpose.

Local universities rarely collaborate with industry in the R&D field. As a result, Moldova ranked only 95 out of 141 countries for R&D (this is a worse result than in 2018 when Moldova ranked 93rd) in the afore mentioned index. More importantly, the index reveals that Moldova remains one of the least innovative countries, ranked 109 out of 141 states. The level of R&D spending is marginal and oscillates around a mere 0.3% of GDP. Mass migration and the related brain drain only worsen the situation. An additional problem is the very limited competition in R&D. The Moldova's score in the U.N. Education Index has remained stable over recent years, varying between 0.707 in 2015 and 0.711 in 2019. On a positive note, the IT sector in Moldova has been developing very dynamically in recent years.

Education policy /  
R&D

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## Governance

### I. Level of Difficulty

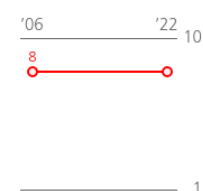
The economy remains the key structural difficulty. Moldova is one of the poorest countries in Europe with a GDP of \$12 billion in 2019 (current U.S. dollars) or \$4,503 GDP per capita (current U.S. dollars), according to the World Bank. The economic situation in Moldova worsened in 2020 due to the pandemic. GDP is estimated to decline by 7.2% in 2020 (World Bank). In the absence of significant financial resources to support recovery, this process will take a relatively long time. The probable decline in remittances caused by the deteriorating situations in countries where Moldovan migrants work, as well as job and wage cuts is expected to be a serious blow. The total number of SARS-CoV-2 infections in Moldova has reached over 191,000 (approximately 7% of the population) by the beginning of March 2021. About 4,000 people have died from the coronavirus in Moldova since the start of the pandemic.

The Moldovan economy lacks competitive advantages, and it is unattractive to 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). In addition, high emigration rates, and extremely underfunded transport and energy infrastructure inherited from the Soviet Union hamper economic development and deter investors.

The persistent poor condition of the economy is responsible for the low standard of living in society. Almost one-quarter of citizens live below the poverty line. This, in turn, drives mass economic emigration (about 40% of the working age population are working abroad), which increases brain drain and constrains development. Mass migration is also contributing to the deepening of the demographic collapse in Moldova. Remittances from labor migrants are an important driver of consumption in the country. In 2019, official currency remittances amounted to \$1.22 billion (10% of GDP).

Structural  
constraints

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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 14,200 CSOs registered in Moldova in November 2020. However, the number of CSOs is systematically growing (11,700 at the beginning of 2018 and 10,900 in 2017), although the greater proportion of CSOs are inactive and many lack a real headquarters. For example, according to the most recent survey, 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. Some of the existing non-governmental organizations in Moldova are directly related to ruling circles and serve political purposes.

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. This, in turn, makes NGOs vulnerable to attacks from some Moldovan politicians and businessmen who regularly accuse them of acting in the interests of “external actors.” Campaigns slandering non-governmental organizations undermine public confidence in the third sector. According to a survey published in August 2020 by the Association of Sociologists and Demographers of the Republic of Moldova, as many as 60% of respondents do not trust non-governmental organizations, while only 23% are of the opposite opinion.

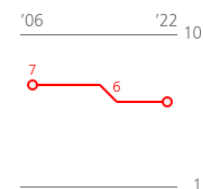
Ethnic minorities (primarily Ukrainians, Russians and Gagauz), constitute a quarter of all citizens of Moldova. Although ethnic Moldovans and representatives of minorities sometimes treat each other with distrust, ethnic tensions are limited. Despite the experience of the Transnistrian war in 1992, there is no significant hostility between Moldovan society living on the right bank of the Dniester river and the inhabitants of the separatist Transnistria. Both perceive themselves as separate societies (foreign to each other) and treat each other mostly with indifference. Some tensions can, however, occasionally be observed between the authorities in Chişinău and Tiraspol.

Non-violent tensions of an ideological nature result from differences in historical memory and approach to the issue of identity. These differences are polarizing the population over the issue of Moldova’s geopolitical affiliation. Russian media outlets (which are very popular in Moldova) and certain politicians (e.g., Igor Dodon) exploit these differences for propaganda purposes, which creates additional tensions in society and further increases East–West polarization. The issue of language is also an important factor, which regularly generates tensions within the country. However, unlike before, ethnic cleavages were almost nonexistent during the presidential elections of 2020.

Complicated relations between Chişinău and Gagauzia (an autonomous territory in the south of the country) are a traditional source of friction (although much less so in recent years). The Gagauz people are very pro-Russian, hostile to the idea of

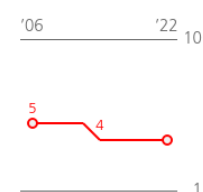
#### Civil society traditions

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#### Conflict intensity

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unification with Romania and reluctant to support European integration. As a result, any attempt to bring Moldova closer to the West or limit Russian influence in the country is met with resistance. Additionally, anti-Western or even separatist sentiments in Gagauzia are deliberately reinforced by Russia, which regularly fuels conflicts between the region and the central government.

## II. Governance Performance

### 14 | Steering Capability

The ruling elite in Moldova generally does not pursue any long-term policy, but rather focuses on the short-term interest to maintain power and control over the state apparatus. The official political programs (including strategic priorities) of mainstream parties are in most cases only a facade created in order to gain support from both a specific part of the Moldovan electorate and foreign actors.

Many decisions that impact on the stability of the Moldovan political system, the preservation of the rule of law and the fiscal security of the country are made irresponsibly and for short-term political or financial gains. For example, at the end of 2020, parliament passed populist regulations that further burdened the state budget in the middle of the COVID-19 crisis. New acts adopted at the request of the PSRM right before the resignation of the socialist government of Ion Chicu raised pensions and lowered the retirement age, among other things. Maintaining strategic priorities is not made easier by the political instability and frequent government changes. In just six years, between 2013 and 2019, Moldova has had seven different prime ministers.

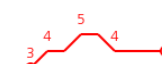
The internal drivers of reforms in Moldova are generally weak. Civil society has limited effectiveness. Meanwhile, the media (with some exceptions) is largely dominated by political and business circles and cannot be considered pro-reform. However, the Moldovan diaspora living in the West (mainly in the European Union, United Kingdom and United States) is becoming an increasingly vocal factor of change. The country's partners, especially the European Union and to some extent the United States, remain powerful drivers of reforms.

Question  
Score

Prioritization

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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. The authorities proved on several occasions that they are able to swiftly push through legislation that is in the political or economic interest of the ruling camp. An example of this was the adoption of the new NGO law, which – despite initial resistance from the Socialists – was finally passed quite smoothly in June 2020, as its implementation was one of the conditions for launching EU financial assistance for Moldova.

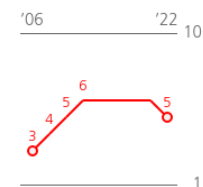
With the support of the PSRM, the short-lived Maia Sandu government was able to push through a number of amendments during the so-called de-oligarchization process in the second half of 2019. However, this was only possible because the Socialists also wanted to remove Plahotniuc's influence from the Moldovan political system and take control of the state apparatus. On the other hand, the Socialists were not interested in more substantial reforms (e.g., demanded by the EU Association Agreement) that seek to depoliticize state institutions or limit access to state finances, which eventually led the PSRM to withdraw its support for the Sandu government.

As the problems related to policy implementation in Moldova are of a systemic nature, the pandemic did not have a significant impact. Sometimes, however, representatives of the authorities justified their failures by blaming the ongoing health crisis.

Over 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. Moldova's external (mainly Western) partners have for years been implementing numerous development projects that aim, among other things, to increase the competences of civil servants and strengthen civil society, from which public sector employees are often recruited. Such people are more open to external expertise (coming from both academia and civil society). Numerous NGOs and specialists employed in the state administration provide policymakers with the proper know-how and expertise necessary to formulate adequate policies. Unfortunately, this knowledge is often not used, as political decisions are made primarily in the interests of specific political and business groups. Additionally, low wages and widespread nepotism continues to undermine the motivation and effectiveness of administrative officials. Due to these factors, the turnover in civil service personnel is high, which jeopardizes institutional memory and constrains the creation of an effective administrative apparatus that is able to learn from its own experience. The COVID-19 pandemic has not significantly changed this state of affairs.

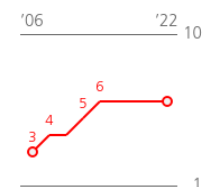
#### Implementation

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#### Policy learning

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## 15 | Resource Efficiency

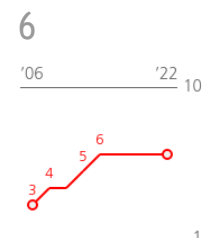
There has been a moderate improvement in the quality and efficiency of public administration in Moldova over the last decade. Unfortunately, further increases in the capacity of public administration are hampered by low salaries for low- and mid-level officials, a lack of professionalism, and nepotism. 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 recent years, the legal framework regulating the functioning of the administration has improved. In July 2018, in order to ensure the transparency, coherence and accessibility of administrative procedures, parliament approved a new administrative code, which streamlines all legal regulations regarding this issue into a single legislative act. New IT solutions have been implemented in order to increase its efficiency.

Effectiveness of local administrations (particularly in rural areas) remains limited due to their informal and corrupt dependence on central authorities and business circles, a lack of funding and quality staff, as well as selective funding based on political sympathies. The Moldovan authorities have traditionally not been interested in strengthening self-government, which (while subordinate to the central government) represents, among other things, a very convenient instrument for election campaigns in various regions of the country. The fundamental problem that negatively affects the independence of local authorities is the fragmentation of local government units and their small size. The efficiency of local administration is additionally hampered by the strong political pressure and even harassment by the central authorities or people associated with the ruling groups. This intensified in 2018 and 2019 (largely due to the parliamentary elections in February 2019). Furthermore, low salaries make them very susceptible to corruption.

The transparent and effective administration of the state budget remains problematic. At the end of 2020, the ruling Socialists, in a hurry and without a proper debate in parliament, pushed through a new budget law for 2021 along with a series of controversial bills that radically increased public spending. These actions had a clear political agenda and were aimed at the expected early parliamentary elections.

Efficient use of assets





Officially, 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 practice, however, the current system of policy coordination can be described as personalized and to a large extent is based on informal networks. Unofficial and typically opaque agreements concluded between members of political and business circles are often of critical importance for the direction of Moldovan politics. “Manual control” of individual public institutions and administration by persons exercising power in the country (regardless of their official position) is very common in Moldova.

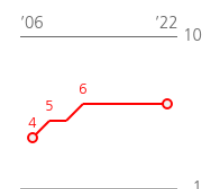
After Plahotniuc fled Moldova in June 2019, the system was partially decentralized, and power for the next five months was shared by the pro-Western ACUM bloc and the pro-Russian Socialist Party (PSRM), which formed a ruling coalition. Increasing friction between the two groups over issues such as the depoliticization of key public institutions (e.g., the judiciary) in which the Socialist Party was not interested led to the collapse of the coalition and the dismissal of the government in November 2019. For the next year, power was concentrated in the hands of the PSRM and President Igor Dodon (formally an independent politician, but de facto leader of the Socialists) who became the key decision-maker in the country. However, he did not manage to achieve the influence and power that Plahotniuc had had previously, as shown by the victory of the pro-European opposition leader Maia Sandu in the presidential election.

Moldova has managed to improve its legal and institutional base for fighting corruption over the last few years mainly due to the European Union. In November 2018, the Law on Whistleblowers came into force. New regulations guarantee legal protection for people willing to testify about abuses and irregularities, and introduce a specific procedure for reporting. In July 2019, after the overthrow of Pavel Filip’s cabinet, the Moldovan authorities imposed a moratorium on the “citizenship for investment” program, which was widely criticized internally and abroad. At the same time, the authorities announced the cancelation of the Capital Amnesty Act, which could be used to legalize ill-acquired capital. However, in most cases, Moldova’s anti-corruption institutions are not taking on high-level corruption and seem politically loyal (European Implementation Assessment 2020, p.40).

Despite such changes, the political independence of anti-corruption institutions remains uncertain. Until June 2019, they operated under Plahotniuc’s strong influence. The Sandu government’s short rule did not manage to significantly improve the situation. Meanwhile, the Socialists, who assumed power at the end of 2019, seemed to be taking steps to subordinate these institutions. In January 2020, Viorel Morari (head of the anti-corruption Prosecutor’s Office until December 2019) was charged with falsifying documents and abusing his position of power and was arrested. Although some of the accusations against Morari may be justified, it seems

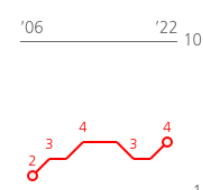
#### Policy coordination

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#### Anti-corruption policy

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that his arrest had political grounds (he had conducted an investigation into the PSRM's illegal financing). The independence of the country's anti-corruption agency (CNA) was also questioned when in July 2019 its helm was taken over by Ruslan Flocea, a secretary of President Igor Dodon's office.

After the Sandu government assumed power, some progress was made in the investigation of the \$1 billion bank fraud case, which took place at the end of 2014. In October 2019, a parliamentary inquiry commission published a report in which the main beneficiaries of the theft were named (Vlad Plahotniuc, Ilan Șor and Vlad Filat). In May 2020, the prosecutor general openly named Plahotniuc as the main beneficiary. Unfortunately, a genuine attempt to prosecute the suspects is unlikely anytime soon due to the takeover of power by the PSRM and its allies, including Ilan Șor's party (European Implementation Assessment 2020, p.41).

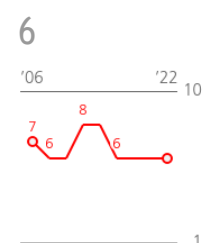
Public procurement procedures still raise serious concerns, as numerous cases of corruption have been reported in this field. The auditing of public spending is becoming more and more effective, but still does not reveal a significant proportion of fraud. For example, in October 2018, an online e-procurement system called Mtender was officially launched, but – as Moldova has not yet adopted the legislation to manage the system's administration – it is still not working effectively. The delays to the systems implementation are largely due to a lack of political will. Access to public information is still difficult. Journalist requests for information from high state institutions (e.g., the President's Office) sometimes do not receive any answer at all. It also happens that journalists from certain media outlets are denied entry to the press conferences of mainstream political groups. Party funding remains highly opaque. The Socialist Party is suspected of being financially supported by Russia, but as of today the case has not been thoroughly investigated.

## 16 | Consensus-Building

Regardless of ideological affiliation, all significant political actors in Moldova support the democratic system of government and regularly refer to democratic values. Unfortunately, adherence to these principles is often merely declarative. As Moldova's ruling elites (praising the democratic system and elected in one) are perceived as inefficient and highly corrupt, the public assessment of liberal democracy remains predominantly negative. As much as 78% of the population consider Moldova to be governed in the interests of certain groups rather than the majority of people (IRI, December 2019).

Left-wing parties in Moldova are nostalgic about the Soviet past, and often speak positively about the communist economy and the social welfare system of the USSR. Some politicians (e.g., Ilan Șor) explicitly call for the re-establishment of collective farms (Kolkhoz). Such rhetoric, however, only serves electoral purposes, as it is meant to mobilize the votes of elderly people, who are sentimental about their youth

Consensus on goals



spent in the USSR, and of the less wealthy population, who are encouraged by the promise to rebuild the welfare system. In fact, all key political parties and mainstream politicians – both left- and right-wing – accept the market economy as a foundation for the modern Moldovan state. 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 (through raider attacks).

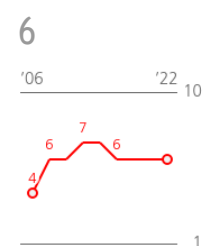
There are hardly any openly anti-democratic actors in the Moldovan political mainstream. Active political parties and their leaders stress their devotion to democratic norms and values and declare a commitment to further reforms aimed at strengthening democracy in the country. In practice, however, many members of the Moldovan elite often represent specific political and business (or simply oligarchic) groups, which are not interested in implementing such reforms, because they could limit their influence. Those groups remain the key obstacle to further democratization. Their representatives tend to control the legislature, executive and judiciary, which limits the efficiency of democratic institutions, undermines the balance of power and ensures that the authorities work in their particularistic interests. For example, control over the judiciary allows representatives of the Moldovan government to avoid responsibility for acts of corruption and abuses of power, and can also be used as an instrument to fight political and business opponents. At the same time, there are no anti-democratic veto actors in the country.

The inability to develop an attractive identity model to which all citizens can subscribe or a national idea around which society could unite remains one of the key issues affecting the cohesion of Moldova's ethnically diverse society. The population (the titular majority and various minorities) is deeply divided over history, national symbols, values and language (and even the name of the official language). However, it should be emphasized that the existing divisions do not turn into acts of violence.

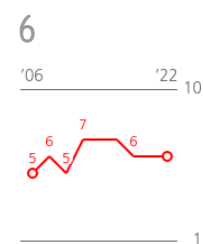
Additionally, the population is severely polarized over Moldova's geopolitical alignment (pro-Russian or pro-European). The political elite exploits these cleavages in order to mobilize support among the electorate. Narratives of Moldovan political parties focus mainly on geopolitical issues, not social or economic problems. This is deepening the disagreements and seriously impairs public debate. 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 Chişinău and Gagauzia.

There are also different opinions as to whether the state should continue to exist or reunite with Romania. This topic provokes strong emotions among Moldovans, as the number of supporters for reunification is growing (up to 30%) 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.

Anti-democratic actors



Cleavage / conflict management



The legal framework regulating the functioning of NGOs in Moldova has improved in recent years, in spite of the attitude of successive ruling groups. In August 2020, after more than two years of proceedings a new law on non-commercial organizations finally entered into force. However, both the government of Pavel Filip (controlled by Vlad Plahotniuc) and the Socialists, who have ruled the country since the end of 2019, tried to block the adoption of the new regulations, which were meant to improve the situation of NGOs. Hence, in 2020, President Dodon argued that the bill was contrary to the interests of Moldova, as it allows “external interference in the political life of the country.”

Many Moldovan politicians and major parties traditionally treat civil society with distrust or open hostility. In 2018 and 2019, representatives of official state institutions openly accused civil society (particularly organizations which have been monitoring and criticizing certain activities of the government) of having political affiliations. In July 2019, it was revealed that during the Democratic Party’s rule, the Moldovan secret services eavesdropped on and recorded the conversations of numerous representatives of civil society. During that time, cases were also recorded in which members of the third sector (involved in monitoring the authorities’ activities) were threatened. In 2020, just before the upcoming presidential election, the ruling Socialists (fighting for the re-election of Igor Dodon) launched a fierce campaign against non-governmental organizations financed from the West. It was argued that these organizations were heavily involved in Moldovan politics and that they clearly supported specific (i.e., pro-Western) politicians.

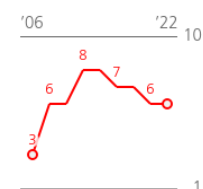
The practical influence of civil society on political decision-making remains limited. Members of NGOs regularly complain about problems in gaining access to public information. Due to the pandemic, the situation has become even more difficult. With the introduction of the state of emergency (March 17, 2020), the authorities extended the timeframe for the examination of requests for information from 15 to 45 days (these regulations remained in force until the end of the state of emergency). In addition, the authorities did not take any clear steps to involve NGOs in the official COVID-19 response.

The country’s Soviet past remains the key example of historical contention that still has not been fully addressed. There is no consensus among the population and the political class regarding this issue. 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. Pro-Russian parties (perceived in Moldova as left-wing) and their supporters believe that the Soviet troops liberated Moldova in 1944 which allowed the republic to become independent from Romania and saved Moldovans from “romanization.”

In recent years, the ruling pro-Western (or nominally pro-Western) forces have taken a series of measures to commemorate the victims of the communist regime. Recently, August 23, 2019, was declared a Day of Remembrance for the Victims of All

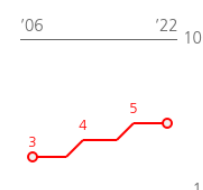
#### Civil society participation

6



#### Reconciliation

5



**Totalitarian and Authoritarian Regimes.** In addition, the amount of monthly financial compensation for victims of communist political repression was increased fivefold (from MDL 100 to MDL 500) in 2018. All victims also 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 was adopted.

However, this policy changed when the pro-Russian Socialist party came to power at the end of 2019. The Victory Day celebration was a clear symbol of this change. Since communist times, Victory Day was traditionally celebrated on May 9. In 2017, however, the then ruling coalition declared this date to be Europe Day, which caused outrage among Moldovan left-wing groupings. In December 2020, the then ruling Socialists submitted to parliament a project to move Europe Day to May 8, which, in turn, met with criticism from the opposition.

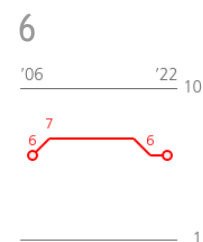
## 17 | International Cooperation

In recent years, the scale of assistance has decreased significantly due to the growing disappointment of international partners with the policy of the Moldovan authorities. Between 2015 and 2018, net Official Development Assistance (ODA) reached \$93 per capita and in 2018 totaled around 11% of budgetary expenditure or \$223.4 million (reaching the lowest level since 2005). Despite this decline (both grants and loans), foreign aid remains crucial for the Moldovan budget and economy. Before the outbreak of the pandemic (in December 2019), Chicu's government planned to receive around €1 billion from abroad between 2020 and 2022: 71% of this money was to come from the World Bank, the EBRD and the EIB, while only 14% was to come from Russia.

The European Union, European financial institutions and the United States are the key donors of financial and technical assistance. Unfortunately, for political (or possibly corrupt) reasons, the Moldovan authorities are sometimes ready to accept aid that may in fact pose a threat to the state's economic sovereignty. For example, on April 23, 2020, parliament ratified an agreement with Russia on a €200 million loan for budget support and infrastructure projects. This threatened to increase Moldova's economic dependence on Russia (its provision would allow Moldova to increase its debt to Russia indefinitely) and was eventually blocked by the Constitutional Court.

Moldovan authorities still experience serious problems in using external support effectively. Assistance remains highly dependent on political stability and reforms. Support is regularly misused or used inefficiently. Many 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.

Effective use of support



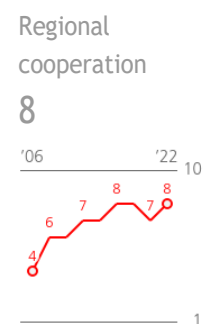
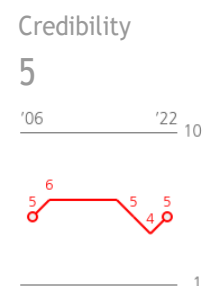
Moldova has received significant foreign aid to fight the coronavirus. However, it was used primarily for current needs and to a small extent translated into structural improvement of the health care system.

The credibility of Moldovan authorities within the international community, which had steadily decreased since at least 2014, improved temporarily after Prime Minister Sandu came to power in June 2019. Unfortunately, only a few months later, her cabinet was dismissed and the pace of reform slowed down considerably, with some reforms put on hold. Since then, the country has been ruled by the Socialist Party (PSRM) and groupings associated with it (e.g., the Șor Party, led by Ilan Șor). These groupings are widely perceived by Moldova's foreign partners as seeking to preserve the old system in which public institutions are politicized and used in the interests of the elites. However, Maia Sandu's victory in the presidential election in November 2020 had a positive effect on Moldova's image in the West, whereas most of the political forces in the current parliament are not trusted by Moldova's Western partners.

Following the change of government in June 2019, the European Commission resumed its budget support payments to Moldova. However, deteriorating relations between Chișinău and its Western partners, as well as the declining credibility of the ruling Socialists, led to the termination of the macro-financial support program, which resulted in the last installment (€40 million out of €100 million) not being paid out.

Despite some progress in investigating the theft of \$1 billion from the Moldovan financial sector in 2014, the main people responsible still have not been convicted, which continues to undermine the credibility of the political elites. The hasty adoption of controversial laws (e.g., the change of the official status of the Russian language in Moldova), which was done without consulting other political forces or the public, has also not built trust in the authorities. Additionally, the continuing politicization and instrumentalization of state institutions (including the judiciary), and the persistent Transnistrian conflict reinforce the image of Moldova as an unstable and unpredictable country.

After the Socialists took power in Moldova in November 2019, relations between Chișinău and its closest neighbors, Ukraine and Romania, deteriorated. The policy of rapprochement with Russia, and the denial of Moldova's Romanian historical and cultural identity, which is promoted by the Socialists (and President Dodon), has traditionally met with a negative reaction from Bucharest. Relations with Ukraine were not going well due to President Dodon's pro-Russian policy as well as his declaration in 2016 that Crimea belongs to Russia, among other things. Statements by Dodon were also conducive to the build-up of tensions with the European Union. On February 14, 2020, he accused several ambassadors representing EU member



states in Chişinău of blocking the new authorities' dialogue with Brussels and misinforming European capitals as to the actual situation in the country.

Maia Sandu's victory in the 2020 presidential election made it possible to start a process of improving Moldova's cooperation with its Western partners and its immediate neighbors, Romania and Ukraine. Just a few days after her inauguration, Romanian President Klaus Iohannis visited Chişinău. He promised Moldova 200,000 vaccines against COVID-19 and announced material aid for Moldovan farmers, among others. In the first weeks after the inauguration, Sandu also managed to visit Kyiv (at the invitation of President Zelensky) and Brussels. However, as the Moldovan president has very limited political powers, a real change in the atmosphere between Moldova and its closest partners will be possible only after power is taken over by forces seeking real cooperation.

Moldovan-Russian relations which had been deteriorating gradually over the past ten years due to the pro-European aspirations of Chişinău improved after the overthrow of Pavel Filip's government in June 2019, and particularly after the formation of the pro-Russian Socialist government, which followed 5 months later. Relations with the Kremlin became more complicated after Sandu's victory. Moscow, for instance, criticized her calls for the withdrawal of Russian troops from Transnistria.

Moldova is a member of numerous international and regional organizations (e.g., CIS, OSCE, Council of Europe, GUAM and CEFTA). Chişinău is also actively involved in the EU Eastern Partnership. The cooperation between the European Union and Moldova resulted in the signing of the Association Agreement and DCFTA in 2014. Moldova, although being a neutral state, also maintains limited military cooperation with NATO and several countries in the region (e.g., Romania and Ukraine).

## Strategic Outlook

The end of Vlad Plahotniuc's power in Moldova, although it led to the liberalization of the political system, presented the country with several challenges regarding the development of democracy and the implementation of necessary reforms. A significant number of the elite groups are interested in taking over and rebuilding the "captured state" system that has prevailed in Moldova and are constantly trying to marginalize the pro-European opposition, which is growing in strength, especially after Maia Sandu's victory in the presidential election. Russia will remain a serious threat to Moldova, as it has a very large (probably decisive) influence on the politics of some important political groups, including, in particular, the Socialist Party. For this reason, the expansion of deep ties (particularly economic) with the European Union is crucial. This 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 thus the reform agenda. For similar reasons, efforts to increase Moldova's energy independence should be strengthened and Moldova should also implement the third energy package of the European Union.

Good relations with the West (including international financial institutions) and its assistance will be crucial for Moldova's economic recovery after the end of the coronavirus pandemic. In this context, a recent decision made in parliament may make it difficult or impossible to obtain this aid. In December 2020, Moldova's lawmakers invalidated the "Law on billion" adopted as a requirement for IMF loans. This law allowed the issue of government bonds worth MDL 13.5 billion (\$790 million) to prop up the financial system after the banking scandal of 2014. Financial institutions negatively reacted to the amendment and warned that the law undermined the creditworthiness of Moldova and put the National Bank at risk.

Normalizing the health situation in Moldova also poses a serious problem. The country relies heavily on international help to secure enough vaccines. As Moldova does not have sufficient financial resources to ensure a sufficient supply of vaccines, the COVAX program will play a large role. Through this facility, the country has secured enough doses to cover about 1.7 million people (over 50% of its population). An additional 200,000 doses will be delivered free of charge by Romania (in March 2021 more than 20,000 doses had already arrived). It is possible that part of the population will be able to vaccinate on a commercial basis (probably with the Russian Sputnik V vaccine). However, the vaccination program may be slowed down by the fact that Moldova does not have an adequately developed infrastructure that would enable the storage of large doses of the vaccine at ultra-low temperatures.

The recovery of the country after the pandemic will also not be favored by the unstable political situation and the growing tensions between the two main political camps in the country. Most likely, early parliamentary elections will not bring any significant advantage to any of the parties, which will force the winning factions to enter into coalition agreements with other parties.

More generally, the migration of labor and corruption will remain important challenges for Moldova. Emerging from its international isolation and pursuing a more assertive reform process (both resulting from Sandu's victory in the presidential election) will, however, open up new opportunities.